Establishing the Relationship between Agency Banking Costs and Financial Performance of Commercial Banks in Uganda: A Case Study of Centenary Bank, Mbarara Branch

Christopher Banura Ruyooka
Ibanda University, Ibanda, Uganda

Abstract: **Evidence shows that financial performance of commercial banks in developing countries has remained relatively poor. Most of the commercial banks have failed to meet their operational costs and this has forced them out of the market. The biggest challenge however has been the result of poor bank policies and products offered to a relatively small customer base. Therefore, the introduction of agency banking is to boost the revenue collection of these commercial banks, increase their profitability levels, create more efficient and real time systems, and improve their overall financial performance. It's against this background, that this research paper aims at establishing the relationship between agency banking costs and financial performance of commercial banks in Uganda, taking Centenary bank Mbarara branch as the research case.This study adopted a quantitative descriptive non-experimental case study design where data was collected from 52 bank officials by the use of Survey questionnaire checklists. Data was then analyzed using SPSS statistical package. Background characteristics of respondents was generated by the use of tables, frequencies and percentages. In order for the study to test the hypothesis, correlations and regression analysis was used to reach at the significance levels.The study revealed that agency banking costs is a significant determinant for the financial performance of commercial banks with a standardized beta coefficient of ($r=0.621$, $p<0.05$) meaning that agency banking costs are significantly positively related with financial performance of commercial banks. The coefficient of determination/ r^2 for agency costs is equal to 0.386 implying that a 38.6% variation in the financial performance of commercial banks is brought about by the agency banking costs. This further means that the financial performance of commercial banks improves with low agency banking costs. For instance, the costs involved in agency banking transactions is low compared to the banking hall transactions. Secondly, the cost of setting up a bank agency is transferred to the bank agent who benefits from the commission got from every transaction made by the customer. This creates a low cost for offering any financial service offered by the bank through the agent. Thirdly, agency banking has low infrastructural cost which have reduced the operational cost of the main branches. Last but not least, the time spent in agency banking is low compared to the time spent in the banking hall. Overall the study was important and concluded that agency banking costs play a significant role in improving the financial performance of commercial banks and hence creating financial inclusiveness where individuals have greater access to affordable and useful financial services and products that can meet their needs in a responsible and sustainable manner.**

Key Words**: agency banking costs, financial performance, commercial banks, Uganda.**

I. INTRODUCTION

One of the biggest challenges facing financial performance of commercial banks in developing countries has largely been due to poor bank policies and products offered. Most of the commercial banks have failed to meet their operational costs and have been forced out of the market. According to Bram. P & Naomi. D.G (2017),over 9 million people in Uganda need to travel more than an hour to access a bank branch and therefore, for the benefit of customers, agency banking means reduced travel time, greater access to and increased convenience of formal financial services to those who can't access them. Ciprian. P, (2019) states that "the introduction of agency banking in Uganda has increased and deepened financial inclusion, where banks can now use agency banking as an extension to services traditionally offered in bank branches". Jagongo & Molonko (2014) also noted that transacting through bank agents has proven to be cost-effective especially to people who live in rural areas that are far away from banks. This paper therefore aims at establishing the relationship between agency banking costs and financial performance of commercial banks in Uganda. In order to meet the objective of the study, Centenary bank, Mbarara branch was taken as the research case. The study was to test the following hypotheses $H_{0\ 1}$: There is no significant relationship between agency banking costs and financial performance of commercial banks. The study then adopted a quantitative descriptive non-experimental case study design., where data was collected from 52 bank officers using survey questionnaire checklists. The data was then analyzed using SPSS statistical package. Findings were presented using tables, frequencies, correlations and regression analysis. The data obtained from the study was then critically analyzed to confirm or reject the hypothesis and final conclusions were made. Last but not least, recommendations and further areas of study were suggested.

