

# EFFECT OF AGENCY BANKING SERVICES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS: A CASE OF EQUITY BANK

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**Abstract:** In a growing number of countries, banks are finding new ways to make money delivering financial services to "unbanked" people. Rather than using bank branches and their own field officers, they offer banking and payment services through retail outlets, including grocery stores, pharmacies, seed and fertilizer retailers and gas stations among others. The study sought to establish the effect of agency banking on financial performance of commercial banks in Rwanda. This study was adopted descriptive research design. The population for this study were 60 staffs of Equity bank that have embraced agency banking. The study was used primary and secondary data. Therefore were collected from previously collected data, general business publications, reports from and by financial institutions and CBR bank Supervision reports. Annual reports of the bank were analyzed for the period between 2012- 2016, which is the study period of 5 years. The study were used both quantitative and qualitative techniques to analyze data from the questionnaire. The quantitative data collected were analyzed by using Statistical Package for Social Sciences (SPSS version 22) and presented through percentages, means, standard deviations and frequencies. Multiple linear regression models was used in measuring each variable and this model. The study found that the number of agents has a minor significance in the positive direction in relation to profitability and the volume of deposits related significantly negative with profitability of commercial banking institutions in Rwanda. The study also found that the volume of withdrawals and volume of bill of payments had an insignificant negative relationship with the profitability in the studied institutions. The study concluded that an increase in the number of agents increases the profitability and a decrease in volume of deposits, withdrawal and bills payments negatively affects the profitability of commercial banking institutions. The study recommended that commercial banks in Rwanda should invest more resources towards increasing their number of agents to increase their profitability and develop deposit mobilization strategies through agency banking to ensure that their clients use agency-banking services.

**Keywords:** Agency Banking Services, Financial Performance of Commercial Banks.

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## 1. INTRODUCTION

The financial performance is subjective measure of how well a firm can use assets from its primary mode of business and generates revenues over a given period of time; it is the measurement of how an organization's operations and policies are faring in monetary terms, financial performance can be used to compare similar firms across the same industry or to compare industries, sectors in aggregation. Various studies have shown that high total capital, credits and deposits resulting from the operations of a bank doesn't necessarily show that the bank is profitable. How the assets of the bank are managed and the operational efficiency influences financial performance (Adiera, 2009).

## 2. STATEMENT OF THE PROBLEM

Agents in the model lend a hand to financial institutions and help them divert customers from busy banking halls through providing complementary and conveniently allowing them the opportunity to easily access bank services. An evaluation of the progress of the model indicates that real and significant decongestion is yet to be realized, importantly because customer transactions have also increased (Ndungu & Wako, 2015). Rwanda still has 11 % of the adult population who are unbanked and most of them don't have access to the financial institutions because of long distance to travel to reach to the bank's branches. Only 4 out of 11 commercial Banks in Rwanda have quickly recognized that agency Banking is a viable strategy for expanding formal financial services into unbanked regions (Kigabo, 2016)

Other studies that have been conducted have mainly focused on the impact of agency banking on operational performance of commercial banks. The few studies on the impact of agency banking on financial performance of commercial banks in Rwanda that have been conducted targeted individual banks and were carried out before many commercial banks embraced agency banking. Unlike the past, today it is common to find one agent providing services of at least two commercial banks at the same outlet. Also, the true benefits of the agency banking model to customers, the banks and the bank agents also remains largely unstudied. The current study therefore seeks to bridge the gap between what has been previously studied by other researchers by carrying out a research on the effect of Agency banking on the financial performance of commercial banks in Rwanda.

