

THE DISADVANTAGES OF AGENCY BANKING IN NIGERIA'S FINANCIAL SECTOR

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Abstract

The study was conducted to investigate the downside of agency banking in Nigeria using Enugu South LGA of Enugu State as a case study. This study adopted the survey research design. The survey was designed to elicit responses from respondents on the downside of agency banking in Enugu South LGA of Enugu State, Nigeria. The source of data was primary, obtained through the administration of questionnaire to agent bankers (POS operators) within the area of study. The population of the study consists of all POS operators in Nigeria. The sample size was calculated using the general formula for determining the sample size of an unknown population. The study used both descriptive and inferential statistics and the hypotheses were tested at 5% level of significance. It was found that robbery and liquidity shortage militate against the operation of agency banking. The study therefore recommends that the agent banker should ensure the availability of adequate cash that can reasonably serve customers without running into shortages or surplus of money while the government and commercial banks should partner in ensuring adequate security necessary for the operation of agency banking in Nigeria.

Keywords: Downside: Agency: Banking: Nigeria

1. INTRODUCTION

Financial services can only be delivered to a majority of the unbanked, poor and rural households if the service providers use retail distribution channels such as agent banking to get closer to where the poor and unbanked live and at a fraction of the cost of traditional banking (Lehman, 2010). Mwangi and Mwangi (2014) defined agent bank as a company or organization that acts in some capacity on behalf of another bank. It can be a retail outlet contracted by a financial institution to process client transactions. Bank agents typically operate as satellite branches. Ndungu and Wako (2015) defined agent banking as an arrangement by which licensed financial institutions engage third parties to offer certain banking services on their behalf. Agent banking contracts are private contracts where each contract determines the scope of services, fees paid and how risk will be shared (Bizah, Gumbo & Magweva, 2017).

Brazil is probably the most developed market where agency banking has significantly increased financial system structure (Bloodgood, 2011). Agency banking has enabled bank customers to access the basic banking services such as; deposits, withdrawals, disbursement and repayment of loans, payment of bills, transfer of funds, balance

enquiry, generation and issuance of mini bank statements, collection of documents in relation to account opening, loan application, credit and debit card applications, agency mobile phone banking services among others (CBK, 2011). Developing countries like Nigeria, Kenya and Ghana are increasingly supporting agency banking as a mode of delivering banking services to many unreached people especially low-income households (Gitau, 2014). In Nigeria, agency banking using Point of Sale (POS) terminals was introduced by the Central Bank of Nigeria (CBN) to facilitate the cashless economic policy. Agency Bankers receive and give out cash to customers using the POS. They are licensed by commercial banks to penetrate remote areas and capture the unbanked. The process is also aimed at easing off crowds in banking halls and Automated Teller Machines (ATM) as well as saving banks from establishing branches in unprofitable remote and thinly populated areas.

Early experiences have shown that branchless banking through agency 's can significantly reduce set-up and delivery costs, offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches (Lozano & Mandrile, 2009). However, challenges such as shortages of cash, security problems, network failures, and lack of financial literacy are militating against the smooth operations of the agency banking in the country.

Consequently, this paper sought to examine the factors that militate against the smooth running of agency banking in Nigeria, using Enugu South Local Government Area (LGA) of Enugu State as a case study. It is divided into five (5) sections. Section one (1) and two (2) are introduction and literature review respectively. Section three (3) and four (4) are methodology and data analysis respectively while section five (5) is the conclusion of the study.

Objectives of the study

The main objective of this study is to examine the downside of agency banking in Nigeria. The specific objectives are to:

1. Determine the effect of robbery on the operation of agency banking in Nigeria.
2. Examine the effect of liquidity shortage on the operation of agency banking in Nigeria.

Hypotheses of the Study

The hypotheses of the study are:

1. Robbery does not significantly militate against the operation of agency banking in Nigeria.
2. Liquidity shortage significantly militates against the operation of agency banking in Nigeria.

2. LITERATURE REVIEW

Akihgir, Tyagher, Tyagher & Kpoghul (2022) investigated the impact of agency banking on financial inclusion and economic activities in Benue State focusing on the agency banking activities of First Bank Ltd. The study was anchored on the agency theory and it used a survey design. The study utilized both primary and secondary data that were analyzed using descriptive statistics and structural equation models. Findings from the study revealed that agency banking activities of First Bank Ltd have immensely enhanced financial inclusion and

economic activities in Benue State. However, challenges such as shortages of cash, security problems, network failure and lack of financial literacy were identified to be militating against the smooth operations of the agency banking in the State. Among other things, the study recommended that the government should provide security and partner with the private sector to provide national carrier communication network system to overcome the network failure while the banks intensify efforts to educate the masses about the validity and potency of agency banking.