II. LITERATURE REVIEW

The section first presents an over view of agency banking, then it focuses on agency banking in Uganda and winds up with agency costs and financial performance of banks. According to Musoke, T (2017) Agency banking in its simplest form, is where a licensed financial institution engages an agent to provide special financial services on their behalf, outside of the conventional avenues of tellers, cashiers and ATMs. The introduction of agent banking is intended to enable institutions to provide banking services more cost effectively to customers. It is expected that this initiative will enhance financial access for those people who are currently unbanked or under banked (Ignatious et al., 2011). According to Bram. P & Naomi. D.G (2017) over 9 million people in Uganda need to travel more than an hour to access a bank branch. Ciprian. P (2019), in his article "Introducing Agency Banking in Uganda" states that agency banking offers the potential to increase and deepen financial inclusion across Uganda.

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Jagongo, A. O & Molonko, (2014) Transacting through bank agents has proven to be cost-effective especially to people who live in rural areas that are far away from banks. Banks and other financial institutions are partnering with retailers, post offices, and other agents to provide financial services. Oyugi, (2015) Governments can create incentives and accelerate the development of agent networks and better uptake of financial services by distributing salary, welfare and social payments through agents.

A study carried out by Ngigi, (2012) on the effect of financial innovation on financial performance of Kenyan commercial banks concentrated on the introduction and adoption of more efficient and real time systems of finance by the commercial banks. The study concluded that most of the strategies involved in financial performance focus on improving accessibility, convenience and reducing cost of operation as much as possible. The study highlighted that new services like mobile banking, internet banking and online securities trading can strength the financial performance of commercial banks. Alfansi & Sargeant, (2010) mentions that Agent businesses are more profitable and produce higher revenues, than commercial banks that use only branch networks. Banks can benefit from lower transaction costs as agent banking requires less paper work, less staffs and physical branches (Atandi, 2013). Benefits of Agent Banking are among others that bring banking services closer to the customers for instance customers can apply for lines of credit, credit cards, loans and Mortgages through agents hence, fewer visits required to banks (e.g Aduda, Kiragu & Ndwiga 2013) mentioned that in Bangladesh, Customers had to visit on an average of 15 times to their lender for a single loan.

Birch, (2008) The Bank needs to audit the security measures being taken by the agencies to ensure the customer can transact confidently without having to look behind their backs. Fraudsters target agency staff as they are aware that they will not be able to easily identify fraudulent transactions for example identification of documents for originality. Barasa & Mwirigi, (2013) mention of challenges that banks need to address to avoid losing customers and maintaining the Banker- Customer relationship. Some of the challenges that need to be addressed are: Confidentiality, to ensure that staff members sign secrecy forms and maintain confidentiality for all customer information another challenge is Security, where most of these agencies are in areas that are what would be considered 'high Risk'. Bryman, (2013) Agent banking requires a generally good infrastructure in terms of road network, communication and information technology. Considerations should be made for areas that are hard to reach due to a poor fixed infrastructure and poor transport system. Key issues to note are technology; competitive rates product innovation, brand image, Size of the company, location and convenience.

III. METHODOLOGY

The study adopted a quantitative descriptive non – experimental case study design for it was appropriate, quick and low cost for collecting the required information. This approach is recommended by Bowling (2002), who explains that quantitative research deals with quantities and relationships between attributes; it involves the collection and analysis of highly structured data in the positivist tradition. Furthermore, quantitative research is appropriate in situations in which there is pre-existing knowledge, which will permit the use of standardised data collection methods (e.g. the survey questionnaire) and in which it is aimed to document prevalence or test hypotheses (Bowling (2002).Data was collected from 52 bank officials out of a total population of 60 employees working with Centenary branch, Mbarara. The sample was determined by Krejice and Morgan sample table (1970 edition). The quantitative tool used in this study included the Survey questionnaire checklist that was used in obtaining quantified data in form of figures, numbers and tables. The use of the questionnaire checklist is emphasized by Davies& Fred (2000) who reveal that, the traditional empirical quantitative technique is the survey questionnaire, administered to a stratified or random sample of a population, enabling us to draw inferences about the behavior of a whole population from a smaller (and less expensive) number and data was analyzed using SPSS statistical package to generate descriptive statistics. Bio data was generated by the use of tables, frequencies and percentages. To test the hypothesis correlations and regression analysis was used to reach at the significance levels.