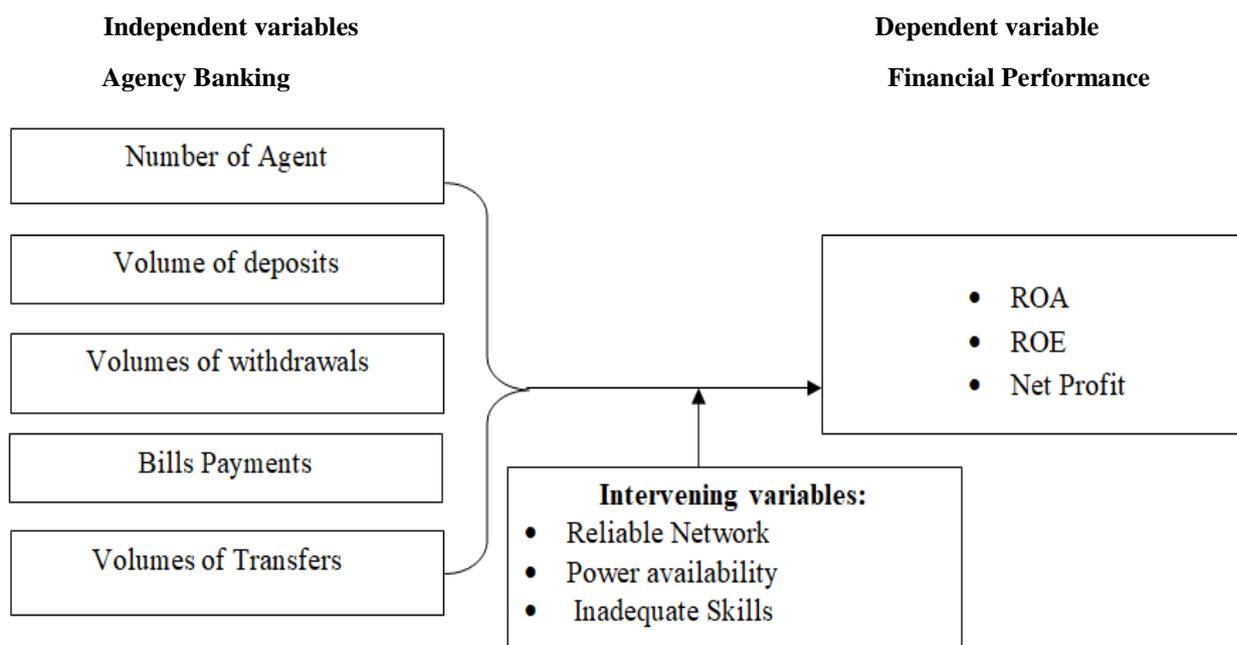
## 3. OBJECTIVES OF THE STUDY

The purpose of this research was to examine the effect of agency banking towards financial performance of commercial banks in Rwanda.

The study was guided by three specific objectives:

- i. To establish the influence of agency banking on accessibility of financial performance of commercial banks in Rwanda
- ii. To determine the influence of agency banking on increase of market share on the financial performance of commercial banks in Rwanda
- iii. To determine the effect of low transaction cost through agency banking on financial performance of commercial bank in Rwanda

## 4. CONCEPTUAL FRAMEWORK OF THE STUDY



## 5. RESEARCH METHODOLOGY

- **Research Design:** This study adopted descriptive design and correlation to obtain data useful in evaluating present practices and providing a basis for decision making.
- **Target Population:** The population of this study consisted of 60 Equity bank employees from head office especially from the department of administration, accounting and finance, agency banking unit.
- **Sample size:** In this case the size of the population is not such big and census was used as sample design which means that all 60 elements in the population were part of the research.
- **Data Collection Instruments:** Data were collected using questionnaires.

## 6. RESEARCH FINDINGS

### 6.1 Agency Banking in Equity Bank

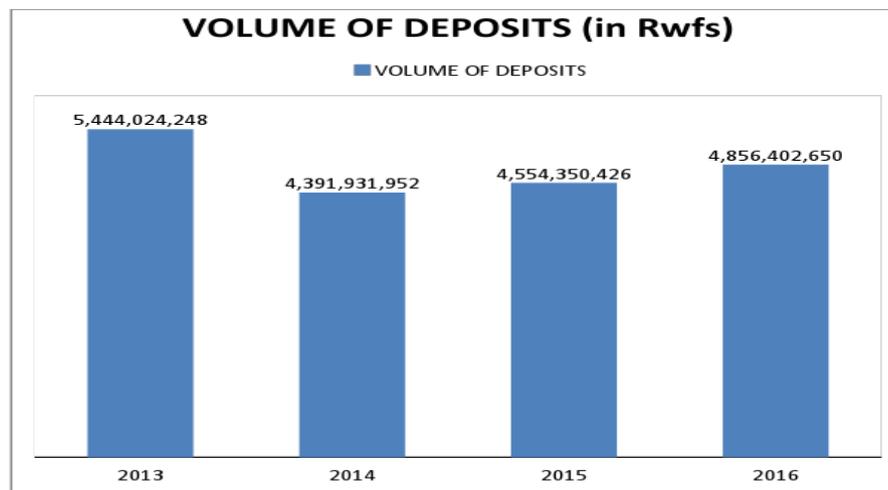
Equity Bank agent outlets are drawn from reputable retail and corporate outlets in customers' neighborhood, that include Supermarkets, Alimentations, Pharmacies, Dry Cleaners, Retail shops, Petrol Stations, Mobile Telco agents among others.



