Journal of Finance and Bank Management
December 2017, Vol. 5, No. 2, pp. 58-66
ISSN: 2333-6064 (Print), 2333-6072 (Online)
Copyright © The Author(s). All Rights Reserved.
Published by American Research Institute for Policy Development
DOI: 10.15640/jfbm.v5n2a6
URL: https://doi.org/10.15640/jfbm.v5n2a6

An Evaluation of the Agency Banking Model Adopted by Zimbabwean Commercial Banks

Tinevimbo.V. Chokuda Santu[1] , Wilford Mawanza[2] & Victor Muredzi[3]

Abstract

The research seeks to determine if the agency banking model has managed to resolve the gap of bringing banking services closer to the people at more affordable costs and accessibility challenges associated with traditional banking. A descriptive research design was used and the research sample was drawn from the five Commercial Banks actively operating agency banking in Zimbabwe. Findings were that the five commercial banks in Zimbabwe that are engaged in agent banking operations have achieved significant expansion in geographic coverage which in turn has led to a notable increase in the customer base. The research identified the challenges faced by commercial banks in operating agency banking operations and these include reputational risk, consumer protection and legal risk. The agents on the other hand face challenges such as liquidity risk, operational risk, and credit risk. The RBZ involvement is however critical for agency banking in as far as smoothening the initial challenges and as such the model is deemed to be a viable distribution alternative. In light of some of the challenges associated with the implementation of the model, it is recommended that commercial banks in Zimbabwe should adopt the agency banking model subject to addressing the issues raised.

JEL category: Z23

Keywords: Agency Banking, Financial Inclusion, Banking Services, Zimbabwe, Agents

1. Introduction

The Zimbabwean financial services sector is currently operating in a very challenging business environment. The economic challenges facing the country have prompted businesses in general and banks in particular to reassess their cost to income ratios. Banks are looking for ways to ensure that they remain profitable and at the same time maintaining and expanding their foot-prints in the market. To this end, banks namely have adopted the agency banking model that is aimed at increasing distribution channels of financial services without necessarily opening more branches. Steward Bank has closed most of its branches and left agents to offer its services to the customers. The current study seeks to prove whether there are clear benefits in using this model of business. The study seeks to establish any risks associated with the adoption of such a model as well as examine the role of the regulator with regards to ensuring that the agency banking model does not compromise the stability of the banking system. Research has shown that the Zimbabwean economy has largely been informalized due to massive deindustrialization. Chidoko, Makuyana, Matungamire and Bemani (2011) noted that Zimbabwe's fast growing informal sector is now the country's largest employer as the economy is failing to absorb many job seekers into formal employment.

[1] Midlands State University, Banking and Finance Department, P Bag 9055, Gweru, Zimbabwe ,chokudatv@gmail.com
[2] Lupane State University, Accounting and Finance Department, P O Box AC 255, Ascot, Bulawayo, Zimbabwe, wmawanza@lsu.ac.zw
[3] ZB Financial Holdings, 21 Natal Road, Avondale, Harare, vmuredzi@zb.co.zw

According to ZEPARU and BAZ (2014), for the past decade, over two million people have been making their living in the informal sector. The Finscope (2014) survey on financial inclusion estimated that the informal sector had as much as $7.4 billion circulating outside the formal financial system. This presents both an opportunity and a challenge for banks, especially considering that the same survey highlighted the extent of financial exclusion in the economy. There is a significant 54% of the adult economically active population that is unbanked or under-served by the formal financial system. Going forward, the brick and mortar approach may no longer be viable to overcome banking barriers, both geographical (dealing with the distance to branches) and psychological (overcoming the banking myth). In addition, the dynamics of current demographics, with a high percentage of youth in the population, dictates the need for more flexible and responsive products. Society is moving towards virtual banking via mobile phones, payment cards and the internet. The Agency banking model aims to bring banks to where people commute from and interact daily. At that point, banking will no longer be a myth that needs to be demystified. A study conducted by Allen et al (2011) indicated that Equity bank in Kenya has been one of the leading commercial banks in spearheading the drive towards closer access to financial and banking services to the unbanked and the rural poor through mobile branch establishment, mobile and agency banking and tailor made financial services. Notably, it has increased financial deepening and financial inclusion. The above findings were also echoed by Mutua (2013) where it was found that agency banking has facilitated accessibility of banking services in Kenya. A study on the innovative factors that affect financial inclusion in the banking industry in Kenya found that the new channels of distribution such as agency banking, e-banking and mobile banking were utilized (Wambua and Datche, 2013) and the study concluded that customers in the rural areas and other unbanked areas could easily access banking services under the agency banking model.