IV. RESULTS AND DISCUSSIONS

Data was collected from 52 respondents and the findings were presented in form of tables, frequencies, percentages, correlations and regression analyses.

Table: 1 Response Rate

Instrument	Sampled	Actual	Response Rate
Questionnaires	52	52	100 %
Total	52	52	100 %

(**Source:** Primary Data, August, 2019)

Table 2: Background Characteristics of Respondents

Item	Category	Frequency	Percentage
Number of Respondents	Male	37	71
	Female	17	29
	Total	52	100
Age Group	20 – 30 years	15	29
	31 – 40 years	25	48
	40 and above	12	23
	Total	52	100
Marital status	Single	25	48
	Married	25	48
	Widowed	2	4
	Total	52	100
Education level	Diploma	10	19
	Bachelor's Degree	42	81
	Total	52	100
Job position	Branch Supervisor	1	2
	Section heads	4	8
	Loans officers	38	73
	Tellers	8	15
	Customer relations officers	2	4
	Total	52	100

(**Source:** Primary Data, August 2019)

Table: 3The Relationship between Agency Banking Costs and Financial Performance of Commercial Banks

Responses	SA		A		NS		D		SD	
	F	%	F	%	F	%	F	%	F	%
The transactional cost involved inagency banking are low compared to banking hall?	30	58	20	38	2	4	00	00	00	00
The cost of setting up a bank agencyis transferred to the bank agent and hence low costs in offering services to the customers?	35	67	17	33	00	00	00	00	00	00
Agency banking haslow infrastructural costs and hence a reduction in the banks operational costs?	28	54	22	42	2	4	00	00	00	00
The time spent in agency banking is low compared to the time spent in the normal banking hall?	30	58	22	42	00	00	00	00	00	00
Costs involved in agency banking positively influence performance of commercial banks.	20	38	30	58	2	4	00	00	00	00
Agent's prior experience with the banks customers is positively related to both performance and survival of the bank.	35	67	17	33	00	00	00	00	00	00
Agency banking reduces transactional related costs and overheads of the bank.	40	77	8	15	4	8	00	00	00	00

(**Source:** Primary Data, August, 2019)

The data in table 3 reveals that 30 (58%) of respondents strongly agreed that cost involved in transacting in agency banking is low compared to banking hall, whereas 20 (38%) of the respondents agreed and 2 (4%) were not sure about the statement. Furthermore, 35 (67%) of the respondents strongly agreed that the cost of setting up the agency is transferred to agents and hence low cost of offering service while 17 (33%) agreed with the statement.28 (54%) of the respondents strongly agreed that agency banking has low infrastructural cost and hence reduction in cost, 22 (42%) agreed and 2 (4%) were not sure about the statement. Data also revealed that 30 (58%) of the respondents strongly agreed that time spent in agency banking is low compared to the normal banking time, while 22 (42%) agreed with the statement. When asked about whether cost involved in agency banking had a positive influence on performance of commercial banks, 20 (38%) strongly agreed, 30 (58%) agreed, and 2 (4%) were not sure about the statement. The study also revealed that 35 (67%) strongly agreed that agents prior experience with the banks customers is positively related to both performance and survival, and 17 (33%) agreed with the statement and whether agency banking reduces transactional related costs and overheads, 40 (77%) strongly agreed, 8 (15%) agreed and 4 (8%) were not sure of the statement.

Testing Hypothesis $H_{0\ 1}$: Relationship between Agency banking costs and financial performance of commercial banks.

In order to determine the influence of agency costs on the financial performance of commercial banks, correlation and regression analyses were conducted and the results are summarized in Tables 4 and 5.

Table 4:Correlation results showing the significance relationship between Agency banking costs and the Financial performance of Commercial Banks.