From the figure above, it is clear that the number of agents of Equity Bank has been increasing during the period under the study where the number of agents increased by 57% in 2014, 16.2% in 2015 and 14% in 2016. This continuous increment is attributed to a strong mobilization performed by Equity Bank through marketing strategies.

### 6.2 Agency banking service

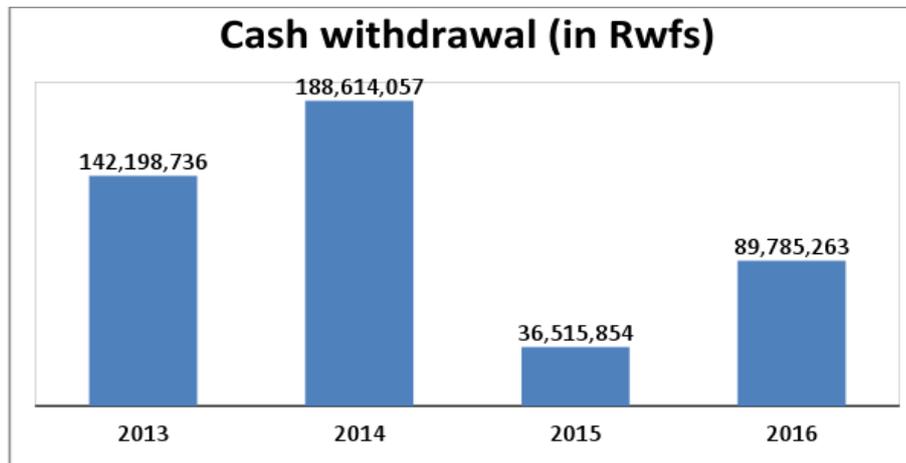
#### 6.2.1. Cash Deposit



The figure above illustrates the evolution of Equity bank deposits collected through agency banking, where in 2014 the amount collected decreased to 19% but it recovered from 2015 to 3.7% and 6.7% in 2016.

### 6.2.2 Cash Withdrawal

Customer initiates the process on mobile phone through Mobi serve Application and receives a PAN AND Pass code which must be presented to the Agent together with Customer identification card (ID).The Agent initiates the transaction in the system and confirms the name of the receiver as displayed on the device screen with the National ID .A notification message is sent to the customer phone number. The Agent records the transaction in the register and signs against the transaction and give receipt .The Agent avails the cash .Customers always confirm the cash before leaving the Agent premises



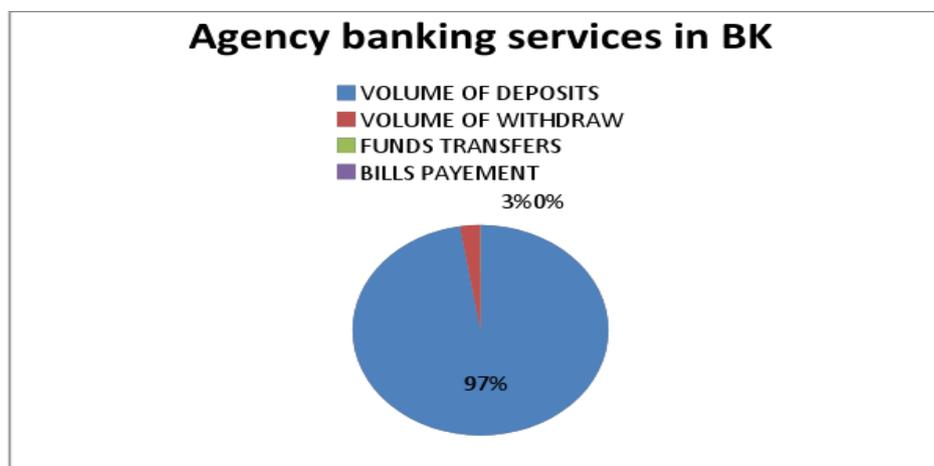
The figure above shows the evolution of cash withdrawal within bank of Kigali, through agent banking. The highest withdrawal achieved was in 2014 where about 1,888,614,054 Rwfs was withdrawn due to high transaction performed by bank clients in that period. The cash withdraw reduced in 2015 but recovered in 2016 up to 89,785,263 Rwfs.