1.2. Problem Statement

The Zimbabwean commercial banking sector has become more visibly competitive and this has seen each bank developing a strategy unique to its corporate culture. The commercial banking industry in Zimbabwe has been in a state of constant change and competition has become stiff, forcing commercial banks to conform to the dynamic operating environment. Mobile network operators such as Econet and Telecel through their products Ecocash and Telecash respectively have encroached onto the territory which until recently has been the preserve of financial service institutions. Their models follow a non-bank led agency banking approach and rides on the mobile telephone platforms run by these companies. In response to such competitive pressure banks have resorted to a bank led agency banking approach which relies on the use of third parties such as retail agent outlets largely grocery shops, post offices and supermarkets accessed within local communities. To date, five banks have already adopted the model and this study seeks to evaluate the agency banking model as applied by commercial banks in Zimbabwe and whether the model should be adopted by the rest of the commercial banks in Zimbabwe.

1.3. Objectives of the Study

The general objective is to evaluate the operations of the agency banking model as used by Commercial banks in Zimbabwe. The study will also be guided by the following specific objectives:

- To establish the key success factors for the adoption of agency banking.
- To determine the risks and challenges faced by Commercial banks in agent banking operations.
- To establish measures put in place by the RBZ to regulate the agency banking model.

2. Literature Review

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 (Kumar, et al, 2006). An agency bank 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. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets 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.

Agency banks offer normal banking services such deposits, withdrawals, disbursements and repayments of loans, salary payments, and pension payouts, transfer of funds and issuing of bank statements. CGAP (2006) note that, in addition, the agency network allows banks to reach new customers, who can open new accounts, perform credit and debit card applications and cheque book requests.

Through cost effective agency banking networks, customers access banking services in kiosks around the country, particularly in remote, previously unbanked territories. Agency banking has enabled bank customers to access the basic banking services from within the comfort of their neighborhood. The convenience of access to banking services and the extended hours that the agencies work has been the most attractive features to the customer, (Ivatury and Lyman, 2006). 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. With regard to the transaction verification, authorization and settlement platform, banking agents are similar to any other remote bank channel branch, (Jacob, 2005).

A number of countries, for example, Kenya and Pakistan have over the years issued regulations defining the terms and conditions on the extent to use agent services. Ivatury and Lyman, (2006) defined an agent generally as a third party acting on behalf of a bank or other principal. In most countries, a 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 the contractual agreement. Ivatury and Lyman, (2006) however concluded that a bank's liability (whether by law or contract) for third-party actors will likely impact the bank's policies and procedures, which will in turn impact the supervisor's oversight of the bank.

Mandrile, (2010) indicated that one way of bank agents to break even and eventually be profitable is through increment of transactions volume. Increasing the number of daily transactions per agent on economies of density (reaching as many customers as possible) and economies of scope (offering as many services as possible) is the most promising strategy. According to Mas (2009) In Colombia, microfinance institutions (MFIs) act as bank agents and in order for agency banking to be profitable to them (given that they are entitled to commissions from commercial banks), they ought to enhance the attributes of economies of scale.
According to Mwando (2013), services that may be provided by bank agents can be divided roughly into four categories:

- Transmitting information
- Processing information
- Cash handling
- Electronic funds transfer

