THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Agent Banking in Bangladesh - A New Era in Financial Institution by Enhancing Customers' Accessibility and Profitability of Banks

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Abstract:
The rebellion of information technology has influenced almost every facade of life, among them one is the banking sector. Technological progression has not only affected the way of living, but has had an effect on the way of people, to do their banking. Agent banking has become an essential practice of financial institution in bringing their services closer to the people at the base. There is no doubt that agent banking if included into the banking system of Bangladesh will help to improve banks' profitability. This study was intended to assess some facilitating factors and hindering factors that contribute to the inclusion of agency banking in Bangladesh. The facilitating factors were customer service, convenience and encourage starting SME business in rural areas. The hindering factors were the lack of activity of mobile financial services and prohibited to do some services by the agents. The aim of this study was to find out the implication of agent banking on enhancing customer's accessibility and profitability of Bangladeshi commercial banks.

Keywords: *Agent banking, profitability, customer service, convenience, financial inclusion*

1. Introduction

One of the primary obstacles for providing financial services to the low income group people through branches and other bank based delivery channels is the high costs inherent in these traditional banking methods. The amount of money expended by financial service providers to serve a low income group customer with a small balance and conducting small transactions is simply too great to make such accounts viable. In addition, when financial service providers do not have branches that are close to the customer, the customer is less likely to use and transact with their service. However, we see the emergence of new delivery models as a way to drastically change the economics of banking the low income group people. By using agent banking, banks, telecom companies, and other providers can offer saving services in a commercially viable way by reducing fixed costs and encouraging customers to use the service more often, thereby providing access to additional revenue sources.

Agent banking means providing banking services to the bank customers through the engaged agents under a valid agency agreement, rather than a teller/ cashier. It is the owner of an outlet, who conducts banking transactions on behalf of the concerned bank. Globally agent banking is an important distribution channel for financial inclusion. Bangladesh Bank has also decided to promote this complimentary channel to reach to the poor segment of the society with a range of financial services especially of these geographically dispersed locations. With a view to ensure the safety, security and soundness of the proposed delivery channel Agent Banking Guidelines have been framed by the Bangladesh Bank to permit banks to engage agents subject to compliance with the guidelines.

Agent banking is a new concept in Bangladesh, but practiced globally as an important distribution channel for financial inclusion through agents of the banks. 'Agent banking' means the provision of banking services by a third-party agent to customers on behalf of a licensed, prudentially-regulated financial institution, such as a bank or other deposit-taking institution. In this model, the customer has a direct contractual relationship with a bank. This is sometimes referred to as the 'bank-based model'. Bangladesh Bank is issuing these guidelines as per authority conferred to it by article 7A (e) of Bangladesh Bank Order, 1972 and Section 4 of Bangladesh Payment and Settlement Systems Regulations, 2009.

We have found that agent banking does improve the economics for these institutions compared with branches, especially for high transaction, low balance accounts that are common among low income users. The main objective of this study is to assess the potentiality of agent banking in Bangladesh.

The specific objectives are:

1. To investigate whether the customer service will smoother or not by the inclusion of agent banking system in Bangladesh.
2. To assess the probable factors that affect to implement agency banking in Bangladesh.
3. To determine the traits of agents that affects inclusion of agency banking in Bangladesh.
4. To have clear insight about the industries positives and negative impact on economy.

2. Literature Review

According to Lyman et al., 2006, the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction. Owens (2006) found that Retail agents have face-to-face interaction with customers and perform cash in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals. Bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees (Lyman et al., 2006). According to this model, the potential to substantially increase the financial services outreach by using a different delivery channel (retailers/ mobile phones), a different trade partner (Chain Store) having experience and target market distinct from traditional banks, and may be significantly cheaper than the bank based alternatives. The use of retail agents also potentially raises special concerns regarding consumer protection and compliance with rules for combating money laundering and financing of terrorism (Kumar et al., 2006). The bank lead theory is related to the study as it focus on how financial institution like bank deliver their financial services through a retail agent, where the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction .

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. This model is additive in nature and may be seen as a modest extension of conventional branch-based banking. Banks address these issues by providing a branchless banking service with an easy to use interface, made secure with the help of multi-factor authentication and other technology, capable of running uninterrupted 365 days a year (Kapoor, 2010). The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. With the use of agent family bank achieves economies of scale by serving many customers at low cost.

A study conducted by Bold (2011) in Brazil found that some countries restrict the location of agents, though such restrictions are sometimes eased when regulators recognize that the regulations create obstacles to financial inclusion. Bold (2011) found that Brazilian regulation originally allowed agents only in municipalities that did not have bank branches. He also found that Indian regulators initially required agents to be located within 15 kilometers of a “base branch” of the appointing bank in rural areas, and within 5 kilometers in urban areas. This policy, intended to ensure adequate bank supervision of its agents, limited the use of agents by banks with only a few branches.

Arora and Ferrand (2007) found that financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels. Bean (2009) states that agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers. Agent banking means commercial outlets like shops and supermarkets acting in some capacity on behalf of formal banks (Hogan, 1991).