### 6.2.3 Cash Collection

Here all agents are informed on cash collection accounts via SMS and a notice is delivered to them by team leaders. Any agent who does not use cash collection menu for the respective accounts will not get commission for that transaction performed through cash deposit.

### 6.2.4 Paybill or Payment bill

These are services such as Electricity purchase, Airtime Purchase (MTN, Tigo, and Airtel), Startimes. The customer gets an SMS message with the voucher number for the amount they purchase. Agents are paid a commission from every transaction they perform on behalf of the bank. These commissions are shown in the Equity bank Agents Tariff. Agents are not supposed to charge the customers any fee above the commission tariff. The commissions are taken from the customer's account when they do a transaction. Agents are paid their commission every month.



As it is shown in figure above the highest agency banking service required by customers of Equity bank are deposits, followed by cash withdrawal, bills payments and funds transfers.

6.3. Effect of agency banking services on financial performance

Table 1: Effect of Agency banking services

		Frequency	Valid Percent	Cumulative Percent
Valid	To a very great extent	18	30	30
	To a great extent	22	36.7	66.7
	To a moderate extent	17	28.3	95
	To a little extent	2	3.4	98.4
	To no extent	1	1.6	100.0
	<b>Total</b>	<b>60</b>	<b>100.0</b>	

Source: Primary data (2017)

Findings from the above table indicates how respondents valued the role of agency banking services on the financial performance of Equity bank where at least 66.7% said that agency banking services contribute on financial performance to a great extent, 28.3% viewed the contribution at a moderate extent while only 3.4% see it at a little extent. These findings are in part in line with the study by (KAMBUA, 2015) where its findings revealed a strong positive correlation coefficient between number of agents, cash deposits, and cash withdrawals and financial performance through return on assets. This is because agency banking lead to increased number of transactions facilitated by bank agents largely attribute to increases in transactions relating to payment of bills, mini statement requests, cash withdrawals and cash deposits which in turn improves profitability of commercial banks.

Table 2: Role Agency banking services to financial access and performance

	Strongly Agree		Agree		Moderate		Disagree		Strongly Disagree		MEAN	St.Dev.
	F	%	F	%	F	%	F	%	F	%		
Agency banking increased the accessibility on financial service	54	90	3	5	3	5	0	0	0	0	2.06	0.35
Agency banking led to provision of banking services to unbanked community	48	80	10	16.6	2	3.3	0	0	0	0	1.95	0.36
Agency banking led to profitability of Bank of Kigali	49	81.7	11	18.3	1	1.6		0	0	0	1.90	0.35

Source: Primary data (2017)

The table above discusses different statements concerning the role of agency banking to financial access and performance. Regarding whether Agency banking increased the accessibility on financial service within equity bank the majority of respondents 48(90%) strongly agreed that the adoption of agency banking system within Equity bank enabled many users to have access on different services offered by the bank while 5% agreed with the statement and only 5% was moderate with a mean of 2.06. These findings are in line with Ivantury and Timothy (2006) who posited that, agency banking could be of benefit to the clients in the following ways: lower transaction cost (Closer to clients home), longer opening hours, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches.

About whether agency banking has led to provision of banking services to unbanked community, 80% of respondents strongly agreed with the statement, 16.6% agreed while only 1.6% was moderate with a mean of 1.95 This finding also agrees with Musau & Jagongo (2015) who contended that Reaching unbanked clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volume do not cover the cost of a branch. In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost-can play a vital role in offering many low incomes people their first-time access to range of financial services.

**Table 3: Correlation between financial performance and agency banking services**

		Volumes Of deposits	Volumes Of withdraw	Bills Payment	Funds transfers
ROA(Return On Assets)	Pearson Correlation(r)	.686	-.347	.596	.542
	p value	.0031	.00500	.0043	.0015

Results have proven the significant relationship between Deposits and performance in terms of increased ROA ( $r = 0.686$ ,  $p = 0.0031$ ), This implies that an increase in Deposits is associated with an increase in ROA and decrease in Deposits is associated with a decline in ROA; Volumes of withdraws were found to be negatively correlated to ROA with A weak downhill (negative) linear relationship ( $r = -0.347$ ,  $p = .00500$ ); Bills payment was found to be associated with ROA with A moderate uphill (positive) relationship  $0.596$ ,  $p = 0.0043$ ), This implies that an increase in bills payments transaction is associated with an increase in ROA, and finally Funds transfers was found to be related to ROA with A moderate uphill (positive) relationship, this implies that an increase in Funds transfers is associated with a moderate increase in ROA . From the above findings, it is seen that agency banking services are positively associated to financial performance of Bank of Kigali.

