

Agency Banking and Financial Inclusion: Reliable Channels for Reaching Financially Vulnerable and Excluded Nigerian Population

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ABSTRACT

This study examines agency banking and financial inclusion as channels for reaching financially vulnerable and excluded Nigerian population. Data were collected from primary source via questionnaire. One hundred and Twenty (120) questionnaires were administered to five agents' banks providing agency banking services to customers in Osogbo, Osun State and Ado-Ekiti, Ekiti State, Nigeria. Eighty Nine (89) questionnaires were returned for analysis. The data collected were analysed using descriptive and inferential statistical analysis; the result revealed that agency banking has significant effect in reaching and servicing financially vulnerable and excluded Nigerian Population. It was therefore recommended that the Central Bank of Nigeria should intensify efforts in promoting agency banking in Nigeria while deposit money banks should also encourage their agents through payment of reasonable commissions to further heighten the performances of agency banking in Nigeria.

Keywords

Agent, Agency, Financial Inclusion, Financial Vulnerability, Financial Exclusion

INTRODUCTION

Agency banking is the provision of financial services to customers by a third party (Agent) on behalf of a licensed deposit taking financial institution and or mobile money operators (CBN, 2013). It is the provision of limited scale banking and financial services to the underserved population through engaged agents under a valid agency agreement, rather than a teller/cashier. It is the owner of an outlet that conducts banking transaction on behalf of a bank.

Agency banking has help in penetrating the under banked areas in the country which are currently not being served

by conventional banks so that increasing access to and availability of financial products and services could be made available without having to invest in “bricks and mortar” bank branch infrastructure. Through agency banking, customers could have access to financial services using the Automated Teller Machine (ATM), Mobile phones and pertinently to Global Accelerex, Point of sales devices and other mobile money solutions (Tijani, 2016).

The growth of mobile money and agent banking in Nigeria is accelerated by mobile money agents (MMA's) who are cogent channels for financial inclusion (Chude, 2014). These mobile money agents are the number one driver of financial inclusion in Nigeria by proving excellent services, thus delivering value to Nigeria's financially vulnerable and excluded population.

Basically, agency banking arrangement will enhance financial inclusion and provide delivery channels for offering banking services in a cost effective manner. Thus catering for those people who are geographically challenged in term of access to money deposit banks that is, people who live in rural areas, newly located markets, newly developed suburbs and so on.

By this arrangement, agent banks are meant to receive cash deposits, disburse cash, pay bills, taxes, tenement rate, subscription, payment of salaries, funds transfer, supply account balances, generate and issue statement, collect and submit account opening and other documents on behalf of customers. In order to achieve the laudable objective of agency banking, agents are trained to be creative and reach out to more unbanked Nigerians thus having access to basic financial services and solving their basic financial needs.

Many years back, banking businesses were restricted to “bricks and mortar” bank branch infrastructure where customers would have to visit their banks personally or draw cheques for withdrawals to third parties. A lot of businesses could not be transacted by customers because it

fell on non working days or at a time when banks have closed for the day. As a result, many profitable investments have been lost by customers as well as banks in Nigeria thus affecting the level of growth and advancement of the economy. Banking is no longer restricted to the banking halls as technology has driven banking business to another height where banking business can be conducted at homes, on the streets and almost anywhere at the comfort of the customers. Today, banking firms alone do not provide banking services, many non-banking institutions from unrelated verticals like retails and telecoms are now stepping into banking business by offering financial products and services like mobile wallets and white-labelled loan products, thereby widen the scope of financial literacy in Nigeria. It is on this background that this study assesses agency banking and financial inclusion as a channel for reaching financially vulnerable and excluded Nigerian population.

RESEARCH QUESTIONS

The following questions are answered in this study:

- (i) Has agency banking promoted access of people in remote areas to financial services?
- (ii) Has agency banking service delivery been more convenient to customers compared to that of commercial banks in Nigeria?
- (iii) Is agency banking services less costly compared to that of conventional banks in Nigeria?

RESEARCH HYPOTHESES

- Ho 1: Agency banking does not promote customers access to financial services in Nigeria.
- Ho2: Agency banking service delivery is not convenient when compared to that of convectional Banks in Nigeria?
- Ho3: Agency banking services are not costly compared to that of convectional banks in Nigeria.