Information transmission consists primarily of providing the customer with account information, for example, balance enquiry and bank statements and receiving account and loan applications, including transmitting know-your-customer (KYC) information. Information processing includes processing account and loan applications and in some cases opening accounts, analysing the credit and other personal information for loan applicants, conducting KYC procedures for account opening and selling other bank products. Cash handling refers to deposits (or cash-in) and withdrawals (or cash-out), often limited to small volumes. Electronic funds transfer involves making bill payments, disbursing government benefits and effecting payments. Some countries permit agents to engage in all such activities while other countries are more restrictive. According to CGAP (2008), banking agents must fit within the distribution strategies of banks, alongside other channels, such as branches or automatic teller machines (ATMs). Lyman et al (2008) in Mwende, Bichanga and Mosoti (2015) added that agents can provide multiple benefits: increase client convenience, reduce transaction costs, and reach out to new customers. But it is important that the bank has a clear strategic rationale for each agent it sets up, to drive decision making, ensure appropriate agent setup and channel support, and permit subsequent performance evaluation against the original strategic intent.
There are four types of agent channels, based on their strategic role for a bank:

- Decongesting branches
- Targeting a new customer segment
- Expanding geographic coverage.

- Creating a virtual bank without own infrastructure.

These scenarios illustrate that the purpose of the retail agent network will affect the value both banks and their customers draw from the agent channel. It also conditions the requirements for the agent and, more important, the adjustments the bank will have to make to its existing operations and product range to take advantage of the new agent channel. Contemporary studies identify agency banking as a critical retail distribution alternative that is easily adaptable to enhance financial inclusion. The agency banking model is a critical tool to tap into the under-banked and unbanked sector of any economy. According to Ngauand Mwenda(2016), the economic development of countries is partly attributed to the extent of financial inclusion amongst the citizenry. There are a number of strategies that financial institutions have embraced to enhance financial inclusion; agency banking is presumably one of them. There is vast empirical literature to support that agency banking leads to economies of scale for banks, financial services accessibility and growth in the banking sector. Kenya has experience with both bank-based and nonbank-based agency banking models. With respect to the bank-based model, Parliament gave approval for banking legislation to be amended to enable the use of agents in June 2009, and the regulations for agent banking were published by the Central Bank of Kenya (CBK) in May 2010 (Guideline on Agent Banking - CBK/PG/15, 2010). Prior to the 2010 Guidelines on Agent Banking, the Banking Act did not address the issue of banks using agents to deliver financial services, so the CBK approved such arrangements on a case-by-case basis. Other relevant regulations which have enabled branchless banking are:

- 2008 regulation allowing microfinance deposit-taking institutions to use agents;
- 2009 amendment to the Banking Act that allows banks to appoint agents to take deposits and perform other activities; and
- 2009 AML/CFT bill which applies to both bank and non-bank institutions (CGAP, 2010)

3. Research Method

The study used a descriptive research design as it enabled the researcher to generalize the findings to a larger population. The population of the study constituted of the five Commercial Banks actively operating agent banking in Zimbabwe and the RBZ as the regulator. These banks are Agribank, CBZ, CABS, Steward Bank and ZB Bank. The bank employees in these commercial banks who comprised the agents banking heads, the business development managers/officers, and agent's supervisors were interviewed and questionnaires send to them as well. The agency banking model was pioneered by P.O.S.B in Zimbabwe, hence the research also added respondents from P.O.S.B. Bank agents in Harare. This research population was deemed a fair representation to provide credible insight into the research topic.

3.1. Sampling Design

Judgmental sampling method was used to target specific office bearers at banks and the RBZ. Simple random sampling method which is part of probability sampling techniques was adopted for the agent respondents and the method was chosen due to the fact that all bank agents exhibit similar characteristics especially in terms of their knowledge regarding agent banking. This method ensured that most bank agents operating in Harare had an equal opportunity of participating in the study. The sampling frame below was used in this research.

3.2. Data Types and Sources

The study used both primary and secondary data. The primary data was collected by use of questionnaires. Questionnaires are commonly used to obtain important information about the population especially when the respondents can be reached (Orodho, 2005). The secondary data was obtained from the concerned bank annual reports and publications. The questionnaire contained structured of close-ended questions and also a few open-ended questions. Close ended questions were accompanied by a list of possible alternatives which respondents selected the answer that best describes their situations. The questionnaires were administered through drop and pick from the respondents.

4. Results and Discussion

In all the 5 banks sampled, the study established that the commercial banks had ventured into agent banking operations to achieve the following objectives: to increase territorial coverage, to decongest or ease traffic in their existing bank branches, to reach the poor marginalized unbanked. These variables are almost equally critical to the banks that have embarked on agency banking. This is supported by available literature and experiences from other countries like Kenya, Brazil and Colombia.

