

# Impact of Agent Banking on Performance of Deposit Money Banks in Nigeria

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## Abstract

Agent banking has become an essential practice of financial institution in bringing their services closer to the people at the grass root. There is no doubt that agent banking if adopted into Nigerian banking system will help to improve banks profitability. The aim of this study is to investigate the implication of agent banking on the profitability of Nigerian commercial banks. The study made use of descriptive survey in carrying out the research and content analysis in analyzing the work. It was revealed that agent banking has proved to have essential role to play in improving customers satisfaction and bank profitability and it was recommend that agent banking should be adopted in Nigeria.

**Keywords:** Agent banking, Profitability, ATM, Masters Card, Electronic Banking

## 1.0 INTRODUCTION

### 1.1 Background of the Study

In the past, the banking service was carried out manually which involves traditional muscle bound banking data system, and withstanding its tediousness, the customers' satisfaction were met but to some extent. However, there is limitation to this success especially on the area of money transaction or transaction processing. This era suffered huge set back, as customers find it difficult to travel with large sums of money or remit cash to another branch of the bank they operate.

According to David (2012), Nigeria did not embrace electronic banking early compared to developed countries. Nigeria adopted electronic banking system in the early 2000s. During the introduction of electronic banking system, the use of raw cash was said to have bred corruption through the "cash and carry syndrome" usually linked with the swift movement of Ghana-must go" bags by some politicians. Such bags as some analyst say, are a major source of corrupt practices as dubious persons seeks to bribe their way to avoid been checked in some sensitive areas or places in a corrupt society.

As a result of the increased demand for customer's deposits with the banking industry and the level of corruption in the country, the issue of financial inclusion which is anchored to agent banking and mobile banking become more important. In order to accomplish this, the banks have had to provide better products, improve customer service and reduce operating costs, by introducing agent banking (CBN, 2011).

With an adult population of 84.7 million in Nigeria, of which only 30% of them are banked, and with more than 88.3 million mobile phone subscriptions as at December 2010, 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 (CBN, 2012). There is, therefore, great potential for agent banking in Nigeria to increase access to finance.

CBN (2012) define Agent Banking as the provision of financial services to customer by deposit taken financial institution and mobile banking operators. It is also meant to promote financial inclusion. The term agent banking can as well be defined as the process whereby a bank acts in some capacity on behalf of another bank. Investopedis (2013) opine that Agent banking is a situation where a syndicate manager will receive a mandate from a borrower to arrange a syndicated loan. Agent Banking has been recommended as a result of the increased demand for customer deposit in Nigerian banks especially the new generation banks that have realized the imperative of goods and prompt customer services it will provide.

Since electronic banking started in all Nigeria banks, it has been a problem to some civil servants; it shows that some staff in establishments such as the national boundary commission for instance, is yet to receive their salaries for the previous months as efforts to electrically transfer salaries into their account have failed and the workability of agent banking which is instrumental to electronic banking in terms of payment of salaries is not assured (Ibrahim, 2009).

The issue of agent banking and customer accessibility and profitability is a function of effectiveness of the combination of some instruments such as Point-of-Sale (POS), Card Reader, Mobile Phone, Payment Transactions and sometimes Personal Computers (PC) (CBN, 2012).

However, on the other hand, the term customer accessibility and profitability means the ability and possibilities of a bank customer to benefit from all kinds of bank services and enjoy all the necessary benefits therein and derive maximum satisfaction (Reed, 2008).

The nation's quest of migrating from normal banking method to agent banking has been on the front burner. Analysts have posited that to meet the target of becoming one of the leading world economies by the year 2020 and to increase the level of customers accessibility and profitability, efforts 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 sector, came up with a reform policy to check the increasing dominance of cash in the banking sector in order to enhance e-payment system in the economic landscape by recommending agent banking. In light of the above mentioned issues, this study aims at examining the impact of agent banking on customer accessibility and profitability in Nigeria.

Due to the dynamic competitive and advancement in the financial system of this recent time, all banks have been on research trying to come out with the possibility means to increase and improve customers' accessibility and profitability in order to still control their market share. Sequel to this, CBN has recommended Agent-banking as one of the possible means of giving greater service delivery to both active and disables customer by banks. The instruments to be used in achieving agent banking include; Automated Teller Machines (ATMs), Point-of-sale Machine (POS), Mobile Phone Banking, Online banking services etc.