LITERATURE REVIEW

The Nigerian banking industry has witnessed stiff competition over the years by providing homogeneity of services to meet the needs of customers. Along this line many services progressively began to emerge such as checking account statement and host of other innovation which classified the businesses of banks.

Agency banking first developed in Brazil and has significantly covered over 99% of the countries metropolis. Agency banking have sprung up in nations like Mexico, Peru, Colombia, Pakistan, Philippines with high level of potentials to evolve in other nations of the world.

The speed at which significant changes take place in the banking industry was as a result of the huge improvement of data innovation and the consistent development of volume of data which has promoted the rise of new sorts of exchanges and exercise in different fields (Kandie, 2013).

The major task of banks is to mobilize savings from the economy and this task has received numerous electronic applications to enhance the execution of assignment and services delivery. Mobilization of savings by banks and provision of checking accounts systems has given new frame work and applications that has expanded accessibility to financial services in the banking sector today.

Thus, it is essential for banks to change the customary idea of remote account administration in light of the accelerated development of electronic banking benefits to clients and the expanded rivalry among banks to reduce costs, raise productivity and draw in more customers.

The numbers of banks opening new branches today have drastically reduced thus minimizing cost of administration of the banks (James, 2012). Agency theory was built on the preface that operations are more experienced than the foremost specialist who came to offer assistances with objectivity (Birgham and Gapenski, 1993). Therefore, banking today is not restricted to banking firms alone many non-banking institutions from unrelated verticals like retails and telecoms are now stepping into banking by offering financial product and services like mobile wallets and white-labelled loan products. Despite that this non-banking institution operates in a niche, they are much in competition with regular banks.

As a result of globalisation and scientific development banks like any other institutions have been facing numerous challenges. These challenges have made them to hunt for appropriate strategies to improve their operations and survival therefore, agency banking has become one of the key strategies used in the banking industry around the globe. (Ivatury and Ignacio, 2008)

Kirui, Okello and Nyikel (2012), examine the role played by mobile money transfer system in increasing

accessibility of financial services especially to farmers in rural areas. The study concluded that mobile money transfer services have helped to resolve the market failure experienced by farmers especially due to lack of adequate access to financial services.

Calleo (2014), did a study on accessing the unbanked prospects through branchless banking in Africa. The study attributes the reasons for this large unbanked population in Africa to poor infrastructure, geographical and inaccessibility with many of the unbanked individuals living in remote rural areas.

Younus (2013) conducted a study on branchless banking as an outlet of economic freedom for all. He argued that banking was a complex business in the past and only limited numbers of wealthy people were its customers.

Lawal and Abdulkadir (2010) did a study on branchless banking as a remedy for reaching the unbanked in Kwara state, Nigeria. This study was conducted to determine whether branchless banking can be a solution to reaching the unbanked citizens in Kwara state. The result showed that majority of respondents does not have a bank account.

Ngigi (2012) on the effect of innovation on financial performance of Kenyan commercial banks provides relevant information to this study that most of the strategies involved in financial performance focus improving accessibility, convenience and reducing cost of operation as much as possible.

Njagi (2014) sought to establish how agency banking contributed to the financial performance of Kenya banks. He reacted that 6.5 million adult rural Kenyans are either unbanked or under banked. This can be attributed to the lowly paying business transactions due in rural Kenya and the cost needed to sustain bank branches in rural Kenya.

According to Burgessy and Wong (2005), the growth of IT has affected almost each aspect of life; among them being the banking industry. The coming up of mobile banking has changed and redefined the way banks were running. Diniz, Birochi and Pozzebon (2012) asserted that technological development has not only influenced lifestyle but has had an impact on the way clients meets their banking needs. In the olden days banks were making use of mobile vehicles to take services to their clients particularly those in rural areas. Later, they shifted to e-mail as well as internet services to offer services to their clients.

Developing countries like Kenya have been increasingly adopting branchless banking as a way of providing banking services to numerous unreached population particularly low income families. (Ndungu and Njeru, 2014). Revolutionary banks, microfinance firms and mobile operators began experimenting agency banking network in different states around the globe in 20th century. Mobile banking technology has significantly entered rural areas in Kenya and is expected to be on an increasing trend in the coming years.