**Table 4: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.368 <sup>a</sup>	.253	.237	.19371

a. Predictors: (Constant), Volume of Deposits, Volume of bill payments ,Number of Agents, Volume of withdrawals, fund transfers

The findings on table 4.9 indicates that the R square value (Coefficient of determination) is .237 which indicates the independent variables (number of agents, volume of deposits, withdrawals and bill of payments) explain only 23.7% of the variation in financial performance of Bank of Kigali . The other 76.3% is explained by other factors outside the model and the error term.

**Table 5: ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.724	4	.431	5.731	.023 <sup>b</sup>
	Residual	.526	47	.044		
	Total	2.250	51			

a. Dependent Variable: ROA  
 b. Predictors: (Constant), Volume of Deposits, Volume of bill payments ,Number of Agents, Volume of withdrawals

The findings in table 4.10 show that the regression model is significant and a fit to investigate the effect of agency banking on financial performance in Bank of Kigali. This is shown by the P-value (Sig.) of 0.023, which is less than 0.05 at 95% confidence level. Decision may be based on the comparison of F-calculated (Fisher value) and F-tabulated. The calculated value was greater than the critical value ( $5.731 > 3.26$ ) an indication that Volume of Deposits, Volume of bill payments ,Number of Agents, Volume of withdrawals significantly influence the financial performance of Bank of Kigali. The significance value was less than 0.05 and indication that the model was statistically significant.

**Table 6: Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.047	1.581		-1.294	.258
	Volume of Deposits	.326	.233	.526	2.256	.029
	Bills payments	.221	.473	.421	2.144	.049
	Withdrawals	-.105	.209	.122	-.505	.629
	Number of Agents	.274	.189	.474	2.510	.040

a. Dependent Variable: ROA

From the data in the above table the established regression equation was: From the above regression equation it was revealed that holding Volume of Deposits, Volume of bill payments, Number of Agents, Volume of withdrawals to a constant zero, ROA would be 2.047. Indeed, this constant called y-intercept is not realistic. But, it is a needed parameter in the model. The findings on table 4.5 indicate that the number of agents significantly relates positively ( $B=0.274$ ) with bank's ROA. The findings also show that the volume of deposits on the positive, they significantly ( $B = 0.326$ ) relate with profitability of Equity bank. The study also shows that the volume of withdrawals and volume of bill of payments have an insignificant negative relationship ( $B= -0.105$ ) with the financial performance. While Bills payment on the positive, they significantly ( $B = 0.274$ ) relate with profitability of Equity bank.

## **7. CONCLUSIONS AND RECOMMENDATIONS OF THE STUDY**

### **7.1 Conclusions**

From the findings and summary the study concludes that the agency banking had a high positive influence on the financial performance of Equity bank. Central Bank regulation helped to promote efficiency and confidence in the financial system thus winning public trust. The study also concludes that low transaction cost through agency banking had a positive impact on the financial performance of Equity bank through recording high amount of deposits and thus creation enough pool of for willing investors to borrow. The study further concludes that financial services accessibility by customers through banking agencies had a positive impact on financial performance of equity bank where it became easier for equity bank to reach out to many potential clients without investing so much in opening branches hence it's a cost effective measure. The study concludes that increased market share had a positive effect on the financial performance of equity bank with many where increased market share allowed it to achieve greater scale in its operations which generally improved profitability.

### **7.2 Recommendations**

- From the Following study results, it is recommended that equity bank should consistently invest in provision of agency banking services as they found to be a key for financial performance.
- It is recommended that banks should strengthen innovation such mobile banking and agency banking in order to attract deposits at the lowest cost possible.
- Equity bank should more information and awareness should be put in public to build confidence and trust in agency banking as a secure, efficient and modern way of banking.
- The study recommends that equity bank should considered intensifying the agency banking network which will ensure services accessibility by customers and thus improving financial performance.

### **7.3 Areas for further research**

The following topics are suggested for future researchers:

- Assessing customer's satisfactions through agency banking services in Rwanda.
- Contribution of deposit mobilization to the financial performance of commercial bank in Rwanda
- Investigation on Importance of Agency Banking in Provision of Banking Services in Rwanda
- The study recommends that a study should be done on the challenges facing the adoption of agency banks by commercial banks in Rwanda

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