AGENT BANKING AS A DRIVER OF FINANCIAL INCLUSION IN ZIMBABWE: A REVIEW

Dzikamai Shoko Bizah***
Linda Gumbo**
Rabson Magweva*

*** Corresponding Author, Lecturer, Great Zimbabwe University,
Department of Banking and Finance, Mashava Campus, Mashava, dmuzvidziwa@gzu.ac.zw
**Lecturer, Great Zimbabwe University, Department of Banking and Finance,
Mashava Campus, Mashava.
*Lecturer, Great Zimbabwe University, Department of Banking and Finance,
Mashava Campus, Mashava.

ABSTRACT

Regulatory of authorities the world over are recognising the importance of improving the levels of financial inclusion in their countries. To this end many strategies have been employed with agent banking regarded as a key driver of financial inclusion in poor communities. The article seeks to provide a theoretical review of agent banking as a product that financial institutions can employ to improve the levels of financial inclusion in the country. The article also reviews the applicability of agent banking in the Zimbabwean scenario. The article concludes that agent banking is a powerful instrument that Zimbabwean banks can employ in order to drive financial inclusion because of its convenience and cost effectiveness. The article also concludes that the challenges associated with running agent banks can be mitigated through agent selection, training and monitoring. The article recommends that regulatory authorities create an enabling environment and frameworks that will enable banks to roll out agent banks in Zimbabwe's poor communities.

Agent Banking **Financial Inclusion** **Zimbabwe**

Introduction.

Policy makers globally are increasingly recognising the importance of financial inclusion as a catalyst for economic and social development. To this end national strategies are being crafted that aim at achieving nation specific goals and addressing specific national financial inclusion challenges. This stems from the understanding that no two countries are the same and would therefore face similar challenges. Therefore there is an urgent need to craft national strategies that deal with the specific financial inclusion challenges that each country will be facing.

In light of this, the Reserve Bank of Zimbabwe (RBZ) in March 2016 unveiled the Zimbabwe National Financial Inclusion Strategy (2016-2020), a strategy designed to deal with the challenges Zimbabwe is facing in terms of increasing the level of financial inclusion in the country. In this strategy the RBZ realises that financial institutions could increase financial inclusion through financial innovation which includes leveraging developments in information and mobile communications technology and developing innovative delivery channels for financial products and services to the remote areas of the country. Agent banking and branchless banking were identified as a critical components. This research paper seeks to demystify the agent banking model and to highlight its advantages and disadvantages. The paper also intends to offer solutions on how the challenges encountered through the use of agent banking can be mitigated.

Mwangi and Mwangi (2014) define agent banking as a company or organisation 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) define 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.

According to Ndungu and Wako (2015), agent banking is deviced to deal with the challenges associated with serving low income or bottom of pyramid customers. Aggarwal and Klapper (2013) report that physical brick and mortar bank branches are not a sustainable solution to financial inclusion in rural areas because they are not profitable. This is because the volume and value of transactions is too low. In order for traditional bank branches to operate in poor communities they would have to pass on the costs to customers in the form of high bank charges which would further deter the bottom of pyramid customers. By leveraging mobile technology and the existing network of local retailers, agent banks are able to deliver banking services to the rural poor communities at reasonable costs.

Theoretical Framework.

Agent banking is hinged on two theories, the agency theory of finance and the marketing theory of distribution channels. According to Jensen and Meckling (1976) an agency relationship exists when one or more persons (principals) engage another person (agent) to perform some service on behalf

of the principal which involves delegating some decision making authority to the agent. The theory states that if both parties to the relationship are utility maximisers, then it is possible that the agent will not always act in the best interests of the principal. The principal will thus have to incur costs aimed at establishing incentives for the agent that will limit divergences from his interests by the agent. The principal will also incur monitoring costs designed to sub optimal behaviour by the agent.

Two key problems arise from the use of agents to perform on behalf of their principals, the moral hazard problem and the adverse selection problem. Under the moral hazard problem, if the consequences of wrong doing are not borne by the agent this may induce the agent not to exert best efforts on the task assigned by the principal. The adverse selection problem occurs when there is information asymmetry between the principal and the agent. In this case the agent will be in possession of superior information than the principal and decides not to disclose this information to the principal. In some cases this may result in the principal making a wrong decision based in the information supplied by the agent.

Under the agent banking model a financial institution contracts a third party, usually a retail outlet to perform some functions on its behalf. This represents the agency theory when the agent performs on behalf of its principal the financial institution. There is need for the financial institution to motivate the retailer to work in its best interests so as to minimise losses. The principal usually offers remunerations in this case in the form of commissions which are based on the volume and value of transactions the agent would have executed. The two problems that are inherent in all agency relationships can also be experienced in the agency banking model. The moral hazard problem can occur if the consequences of bad behaviour by the agent are borne by the financial institution and not the agent. For example the agent may become negligent by not checking the bank notes they receive for deposits and in the process accept fake notes. This may result in losses for the financial institution if the agency contract is silent on who should bear the losses under such circumstances, for this reason most agency contracts try to induce optimal behaviour from agents by rendering them liable for all losses due to negligence on their part.

