

Impact of Agency Banking On Financial Inclusion in Nepalese Commercial Bank

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ABSTRACT

The purpose of the study is to examine the influence of agency banking services on financial inclusion of Nepalese commercial banks. A well-structured questionnaire was developed to collect data from 252 respondents using convenience sampling technique. Data analysis was done using SPSS and Microsoft Excel to generate quantitative reports. Mean, standard deviation, correlation and regression analysis have been used to diagnose data collected. The result revealed that there is a significant influence of ATM Banking, mobile banking (MB), POS banking and IPS on financial inclusion in Nepalese commercial banks. Furthermore, POS has the strong impact on financial inclusion and ATM has the least influence on the financial inclusion. The practical implications are transparent for the practitioners in Nepalese commercial banks since the agency banking help satisfy the customers. The originality lies in the article claiming that in order to achieve successful financial inclusion strategies, the implementation of good agency banking must be complemented.

Keywords

Agency banking, Financial Inclusion, POS, ATM, and IPS

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Introduction

The banking industry has shown tremendous growth in branch penetration and Agency banking penetration during the last few decades. It has achieved significant improvements in all the areas relating to financial feasibility, profitability and competitiveness. Despite these improvements, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. Efforts are being made to study the causes of financial exclusion and design strategies to ensure financial inclusion of the poor and disadvantaged at the global level. The reasons may vary from country to country and hence the strategy could also vary but all efforts are being made as financial inclusion can truly lift the financial condition and standards of life of the poor and the disadvantaged (Leeladhar, 2005). The concept of financial inclusion has emerged as an important topic on the global agenda for sustainable long-term economic growth and is considered as a growing area of research interest for academicians, policy makers, financial institutions and governments in developing countries (Allen et al., 2012; Amidzic et al., 2014; Beck & Torre, 2006; Camara & Tuesta, 2014). The business environment has globally changed and it has been

characterized by stiff competition and this is not an exception to banks. Competition has pushed commercial banks towards becoming more innovative.

Agency banking refers to the delivery of financial services outside conventional bank branches, often using non-bank retail outlets that rely on the technologies. Agency banking is defined as the provision of banking services by a third – party agency to customers on behalf of a licensed, prudentially-regulated financial institution, such as a bank or any other deposit taking commercial bank. An agent, in this case, is a retail outlet contracted by a financial institution to process client transactions. It is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. 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 sometimes Personal computers (PCs) that connect with the bank's server using personal dial up or other data connection. Clients that transact at the agent use a magnetic stripe bank card or their mobile phone to access their bank account.

Agency banking was first developed in Brazil in 1999 and has gained popularity in developing countries. It is said to have tremendously impacted the financial performance of banks in Africa and the world over. However, agency banking is a fairly new concept in Africa with it being highly implemented in Kenya and South Africa (Agalla, 2014).

Agency banking include the technologies such as point-of sale (POS) devices or mobile phones for real time transaction processing (Modupe, 2010). Agency banking is a new strategy commercial banks are employing to increase their market share and offer banking services to their clients in varied places. Such strategies reduce the cost of delivering service and to meet the challenge posed by technologically innovative competitors (Byers and Lederer, 2001; Howcraft and Beckett, 1996).

According to a banker (2011), Agency banking is not new in the world. It has been used very well in Latin America and Asia. There are few African countries that have taken up Agency banking. Agency banking has become an essential practice of financial institution in bringing their services closer to the people at the grass-root. Agency banking provide the opportunity for customers to access financial products and services at a location nearest to the customer, this breaking down certain barriers to financial inclusion such as cost and accessibility.

