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Impact of Agency Banking on Commercial Bank Profitability in Nigeria

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ABSTRACT

In countries around the world whose economies are growing technologically, the banking model has become increasingly important in improving access to banking services. As a result, in the long run, the representative firm's principal goal is to maximize total earnings. The created net profits in a given financial period are totally dependent on the number of income-producing tasks performed by the bank and its agents, as well as the associated costs for generating the profits. Due to intense competition in the banking industry, many banks have decided to diversify their services in order to ensure that they have a diverse range of income-generating activities, particularly through a diversification of non-intermediation activities that generate income rather than the intermediation activities that banks have traditionally relied on for years. The specific objectives are to determine the impact of agent banking on the accessibility of commercial bank financial performance in Nigeria, to determine the impact of agent banking deposits on commercial bank financial performance, to determine the impact of withdrawals through agents on commercial bank financial performance, and to determine the impact of loan disbursement through agents on commercial bank financial performance.

Key words: banking, profitability, agency, performance and policy

Background of the study

Commercial banks have been challenged to become more inventive as a result of increased competition. Automated Teller Machines (ATMs), credit cards, mobile banking, and online banking are examples of achievements. This banking approach has proven increasingly important in expanding access to banking services in countries whose economies are technologically developing. The rapid rise of ICT in the world's economy developing nations, particularly on the African continent, is critical in generating innovative ventures, and agency banking is a good example of such innovations.
Firm theory presented economists' views that businesses seek to maximize profits. As a result, in the long run, the representative firm's principal goal is to maximize total earnings. The created net profits in a given financial period are totally dependent on the number of income-producing tasks performed by the bank and its agents, as well as the associated costs for generating the profits. Due to intense competition in the banking industry, many banks have decided to diversify their services in order to ensure that they have a diverse range of income-generating activities, particularly through a diversification of non-intermediation activities that generate income rather than the intermediation activities that banks have traditionally relied on for years (Gichungu & Oloko, 2015). As a result, agency banking is gradually being acknowledged as a seriously viable technique in many countries for banks to reach out to more consumers, particularly those in rural areas (Alliance for Financial Inclusion, 2012).

Agency Banking

"Agency banking" refers to the branchless component of banking in which third parties are engaged by the bank to conduct some of the functions that were formerly performed by bank workers in banking halls. (King'ang'ai and colleagues, 2016). According to a study conducted by the Central Bank of Nigeria (2013), agency banking is defined as a bank granting permission to a third party so that he or she can serve the bank's customers on the bank's behalf. Agent banking can also be defined as the use of a third-party agent (Point of Sell Agent) licensed by the particular bank or any other prudentially regulated financial firm to provide banking services to its customers on its behalf, according to an idea obtained from Oxford Policy Management Ltd, 2011.
Agency banking, also known as correspondent banking, is a methodology for delivering financial services to bank consumers in places where banks may not be able to operate a branch profitably. To be able to deliver the services, banks equip agents with point-of-sale reader devices, bank agents, and a barcode scanner for scanning bills paid through them. Customers/clients who wish to use the products/services offered by these agents use the banking agent provided by the bank to gain access to their bank accounts or electronic wallets, as appropriate. Agent banks provide ordinary banking activities such as deposit taking and withdrawals, loan disbursement and repayment, salary payments, pension payouts, money transfers, and the issuance of mini statements through shared infrastructures (Mosoti & Mwaura 2014).

As model that it is referred to, agency banking is a strategy for the expansion depicts of its concept from the branchless banking model into which the wordings are to be used interchangeably. This concept helps in decongesting the banking halls by allowing the customers receive banking services at the place of their convenience. (King'ang'ai et al., 2016). The desired aim of agency banking is to ensure that there is a possibility for the customers of the bank to have access to the banking services within their reach and at the very comfort of the neighborhood.

Profitability

Profitability can be referred to as the net income generated by a corporation from gross revenues once the costs incurred have been deducted (Al-Jafari& Al Samman, 2012). Relationship between the profits that an organization generated and the resources that the enterprise had to invest to achieve the said profits is mostly referred to as profitability. As such, the amount of money engendered by a firm over a given financial period by use of the resources at its disposal is its profitability, whereas the market capitalization by a firm to book value of assets of the company ratio describes the market values. Ultimately, to maximize profits and grow the market value is the goal any firm Mule, Mukras&Nzioka, 2015). By so doing, the enterprise achieves to maximize shareholder value through increased value of stock (Al-Jafari&Al Samman, 2012).