		Agency banking costs	Financial performance
Agency banking costs	Pearson Correlation	1	.621 **
	Sig. (2-tailed)		.000
	N	52	52
Financial performance	Pearson Correlation	.621 **	1
	Sig. (2-tailed)	.000	
	N	52	52

. Correlation is significant at the 0.01 level (2-tailed). (Source:** Primary Data, August, 2019)

The findings in table 4, reveal that there was a statistically significant inverse correlation between agency banking costs and the financial performance of commercial banks ($r=0.621$, $p<0.05$). This study therefore rejects the null hypothesis that states; there is no significant relationship between agency banking costs and the financial performance of commercial banks in Uganda and confirms that agency costs and the financial performance of commercial banks have a significant positive relationship ($r=0.621$, $p<0.05$). This means that agency banking costs have a significant influence and relationship on the financial performance of commercial banks in Uganda.

The results also imply that the financial performance of commercial banks, improves with low agency banking costs by reducing costs like; marketing costs, insurance costs, transactional costs and infrastructural costs. These low costs are also linked to a reduction of time spent in the banking halls as it provides many customers the opportunity of bringing services closer to them and hence reducing travel costs and other hassles involved. The results also indicate that Agency banking improves on customer deposits in the bank. The results indicate that low agency banking costs attracts new customers and increases bank profits, market share and financial inclusion of the people.

These findings concur with Jagongo & Molonko (2014) who noted that transacting through bank agents has proven to be cost-effective especially to people who live in rural areas that are far away from banks. Banks and other financial institutions are partnering with retailers, post offices, and other agents to provide financial services. Through agency banking, Governments can create incentives and accelerate the development of agent networks and better uptake of financial services of government departments by distributing salary, welfare and social payments through agents (Jagongo & Molonko 2014).

The findings can also be compared with Aduda, Kiragu & Ndwiga (2013) who state that the benefits of Agent banking can bring services closer to the customers, for instance customers can apply for lines of credit, credit cards, loans and Mortgages through agents and hence, fewer visits are required to banks. The findings also concur with Alfansi & Sargeant (2010) who mentioned that Agent businesses are more profitable and produce higher revenues, than commercial banks that use only branch networks and that Banks can benefit from lower transaction costs as agent banking requires less paper work, less staffs and physical branches.Therefore, in order to determine the significant relationship between of agency banking costs and the financial performance of commercial banks in Uganda, regression analysis was conducted and the results are summarized in the Table 5.

Table 5: Regression results showing the relationship between Agency banking costs and the Financial performance of Commercial Banks.

R square=0.386, F=149.754, P=0. 000		
	Standardized Coefficients	Sig.
	Beta	
Agency banking costs	0.621	0.000

***(Source:** Primary Data, August, 2019)*

According to the results in the summarized Table 4.2.2 above, the coefficient of determination/ r^2 for agency banking costs is equal to 0.386. This implies that 38.6% of the variation in the financial performance of commercial banks is explained by the inclusion of the agency banking costs. Table 4.2.2 also reveals that agency costs has a significant influence on the financial performance of commercial banks ($F=149.754$, $P=0.000$). The regression results indicate that agency costs are a significant determinant of financial performance of commercial banks. The standardized beta coefficient of ($r=0.621$, $p<0.05$) means that agency banking costs is significantly positively related with the financial performance of commercial banks. This means that agency banking costs has a significant influence on the financial performance of commercial banks and it implies that the financial performance of commercial banks improves with low agency costs. Therefore, Agency banking makes it easier for commercial bank to reach out too many potential clients without investing so much in opening branches hence it's a cost effective alternative to main stream banking. The results also indicate that Agency banking costs increases the ease of expansion and hence greater geographical outreach to pockets of bankable population and thus improving the overall performance of the commercial banks with a standardized beta coefficient of ($r=0.621$, $p<0.05$) implying a 62.1%.

V. STUDY LIMITATIONS

During the process of examining the collected raw data, there was a challenge of detecting errors and omissions and to correct them as soon as possible. Some of the respondents didn't know the difference between strongly agree and agree and between strongly disagree and disagree on the quantitative tool.