Barasa and Mwirigi (2013) indicate that agency banking has increasingly gained importance in developing countries over the last decade. However the extent to which agency banking can be used as a tool to deepen the financial sector remains largely unknown. This study sets out to evaluate the agency banking model in light of the highlighted challenges and establish the impact of agency banking on financial performance of commercial banks which have adopted the agency banking model. Some of the agency banking transactions which have impact on the financial inclusion in Kenya include customer cash deposits, customer payment of retirement and social benefits, number of new accounts opened and number of agencies engaged. The significant benefits of the agency banking is a model used on maintain the customer and agents that have not yet been studied. However, despite the efforts done on

agency banking the commercial banks still remains to be achieving a lot of competitiveness hence improving the financial performance, it has been noted that there is limited studies done locally on the contributions of agency banking on commercial banks.

Literature Review and Hypothesis Development

Internet banking refers to the use of the Internet as a remote delivery mechanism for banking services, including both traditional services like opening a deposit account or transferring funds between accounts and modern banking services like electronic bill presentment and Payment, which enable customers to obtain and pay bills through a bank's Web site. Internet banking services, according to Daniel (1999), are major information services provided by a bank to serve its customers through the Internet. Consumers can conduct routine banking transactions on a computer with an Internet connection using Internet banking. Transferring funds between accounts, checking one's bank account balance, and paying bills are some of the most widely used Internet banking services (Fox, 2006). Online banking services are characterized as bank account management, electronic bill payment, and financial advice over the internet, according to the Basel Committee Report on Banking Supervision (1998). Mukherjee and Nath (2003) characterized internet banking as a type of banking operation in which consumers use a telecommunication network to conduct banking transactions such as checking account balances and making payments.

Musiime and Ramadhan (2011) discovered that internet banking adoption and financial inclusion have a positive significant relationship. Thus, it can be hypothesized as follows:

Hypothesis1: There is significant impact of internet banking on financial inclusion

The ATM system is a cross-organizational system that connects banks and other financial institutions with retail banking customers to perform a variety of regular banking transactions. Inquiries, deposits, cash withdrawals, cash transfers, and payments are among them (Santos & Peffers, 1993). According to Idris (2014), an automated teller machine (ATM) was one of the services launched by banks with the aim of providing

customers with easy access to their finances, lowering the cost of such access, and increasing financial inclusion. Thus, it can be hypothesized as follows:

Hypothesis2: There is significant impact of ATM Banking and financial inclusion

Mobile Banking is a no-branch banking process that offers low-cost financial services to unbanked populations in both urban and rural areas. The service's aim is not to eliminate branch banking, but to remember those who are covered by banking services but do not have access to them. Promoting information, understanding, and education in financial products and services among mobile banking customers are some of the strategies that can be used to allow a positive impact of mobile banking services on financial inclusion. According to Leeladhar (2005), banks and mobile network operators must conduct major consumer education campaigns and include a full package of mobile banking products, including but not limited to credit and savings, in order to achieve financial inclusion. Thus, it can be hypothesized as follows:

Hypothesis3: There is significant impact of Mobile banking on financial inclusion.

Electronic machines that check and process debit and credit card transactions are known as point of sale terminals. According to David (1982), there has been a small shift away from cash. Patrick (1985) also claims that as the value of transactions rises, the benefit of cash becomes more charismatic. Governments all over the world, especially in underdeveloped and developing economies, have set financial inclusion as a goal. As a result, researchers consider financial inclusion to be one of the most important drivers of economic growth and development, which informed this study. This study attempted to describe the primary drivers of financial inclusion in the aftermath of the Central Bank of Nigeria's cashless policy as a contribution to established information. Electronic banking is positively linked to financial inclusion, according to the report. The study concludes that in Nigeria, point-of-sale (POS) systems are significant drivers of financial inclusion. Thus, it can be hypothesized as follows:

Hypothesis4: There is significant impact of POS banking on financial inclusion

Methodology

3.1 Measurement instrument

The questionnaire was first validated by educationalists, followed by pilot tests that further validated it. The sample for this study is made up primarily of 252 participants. The respondents' sample meets the basic criteria, so they were asked to participate in the study via email. The research tool was based on a five-point Likert scale with strong disagree (1) and strong agree (2) as the extremes (5). A non-probability sampling technique was used to collect data as well as sample characteristics such as age, gender, level of education, occupation, monthly income, and number of bank accounts (convenience sampling). In convenience sampling, units are obtained from the population based on simple availability. In random sampling, each unit from the sampling frame has an equal chance of being included in the survey. As a result, 300 respondents were initially targeted via social networking sites and emails, but the data was reduced to 252 respondents after missing responses were removed.