Key Success Factors of agent banking operations

Major factors established to have contributed to the successful operations of agency banking in most of the banks is technological advancement. Other factors are policies and procedures and control issues. Table one below give frequency data on these factors.

Table 1: Factors that have contributed to the successful operations of agent banking

Factor	Frequency	Percentage
Technological advancement	39	92.8
Policies and procedures	1	2.4
Control issues	2	4.8
Total	42	100

Source: Raw Data

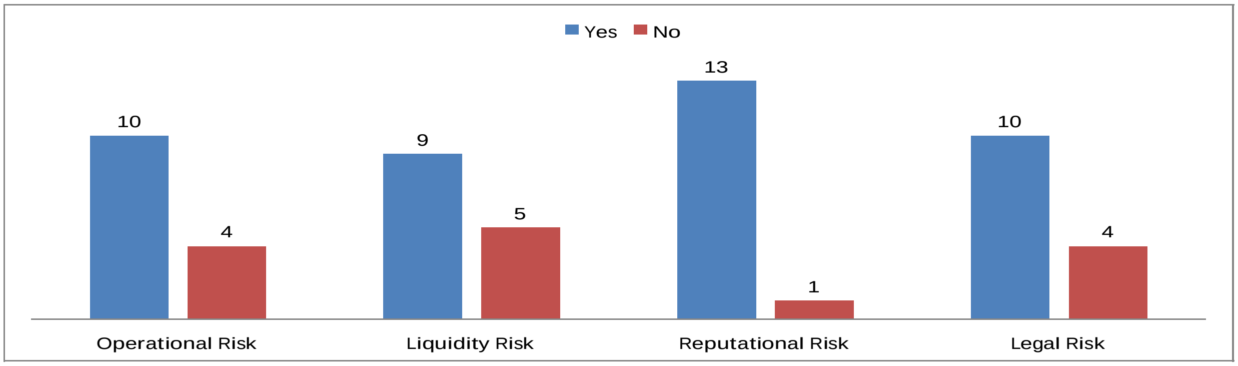
The CBK guidelines have requirements for the technological investments which banks are required to put in place in order to efficiently provide agency banking. These include internet banking, point of sale machines. The research established that the banks using agency banking in Zimbabwe have deployed point of sale terminals to their agents. Some products like bill payments of prepaid electricity, DSTV subscriptions are supported by internet banking. The researcher established that banks like ZB Bank, CBZ, Steward Bank have very efficient technologies in place to provide these services from third party business premises. This conception of agency banking is supported in literature by Kumar et al (2006) who define agency banking as 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. Use of retail outlets in their various forms invariably translates into added convenience of access to banking services and the extended hours that the agencies work is a most attractive feature to the customer and this is in line with arguments put forward by (Ivatury and Lyman, 2006). All bank respondents from the five banks concur that technological advancement is a prerequisite for agency banking to operate efficiently. Agents from these banks are also 100% in agreement on the importance of technology for agency banking to be an alternative retail distribution channel.

Impact of Using Agency Banking

The research established that 92.9% of the bank respondents agree that agency banking increases number of customers; decongests bank branches and helps with customer retention. 85.7% view the agency banking model as a way to increase revenue streams for the bank. This is in line with Mandrile(2010) who indicated that the agency banking business models hinges on the volume of business generated because profitability is directly linked to increment of transactions volume. Increasing the number of daily transactions per agent on economies of density (reaching as many customers as possible) and economies of scope (offering as many services as possible) is a most viable strategy. The banks that have adopted agency banking in Zimbabwe are mostly partnering the retail giants in the country as a distribution channel. Major supermarkets in Zimbabwe have been turned into one-stop-shops under whose roofs customers can access financial services over and above their normal shopping. To this end the banks which have embraced agency banking in Zimbabwe have had to launch joint venture initiatives with major supermarkets such as Spar with CBZ; POSB with Meikles Financial Services; ZB Bank with Foodworld

