**Agent Banking Model as a Driver of Financial Inclusion in Zimbabwe[[1]](#footnote-1)**

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**ABSRACT**

Agency banking has become one of the key drivers in providing financial services to the poor and marginalized section of the society. Agency banking involves financial institutions using existing retail outlets to extend their services to the financially excluded population. The degree to which the agency banking model can be used as an instrument of promoting financial services remains a subject of debate. The purpose of this study was to explore a possible positive link between Agency banking and Financial Inclusion. An exploratory research design was used in the study given the problem at hand. To reach the intended goal, the researcher looked at other issues that are around the Zimbabwean financial sector such as the drivers of agency banking, its adoption and also part in promoting financial inclusion. The study sums up that agency banking influences financial inclusion in Zimbabwe and specifically Masvingo. The implication of the study is that banks in Zimbabwe should vigorously promote adoption of agency banking model to reach their far and wide customers at minimum cost thereby boosting their performance.

**Keywords:** Agency banking, Financial Inclusion, Zimbabwe

**1.0** **INTRODUCTION**

Developing countries including Zimbabwe are increasingly embracing branchless banking as a means of delivering banking services to many unreached people especially low-income households. Agency banking model hoped to enhance access to financial services by allowing small businesses to operate as satellite bank branches. According to the Reserve Bank of Zimbabwe report of 2016 on Financial Access Survey, 39 % Zimbabwe‟s bankable population is still totally out of the financial service orbit. Agent-banking is an arrangement by which licensed institutions engage third parties to offer certain banking services on their behalf. An Agency bank can offer a number of services on behalf of its principal bank such as card-based withdrawals, internal transfers, bill payments, balance inquiries and provision of mini statements. There are a number of reasons why Agency Banking model can be adopted by a bank such as expanding geographic coverage, decongesting branches, targeting new customers, technological advancement and heeding moral suasion of regulators. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more.

Today, practically every automobile dealer has a tie-up with a bank or consumer finance institution to provide vehicle loans to their car buyers ([www.infosys.com.finacle](http://www.infosys.com.finacle)). In this arrangement the car buyer is able to quickly access financing of the car purchase and avoids the cost and delays of securing a loan through branch banking and the agent (financing partner) has access to a more captive market.

According to Ivantury and Timothy (2006), 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, to the agency; increased sales from additional foot-traffic, differentiation from other businesses, reputation from affiliation with well-known financial institutions, additional revenue from commissions and incentives, finally to the financial institutions; increased customers base and market share, increased coverage with low-cost solutions in areas with potentially less number and volume of transactions , increased revenue from additional investments, interest and fee income, improved indirect branch productivity by reducing congestion. (Musau and Jagango, 2015)

Latin America is the region with the strongest development towards agency banking with Brazil being probably the most developed market where agency banking has significantly increased financial system structure and virtually 67% of the population now pay at least one bill at an agent. Brazil has the largest agent network in the world having about 400 000 banking agents. According to Kiura (2014) in South Africa, the first agency banking was implemented in 2005 and its regulatory framework gives wide discretion to banks to use nonbank third parties to offer banking services beyond traditional branch network.

Coming to Zimbabwe, most of the Zimbabwean population (67%) stays in rural areas and a number of them do not even have bank accounts. For the few that have bank accounts, most of the travel for almost over 80 km to access financial services. The following figure shows on average the distance the rurl folk in Zimbabwe have to travel to get to the nearest bank branch.

**Figure 1: Distance to the nearest bank branch**



Source: Febraban 2012

Most rural people when they wish to access financial service have to travel for long distances. Most of them have to sleep on doors of banking halls so that they will be served early and be able to catch up with their transport to go back since it is often limited. This is in addition to high transport costs they have to incur given the high macro-economic instability obtaining in Zimbabwe today. Agency banking would go a long way in alleviating the problem of limited access to financial services and greatly reduce the high costs they are experiencing to access them.

**1.1 Statement of the problem**

Countries like Brazil, Colombia, Peru and India have had success stories of providing financial services to the previously unbanked sections of their populations through Agency banking. On the contrary, Zimbabwe is still lagging behind in Financial Inclusion and this is worsened by the economic turmoil she is going through. Banks are in no position to viably expand geographically through branch set-ups hence Agency banking remains the only alternative for them. Several research studies have been done on agent banking: Omumi (2010) did a study on agency banking and use of agents including postal corporation of Kenya. However, in Zimbabwe, how the utilization of agency banking can contribute to foster Financial Inclusion in rural areas has not been well documented. This study therefore, sought to analyse how Agency banking could lead to Financial Inclusion in a country experiencing deep economic problems where lack of confidence in the formal banking services runs deep.

**1.2 Objectives of the study**

The general objective of the study was to establish if there was a link between Agency banking and Financial Inclusion especially in rural Zimbabwe.

