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AN INSIGHT INTO AGENCY BANKING AND FINANCIAL PERFORMANCE OF MONEY DEPOSIT BANKS IN NIGERIA

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ABSTRACT

Agency Banking is an organization that acts in some capacity on behalf of another bank. The relationship between agency banking and financial performance of banks is yet to be determined Therefore, this study x-rayed the relationship between agency banking and financial performance of money deposit banks in Nigeria. The objective of the study is to examine the extent cash deposit, loans/interest and account opening services has influenced financial performance of the principal bank. To guide this study three research questions were raised and a descriptive research design was adopted with a total population of 18 money deposit banks located within Port Harcourt metropolises of Rivers State. The proportionate stratified random sampling technique was adopted whereby 4 (four) representatives from each of the 18 money deposit banks in Rivers State were drawn as target respondent who will answer on behalf of organization(s). Therefore, the sample size is 72 money deposit bank representatives. These four representatives include: (Head of Operations, Head of Accounting, Head of Customer Care, and Head of ICT department) from each the 18 money deposit banks in Rivers State. The instrument for data collection for this study will be the questionnaire. This study employed a 4-point Likcrt scaled questionnaire to decide the sets of answers from subjects with the following representation Very Low Extent = 1, Low extent= 2, High Extent = 3, Very High Extent = 4. A total of 72 copies of questionnaires were administered to respondents in the various money deposit banks under review at their head offices in Port Harcourt metropolises with the assistance of two research assistants and same number was retrieved. The Mean and Standard Deviation were used to answer the research questions. Based on the findings of this study, the therefore concludes that agency banking operations facilitates expansion in geographic coverage, increases new customers data base and enhance efficiency in service delivery to retail customers. These activities thereby increase the banks financial performance. Therefore, the study recommends that more products should be channeled through the agent network to increase revenue streams for both bank and then agent; and also policies, regulations, procedure manuals and internal controls should be frequently updated and enforced.

Key words: Agent, Agency Banking, Financial Performance

INTRODUCTION

The commercial banking sector of the Nigerian economy seems to have been in a state of constant and competitive changes, these changes ranges from the technology, policy reforms, and even in its operation. The banks have continued to intensify their efforts to expand their reach to the untapped banking market. This might have influenced the operational pattern of many banks. To this end, banks in Nigeria have adopted a banking strategy known as "Agency Banking". Agency banking literally means a banking operation carried out by an agent. Agency banking is a concept that allows banks to engage third parties to offer products and services on their behalf (Bushs & Mathisen as cited in Ogetange, 2014). Agency banking can also be defining as an organization/company that acts on behalf of another bank, it thus cannot accept deposits or extends loans in its own name; it acts as agent for the parent bank. It is a retail outlet contracted by a financial institution or a mobile network operator to process clients" transactions (Ogetange, 2014). These definition synchronies with Tinevimbo, et al (2017), Agency Banking is an organization that acts in some capacity on behalf of another bank, it, thus, cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank. Based on extract from the above definitions, agency banking can also be defined as an organization that have been delegated or empowered by a bank to act or carry out certain legal financial services such as deposit, withdraw, transfer funds, pay bills, and customer/balance enquiries and so on, on behalf of the bank.

The agency network allows banks to reach new customers, who can open new accounts, perform credit and debit card applications and cheque book requests. Agency banking has enabled bank customers to access the basic banking services from within the comfort of their neighborhood. Tinevimbo, et al, further pointed out that the convenience of access to banking services and the extended hours that the agencies work has been the most attractive features to the customer. Banking agents are usually equipped with a combination of point of sale (POS) card reader, mobile phone, barcode scanner to scan bills for bill payment transactions, Personal Identification Number (PIN) pads, and personal computers that connect with the bank's servers using internet. This enhances the transaction verification, authorization and settlement platform. It is important to note that the principal is liable under law for the action of its agents, whether such actions are explicitly or implicitly authorized. Liability for the actions of an agent acting on behalf of the bank may be different and will often depend on their contractual agreement. Agency offers a variety of banking comprises of activities such as bank account opening, depositing cash, withdrawing, and money transfer among other activities. Through this model banks have expanded their financial services to rural areas without a financial capacity for a formal branch. This is true of remote areas with a high number of people who do not access banking services (Nyota & Muturi (2019). This could have prompted policy makers and regulators to give the model attention even though banking regulations still stifles its growth. Where regulations allow, the agency model and other branchless initiatives have shown tremendous growth.

