Agent Banking and Financial Inclusion of Rural Dwellers In Nigeria - A Study Of Ikorodu Local Government Area Of Lagos State, Nigeria.

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ABSTRACT

Financial inclusion has become a priority area of the Federal Government through the Central Bank of Nigeria. The numbers of people that have access to financial services are less than expected in spite of the increase in the number of mobile phone users in the country. The increase in the activities of agent banking across the country in recent time has become an interesting area of study especially as the number of mobile network users continues to increase on daily basis. This study was carried out to examine how agent banking can be used to expand financial inclusion in the country with emphasis on rural dwellers using the residents of Ikorodu Local Government Area of Lagos State. Inferential statistics was adopted while SPSS was used to analyse the questionnaires collected. A total of 150 questionnaires were distributed, only 144 were filled and returned. Findings from the study indicated that there is a positive and significant relationship between agent banking and financial inclusion which is evidenced from the fact that p-value = 0.023 which is less than $\alpha = 0.05$, $R = 0.514$ and $R^2 = 0.264$ indicates that there is a positive and relationship between agent banking and financial inclusion. On the other hand the constant value of 2.960 and correlation co-efficient of 45% indicated that there is a moderate and positive relationship between banking sector and financial inclusion. The p-value of 0.007 means that the p-value is statistically significant at 5% level. It was therefore recommended that the Central Bank of Nigeria should review the guidelines set out for the operation of agent banking in the country to make it more robust in order to deepen financial inclusion in the country.

Keyword: Agent, Agent Banking, Financial inclusion, Rural Dwellers, Nigeria

1. INTRODUCTION

The roles of the banking sector in every economy have been well pronounced as it helps in channeling funds from the surplus sector to the deficit sector (Ilemobayo & Onyenebo, 2021). These roles will be a mirage if certain segments of the society are not reached especially those in the rural areas.

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Historically, agent banking had its origin from Brazil and its popularity has grown over time across continents including Africa where it has been practised successfully in Kenya and South Africa (Agalla, 2014). Agent banking allows licensed deposit money banks to delegate some of their responsibilities to an agent (third party) who acts on their behalf. It is a successful way of reaching out to rural dwellers (Mahato & Goet, 2021). Increasing the coverage areas of agent banking will lead to reducing the number of people that are financially excluded. According to Waihenya (2012), agent banking is evolving and the faster it grows, the better for financial inclusion. The recent licensing of Mobile Money Operators by the Central Bank of Nigeria is aimed at increasing financial inclusion.

Agent banking is seen as a road map to achieving financial inclusion and its spread depends on the level of technological development. According to NFIS (2019), the number of deposit money banks branch declined from 5,464 in 2018 to 5,432 in 2019 while that of Microfinance Banks rose to 2,132 in 2019 from 2,044 in 2018. The number of Automatic Teller Machines (ATM) deployed across the country was 17,518 in 2019 against 18,910 in 2018. The number of Point-of-sale (POS) devices used increased from 144,461 in 2018 to 186,776 in 2019. The numbers of unique agents across the 774 Local Government Areas were 236,940 in 2019 compared to 2018 figure that stood at 83,560 excluding 38,416 agents under the Shared Agents Network Expansion Facilities (SANEF) supervision.

1.1 Statement of problem

The need to have an inclusive growth, capture more adult Nigerians and expand the frontier for financial inclusion led to the establishment of National Financial Inclusion Strategy. To achieve the laudable objectives contained in the revised edition of National Financial Inclusion Strategy 2018, there is need to put machineries in place to oil the wheel for agent banking. Agent banking or what is known as a branchless banking will go a long way in bridging the gap that exist between unbanked and under banked individuals in having access to financial services. The guidelines put in place by the Central Bank of Nigeria for the take off of agent banking should be holistically adhered to noting that there is difference between policy introduction and its implementation.

No doubt Nigeria is the most populous country in Africa but has not been able to transform her numerical strength into an engine of economic growth. Poverty is still ravaging the country as she has been considered as the poverty capital of the world. Financial exclusion leads to widening poverty. Remote dwellers are mostly financially excluded due to a number of reasons ranging from none availability of bank branches in their communities and immediate environment. In some instances, residents travel a long distance to access a bank branch. As at 2004 the total number of bank branches was 2,765 and 722 in urban and rural areas respectively but by 2010 bank branches has increased to 5,809 (CBN, 2010). With over 88.3 million phones subscribers as at 2010 (EFInA, 2011) which has risen to 195.4 million subscribers as at December 2021 (Punch Newspaper, 2022) these are indeed an exciting moment for the country to leverage on telecommunication subsector to reduce the number of financially excluded individuals.

Financial inclusion has attracted the attention of government, researchers and policy makers as it plays a pivotal role in economic growth and sustainable development. To enhance financial inclusion, agent banking is one of the ways through which this can be achieved. Agent banking utilises existing businesses to reach the unbanked (Agalla, 2014).

The guidelines issued by the Central Bank of Nigeria for the regulations of agent banking and agent banking relationships in Nigeria identified two models of agent banking. These are:

Bank Led Model:
In this model of agency arrangement, the bank acts as a principal in the formation of an agency relationship.

Non-bank Led Model:
In this model of agent banking, it is an arrangement in which other parties rather than bank acts as a principal in the forming of agency relationship.