In addition, most areas in African continent especially in our country Nigeria, financial service providers find it difficult and needless to establish branches in the remote areas of the country hence the need of a third party (Agent) to deliver bank services to people in those areas. So the challenge on how to establish the link between agent banking and customers accessibility and profitability in Nigeria considering the level of computer literacy and its effect on economy calls for the study.

## **2.0 REVIEW OF RELATED LITERATURE**

### **2.1 Conceptual Framework**

Investopedia (2013) defined Agent banking as the process whereby a bank acts in some capacity on behalf of another bank. This means that Agent Bank is a situation where a syndicate manager will receive a mandate from a borrower to arrange a syndicated loan. After the arrangement closes, the duties of the syndicate manager are usually appointed. Agent banking co-ordinates the loan between the borrower and participating banks for easy transaction.

Agent bank can mean any of the following types of bank;

- a) The bank is a loan syndicate that advises other participating banks of advances taken and changes in interest rates for a foreign or domestic borrower.
- b) A bank that participates in the credit and program of another bank by issuing credit cards performing other duties (excluding financing card receivable).
- c) A foreign bank doing business in another country e.g. (U.S) on behalf of its mother (parent or headquarter) bank, performing such tasks as issuing international letters of credit but not accepting deposits.

#### **2.1.1 Instrument of Agent Banking**

The different kinds of agent banking instruments that are being used in the areas (i.e. countries) where the operations are in operative include the followings;

##### **2.1.2 Automated Teller Machine**

The automated teller machines (ATMs) are electronic terminals that let bank customer almost virtually any time, to withdraw cash, make deposit, check balance of account or transfer fund between account, you generally insert an ATM card and enter you pin. Some finical institution and ATM owner charge a fee, particularly if you don't have an account with them or if your transactions take place at remote locations. Generally, ATMs must tell you the charge a fee and the amount on or at the terminal screen before you complete the transaction. Check with your institution and at ATMs you used for more information about these fees.

##### **2.1.3 Credit Cards**

In the word of Lindsay (1994), credit cards developed from Oil Company, restaurant and department store charging by several decades serving as a means of payment in the same way as debit card. When they purchase goods or services from shop, hotel, petrol station or in payment of any one who is willing to accept the particular credit cards as a means of settlement.

##### **Advantage of Credit Card**

- Payment may be spread over a period.
- Credit card can be used to obtain cash at ATMs
- Credit cards are widely accepted both in Nigeria and abroad.
- It reduces crime rate as there will be no physical cash to be robbed.

#### **2.1.4 Personal Computer Banking**

Personal computer banking (PC banking) is also a fast growing instrument in electronic banking which is also found in agent banking as one of the instruments. Customer can now make them transaction with telephone banking, and also in some cases download information and manipulate it in their own financial management software.

The benefits that customers can derive here are that, it allows them to reconcile their statement of accounts, it also helps in checking deposits already made and cheque that have been cleared etc.

However, there are a number of problems that can militate against this banking system with the use of PC. The first is that, the person must be a customer of a particular bank otherwise; the instrument will be of no use. The second is that the purchase of software package is usually expensive.

#### **2.1.5 Point of Sale (Pos) Machine**

A point of sale machine is the payment device that allows credit/debit cardholder to make payment at sales/purchase outlet. It allows to perform the following services such as; retail payment, cashless payments, cash back balance inquiry, air time vending, loyalty redemption, etc.

The Pos involves a computer terminal in retail stores that will transfer funds instantly from the bank deposit of the store in which customer is making purchase in the process the computer will verify that customer has sufficient funds to cover the purchase and will inform the customer of the new bank balance. The customer can also arrange for over draft of the bank, so that instant loans (up to a present limit) can be made on the

#### **2.1.6 Problems/Challenges of Agent Banking**

Particular problems and challenges of creating an effective agent banking model in Nigeria are enumerated below:

- ❖ Relative lack of interest amongst DMBs in taking financial services down markets. Almost all the existing new generation banks base their feasibility and viability studies on areas with promising increase in economics growth before establishing branches. This makes them not to bother about bringing in these services to the people in the remote areas of the country.
- ❖ Relative small number of POS machine and the lack of inter-operability. This is one of the problems that the agent banking system if adopted fully into Nigeria is likely to face. This because, the usefulness of POS in rendering financial services especially now that CBN has recommended agent banking system cannot be over emphasized. So, therefore, any country that wants to adopt this system must have it in mind to install multiple numbers of POS machines. Otherwise, will not harness the full benefits of the banking system. The CBN is driving progress towards a cashless society which amongst other things, is working at introducing inter-operability of Pos devices and set ambitious targets to deploy over 100,000 point of sales terminals by 2012 and 350,000Pos terminals by 2015. According to the head shared services, CBN Mr. Chidi Umeano, said there were currently over 150,000 Pos machines in Lagos state alone.