Banks and other financial institutions which have conventionally depended on physically setting up branches to offer banking services are now moving towards the taking up of mobile banking services as a structure of branchless banking as this has the effect of reducing banking cost. Technology has thus offered huge opportunities to service providers to provide the clients with immense flexibility. (Burgessy and Wong, 2005).

Morawczynski, (2007) indicates that monetary inclusion of the minimum income category is expected to make easy the financial welfare of the banking industry since it will help the majority of the informal sector and individuals to receive credits and accumulate savings

FINANCIAL INCLUSION AND ECONOMIC GROWTH

A major factor contributing to the growth of an economy is the level of technology adoption (TAM) and diffusion of innovation within the system. The acceptance of technology depends on some factors which influenced the decisions of the users whether to accept or reject the use of the technology. Diffusion of innovation on the other hands explains the rate at which new innovations are spread or permeate through the system (Ibrahim, 2009). These theories tends to attract users into the adoption of technology particularly the agency banking relationships, the better for the banking industry as customers will have increase access to bank services to grow their businesses and develop the economy.

James(2012) on his assessment of electronic banking in Nigeria employed a SPSS discovered that the adoption of electronic banking was influenced by the age, income, perceived benefits, perceived ease of use, risks, satisfaction and educational background of users of the technology.

The development of agency banking has now come to mean much more than just banking the unbanked. It now

refers to the convergences of various banks and non-banks players to provide financial services at lower cost wider reach and greater conveniences to all end customers of financial services, unbanked or otherwise.

The agency banks has been able to help in opening up new opportunities, all banking customers are also consumers of other products which they procure from different channels, by partnering with an agent, banks can participate in these transactions which may be non-financial in nature, but involves the exchange of money. At the end of these services new businesses are created which also generated new employments thereby promoting economic growth. A classic example is the automobile finance which was not available before but today, almost automobile dealers has a tie-up with a bank or consumer financial institutions to provide vehicle loans to their buyers thus, giving customers easy access to funding and saving the border and delay of securing a loan separately.

METHODOLOGY

Research Design

The data collected were drawn through questionnaire One hundred and Twenty questionnaires were administered to selected bank agents in Ado- Ekiti and Osogbo Osun state, Nigeria. Eight Nine (89) questionnaire were turned. The data collected were analysed using descriptive and inferential statistical analysis. The study was divided into five sections - Introduction, Literature review, Methodology, Data presentation and analysis, conclusion and recommendation.

Source of Data

The study employed data from primary source. The data were collected through a structured questionnaire. One hundred and twenty questionnaires were administered to five agent banks represented as (A, B, C, D and E) currently providing agency banking service windows in Ado-Ekiti, Ekiti State and Osogbo, Osun State. The questionnaires were distributed to the five agent banks in units 24 questionnaires each. Eighty Nine (89) of the questionnaires were returned as follows: A – 18, B – 20, C – 17, D – 16 and E – 18 respectively.

Method of Data Analysis

The data were analysed using chi-square and descriptive method of statistical analysis.

DATA PRESENTATION AND ANALYSIS

Table 1. Accessibility of Customers to Financial Services through Agency Banking in Nigeria

Parameters	SA	A	SD	D	UD	TOTAL
A	4	11	-	-	3	18
B	8	9	-	-	2	20
C	8	8	-	1	-	17
D	7	7	1	1	-	16
E	8	9	-	-	1	18
TOTAL	35	44	2	2	6	89

Source: Field Survey, 2018

Forty Four (44) respondents agreed that agency banking promotes quick access to financial services, Thirty Five (35) of the respondents strongly agreed, while Two (2) respondents were undecided.

Table 2. Agency Banking Service Delivery and Cost Effectiveness and Conveniences

Parameters	SA	A	SD	D	UD	TOTAL
A	6	5	2	4	1	18
B	8	6	2	2	2	20
C	7	6	-	2	2	17
D	6	4	2	3	1	16
E	5	8	-	2	3	18
TOTAL	32	29	6	13	9	89

Source: Field Survey, 2018

Thirty Two (32) respondents strongly agreed that agency banking is cost effective in terms of service delivery while Twenty Nine (29) respondents agreed, Thirteen (13) respondents disagreed, Nine (9) were undecided and Six (6) respondents strongly disagreed that agency banking is not cost effective.