**1.3 Specific Objectives of the research**

* To determine critical factors that promote adoption of Agency banking by the rural population section of Zimbabwe
* To assess obstacles to banks in promoting Agency banking
* To evaluate the role of regulators in fostering Financial Inclusion through Agency banking.

**2.0 LITERATURE REVIEW**

2.1 Theoretical Review

Theories have guided some of the exploratory work on agency banking - based on financial institution development. Among them consist of Agency theory.

2.1.1 Agency theory

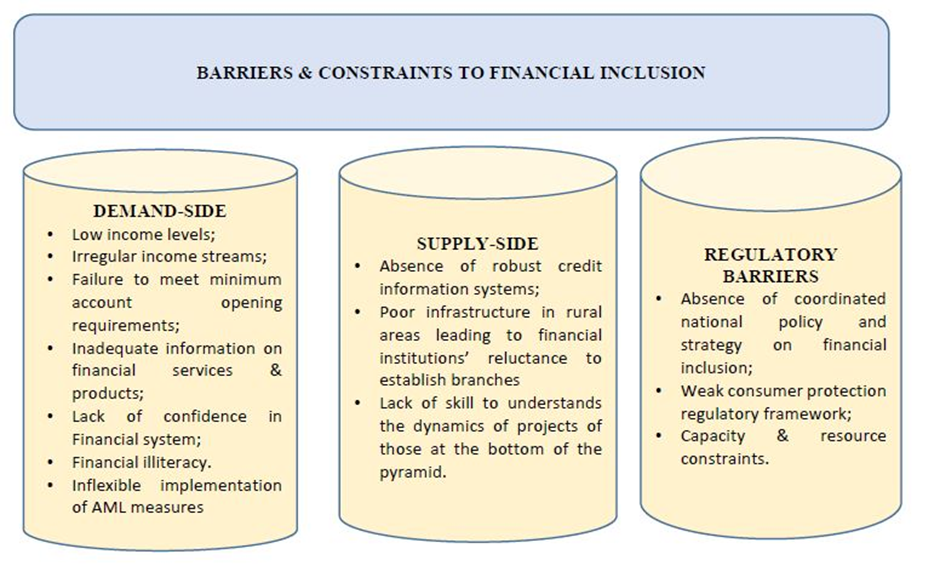
Explains the relationship between principal and an agent in business. Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals and agents of the principals. The two problems that agency theory addresses are: (1) The problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing; and (2) The problems that arise when the principal and agent have different attitudes towards risk. (Ndungu and Njeru 2014) Brigham and Gapenski (1993) proposed that the theory of agency is based on the presupposition that agents have more information than principals and that this information imbalance greatly affects the principal’s ability to monitor whether their interests are being met. Agency theory explains the importance of the relationship between the banks and the bank agents. Banks are responsible for the actions of their agents and thus must be able to come up with supervision and monitoring procedures to ensure that they do not suffer losses, material or reputational due to the actions of their agents. In concurrence with the theories, some unscrupulous agents deviate from compliance to laid bank procedures for their own interest.

2.1.2 Financial Inclusion

According to Rangarajan committee (2008), financial inclusion is defined as the process of ensuring access to financial services and also well timed and fully sufficient credit to the poor groups when needed at an affordable cost. According to the Zimbabwe financial inclusion strategy, in Zimbabwean context financial inclusion is defined as, “The effective use of a wide range of quality, affordable & accessible financial services, provided in a fair and transparent manner through formal/regulated entities, by all Zimbabweans”. According to Musau (2013), formal access to financial services is impeded by lack of information which is relevant and customer service infrastructure. It is also expensive for a bank to serve the poor people who do transactions of small value using massive physical infrastructure that banks use. Musau (2013) further suggests that the absence of infrastructure that is both physical and informational makes it unattractive for financial services to offer products that are designed specifically for the poor and that meet their needs, including apt transaction sizes and charging models.

**2.2 Barriers to financial inclusion**

According to Mehrotra et al (2009), there are supply and demand barriers to financial inclusion. The supply barriers to financial inclusion result due to poor banking infrastructure, security-based lending procedures, lengthy account opening formalities and low outreach by existing financial institutions. On the other hand, demand side constrains relate to low financial literacy, poor physical infrastructure such as roads and bridges; and high cost of services. Since addressing the supply side barriers is part of the financial institution’s corporate responsibility, addressing the demand side includes the efforts and partnership of the government, banks and voluntary agencies. The following figure summarizes the main barriers to Financial Inclusion in Zimbabwe.