Githae, Gatauwa & Mwambia (2018) analyzed the factors affecting uptake of agency banking services among customers in rural Kenya. Specifically, the study sought to examine the effect of fraud on uptake of agency banking services among customers in Kenya; the extent to which skills of agents affect uptake of agency banking services among customers in Kenya; the effect of location on uptake of agency banking services among customers in Kenya and to find out how confidentiality affect agency banking services uptake among rural customers in Kenya. A multivariate regression model was applied to determine the relative importance of each of the four variables. The findings indicated that bank agent skills, location and confidentiality were found to be statistically significant in explaining uptake of agency banking services. The study recommended that banks should offer training to agents before they start providing specific services on behalf of the banks to improve their customer handling skills and increase the uptake of the agency banking services.

Nwachukwu; Agim; Gyang & Monulu (2019) investigated the relationship between agent banking, mobile money operators and financial inclusion in Nigeria. Descriptive research design was used. The population was operators of agency banking and mobile money services located in Jos town and environs. Findings the study revealed that cybercrime and reduction of cost of banking services had a statistically insignificant and negative relationship with financial inclusion, while geographical coverage and illiquidity had a positive, but insignificant relationship with financial inclusion. This study concluded, that agent banking and mobile money is gaining wide acceptance, however this has not engendered, more financial inclusion. The study recommended that the government should create an appropriate regulatory context in which innovation can thrive. In addition, more coordination is required between banks and operators, in terms of Risk, Training, deployment of technology, cash movement and profit-sharing arrangements.

Mungai & Omagwa (2017) investigated the effect of challenges associated with the adoption of agency banking on bank performance of four selected commercial banks in Kenya. Empirical evidence indicated that the effects of challenges associated with the adoption of agency banking on bank performance in Kenya were positive and that there is relationship between accessibility of banking services, low cost of service and customer transactions as a result of agency banking. The study employed purposive sampling to obtain a sample of 44 respondents from four banks. Findings from the study indicated that administrative challenges do not significantly affect bank performance whereas reliability and operational challenges were found to have a significant effect on bank

performance. The study recommended that policy makers heighten awareness to the public through regular open day forums, media and exhibitions on the need and use of agency banking, and develop strategies that will capture new customers. Banks should also allocate more resources to minimize liquidity problems.

Agu, Anidiobu & Ezinwa (2016) examined the challenges of sustainability of agency banking in some selected banks in Nigeria. Following the inauguration of mobile and agency banking in the financial sector, affordable and convenient banking products and services are accessible to the majority of the populace who reside in the hinterlands but not captured by the system. Specifically, the study sought to investigate the effect of security on sustainability of agency banking, determine the extent to which liquidity affect sustainability of agency banking, and assess the extent regulations have affected sustainability of agency banking. The research adopted descriptive survey that necessitated use of questionnaire to generate data. Data analysis was done using simple distribution tables of frequency and percentages. The results revealed that unavailability of liquidity in the agency banking outlets affected sustainability of operational performance, absence of serious armed robbery attacks but the agents felt insecure in their workplaces, and limited network accessibility in remote locations is amongst the challenges facing sustainability of agency banking in Nigeria. The study recommended the need for intensified enlightening campaigns about the activities of agency banking as sustainable financial inclusion strategy.

Atandi (2013) studied the challenges hindering the rural people of Kenya from benefiting from agent banking. The study found that, in as much as it had been witnessed that there was an increase in penetration of agent banking services, clients have not fully made use of the available agents at their localities to cut down on transaction costs occasioned by travelling to traditional branches and also time wasted on queuing for services. It also found that the banks have not fully taken advantage of agent banking to explore all market segments at low operating costs. The researcher also identified some of the factors hindering the well-functioning of agent banking despite mounting financial literacy training to Equity bank clients as: lack of mobile network services and float, lack of capital, issues of insecurity and fear of robbery.

Barasa & Mwirigi (2013), analyzed the performance of agency banking with regard to enhancing access to banking services by the unbanked. The study was conducted among 40 registered outlets with a respondent sample of 400 people. Systematic sampling technique was used to pick the respondents who were requested to fill structured questionnaires. The study incorporated descriptive data analysis tools and the likert scale to determine the weight of the factors. The study concluded that agency banking has played a pivotal role in enhancing the penetration of banking services in unbanked markets. Besides, agency banking also enhances the access of the full range of banking products within a less than formal setting. The study concludes that the agency banking model has not only helped to demystify banking among low-income populations but it has also placed beneficiaries on sure path towards becoming financially secure. The study also found that banking agents also double up as the backbone of electronic money banking since they perform transactions over a bank device, to enable clients to convert cash into electronic money and vice versa.

3. METHODOLOGY

This study adopted the survey research design. The survey was designed to elicit responses from respondents on the downside of agency banking in Enugu South LGA of Enugu State, Nigeria. The source of data was primary, obtained through the administration of questionnaire to agent bankers (POS operators) within the area of study.