The Agency banking is principally aimed at bringing the bank to the grass root level whereby people can commute from and interact daily thereby increasing distribution channels of financial services without necessarily opening more branches. The adoption of agency banking is mainly geared towards improving market share by attracting and retaining their customers, improving their financial performance and creating a variety of services. An Accurate measurement of financial performance is very critical and remains a central concern for most business organizations. This provides a foundation to develop strategic plans, assess an organization's completion of objectives, and remunerate managers (Kinyanjui, 2019). The major determinants of financial performance of banks includes: Capital Adequacy, Liquidity Management and asset quality (Aburime, 2008) as cited in (Ogetange, 2014). Based on this performance indicator, the extent whereby agent banking meets this performance indicator is yet unknown.

It`s not clear whether adoption of agency banking has led to increase in market share and above all, banks financial performance. Kamau (2012), studied the relationship between agency banking and financial performance of banks in Kenya. The study gave a negative and weak correlation between number of agents, deposits and withdrawal transactions undertaken through agents and financial performance of banks. Waithanji (2012) stated that relationship between agency banking and financial performance of banks is yet to be determined due to the low number of banks that have implemented it and impact may become clearer once all banks adopt agency banking in Nigeria. Therefore, this study tends to x-ray the relationship between agency banking and financial performance of money deposit banks in Nigeria.

Statement of problem

Agency banking seems to bring banking services closer to the customers and nowadays people in remote areas do not need to travel to towns to get the financial services. Before the introduction of agency banking, there were always long queues in most banks where customers usually wait for a very long time to receive financial services but now days the queues have be minimized. Agency banking has become one of the essential services in the banking sector in bringing their services closer to the people at the grass root or in remote areas where brick and mortar branches are not present. The major concern of this study is that despite the laudable achievement of agent banking in the provision of retail services to bank customers, (bank deposits, loans/interest, and sourcing for new customers), the financial performance of some of the banks in Port Harcourt is yet to improve. Based on the aforementioned, this study is untaken to empirically ascertain the extent to which agency banking enhances the financial performance of some selected money deposit banks in Port Harcourt, Rivers State.

Objectives of the study

The study will examine the relationship between agency banking and the financial performance of money deposit banks in Port Harcourt, Rivers State. Specifically, the study will examine

1. The extent cash deposit from agency banking has influenced financial performance of the principal bank.
2. The extent loans/interest from agency banking has influenced financial performance of the principal bank.
3. The extent new customer from agency banking has influenced financial performance of the principal bank.

Research question

The following research questions will guide his study.

1. To what extent has Agency Banking Cash Deposit influenced financial performance of the principal bank?
2. To what extent has Agency Banking Loans/Interest influenced financial performance of the principal bank?
3. To what extent has Agency Banking Accounts Opening Services influenced financial performance of the principal bank?

Literature Review

Agency Banking

Agency banking refers to bank partnerships with nonbanks, typically retail commercial outlets, ranging from lottery kiosks, pharmacies, post offices, construction goods stores, and so forth, to provide distribution outlets for financial services (David and Jagongo, 2017). An agency bank is an organization that acts in some capacity on behalf of another bank, it, thus, accepts deposits or extends loans as agent for the parent bank. it also conduct financial retail transaction and allows clients deposit, withdraw, transfer funds, pay their bills, and make balance enquiries. The agent is involved in carrying out certain specified transactions for the customer on behalf of the bank. Kumar, also stated that this transaction by the agent has a significant relationship with the overall performance of the parent bank.

According to Barasa & Mugambi (2013), it was reported that agency banking has increasingly being significant in developing countries. However, the extent to which agency banking can be used to deepen the financial sector which remains unidentified. The significant benefit of agency banking is a model used to maintain the customer and agents that have not yet been studied. However, despite the efforts done on agency banking the commercial banks still remains to be achieving a lot of competitiveness hence improving the financial performance, it has been noted that there is limited studies done locally on the contributions of agency banking on commercial banks. This it is not recommended to import the entire of results of a study conducted without taking into consideration the account and the contextual differences and hence calling for the needs to conduct a local study for purposes of making clear understanding on the financial performance of commercial banks. It is through this reason that the exists a knowledge gap on the effect of agency banking on performance of commercial banks leading to the development of a study on the effects of agency banking in the financial performance of commercial banks.

Commercial Banks Performance Indicators

Profitability and liquidity seems to be effective indicators of the corporate health and performance of not only the commercial banks, but all profit-oriented ventures. These performance indicators are very important to the shareholders and depositors who are major publics of a bank. As the shareholders are interested in the profitability level, the depositors are concerned with liquidity position which determines a bank's ability to respond to the withdrawal needs which are normally on demand or on a short notice as the case may be (David and Jagongo, 2017). The traditional measures of the profitability of any business are return on assets (ROA) and return on equity (ROE). Assets is used by businesses to generate income. Loans and securities are a bank's assets and are used to provide most of a bank's income. However, to make loans and to buy securities, a bank must have money, which comes primarily from the bank's owners in the form of bank capital, from depositors, and from money that it borrows from other banks or by selling debt securities a bank buys assets primarily with funds obtained from its liabilities as can be seen from the following classic accounting equation (Lamido, 2010). Profit is the ultimate goal of commercial banks. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that commercial banks have no other goals. Commercial banks could also have additional social and economic goals. However, the intention of this study is related to the first objective, profitability. To measure the profitability of commercial banks there are variety of ratios used of which Return on Asset, Return on Equity and Net Interest Margin are the major ones (Alexandru, 2008).