**Figure 2: Barriers and constraints to financial inclusions**

Source: Zimbabwe national financial inclusion strategy

**2.3 Rationale for Banking Agents**

Banking correspondents help financial institutions divert already existing clients from the crowded branches thus making banking easy and interesting. Some financial institutions use bank agents to reach additional or potential customers geographically. Reaching poor clients in rural areas by itself would be expensive to the bank since transaction numbers and volumes cannot cover the costs of a branch.

In such circumstances, bank agents fill the gap and offer bank services to many low income people. According to Ignacio (2009),this is made possible because they make use of existing retail outlet, low set up and running costs and also these low number of transactions or volumes won’t worry them much since they already have a business which they are concentrating to.

**2.4 Drivers of the agent banking model**

* Closure of brick and motor bank branches- -banks are unable to maintain some brick and motor branches especially those in peripheral areas where business is very low to cover the fixed costs of the bank. Closure of these branches leaves an unbanked market which opens up space for another business model such as agent banking to set in.
* Distribution Strategy—Changing customer demographics, competition and a host of economic factors have forced banks to relook at their distribution strategy. Agency enables them to extend their reach not only into areas with poor branch network but also to the doorstep of those who are reluctant or otherwise unable to make a trip to the nearest branch.
* Regulatory support- -the RBZ has also set in to promote agency banking due to its potentiality in promoting financial inclusion. The reserve bank of Zimbabwe is now the mediator between every agent banking arrangement. This is to avoid conflicts like what happened between Econet and its agents in 2014. The regulator’s move was to allow agent to have a number of partners as long as they are able to handle them.
* Availability of infrastructure options– availability of basic facilities that can be used for agency banking can be the major drive of the agent banking model. For instance, the steward‘s agent banking model is based on Ecocash and Econet‘s mobile platform. If everything was not there, it would have developed its agent banking model from scratch.

**2.5 Challenges of Agency Banking for Banks**

There are a number of challenges that banks face when they engage in agent banking and they need to address these challenges to avoid losing customers. These are also the major reasons why some banks have not yet embraced agency banking. The customer is the responsibility of the bank and this has not been delegated to the agent. The challenges that need to be addressed include:

* Confidentiality- banks ensure that every year their staff sign the oath of secrecy forms and maintain confidentiality of customer information. This should be looked closely at since these agents are not bank staff.
* Security- most of the agents are located in areas which are highly risk. The bank needs to examine the security measures that are being engaged by these agents to ensure that customers transact peacefully without having to look at their back.
* Customer service to the bank customer- service is a great challenge for the banks and they need to train and retrain agents so as to maintain the same level customer service with the agents.
* Fraud issues- the agents would be targeted by money launderers and fraudsters as they know that the agents won’t be able to identify easily fraudulent transactions for instance to identify if the identity documents are original.

**3.0 METHODOLOGY**

3.1 Population of the study and Sampling procedure

The study employed a descriptive research design. A descriptive study is used to describe or define often by creating a profile of a group of problems, people or events through the collection of data and tabulation of frequencies on research variables or their interaction (Cooper and Schindler,2008) The population of the study consisted of all commercial banks and their customers within Masvingo Province. The sampling frame consisted of five banks that were considered to be active in Agency banking in Zimbabwe out of the sixteen commercial banks.

According to the Reserve Bank of Zimbabwe, there are three thousand licensed banking agents the bulk who operate under state owned Post Savings Bank (POSB). At the banks level the study used purposive sampling purposive which allows a researcher to use cases that have the required information with respect to the objectives of the study. Therefore the study only involved the branch managers of those banks which offer agency banking. Since agency banking uses the same procedures and guidelines, a sample size of 40 branch Managers across all the five banks was appropriate. The bank customers were randomly selected and grouped into two samples.

The first sample consisted of 110 respondents who are Masvingo city dwellers. The second sample was made up of 150 respondents who are bank customers but reside in the rural areas of the province. The respondents were people from different backgrounds, different age, and gender, level of education and status of work whether employed or non-employed. The researcher selected to concentrate on Masvingo. Province for the reason that the area offers both the urban and the rural environment and thus representative of the two scenarios. The two scenarios were important for comparison purposes since Financial Exclusion tend to occur more among the rural folk.

3.2 Data collection tools and instruments

For the bank customers, the main instrument that was used in collection of data for the study was a questionnaire that consists of closed ended question. The questionnaire was divided into four sections. Section A captured basic demographic information of the bank customer. Section B captured information about the respondent’s weekly frequency to both the bank and its agent bank. Section C sought to determine the preference of a bank customer between branch service and agency banking while section D captured information about the nature of the challenges a bank customer faced in branch banking. The last two sections used a five point Likert Scale battery where the respondents were asked to indicate the extent to which they agree/disagree with various statements. The questionnaires were served on respondents through direct contact with the customers and drop and pick methods. The methods were chosen because of time and cost.