Another area that may encourage moral hazard problem in agency banking is when the agents are paid a fixed commission. This may discourage many agents from working hard and getting more business knowing that their commissions are fixed. By remunerating them through pro-rated commissions this encourages agents to exert more effort in their duties so as to earn higher commissions.

The adverse selection problem may arise in the agency banking set up because agents may be in possession of superior information about their performance abilities than their principals, the financial institution. They may enter into the agency contract knowing fully well that they would not be able to meet the expectations of the principal. This may result in the financial institutions

contracting inappropriate retailers for their agency banking operations. This in the long run may result in the agency banking not being viable for the financial institutions.

The agency banking models also borrows from the marketing theory of distribution channels. A distribution channel is a means by which businesses get their products to their consumers. A distribution channel may involve the use of intermediaries such as retailers. In general low value mass- market products are sold through retailers as intermediaries. The agency banking model is a way of making financial products available to customers. It therefore represents a distribution channel. Because agent banking is designed to address the challenges associated with serving low income consumers whose volume and value of transactions is low they are delivered through an intermediary, the retailer who performs some functions on behalf of the financial institution.

Advantages of Agent Banking

Chaia, Schiff and Silva (2010) report that agent banking is a powerful approach in the quest for financial inclusion because of its ability to reduce bank costs to serve. Many banks are deterred from setting up branches in remote, poor and sparsely populated areas because of the high set up costs which do not correspond to the perceived business from such areas. By setting up agent banks and making use of existing infrastructure offered by retailers a bank is able to penetrate underserved areas and at low cost. Chaia et al (2010) also report that agent banking has become one of the most promising strategies for offering financial services in emerging markets because of its cost effectiveness both to the customer and the financial institution. According to Kumar, Nair, Parsons and Urdapilleta (2006) financial institutions are able to reach a vast new customer segment. Another attractiveness of agent banking to the financial institution is that costs are only realised when transactions actually occur. Veniard (2010) assets that agent banking systems are up to three times cheaper than traditional bank branches because they minimise fixed costs by leveraging existing retail outlets thus reducing the need for the financial institution to invest in their own infrastructure. Agent banks are a cheaper delivery channel because of the lower acquisition costs than for traditional methods due to lower Know Your Client (KYC) requirements.

For the poor communities who are perennially underserved agent banking enables the poor to gain convenient access to financial services in their own communities. According to Jayanty (2012) agent banking brings banking services to the doorstep of those who are reluctant or otherwise unable to make a trip to the nearest bank. This may result in a more inclusive financial system. Kumar (2006) concedes by stating that agent banking offers customers flexibility in banking hours and reduced travelling costs. Sanford (2013) report that agent banks are being used by the underserved only because they are proximate and not because they offer quality service. The research also find that people who use agent banks are most likely to be poor, less educated, employed in the informal sector, female and people living in small towns or settlements that are not easily accessible.

Agent banking offers advantages to the retailers themselves. Chaia et al (2010) find that through agent banking retailers are able to increase their sales volumes and have an opportunity to develop deeper relationships with customers. This is because customers will be now be able to receive many services in one place. For example a supermarket that is an agent may offer the services such as groceries, deposits, bill payments and withdrawals.

Disadvantages of Agent Banking.

Agency banking is not without its fair share of challenges. Mwangi and Mwangi (2014) reports that the level of liquidity that bank agents maintain influence the use of agency banks. Agents do not always maintain enough cash demanded by customers and this discourages repeat business. They also highlight that lack of security, malfunctioning equipment and errors also discourage the uptake of agent banking. Atandi (2013) shows that network problems also deter the use of agent banks by customers as they sometimes suffer from connectivity problems.

As already mentioned before agents are already existing businesses with a different line of business from the banking services that they are required to offer. This posses a challenge because agents may no always prioritise agent banking transactions. Preference will most likely be given to their existing business transactions. This validates the agency theory by (Jensen and Meckling, 1976). This situation may frustrate agent banking customers and some may stop use these facilities altogether. Another challenge emanates from the fact that agent bank operators are not employees of the financial institution. This means the corporate culture of the financial institution may ordinarily not be ingrained in them. Many banks due to excessive competition in their industry are concerned about customer services and experience. They endeavour to give positive customer experiences to their customers. On the other hand the retailers engaged to offer agent banking services may not value customer experiences. This may result in them being rude or harsh to customers, discouraging customers from using the facilities.

Agent Banking Risks.

The use of agents by banks exposes banks to various risks which can be operational, technological, legal and reputational risks (Lauer, Dias and Tarazi, 2011). All these challenges emanate from the lack of capacity, poor training and the lack of necessary tools and systems. The use of a non bank employee to effect transactions on behalf of the bank poses operational risks such as agent fraud and theft. The agent may also charge customers unauthorised fees or offer abusive services to customer such as requiring customers to purchase certain goods and services to obtain other services. The other operational risks include the loss of customer assets and records, data entry errors, poor cash management by the agent resulting in the agent not being able to meet customer withdrawals and failure by the agent to resolve or forward customer complaints to the bank.