Agency Banking and Profitability

Many developing nations have seen the agency banking model enhance economic performance and also in the increasing the performance of banking agents (Kingori & Gekara, 2015). Veniard (2010) outlines that compared to operating a bank branch, agency banking systems are cheaper up to three times to operate. Fixed costs are significantly reduced as there is a lot of leveraging on the existing retails outlets, an opportunity that eliminates the need for banks to fund creation of infrastructure to have the businesses running. There is also the dimension of increased revenues as bank agents are able to facilitate bill payments and person-to-person transactions that earn the bank some revenue in the end. Despite the fact that customers can as well access all these services from their respective banks, the agents enhance proximity, efficiency, and timely access as at the agent points there are no long (Veniard, 2010).

Iterated by Ndungu and Wako (2015) in a research, agency banking was seen to have given another revenue generating avenue to the banks through the deposits and withdrawals by customers, which ultimately increase the profitability of the banks. Studying on how agency banking contributes to financial performance of banks, Njagi (2013) discovered that the aspect such as low costs of transactions, banks regulation of the agents, and quick access to financial services impacted positively on the performance of the banks on the financial dimension across the Nigerian nation. Kabira (2013) also studied the effect of agency banking on the performance of commercial banks with the results indicating that there is no direct correlation between the number of agents that commercial banks operate and the volume of transactions.

Research Problem

Commercial banks as a financial institution have recently with the sense of reckoning understands that agent banking is described as a viable strategy for expanding the formal financial services into the unbanked regions of the country such as the urban, rural or the marginalized areas. (Mosoti&Mwaura 2014). However, banking institutions cannot depend on the agents they train and license in cross-selling of financial products and as such increase the net customer profitability. The reference here is that for this model to be effective, banks are required to put more effort such as promoting and marketing of the services and the use of employees from their branches to cross-sell some additional financial services to agent clients (Veniard, 2010). Putting this into consideration, agents in the designed model tends to lend a hand to the financial institutions and assist them divert customers from busy banking halls through providing complementary and conveniently exposing them to the opportunity of easy access to banking services.

A referred number of studies have recently explored the concept on agency banking and its influence in the banking industry. In the said cited study, scholars like Ferdous, Mosharrafa and Farzana (2015) explored the implications that agent banking enhances customer's access and profitability of Nigeria commercial banks and concluded that it's application of the model tends enhance customers' accessibility and profitability of banks.

Objectives of the study

The main objective of this study is to investigate the impact of agency banking on the financial performance of commercial banks in Nigeria. The specific objectives are as following:

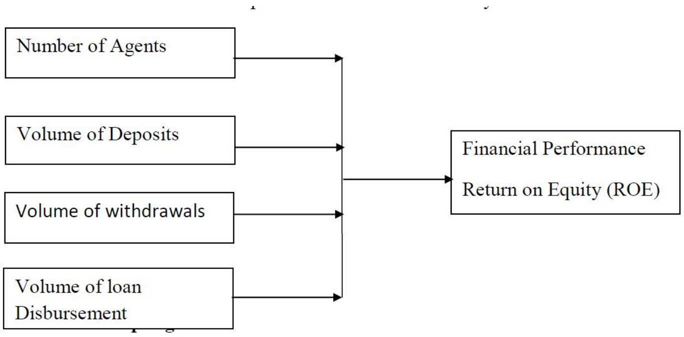
i. To establish the influence of agent banking on the accessibility of the financial performance of commercial banks in Nigeria.

ii. To find out the impact of agent banking deposits on the financial performance of commercial banks.

iii. To identify the impact of withdrawals through agents on the financial performance of commercial banks.

iv. To determine the impact of loan disbursement through agents on the financial performance of commercial banks.

Conceptual Framework of the Study



Data and Sampling

This study is quantitative in nature and total population of this study is 59 scheduled commercial banks in Nigeria. To get the result 19 commercial banks in Nigeria has been taken as sample of the study(Appendix I). The sample is purposely selected to represent commercial banks that are adopted agent banking in 2013 when the central banks of Nigeria introduce the agent banking model. Normally, we consider ROA and ROE to determine the financial performance of commercial bank. Here, Return on Equity (ROE) has been used as financial performance indicator and it is explained by different explanatory variables like number of agents, volume of deposits, volume of withdrawals, and volume of loan distribution. The study is based on secondary data which are collected from balance sheets and income statements of the sample banks and also from the central bank of Nigeria (Nigeria Bank) covering the period of 4 years from 2016 to 2019.