Effect of Agency Banking on Financial Performance

Mwangi (2012) sought to establish the role of agency banking in the performance of commercial banks and established that cost effectiveness associated with agency banks positively influence banks financial performance. Emergence of agency banking has resulted in increased number of transaction volumes as the banks can now access a large number of clients through their account opening services. This eventually increases cash deposits since the emergence of agency banking

Jagongo, and Molonko, (2014) opined that transacting through bank agents has proven to be cost-effective in providing direct retail financial services most especially to people who live in rural areas that are far away from banks. Banks and other financial institutions are partnering with retailers, post offices, and other agents to provide financial services. Atandi, (2013) stated that Agent businesses are more profitable and produce higher revenues, through deposits, loans and other financial transactions than commercial banks that use only branch networks. Banks can benefit from lower transaction costs as agent banking requires less paper work, less staffs and physical branches. Aduda, Kiragu & Ndwiga (2013) stated that the benefits of Agent Banking are among others; that it bring banking services closer to the customers for instance customers can apply for lines of credit, credit cards, loans and Mortgages through agents hence, fewer visits required to banks thereby increasing the profit margin of the principal.

Research methodology

The descriptive research design was adopted for this study with a total population of 18 money deposit banks located within Port Harcourt metropolises of Rivers State. The proportionate stratified random sampling technique was adopted whereby 4 (four) representatives from each of the 18 money deposit banks in Rivers State were drawn as target respondent who will answer on behalf of organization(s). Therefore, the sample size is 72 money deposit bank representatives. These four representatives includes: (Head of Operations, Head of Accounting, Head of Customer Care, and

Head of ICT department) from each the 18 money deposit banks in Rivers State. The instrument for data collection for this study will be the questionnaire. This study employed a 4-point Likcrt scaled questionnaire to decide the sets of answers from subjects with the following representation Very Low Extent = 1, Low extent= 2, High Extent = 3, Very High Extent = 4. A total of 72 copies of questionnaires were administered to respondents in the various money deposit banks under review at their head offices in Port Harcourt metropolises with the assistance of two research assistants and same number was retrieved. The Mean and Standard Deviation were used to answer the research questions.

Results

The interpretation in relation to the mean is revealed in the study conducted by George (2015) and Asawo (2009) categorization. This grouping offered all answers with a mean value between 0-1.49 as low, 1.5-2.49 as moderate, 2.5 -3.49 as high and 3.5 above as very high. Based on this, the researcher's univariate analyses were presented.

Agency banking cash deposit and financial performance of the principal bank

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
The frequency of cash deposit will increase capital adequacy	72	1.00	4.00	2.8472	.89851
The volume of savings deposit will increase capital adequacy	72	1.00	4.00	3.0278	.93405
The rate of fixed deposit will increase capital adequacy	72	1.00	4.00	3.0694	.81061
Valid N (listwise)	72				

The table above represents the respond made by the respondent on Agency banking cash deposit and financial performance of the principal bank. The mean scores which represent the measure of central tendency were also displayed in the table. The data in the table above represents the response pattern to the statement poses to the respondents. The first statement on Agency banking cash deposit and financial performance of the principal bank, measured on a 3 item structured questionnaire and scaled on a 4-point likert scale revealed that 2.85 of the respondents stated that the frequency of cash deposit will increase capital adequacy to a high extent.

The second statement on Agency banking cash deposit and financial performance of the principal bank which was measured on a 3 item structured questionnaire and scaled on a 4-point likert scale revealed that respondent agreed to the statement that the volume of savings deposit will increase capital adequacy to a very high extent with moderate mean score of 3.03. The third statement on Agency banking cash deposit and financial performance of the principal measured on a 3 item structured questionnaire and scaled on a 4-point likert scale revealed that respondent agreed to statement stating that the rate of fixed deposit will increase capital adequacy as a result of the high mean score of 3.07.