Table 1: Categorisations of payment service providers

License Categories	Permissible Activities	Minimum Capital
Regulatory Sandbox	This is aimed at driving innovation and increase financial inclusion. To operate in this category, applicant may be fintechs, researchers, innovators and licensed institutions	Not applicable
Payment Solutions Service (PSSs)	Operators can combine the services of Super Agents, Payment Terminal Service Providers (PSTPs) and Payment Solutions Service Providers (PSSPs).	₦250 million
Super Agents	The services for these categories of licensees include agent recruitment, management and other activities as specified in the regulatory framework for Super Agent.	₦50 million
Payment Terminal Service Providers (PTSPs)	Their services include POS terminal ownership, merchant/agent training and supports, POS terminal deployment and services, Payment Terminal Application Development (PTAD)	₦100 million
Payment Solutions Service Provider (PSSP)	Payment processing gateway and portals, Payment Solutions/applications development, Merchant service aggregation and collections	₦100 million
Mobile Money Operators (MMO)	This category of licensees shall carry out the following, E-Money issuing, Wallet creation and management, Pool account management	₦2 billion
Switching and Processing	The licensees under this categories are switching, card processing, transaction clearing and settlement agent services, non-bank acquiring services. Their services also include that of Super Agent, Payment Terminal Service Providers (PTSP) and Payment Solutions Service Providers (PSSP).	₦2 billion

Source: CBN

some functions which were the exclusive preserve of their principals. These agencies have geographical spreads that enable them to reach out to the unbanked within their localities, hence deepening financial inclusion. This theory posits that employees who are not directly employed by the financial institutions can be engaged to execute certain services on behalf of financial institutions. The importance of this theory is that it generates additional income to the agents while carrying out their primary assignment. On the part of the financial institutions, they can channel their resources (human and materials) to core banking activities. One of the problems associated with agency theory is lack of confidentiality of customers' financial details. Based on the aforesaid, this paper adopts the agency theory of financial inclusion.

2.3 Empirical Review

Nwachukwu, Agim, Gyang and Monulu (2019), adopting a descriptive research design to examine the relationship existing between financial inclusion, agent banking and mobile money operators in Jos town and its immediate environment. Questionnaires were used to gather the relevant data for the study. Reliability of the data was tested using the Cronbach alpha while the Linear Regression Model (LRM) was adopted in testing the hypothesis. Finding from the study shows that reduction in cost of financial services and cyber crime have an insignificant and negative effect on financial inclusion while illiquidity and geographical spread had a positive and insignificant effect on financial inclusion. The study therefore recommended appropriate measures to be adopted by the government to create an enabling environment for agent banking to thrive.

Wakaba and Wepukhulu (2019) investigates the activities of some selected mobile money operators and their effects on financial inclusion in Kenya. Secondary data were collected from 2013 to 2018 which were analysed through Statistical Packages for Social Sciences (SPSS). Descriptive statistical approaches, correlation and regression analysis were adopted in the study. Findings from the study reveal banking activities carried out outside bank branches such as savings, deposit, transfers and payment of bills deepened financial inclusion in the country. The study recommended that going by enormous level of financial inclusion achieved through the activities of mobile money operators, more can be achieved if mobile money operators increase their agent base.

Lotto (2016), using primary data sourced from bank agents' across Dar es Salaam to access the impact of agency banking in financial inclusion in Tanzania. Evidences from the study shows that the country has leveraged agency banking to deepen financial inclusion as it has reduced distances covered in accessing bank services. Further findings revealed that agents are not illiquid and the cost of operating agent banking is lower than opening bank branches. The paper concluded that the proximity of agent banking to the people brought about an increase in financial inclusion among the resident of Dar es Salaam.

Munoru (2016), analyse the effect of agency banking on financial inclusion in Kenya. The variables that were collected through secondary data were financial inclusion as the dependent variable, while total number of agencies engaged, customers deposit through agency banking, retirement and social benefits payment by customers through agency banking and bills payment through agency banking where the independent variables. Data collected from the Central Bank of Kenya (CBK) comprising 13 commercial banks out of a total of 44 commercial in the country as at the end of 2014. The study adopted unit root test, normality test, error correction model, inferential statistics and regression analyses to determine the effect of agency banking on financial inclusion.

The regression model explains that agent banking has a positive relationship with financial inclusion. An increase in the number of agent banking would lead to a proportionate increase in financial inclusion. The P value of 0.023, means that the P value is statistically significant at 5% level. Therefore, we reject the null hypothesis and uphold the alternative hypothesis. That is, there is significant impact of agent banking on financial inclusion. The above table shows that p-value=0.023 is less than α = 0.05 hence there is significance impact of agent banking on financial inclusion in Nigeria at 95% confident interval. The relationship between agent banking and financial inclusion at 95% confident interval shows a positive relationship Y =4.098 +0.254X

Table 3: Coefficient of Correlation of variables

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.514[a]	0.264	0.261	.414
a. Predictors: (Constant), Agent Banking				

The table above shows observed R of 0.514 which means the correlation coefficient of 51% indicates a moderate and positive relationship between agent banking and financial inclusion. with an adjusted R^2 (0.26) which shows that there is a positive relationship between agent banking and financial inclusion and only 26% of the variance in financial inclusion is accounted for by agent banking.

Hypothesis II:
Ho: There is no significant impact of banking sub-sector on financial inclusion in Nigeria.
Hi: There is significant impact of banking sub-sector on financial inclusion in Nigeria.

Hypothesis Criteria
Level of significance, α = 5%

Decision rule:
Reject the null hypothesis (H_0) only if the p-value is less that the level of significance (α = 0.05), hence accept alternative hypothesis (H_1) otherwise accept null hypothesis (H_0)

Table 3: Showing Regression, Correlation analysis between banking sub-sector and financial inclusion

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.960	0.483		3.187	0.00
	Commercial Banking	0.727	0.123	0.70	1.144	0.007
Source: Field Survey 2022						

The regression model explains that deposit money banks have a positive relationship with financial inclusion. An increase in contribution of banking subsector would lead to a proportionate increase in financial inclusion. The P value of 0.007, means that the P value is statistically significant at 5% level. Therefore, we reject the null hypothesis and uphold the alternative hypothesis.

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