VI. CONCLUSIONS

This study was meant to establish the relationship between agency banking costs and the financial performance of commercial banks in Uganda. The research case was Centenary bank, Mbarara branch. The study adopted a quantitative descriptive non-experimental design, where 52 bank officials were sampled. The data was collected by the use of Survey questionnaire checklists and analyzed by using SPSS statistical package. According to the study findings, cost involved in transacting in agency banking is low compared to banking in the hall, the cost of setting up the bank agency is transferred to agents and hence low cost of offering service. Agency banking has low infrastructural cost and hence reduction in cost, time spent in agency banking is low compared to the normal banking among others.From the critical analysis and comparison of the results, overall the study was important and concluded that agency costs have a significant role they play in influencing the financial performance of commercial banks hence there was a positive correlation between agency costs and financial performance. This implies that the financial performance of commercial banks improves with low agency costs. The study concluded that agency banking costs have a significant role they play in influencing the financial performance of commercial banks.

VII. RECOMMENDATIONS

The study recommended that there is a need for commercial banks to educate customers about the Agency banking and its products. Majority of the rural people are not aware of the existence of agency banking. There is also need for more resources to be dedicated to agency banking especially financial resources to encourage innovation and infrastructural development. There is need to create a customer complaint desk where customers can register their complaints. The banks need to make follow ups on the services offered by agencies to minimize negative issues but at the same time increase customer satisfaction. There is need for commercial banks to emphasis on market research, understand customer needs, expectations and services' quality. This will help Centenary bank and other commercial banks be able to identify primary objectives of their customers so that they can best satisfy them. The study suggested further areas for future investigations in research to cover Agency banking and Customer Satisfaction in commercial banks.

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APPENDICES:

APPENDIX 1: QUESTIONNAIRE FOR THE RESPONDENTS

I am **Christopher Banura Ruyooka**, a lecturer at Ibanda University teaching in the faculty of business and management studies and the faculty of humanities and social sciences. I am carrying out a research study on **"Establishing the relationship between agency banking costs and financial performance of commercial banks in Uganda: A case study of centenary bank, Mbarara branch".** You are kindly requested to participate in the study and give your opinion as honestly as possible. Please answer by ticking or filling the appropriate answer in the space provided. The information obtained will be used for academic purposes and will be treated with utmost confidentiality. Thank you.

SECTION A: BACKGROUND CHARACTERISTICS

1. Gender

(a) Male ☐

(b) Female ☐

2. Age

(a) 20-30 years ☐

(b) 31-40 years ☐

(c) 40 and above ☐

3. Marital status

(a) Single ☐

(b) Married ☐

(c) Widowed ☐

(d) Separated ☐

4. Education level

a) Diploma ☐

b) Bachelor's Degree ☐

e) Others (specify)………………………………………………………..

5. Position held in the bank

(a) Teller ☐

(b) Loans officer ☐

(c) Supervisor ☐

(d) Section head ☐

(e) Customer relation officer ☐

(f) Others (specify)………………………………………………………….

SECTION B: THE RELATIONSHIP BETWEEN AGENCY BANKING COSTS AND FINANCIAL PERFORMANCE OF BANKS:

In the table below, SA stands for Strongly Agree, A stands for Agree, NS stands for Not Sure, D stands for Disagree and SD stands for Strongly Disagree

Responses	**SA**	**A**	**NS**	**D**	**SD**
The transactional cost involved in agency banking are low compared to banking hall?					
The cost of setting up a bank agency is transferred to the bank agent and hence low costs in offering services to the customers?					
Agency banking has low infrastructural costs and hence a reduction in the banks operational costs?					
The time spent in agency banking is low compared to the time spent in the normal banking hall?					
Costs involved in agency banking positively influence performance of commercial banks.					
Agent’s prior experience with the banks customers is positively related to both performance and survival of the bank.					
Agency banking reduces transactional related costs and overheads of the bank.					

Thank you