The population of the study consists of all POS operators in Nigeria. However, Enugu South LGA was chosen as sample for ease of data collection. The sample size was calculated using the general formula for determining the sample size of an unknown population, given as: $\text{Sample Size} = n \div [1 + (n \div P)]$

Where: Confidence Level = 95%,

Calculating for Sample Size, $n = 1.960 \times 1.960 [0.10(1 - 0.10) / (0.04 \times 0.04)]$ $n = 1.960 \times 1.960 [0.09 \div 0.0016]$
 $= 1.960 \times 110.25$ $n = 216.09$

The study used both descriptive and inferential statistics. First, the responses to the questionnaire were analyzed by making use of descriptive statistics such as frequencies, percentages, minimum, maximum, means and standard deviation to describe the patterns of data. Data was captured from the questionnaire and collated with the aid of Microsoft Excel 2010. The gathered data are scrutinized and analyzed by employing a Chi-Square quantitative analysis technique using SPSS. The critical values were obtained by checking the degrees of freedom at 95%. The calculated chi-square values were then compared with the critical values in order to accept or reject the research hypotheses. Decision rule was then made as follows: -

At 0.05 level of significance and the appropriate degree of freedom,

Accept (H_0) if $X^2 \text{ Cal} < X^2 \text{ tab}$

Accept (H_1) if $X^2 \text{ cal} > X^2 \text{ tab}$.

4. ANALYSIS OF DATA

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
216	192	171

Source: Field Survey, 2023

Table 4.1 showed that out of the 216 copies of the questionnaire distributed to respondents, 192 copies were retrieved. This was 89% of the sample size. However, out of this number, only 171 copies were found valid and useful for further analyses. This was 79% of the sample size and 89% of the total number of copies retrieved. Further analyses were based on the copies retrieved and found valid.

Table 4.2: Robbery militating against the operation of agency banking

S/N	Questions	SA	A	N	D	SD	Total
1	Robbery is the highest threat to POS operators	93	64	8	4	-	171
2	My POS have been robbed once or more	98	30	30	9	4	171
3	POS operators have very weak security unlike the banks	81	75	6	6	3	171
4	The money I have lost to robbers have affected the successful operation of my business	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, 2023

Table 4.2 presented responses as to robbery militating against the operation of agency banking. 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 robbery militating against the operation of agency banking.

Table 4.3: Liquidity shortage militating against the operation of agency banking

S/N	Questions	SA	A	N	D	SD	Total
1	I usually run out of cash due to the risk associated with holding cash	60	40	37	16	18	171
2	Large amount of money cannot be collected from the POS	101	41	12	9	8	171
3	Going to the bank several times in a day to collect or deposit cash increases the cost of running the business	86	54	16	10	5	171
4	We at times lose customers and possible revenue as a result of limited cash	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, 2023

Table 4.3 presented responses on the shortage of liquidity militating against the operation of agency banking. 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 shortage of liquidity militating against the operation of agency banking

Test of hypotheses

In this section, the stated hypotheses would be tested using SPSS Chi-square version 21.

Test of hypothesis one

H_0 : Robbery does not significantly militate against the operation of agency banking in Nigeria. H_1 : Robbery significantly militates against the operation of agency banking in Nigeria.

To test this hypothesis, table 4.2 was used and SPSS applied thus:

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
How robbery militate against the operation of agency banking	171	4.1228	1.14384	1.00	5.00

Chi-Square Test Frequencies How robbery militate against the operation of agency banking

	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		13.8
SA	86		51.8
Total	171		

Test Statistics

Chi-Square		How robbery militate against the operation of agency banking
Df		127.392 ^a
Asymp. Sig.		4
	Sig.	.000
Monte Carlo	95% Confidence	.000 ^b
Sig.	Interval	.000
		Lower Bound
		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 that robbery significantly militate against the operation of agency banking in Nigeria.

Test of hypothesis two

H_0 : Liquidity does not significantly militate against the operation of agency banking in Nigeria. H_1 : Liquidity significantly militates against the operation of agency banking in Nigeria.

This hypothesis was tested using table 4.3 and SPSS applied thus: **Descriptive Statistics**

	N	Mean	Std. Deviation	Minimum	Maximum
How shortage of liquidity militates against the operation of agency banking	171	4.3626	.91882	1.00	5.00

Chi-Square Test Frequencies

How shortage of liquidity militates against the operation of agency banking

	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

			How shortage of liquidity militate against the operation of agency banking
Chi-Square			191.368 ^a
Df			4
Asymp. Sig.			.000
	Sig.		.000 ^b
Monte Carlo Sig.	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 liquidity shortage militates against the operation of agency banking.

5. CONCLUSION

The study was conducted to investigate the downside of agency banking in Nigeria using Enugu South LGA of Enugu State as a case study. It was found that robbery and liquidity shortage militate against the operation of agency banking. Robbery and mugging of agents are becoming rampant in Nigeria, so much so that many people have lost their lives. Agents are also reporting systematic attempts to defraud them through fake transaction message notifications. More so, liquidity shortage in agency outlets affects sustainability of sound performance of agency banking because availability of fund /other services rendered by the agent banker without failure builds customers' confidence. A situation where a customer arrives at an agent's outlet with the need to withdraw a large amount; and it happens that the agent does not have enough cash to satisfy the cash out request could lead to frustration. This is consistent with the findings of Agu, Anidiobu & Ezinwa (2016). The study therefore recommends that the agent banker should ensure the availability of adequate cash that can reasonably serve customers without running into shortage or surplus of money while the government and commercial banks should partner in ensuring adequate security necessary for the operation of agency banking in Nigeria.

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