Agency banking loans/interest and financial performance of the principal bank

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Increase in customer deposits will enhance liquidity management	72	1.00	4.00	3.0833	.81793
Bank investment which could generate high returns	72	1.00	4.00	2.8472	.89851
Increase in customer deposits will enhance liquidity management Bank investment which could generate high returns profitability	72	1.00	4.00	3.0278	.93405
Valid N (listwise)	72				

The table above represent the respond made by the respondent on Agency banking loans/interest and financial performance of the principal bank. The mean scores which represent the measure of central tendency were also displayed in the table. The data in the table above represents the response pattern to the statement poses to the respondents. The first statement on Agency banking loans/interest and financial performance of the principal bank, measured on a 3 item structured questionnaire and scaled on a 4-point likert scale revealed that 3.08 of the respondents stated that Increase in customer deposits will enhance liquidity management to a high extent.
The second statement on Agency banking loans/interest and financial performance of the principal bank which was measured on a 3 item structured questionnaire and scaled on a 4-point likert scale revealed that respondent agreed to the statement stating that Increase in customer deposits will enhance liquidity management which could generate high returns profitability to a very high extent with moderate mean score of 2.85. The third statement on Agency banking loans/interest and financial performance of the principal bank, measured on a 3 item structured questionnaire and scaled on a 4-point likert scale revealed that respondent agreed that management Bank investment which could generate high returns profitability to a great extent this is reveal in the high mean score of 3.03.

Agency banking Accounts Opening Services and financial performance of the principal bank

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Increase in customer deposits will enhance liquidity management.	72	1.00	4.00	3.0694	.81061
Bank investment which could generate high returns.	72	1.00	4.00	3.0833	.81793
Adequate level of liquidity is positively related with bank profitability.	72	1.00	4.00	3.1250	.87109
Valid N (listwise)	72				

The table above represents the respond made by the respondent on agency banking Accounts Opening Services and financial performance of the principal bank. The mean scores which represent the measure of central tendency were also displayed in the table. The data in the above represents the response pattern to the statement poses to the respondents. The first statement on Agency banking Accounts Opening Services and financial performance of the principal bank, measured on a 3 item structured questionnaire and scaled on a 4-point likert scale revealed that 3.08 of the respondents stated that Increase in customer deposits will enhance liquidity management to a great extent. The second statement on Agency banking Accounts Opening Services and financial performance of the principal bank which was measured on a 3 item structured questionnaire and scaled on a 4-point likert scale revealed that respondent agreed to the statement stated that Bank investment which could generate high returns to a high extent which is represented by high mean score of 2.85. The third statement on Agency banking Accounts Opening Services and financial performance of the principal bank, measured on a 3 item structured questionnaire and scaled on a 4-point likert scale revealed that respondent agreed that Adequate level of liquidity is positively related with bank profitability to a great extent as this also showed in high mean score of 3.03.

DISCUSSION

Based on results emanating from the study, the following discoveries were made: There is a significant influence of Agency banking cash deposit and financial performance of the principal bank. This agrees with Tinevimbo, et al, (2015). The agency network allows banks to reach new customers, who can open new accounts, perform credit and debit card applications and cheque book requests. Agency banking has enabled bank customers to access the basic banking services from within the comfort of their neighborhood. Tinevimbo, et al, further pointed out that the convenience of access to banking services and the extended hours that the agencies work has been the most attractive features to the customer.

With regards to the second research question; there is a significant relationship between Agency banking loans/interest and financial performance of the principal bank. This agrees with Jagongo, and Molonko, (2014) who stated that transacting through bank agents has proven to be cost-effective in providing direct retail financial services most especially to people who live in rural areas that are far away from banks. Atandi, (2013) also stated that agent businesses are more profitable and produce higher revenues, through deposits, loans and other financial transactions than commercial banks that use only branch networks. Aduda, Kiragu & Ndwiga (2013) explained that the benefits of Agent Banking are among others; that it bring banking services closer to the customers for instance customers can apply for lines of credit, credit cards, loans and Mortgages through agents hence, fewer visits required to banks thereby increasing the profit margin of the principal.

Based on results from the third research questions, it was also discovered that there is a significant relationship between Agency banking new customer base and financial performance of the principal bank. This agrees with Mwangi (2012) who sought to establish the role of agency banking in the performance of commercial banks and established that cost effectiveness associated with agency banks positively influence banks financial performance. Emergence of agency banking has resulted in increased number of transaction volumes as the banks can now access a large number of clients through their account opening services. This eventually increases cash deposits since the emergence of agency banking.

CONCLUSION AND RECOMMENDATIONS

Based on the findings of this study, the therefore concludes that agency banking operations facilitates expansion in geographic coverage, increases new customers data base and enhance efficiency in service delivery to retail customers. These activities thereby increase the banks financial performance. Therefore, the study recommends that:

1. More products should be channeled through the agent network to increase revenue streams for both bank and then agent.
2. Policies, regulations, procedure manuals and internal controls should be frequently updated and enforced.
3. Agent float support schemes should be put in place to support the agents and that gents are paid fair commissions.
4. Agents should be trained before embarking on agency banking and the training must be continuous and so on.

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