### **2.2 Contextual Review**

#### **Agent Banking in Nigeria**

Although agent banking has not commenced operation in Nigeria but with the level of development in technology and the available resources, I think these are exciting times for agent banking in Nigeria. With an adult population of 84.7 million, of which only 30% are banked, and with more than 88.3 million phone subscriptions as at December 2010. This guarantees a great potential for agent banking and other remote access financial service models to increase financial inclusion. In addition to this, increasing financial inclusion or bank customer accessibility and profitability is high on the agenda of the regulator CBN. There is, therefore, great potential for agent banking in Nigeria to increase access to finance. Eleven mobile payments licenses were issued by the CBN in August 2011, so it is likely that a variety of difference types of operator will now start to offer mobile financial payment services in Nigeria issued in June 2009 is relatively progressive and permits both bank-based and non-bank based models. It specially prohibits MNOs from being the lead, actor in mobile financial services, effectively reducing them to the role of producing the network infrastructure or being the junior partner in a bank-based model.

#### **2.2.1 The Nature of Agent Banking in Nigeria**

Obviously, agent banking has not being instituted in Nigeria and therefore, it will be very unrealistic stating its nature. Although the CBN has tried to consolidate and clarify the AML/CFT framework it is possible that some KYC constraint, such as the need to verify customers' identity and address, may restrict the growth of an agent banking model. This is further compounded by lack of an integrated national ID system (OPM, 2010).

#### **2.2.3 Operators of Agent Banking**

Operators of agent banking include the following:

1. Post Office
2. Small lottery outlets (e.g. Brazil)
3. Pharmacies

4. Supermarkets
5. Convenience Stories

#### **2.2.4 Extent of Government Support on Agent banking**

OPM has been commissioned by Enhancing Financial Innovation and Access (EFIA) to undertake a study of agent banking models in five countries such as; Columbia, Brazil, Peru, India and Kenya in order to make recommendations on the most effective way to develop an agent banking network in Nigeria. In addition to this, CBN in its effort towards the creation of cashless society which among other things is looking at introducing interoperability of Pos devices and has set ambitious target to deploy over 100,000 point of sales terminals by 2012 and 350,000 Pos terminals by 2015.

#### **2.3 The Security of Banking Computer System**

While it is possible to establish a confidential channel between a bank and its customer, the possible impact of security vulnerabilities in the computer system used by banks and customers for online transaction.

Although Nigerian banks have denied that weakness in computer system are responsible for all alleged fraudulent transactions, the evidence in (Anderson, 1993) highlights failing in such system which can have a serious impact on customer, the bank have been unwilling to allow independent experts to examine their system, justifying this stance by claiming that they need to keep the design and operation of their system secret in order to protect them from attack.

This approach, known in security circles as security through obscurity, is known widely discredited, because any advantage provided by secrecy are offset by the fact that this secrecy allows serious fault to exist in the system for a long period without that customer interest are not adequately protected even by an acceptance in principle by the risk of fraud on online banking. In practice banks will employ mechanism to prevent fraud, and where those wrongly set to transfer the consequences to their customer, while PINs, password, and digital signature may seem to protect customer interest, their weakness will sometimes be used by the banks to explain factors that are in reality, the result of internal problems with their own system in the sense, therefore, it can be argued that security based on the secrecy of mechanism employed by the banks operate more in the interest of the banks than that of its customer.

Therefore, the security of banking computer system from a customer perspective is therefore not very satisfactory. Customer who is thinking of moving to online banking should seek a bank that offers better security than that which provides by PINs and passwords alone. And one that has allowed independent experts to audit and publish the result of security review of the computer system it uses to on line services.

##### **2.3.1 Banking and Information Technology**

Internationally, advancement in ICT has greatly influenced the idea and practice of banking, it has for instance, been suggested that advancement in ICT have influenced the banking system in the following ways:

- ❖ Advance in IF have helped streamline the back office operation of most banks.
- ❖ Advancement in IT has continued to influence the disintermediation and distribution of banking product. These has improved both efficiency and leading to savings in cost. It is for instance now possible for one bank staff ascertain the authenticity of his signature and make payment. The implication of this to customer is that his/her waiting time in the bank is reduced. For the bank, they became more efficient and can increase their productivity.