Technical risks occur where there is system or hardware failures which can cause a lack of services availability and informational loss. Legal and compliance risks may occur when customers sue a bank as a result of agent failures.

Agent Banking Risk Mitigation.

Lauer et al (2011) postutate that the risks triggered by the use of agents can be mitigated through various policies and procedures. The approach that a bank takes in trying to mitigate agent banking risks depends on the services performed by the bank's agents. Agent banking risks can be mitigated by hiring suitable, qualified and reputable agents. Principal banks may also manage agent banking risks through agent training where agents are trained on the bank's operating manuals and internal guidelines. Agent bank activities must also be monitored continuously to ensure that they perform the mandated services adequately. Lauer et al (2011) also propose that principal banks periodically review their agent networks to distinguish the performers from non performers and risky agents from low risk agents and the results should be communicated to the agent banks. Banks can purchase insurance coverage that will protect the bank from certain agent losses.

Applicability to Zimbabwe.

Zimbabwe has gone through severe economic challenges in the last two decades which limit banks ability to engage in capital projects on an on-going basis. New investments into the financial services sector have almost ceased due to liquidity constraints. With the current situation in Zimbabwe prevailing, agent banking would be a welcome development because banks would no longer need to invest in physical infrastructure in order to serve customers residing in remote areas or poor communities that they had previously perceived as unprofitable. Instead banks would ride on the existing infrastructure and business networks in order to serve these communities.

Agent banking also reduces the cost to serve of banks through the elimination of the most of the costs associated with running a bank such as rent, administration costs and labour costs. This makes agent banking a viable option to many banks as in most agent banking contracts, remuneration is based on the amount of business the agent performs. This represents a win win situation to the both parties involved. The reduced costs associated with setting up an agent bank all things being equal, are likely to motivate most banks to start operating in these traditionally unprofitable areas, advancing the level of financial inclusion in the country.

For the underserved rural and remote communities of Zimbabwe agent banking could be a welcome development mainly because of its flexibility in banking hours. Most shop owners continue to trade after banking hours meaning that customers can still receive services after hours. Agent banking also greatly reduces travelling costs typically incurred by the rural folk in order to reach a bank. This encourages those who are reluctant or otherwise unable to make a trip to effect more transactions resulting in a more inclusive financial system.

Conclusion

In light of the above discussions the article therefore concludes that agent banking can be employed as a key driver and propeller of financial inclusion in Zimbabwe. The article also concludes that the challenges associated with agent banking are mainly as a result of the inadequate capacity of agents in dispensing banking services. This can however mitigated through following proper agent risk management practices such as agent training, agent monitoring and agent selection.

Recommendations

The article recommends that the Reserve Bank of Zimbabwe as the regulatory authority, creates an enabling environment and frameworks in order for banks to roll out agent banks around the country. This is in tandem with the National Financial Inclusion Strategy (2016-2020). The article also recommends that financial institutions embrace the agent banking innovation and begin to market this product to members of the public. This will improve awareness in underserved communities and possibly demand for the product's services.

References

Aggerwal,S. & Klapper,L. (2013). Designing government policies to expand financial inclusion: Evidence from around the world. *The World Bank*, Washington, D.C.

Chaia, A., Schiff, R. & Silva, E. (2010). A New Idea in Banking For the Poor. *McKinsey Quarterly*, McKinsey & Company.

Jayanty, K. S. (2012). Agency banking: New frontiers in financial inclusion. Finacle, *Infosyst Thought Paper*, *05*.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *Vol 3* (4).

K, A., Nair, A., Parsons, A., & Urdapilleta, E. (2006). Expanding bank outreach through retail partnerships: Correspondent banking in Brazil. *The World Bank*, *Working Paper No 85.*

Lauer, K., Diaz, D., & Tarazi, M. (2011). Bank agents: Risk management, mitigation and supervision. *CGAP, Focus Note No 75.*

Mwangi, M. H. T. , & Mwangi, W.M. (2014). Factors influencing the uptake of agency banking services by customers in commercial bank in Kenya: A case of Kenya Commercial Bank, *The Strategic Journal of Business Change and Management*, *Vol 2* (10).

Ndungu, C. G. , & Wako, G. W. , (2015). Customer's perception of agency banking in Kenya: Case study of Equity Bank Kenya Limited. *Global Journal of Commerce and Management Perspective*, *Vol 4* (2).

Sanford, C. (2013). Do agents improve financial inclusion? Evidence from a national survey in Brazil. *Bankable Frontier Associates*.

Veniard, C. (2010). How agent banking changes the economics of small accounts, *Global Savings Forum*, Bill and Melinda Gates Foundation.

Zimbabwe National Financial Inclusion Strategy 2016-2020 (2016), *The Reserve Bank of Zimbabwe*.