From the banks’ side, the study collected primary data using interview with pre-prepared questions. The interview was chosen as an instrument for the study due to its practicability and applicability to the research problem and the size of the population. Bank managers were mainly asked to give their opinion on benefits and challenges of having bank agents. It was cost effective and gave adequate time to the researcher to in depth questions and clarifications tailored to the research (Mugenda and Mugenda, 2003). Secondary data was collected from published financial reports and other available documents and journals from the Reserve Bank of Zimbabwe.

**4.0 FINDINGS AND DISCUSSION**

**Respondents’ Demographic Profile**

Gender

Out of 260 questionnaires administered to the bank customers 249 were returned representing a response rate of 95.8%. Males who responded were 142 (representing 57%) against 107 females (constituting 43%). 100 urban dwellers responded representing 40% whilst 144 (60%) represented the rural folk. The high participation of the rural folk is not surprising since it is always their trend even in unrelated events like national elections.

Education

A summary by the respondents‘ education levels is summarized in Table 1 below.

Table 1: Respondents by Education Level

|  |  |  |  |
| --- | --- | --- | --- |
| Education level | Frequency | Percentage | Cumulative % |
| Secondary Certificate | 40 | 16 | 16 |
| Diploma | 96 | 39 | 55 |
| Degree | 79 | 32 | 88 |
| Post Degree | 29 | 12 | 100 |
| TOTAL | 244 | 100 |  |

Source: Field survey

The above table shows high literacy among the respondents as only 16% did not go beyond secondary schooling. It can be assumed that the respondents were quite aware of what they were being asked for.

Use of Agency banking among the urban and rural dwellers respondents

Figure 3 shows the adoption and use of Agency banking among all the respondents of the study captured in percentage terms of all respondents.

Figure 3: Adoption and use of Agency banking

Source: Field survey

From the study it was established that low uptake of Agency banking was among the respondents who lived in rural areas (27%) as compared to the urban dwellers who contributed 11.8%. In the High use category, the gap between the two samples has narrowed (12.2% versus 16.8%) which would imply that even among the urban respondents’ agent banking might still be eluding them.

Challenges faced by respondents in branch banking

The respondents were asked to rate among the common challenges associated with branch banking in Zimbabwe. These were proximity, time delays to get service, ceilings on amount one could withdraw and lack of consumer information on Agency banking. They were asked to rate the variables from 1 to 4 scale with 1 being the main reason and 4 the least among all the variables. From the study, the key challenge in branch banking was the cost of service emanating from proximity issues. Thirty three percent (33%) of the respondents indicated that bank branches were far and costly to reach and in addition the transaction costs were just too high considering their transaction values.

In second position was the restriction that is placed on maximum amount that can be withdrawn by an individual from his bank account. The current weekly maximum amount is Zimbabwe $300 which is about US$15.Twenty six percent (26%) of the respondents cited this as too low given an unofficial annual inflation figure of around 600% (the Government has since stopped releasing its own figures).

The third obstacle from the study was time delays suffered by the respondents at banks for them to get services. Out of all the respondents, sixteen percent (16%) indicated that the time they take to get a service from the bank was just too long. This is because of the cash shortage in the country all banks have to endure long queues of bank customers desperate for cash. Only 15% of the respondents indicated they were not aware of Agency banking as an alternative to branch banking. Figure 4 below summarises these findings

Figure 4: Challenges of Branch Banking

Source: Field Survey

**Role of Banks in Promoting Agency banking**

From in depth interviews carried by the researchers, the banks were in agreement that currently it was too costly for banks to set up new branches when considering the business that would be generated. They cited that the already existing branches were not posting good results as result of poor economic climate. On the feasibility of Agency banking, 80% of the respondents cited insecurity as their major concern. They indicated that most bank agents lack sophisticated measures of the bank branch such as CCTVs and armed guards. This was of a serious concern for them given an upsurge in armed robberies obtaining in the country that is fuelled by high unemployment in the country. Only 20% of the respondents were worried about the image problems of the bank as a result of a bank engaging an agent. This could be due to the fact that the majority of the respondents were from banks affiliated to the Government where brand image may not matter much. About 10%of the respondents raised concern over what they call high demands on commission figures by the bank agents.

**CONCLUSIONS**

The study identified that Agency banking is still to be fully embraced in Zimbabwe despite having been in existence for a while. A significant section of the rural population still rely on branch banking despite facing a number of challenges such as cost of travelling to the nearest branch and restricted withdrawal limits. This all at the end reduces their confidence in the formal banking system and drive them away. The banks on the other hand acknowledge that expanding branches at the moment is uneconomic and Agency banking remains the only option to reach far and wide customers. However their main worries revolve around security considerations in Agency banking and possible system failure. The concerns of the banks can easily be addressed by the authorities and as a result Agency banking remains an easy route for financial inclusion im Zimbabwe.

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