The experience of the First Bank Plc as one of the biggest and oldest banks in Nigeria brings out his point more vividly. Subsequent to the adoption of SAP by the federal government, it sold off the majority of its controlling shares in these banks. The immediate effect of this has been the introduction of more efficient operations, which have often resulted in a drastic reduction in staffing level. Despite the fact, most banks are now investing heavily in ICT because they believe that a future without ICT will be disastrous (Annual report City Bank Nigeria, 2001). In Nigeria for example, many banks now have most of their branches linked online and real time. According to First Bank 1998/99 annual report and accounts, to ensure the provision of our efficient service to our numerous customers western union money transfer was introduced in 1996. International success in the money transfer programme has further encouraged the bank to a greater extent. According to the First Bank managing Director, building on the success of International Money Transfer, which your bank has obtained from CBN approved to introduce the Domestic WUMTS by which funds could be transferred electronically from one location to the other within the country.

#### **2.4 Empirical Review**

Over the years, many authors have in one way or the other investigated the introduction of electronic banking and its implications on the economy in both developed and developing countries. In the works of Olatokun and Igbindion (2009) using diffusion of innovation (DOI) theory to investigate the adoption of Automatic Teller Machines in Nigeria. They found out that the constructs Relative Advantage, Complexity, Observeability, Compatibility, and Trialability were positively related to attitude to the use of ATM cards in Nigeria.

Olorunsegun (2010) used cluster sampling technique to study the impact of electronic banking in Nigerian banking system. He found out that a bank has an effective electronic banking system which has improve its

customer's accessibility and profitability.

James (2012) used Statistical Package for Social Sciences (SPSS) to investigate the acceptance of E-banking in Nigeria. The result shows that acceptance of e-banking in Nigeria is significantly influenced by Age, Educational Background, Income, Perceived Benefits, Perceived Ease of Use, Perceived Risk and Perceived Enjoyment.

Morufu and Taibat (2012) used qualitative survey to ascertain bankers perceptions of financial inclusion in Nigeria. The results suggest that bankers in Nigeria perceive electronic banking as tool for minimizing inconvenience, reducing transaction costs, altering customers queuing pattern and saving customers banking time.

### 2.5 Theoretical Framework

Based on the empirical literature, the theoretical framework of this study is Technology Acceptance Model and Diffusion of Innovation (DOI) Theory. Technology Acceptance Model (TAM) is an information systems theory that models how users come to accept and use a technology that will encourage economic growth. The model suggests that when users are presented with a new technology, a number of factors influence their decision about how and when they will use it. While Diffusion of Innovations theory is a theory that seeks to explain how, why, and at what rate new ideas and technology spread through cultures. This theory was developed by Gabriel Trade (1890) and Everett Rogers, a professor of rural sociology, popularized the theory in his 1962 book Diffusion of Innovations. He said diffusion is the process by which an innovation is communicated through certain channels over time among the members of a social system. This theory was used by Hogarth et al (2008) among others. The implication of these two theories is that the earlier the people of this country accept agent banking, the earlier it improves business activities and in turn encourage economic growth in the country.

### 3.0 Summary of Finding, Conclusion and Recommendation

#### 3.2 Summary of Finding

From the researchers' observation on this study, it is obvious that Agent Banking when properly adopted will contribute substantially to the increase of accessibility and profitability of bank customer. The new technology in the banking system is highly appreciated. Some of the findings are:

- Accurate time management.
- High level of confidence in the banking system.
- Improve bank performance and productivity.
- Agent banking will also help to reduce crime on cash robbery.
- It will also lower cost of administration and transaction.

#### 3.3 Conclusion

The adoption of agent banking into the banking sector will have both positive and negative effects. This study has revealed and analyzed the implication of agent banking on accessibility and profitability of bank customer in Nigeria.

The application of Agent Banking will in no doubt enhance customers' accessibility and profitability of banks.

#### 3.4 Recommendations

With regards to the above findings, the following recommendations were made:

1. The migration of our normal banking system to agent banking system would require some reform and a lot of effort and sensitization especially for low income customers, who are currently deeply rooted in using cash and see it as a convenient and easy way of receiving and making payments any point in time.
2. That the CBN adopts the test and learn approach to developing further regulation regarding agent banking. It is also important therefore, to ensure that it is relatively straight forward amend regulations.
3. A good principle to apply is minimum law, maximum regulation; so that the laws on which the regulations are based do not have to be changed so often.
4. If agent banking commences operation, banks should educate the customers on how best and easy way to use the instruments.

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