4. Data Analysis and Results

This thesis employs SEM as part of AMOS (Sarstedt et al., 2014), with a 5,000-bootstrap resampling methodology (Hair et al., 2011). This approach is used to determine the prediction as well as the structural model. AMOS-SEM, according to researchers (Hair et al., 2011; Henseler et al., 2014; Raza et al., 2018), is a very logical and efficient tool for breaking down complex models. Furthermore, the presence of two developmentally assessed constructs in the research model necessitates the use of AMOS, i.e. partial least squares, in light of the fact that it can provide model evaluations, as opposed to SEM, structural equation models, which are unable to evaluate complex models (Hair et al., 2011; Hair et al., 2012).

As a consequence, this technique will interact with previously unnoticed factors and assess measurement error in the improvement of previously unnoticed variables (Chin, 1998). Convergent validity (Cook and Campbell, 1979) and discriminant validity (Campbell and Fiske,

1959) are two approaches used to test the model's effectiveness. Single item reliability is calculated by looking at basic correlations (standardized loadings). According to Tabachnick and Fidell (2007), items are considered reliable if their value

is greater than 0.55, and all of the items in Table 1 are considered reliable. Furthermore, (Fornell and Larcker, 1981) define two methods for assessing convergent validity: Cronbach's alpha and Composite reliability are two tests of reliability.

Table 1: Measurement Model Results

Constructs		Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted
MB	MB2	0.727	0.863	0.882	0.712
	MB5	0.765			
	MB6	0.511			
POS	POS1	0.777	0.785	0.845	0.678
	POS2	0.711			
	POS3	0.561			
ATM	POS4	0.821	0.791	0.841	0.753
	ATM5	0.78			
	ATM6	0.652			
BI	BI1	0.764	0.867	0.889	0.623
	BI2	0.765			
	BI3	0.855			
	BJ4	0.856			
FI	FI1	0.702	0.776	0.879	0.683
	FI2	0.788			
	FI6	0.742			

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization

Table 1 shows that all of the variables are stable because they fulfill the Cronbach's alpha (Tabachnick and Fidell, 2007) and Composite reliability criteria (Nunnally et al., 2007). (from 1967). According to these criteria, Cronbach's alpha should be greater than 0.70, and Composite reliability should be greater than 0.7. As shown in Table 1, a construct's convergent validity is defined as the (AVE), or average variance extracted, being greater than 0.5 (Fornell and Larcker, 1981), and all constructs conform to this norm. To assess discriminant validity, cross-loadings, the square root of the average variance extracted, and MSV are all used. The correlation matrix in Table 2 shows that for each pair of constructs, the correlation between latent variables is lower than the square root of the average variance extracted (AVE). As a result, Fornell and Larcker's criteria are fulfilled (1981).

Table 1 also shows cross loadings for each variable, indicating that all loadings are higher on their respective constructs than on their corresponding constructs, and that cross loading

differences are greater than the specified standard limits of 0.1. (Raza et al., 2018; Gefen and Straub, 2005). Table 2 reveals that all of the build values are higher than 0.7 (Henseler et al., 2010). The diagonal elements are the square roots of the derived average variance that are greater than all available correlation values (2015). As a consequence of meeting all three criteria, discriminant validity has been established. The model's explanatory ability is defined by the degree of inconsistency in the dependent variable.