Risks Inherent in Operation of Agency Banking Model

Figure 1: Risks inherent in Agency Banking



Source: Raw Data

The research established that there are risks involved in the operation of the agency business. These risks are both bank specific and agent specific. The bank respondents agreed 100% that the bank is exposed to operational risk, liquidity risk, reputational risk and legal risks as they contract third parties to provide financial services on their behalf. Agents 100% agreed that they are affected only by operational risks and liquidity risks. Operational risk is mainly due to system failures and fraud. Liquidity risk deals with shortages in float to perform bank services and unfunded bank accounts. The RBZ respondents highlighted that banks are mostly exposed to reputational risks as a result of using agency banking. This is also supported by literature available with the Central Bank Kenya advocating for a risk based approach in managing the agency model. This approach makes it the bank's responsibility to ensure that a risk management policy is in place to mitigate the risks involved. The research exposed both bank specific and agents specific risks which arise as a result of using this model.

Challenges of Agent Banking Operations

There are other challenges that are brought by using the agency model, over and above the risks identified. These challenges faced in agency banking are both bank specific and agent specific.

Bank specific challenges

Table 2: Bank specific challenges in agency banking

Challenge	Frequency = 14	Percentage
Remote placement of agents	10	71.4
Lack of professional handling of customers	12	85.7
Non compliance to standards and procedures	12	85.7
Difficulties in cross selling	12	85.7

Source: Raw Data

It can be noted that agents equally fail banks mostly on lack of professional customer handling, non compliance and difficulties in cross-selling.

Agent specific challenges

The sampled agents agreed that there are challenges peculiar to agents in their agency business. These challenges are tabulated below:

Table 3 Agent specific challenges in agency banking

Challenge	Frequency =24	Percentage
Untrained staff	14	58%
Inadequate float	24	100%
System downtime	0	0%
Data loss	10	42%

Source: Raw Data

All agents sampled agree that float shortages are a critical challenge in the agency business. These tallies well with the liquidity risk that agents also pointed out. 58% of agents also pointed out that their employees' lacks proper training despite fact that banks claim that they train their agents regularly. The sampled agents showed no complaints on system downtime which shows that banks have the right technology for this model to operate efficiently. 42% of the respondents argue that data loss is also another challenge in the agency business. This is however in contrast with the available literature. Bank agents in Kenya are protected by the regulator to ensure that their services are not interrupted. The CBK agency banking guidelines (2010) make it a mandatory requirement for the principal banks to ensure that agents function efficiently. The CBK guidelines also state the minimum requirements for one to be appointed a bank agent. These minimum requirements address the challenges which are faced by Zimbabwean agents.

Regulatory Framework

There are currently no prudential regulatory guidelines on agency banking. The RBZ respondents indicated that these guidelines are not yet out but are at advanced stage of being concluded. Banks are currently using a draft prudential guideline that was issued in May 2016. The guidelines are mostly concerned with agent selection criteria, authorized transactions, transactions limits, technological requirements, security requirements and customer handling policies.

5 Conclusions

The findings of the study have shed light to draw pertinent conclusions as follows;

- Agency banking operations facilitates expansion in geographic coverage.
- The banks that have adopted the model have noted an increase in customer numbers.
- Reliance on third party distributors through the model exposes banks to a high degree of reputational risk
- The giving away of transacting rights to a third party exposes the bank to system hacking attempts. Agents can also flout bank policies and procedures without being noticed. The deployment of bank point of sale terminals to third parties has also exposed customers to card cloning fraudsters. Robberies have also been reported in cases where the bank provides agents with float support.
- The use of retail agents has increased the risk that customers are unable to understand their rights and claims when aggrieved. Customers are protected against fraud by laws and regulations but it is not clear to customers how they are protected against fraud when they use retail agents to conduct financial transactions.
- Whenever account opening and transaction processing is outsourced to retail agents AML/CFT regulations generally require agents to conduct some aspects of customer due diligence and suspicious transaction reporting. The bank bears the risk that customers are improperly identified and that they use the retail agent to launder money or channel funding to terrorists.
- Legal risk occurs as a result of lawsuits arising when financial service providers have invested in a new delivery model and cannot predict and manage how relevant laws, regulations and legal agreements will be applied and enforced and how these things may change over time.