Table 3. Agency Banking and Economic Growth

Parameters	SA	A	SD	D	UD	TOTAL
A	7	8	-	1	2	18
B	6	7	2	3	2	20
C	6	6	-	2	3	17
D	8	5	1	2	-	16
E	7	8	1	-	2	18
TOTAL	34	34	4	8	9	89

Source: Field Survey, 2018

Sixty Eight (68) respondents strongly agreed and strongly agreed that agency banking growth will increase economic growth, Twelve (12) of the respondents disagreed and strongly disagreed that agency banking may not promote economic while Nine (9) respondents were undecided.

Test of Hypotheses and Discussion of findings

The decision rule for testing hypothesis is that Null Hypothesis (H0) should be rejected and Alternate Hypothesis (H1) accepted if P-value is less than 0.05 and vice versa.

1. **H0:** Agency banking does not promote customers' access to financial services in Nigeria;

H1: Agency banking promotes customers' access to financial services in Nigeria;

Table 4. Chi-Square Tests Results

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	43.756 ^a	4	.000
Likelihood Ratio	59.116	4	.000
Linear-by-Linear Association	30.091	1	.000
N of Valid Cases	89		

Source: Author's Computation using SPSS version 20.0

From the above table 4.0, P-value of 0.000 is lower than the threshold value of 0.05, H0 is rejected and H1 Accepted. Thus Agency banking has Agency banking promotes customers' access to financial services in Nigeria. The implication of the forgoing is that through agency banking, more customers, especially the excluded and vulnerable persons now have access to financial services compare to when only commercial banks and other banks are only providers of financial services. Thus, in this case, a well-functioning agency banking increases the accessibility of customers to financial services as they don't have to travel far from their reach before accessing and enjoying bank and other financial services. The chi-square calculated is 43.75 which is higher than the tabulated value of 5.99 at 95% confidence interval. This further supports the rejection of H0 and the decision taken in this regards.

2. **H0₂:** Agency banking service delivery is not cost effective and less convenient compared to that of conventional banks in Nigeria;

H1₂: Agency banking service delivery is cost effective and less convenient compared to that of conventional banks in Nigeria.

Table 5.0: Chi-Square Test Results

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	66.744 ^a	4	.000
Likelihood Ratio	87.238	4	.000
Linear-by-Linear Association	59.580	1	.000
N of Valid Cases	89		

Source: Author's Computation using SPSS version 20.0

From the above table 5.0, P-value of 0.000 is lower than the threshold value of 0.05, H0₂ is rejected and H1₂ Accepted which means that Agency banking service delivery is cost effective and less convenient compared to that of conventional banks in Nigeria. The chi-square calculated value of 66.74 is also higher than the critical value of 5.99 at 95% confidence interval of 2 degree of freedom, all of which also support the rejection of H0₂ in favour of H1. By the forgoing decision, it translates that customers who use agency banking to access financial service enjoy reductions in price and probably, the time involved in accessing financial services.

3. **H0₃:** Agency banking has no effect on economic growth in Nigeria

H1₃: Agency banking has effect on economic growth in Nigeria

Table 6. Chi-Square Test results

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	54.486 ^a	4	.000
Likelihood Ratio	73.223	4	.000
Linear-by-Linear Association	48.764	1	.000
N of Valid Cases	89		

Source: Author's Computation using SPSS version 20.0

From the above table, since P-value of 0.000 is lower than the threshold value of 0.05 significant level, H0₃ is rejected and H1₃ Accepted. The acceptance of H1₃ means Agency banking has contributed to the development of economic growth in Nigeria. The chi-square calculated value of 54.49 in the table above is higher than the critical value of 5.99 which further supports our decision in this regards.

CONCLUSION AND RECOMMENDATION

Agency banking has widened banking and financial literacy in Nigeria through the numerous channels created by agent banks. Access to financial services have been made easier than before, the cost of accessing services by customers have been reduced drastically and even more convenient to the customer because most of the agents operates very close to the customers thereby contributing immensely towards the growth of the financial sector in particular and the economy in general.

The study therefore recommends that-

- The Central bank of Nigeria should emancipate the general public on the activities of agent banks as alternative channels for accessing banks services in Nigeria.
- The convectional banks should motivate their agents through adequate financial as well as non financial rewards to step up the commitments of the agent banks towards qualitative service delivery.
- Agent banks should expand their operations to accommodate the teeming population of their customers thereby creating employment and at same time grow the economy.

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