Table 2: Mean, SD and Correlation Coefficient

	Mean	SD	MB	ATM	IB	POS	FI
MB	3.842	0.808	1				
ATM	3.896	0.784	.734**	1			
IB	3.611	0.911	.182**	.268**	1		
POS	3.799	0.807	.554**	.549**	.105	1	
FI	3.765	0.948	.609**	.635**	.429**	.535**	1

Note: *** $p<0.01$, ** $p<0.05$, * $p<0.10$, MB = Mobile Banking, ATM = Automated Tailor Machine, IB = Internet Banking, POS = Point of Service, FI = Financial Inclusion, Diagonal elements (Bold) represents cronbach's alpha

Table 2 shows the descriptive statistics and correlation coefficient between independent variables and dependent variable under investigation. The mean values have been recorded to be higher than 3.5, indicating that there is a practice of bank agency and financial inclusions in Nepalese commercial banks. The data has also found to be consistent. The correlation coefficient between mobile banking and financial inclusion has been found to be 0.609 and its p-value has also been recorded to be less than 0.001 ($r = 0.609$, $p < 0.001$), indicating that there is a positive and significant relationship between MB and financial inclusion. Likewise, the result reveals that there is a positive and significant relationship between ATM and FI ($r = 0.635$, $p < 0.001$). The result has also concluded that there is a positive and significant relationship between IB and financial inclusion ($r = 0.425$, $p < 0.001$). Furthermore, there result has resembled

that there is a positive and significant relationship between POS and financial inclusion ($r = 0.535$, $p < 0.001$).

4.1 Path Analysis

The path analysis is shown in Table 3, in which standardized regression weights of each has been displayed. The coefficient values show the degree to which independent variables effect dependent variable while their respective sign, size and significance determine the hypotheses between these variables. Furthermore, the significance of hypothesis is determined by its p-values. The p-value should be less than 0.05. Hence, table 3 suggests that all hypotheses are accepted since their respective p-values have found to be less than 0.05. The result revealed that internet banking has significant and positive impact on financial inclusion, represented by H1 ($\beta = 0.224$, CR= 4.925, $p = 0.000 < 0.01$).

Table 3: Standardized Regression Weights for the Regression Model

Hypothesis	Regression Path	SRW	C.R.	Remarks
H1	FI <-- IB	0.224***	4.925	Supported
H2	FI <-- ATM	0.205***	4.151	Supported
H3	FI <-- MB	0.214**	4.912	Supported
H4	FI <-- POS	0.234***	4.956	Supported

Note: *** $p<0.01$, ** $p<0.05$, * $p<0.10$, IB= Internet Banking, ATM = Automated Teller Machine, MB = Mobile Banking, POS = Point of Service, FI = Financial Inclusion, SWR = Standardized Regression Weights

Likewise, the result revealed that there is a significant and positive impact of ATM on financial inclusion ($\beta = 0.205$, CR= 4.151, $p = 0.000 < 0.01$). It means H2 is accepted. H3 ($\beta = 0.214$, CR= 4.912, $p = 0.000 < 0.01$) is significant and positive, revealing that mobile banking influences financial inclusion in Nepalese commercial banks. Result has found that there is a significant and positive influence of POS on

financial inclusion in Nepalese banks ($\beta = 0.234$, CR= 4.956, $p = 0.000 < 0.01$). It supports H4.

Conclusion

The objective of the study was to examine the influence of agency banking on financial inclusion in Nepalese commercial banks. The sample of 252 respondents were collected through online and off line mode using convenience sampling technique.

The independent variables were internet banking, ATM, mobile banking and POS and financial inclusion has been taken as dependent variable. After the research, the result has found that there exists a positive relationship between all independent and dependent variables.

Based on the findings, it can be concluded that internet banking has its significant influence on financial inclusion in Nepalese commercial banks. ATM plays an important role in the mind and heart of customers, as customers view the ATM as a determining factors for consumers. The study also revealed that MB does have its strong influence on the financial inclusion. POS is an important component for the financial inclusion in Nepal. This shows that bank should focus IB, ATM, MB and POS services provided to the customers so that they can be retained for the long run.

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