6. Recommendations

The study recommends that commercial banks in Zimbabwe adopt the agency banking model as a cost effective retail distribution channel. The banks must ensure the following;

- More products are channeled. through the agent network to increase revenue streams for both bank and the agent
- Policies, regulations, procedure manuals and internal controls are frequently updated and enforced

- Agent float support schemes are put in place to support the agents and that gents are paid fair commissions
- Agents are trained before embarking on agency banking and the training must be continuous
- Bank systems are regularly monitored and updated to reduce system downtimes
- Put in place 24 hour agents help desk and toll-free lines to limit query reporting expenses for agents
- Utilise social media in customer and agents services as a cheaper communication alternative
- Ensure that agents a fully branded for easy public awareness

The agent is a very important stakeholder in this business. As such the success of this retail distribution channel cannot be complete without giving considerations to what the agent needs to put into place. The following recommendations are made:

- Agents to employ competent staff
- To ensure that there is float in account and cash at business premises at all times
- Invest in security features like CCTV and cash safes to minimize fraud
- Make daily reconciliations of all transactions carried by the agent
- Utilize social media and other channels of communication to remain in touch with the bank

The RBZ is expected to issue prudential agency banking guidelines which are issued with the intention of enabling banking institutions to provide cost effective transacting to the banking public, thereby promoting financial inclusion. The agency banking guidelines must encompass the following:

- Agent selection and due diligence criteria
- Permissible activities for the agency channel
- Operational and transactional limits
- Prohibited activities
- Non-exclusivity of contracts
- Mandatory technological requirements
- Consumer protection policy

The government is critical in ensuring that an enabling environment is created for businesses. To this end, the government should support banks in ensuring the following:

- Layout the national financial inclusion strategy
- Ensure infrastructural developments (like roads, electricity) mostly in rural areas
- Have a national ICT policy that makes access to internet and mobile network easier and cheaper
- Put in place policy to advocate for infrastructure sharing among competing banks and other industry institutions

References

Allen, C.R., Fontaine, J.J., Pope, K.L., &Garmestani, A.S. 2011. Adaptive management for a turbulent future.Journal of Environmental Management 92, 1339-1345

Central Bank of Kenya, CBK 2010.Agency banking Knowledge Exchange. Nairobi: Government Printer.

CGAP. 2006. Use of Agents in Branchless Banking for the Poor: Rewards, Risks, and Regulation. CGAP FocusNote No. 38. CGAP: Washington DC.

Chidoko C, Makuyana G, Matungamire P and Bemani J 2011. Impact of the Informal Sector on the Current Zimbabwean Economic Environment , Interational Journal of Economics and Business Research 2 (6) 26-28

Finscope Zimbabwe Consumer Survey (2014)

Ivatury, G., and Lyman, T. 2006. Use of Agents in Branchless Banking for the Poor: Rewards, Risks, and Regulation. Washington D.C: CGAP Focus Note No. 38..: October

Jacob, K. (005. Retailers as Financial Services Providers: The Potential and Pitfalls of This Burgeoning Distribution Channel. Chicago, IL: The Center for Financial Innovation: 2005.

Mas, I. (009. The Economics of Branchless Banking: Innovations. Boston, MA: MIT Press.

Mutua, R.W. 2013. Effects of mobile banking on the financial performance of commercial banks in Kenya.MBA Project, University of Nairobi, Kenya

Mwando, S. 2013.Contribution of agency banking on financial performance of commercial banks in Kenya.Journal of Economics and Sustainable Development, 4(20), 26-35

Mwende M, J, Bichanga J and Mosoti J 2015, International Journal of Scientific and Research Publications, 5 (10)

Ngau P.M and Mwenda J.N 2016, Training Providers in Capacity Development for Major Land reforms and Land Policy Implementation at Country Level, FIG Working Week 2016, NewZealand

Wambua, S.M., andDatche, E. 2013. Innovative factors that affect financial inclusion in banking industry: A case study of equity bank Mombasa County, Kenya. International Journal of Sciences: *Basic and Applied Research (IJSBAR), 12(1), 37-56.*

*ZEP*ARU AND BAZ 2014, Harnessing Resources from the Informal Sector for Economic Developing,