Model Specification

The multiple regression model is adopted to measure the impact of agent banking on the financial performance of selected commercial banks in Nigeria. The model is given following:

$$Yit = \beta 0 + \beta 1X1it + \beta 2X2it + \beta 3X3it + \beta 4X4it + \varepsilon it$$

Result and Discussion

Descriptive Statistics

Descriptive analysis is conducted to determine the statistical properties of the variables.Table1 gives a summary of measures of the central tendency which include the mean that measures how closely knit the variables are. It also measures of spread and variations such as the standard deviation. All the series are transformed into a natural log-form to give a more precise interpretation. It expresses that most of the variables have changed noticeably over the period of time.

	N	Minimum	Maximum	Mean	Std. deviation
Return on equity (ratio)	76	-3.860	9.433	3.241	2.447
Number of agents (Ln)	76	9.354	11.477	10.724	0.652
Volume of deposits (Ln)	76	19.541	22.261	20.336	0.891
Volume of withdrawals (Ln)	76	16.812	20.913	19.421	0.875
Volume of loan disbursement (Ln)	76	12.459	15.878	14.880	0.722

Source: Researcher's Estimates

The series depicts minimum values of the return on equity, number of agents (Ln), volume of deposits (Ln), volume of withdrawals (Ln), volume of loan disbursement (Ln), are approximately -3.860, 9.354, 19.541, 16.812, and 12.459 while their maximum values are 9.433, 11.477, 22.261, 20.913 and 15.878 respectively. The mean values are 3.241 for return on equity, 10.724 number of agents (Ln), 20.336 for volume of deposits (Ln), 19.421 for volume of withdrawals (Ln), and 14.880 for volume of loan disbursement (Ln). The table indicates that the mean values of all the variables are in between the range of minimum and maximum values. The standard deviation of the return on equity, number of agents (ln), volume of deposits (ln), volume of withdrawals (ln), volume of loan disbursement (Ln), are approximately 2.447, 0.652, 0.891, 0.875, and 0.722 respectively. The study also highlights that ROE has the highest standard deviation of 2.447 and the number of agents (Ln) has the least of 0.652.

Conclusion

Agency banking as a designed model is one of the prominent nonconventional banking windows offering financial services, through a specified as well as defined channel, outside bank branches. It has been getting very popular in different countries across the world, especially to the remote areas where banking service is unavailable due to the geographical barrier of the locality has been becoming a powerful channel for spreading the coverage of financial inclusion by reaching the financially excluded segments of the population, even in the remotest part of a locality. The main objective of this study is to find out the impact of agency banking on the financial performance of commercial banks in Nigeria. The study is focused on a number of agents, volume of deposits, withdrawals, and loan disbursement as the independent variables and financial performance of commercial banks measured by using the return on equity (ROE) as the dependent variable. Secondary data has been taken from 19 listed commercial banks in Nigeria over the period of 2016-2019. Descriptive statistics, correlation and multiple regression models have been used to describe the data. The findings of the descriptive statistics show that the average financial performance (ROE) of the sample commercial banks is 3.241 and the average number of agents is determined by using the Natural log (Ln) 10.724 respectively. The study reveals that the average volume of deposits is 20.336 whereas the average volume of withdrawals is 19.421 and the average volume of loan disbursement is 14.880 respectively. The results on correlation analysis show that there is a positive correlation between the financial performance of commercial banks and the number of agents as well as volume of deposits while a negative correlation between ROE and withdrawals as well as loan disbursement.

The study also shows that the variability in the dependent variable ROE is explained by about 68 % of the independent variables. The estimated regression results show that number of agents, volume of deposits and volume of withdrawals have significant impact on the financial performance of commercial banks in Nigeria. Hence, the study concludes that financial performance of commercial bank in Nigeria (ROE) is positively affected by number of agents and volume of deposits while it is negatively affected by volume of withdrawals and volume of loan disbursement.

Policy Implication

The study results have some policy implications on the effect of agent banking on the financial performance of commercial banks in Nigeria. The policy implication is based on regression analysis that is given below:

1. Commercial banks should invest more resources towards increasing their number of agents to increase the financial performance of commercial banks especially in rural areas. Banks should also be cautious in selecting agents and implement the central bank guidelines in this regard. In this case, Nigeria bank can organize more trainings and seminars in order to educate the stakeholders of the agent banking regarding the rules and regulations, security measures and other requirements of agent banking.
2. Commercial banks should develop deposit mobilization and loan disbursement strategies through agent banking to ensure that their clients use agency-banking services. Strict supervision and monitoring should be in place to ensure proper balance between deposit mobilization and loan disbursement of the agent banking so that the rural clients of agent banking units are not missing out on its benefits. Because this imbalance created by banks would adversely affect the rural economy in the long run. Nigeria Bank as the regulatory authority of the banking sector should be vigilant in this regard.
3. Commercial banks should encourage their customers to withdraw money from agents so that they can earn more income in terms of fees and commissions from withdrawals

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