Considering the importance of banking system‘s high presence and affordability, there is great potential of using this in agent banking for provision of banking services to unbanked community (Arora and Ferrand, 2007). Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients (Owens, 2006). Banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution (Lyman, et al., 2006). On the other hand, customer service has been defined as customers‘overall impressions of an organization‘s services in terms of relative superiority or inferiority (Bindra, 2007). Service quality is considered to not only meet but to exceed customer expectations, and should include a continuous improvement process (Walker & Cheung, 1998).

3. Eligible Entities

The banks may engage the following persons/entities as Bank Agent:

- NGO/ MFI’s regulated by Microcredit Regulatory Authority of Bangladesh;
- Cooperative Societies formed and controlled/ supervised under Cooperative Society Act,2001;
- Post Offices;
- Companies registered under Bangladesh Company Act, 1994 excluding Non Bank Financial Institutions;
- Agents of Mobile Network Operators.\
- Offices of rural and urban local Government institutions like UISC
- Educated Individuals capable to handle IT based financial services, agents of insurance companies, owner of pharmacy, chain grocery shops and petrol pumps/ gas stations

4. Permissible Activities

The following activities are permissible by Bangladesh Bank:

- Collection of small value cash deposit and cash withdrawal (ceiling should be determined by the bank);
- Inward foreign remittance disbursement;\
- Facilitating small value loan disbursement and recovery of loans, Installments;
- Facilitating utility bills payment ;
- Cash payment under social safety net programme of the Government;
- Facilitating fund transfer;
- Balance inquiry;
- Generation and issuance of mini bank statements;
- Collection and processing of documents in relation to account opening ,loan application, credit and debit card application from public;
- Post sanction monitoring of loan and advances and follow up of loan recovery.
- Other Functions like deposit collection, payment of insurance premium etc.
- Sale of crop and other insurances

5. Roles and Responsibilities & Minimum Standards

Bangladesh Bank introduced agent banking guidelines for all commercial banks in December, 2013 aiming to provide banking and financial services on a limited scale to the underserved population. Cash deposits can be collected in addition to cash withdrawals and fund transfers through agent banking. Other activities of agent banking include inward foreign remittance disbursement, small value loan disbursement, recovery of loans and installments, utility bill payment, cash payment under social safety net programmes, and other regular banking activities.

Bangladesh Bank set the maximum transaction ceiling at Tk 25,000 for agent banking customers, An agent banking customer will be able to make a maximum of four transactions a day—two withdrawals and two deposits. Besides, each bank has to maintain a current account with the agent and the balance on that account may not cross Tk 10 lacs. The limit on the transaction value will not be applicable for withdrawal of inward remittance. However, the ceiling will be determined and revised by BB from time to time.

6. Typical Remuneration System

According to guideline customers will not be charged directly by the agents for the services but banks will pay reasonable fees or commissions to their agents. However, banks may charge commissions or fees or charges applicable to its customers. All transactions need to have an insurance policy and be in only takas. Bangladesh Bank gave permission at 24th March 2014 to two banks to provide agent-banking services, taking the banking sector one step ahead in financial inclusion. Bank Asia can appoint 30 agents and NRB Bank 20 agents to extend modern banking services to clients, according to the central bank decision. Earlier, Bank Asia launched agent banking under a pilot project by appointing eight agents in Sirajdikhan upazila, one in Louhajang and two in Srinagar in Munshiganj district. The agents have provided banking services to more than 2,000 clients.

7. Facilitating Factors

Agent banking is the new concept in the banking arena of Bangladesh. A combination of factors has facilitated the development of agent banking. The factors are:

- If the initiative to provide services through agent banking is implemented successfully, many small and medium enterprises will feel encouraged to start businesses in rural areas.
- It will spur employment generation and the tendency of the rural population to move to urban areas will decrease.
- On behalf of the banks, the agents can transact cash, distribute remittance, gather information for bank accounts, accept loan applications, transact and recover loans and receive applications for credit and debit cards.
- Bank agents can also receive utility bills and passport fees and distribute government assistance under social safety net programs.

In terms of risk mitigation:

- Banks shall be responsible to mitigate liquidity, operational, fraud, cheating including money laundering and terrorist financing risks. Technical risks should be covered by the solution provider.
- The banks bear all the liabilities that arise from any improper action on the part of their engaged agents.

8. Hindering Factors

- The main factor hindering the growth of agent banking in Bangladesh has been the highly restrictive nature of the regulations, as well as uncertainty as to their application.
- A further hindering factor is the lack of activity of MNOs in the mobile financial services market
- In Bangladesh agents are prohibited to provide some services on behalf of the banks, such as: Opening of bank accounts and issuance of bank cards or cheques, conducting money changing activities, dealing loan/financial appraisal and enhancement of cheques.

9. Potentiality of Agent Banking in Bangladesh:

A set of financial service providers demonstrates that agent transaction platforms improve the economics for financial service providers compared with branches, especially for high-transaction, low-balance accounts that are common among poor users.

- In order to increase overall customer profitability, banks may need to incur additional costs in marketing and deploying sales forces, including branch employees, to cross-sell additional financial products to agent customers.
- Back-office and technology costs may vary depending on the delivery channel, since a bank may lean towards more complex and higher-cost core banking systems than a telecom would because of increased regulatory requirements and more complex procedures and product offerings.
- Fees on transactions through agents are not higher than in traditional banking channels. By providing the benefit of proximity there may be increased customer willingness to pay for transaction services.

10. Findings

- Bangladesh Bank Provide regulatory framework for Agent Banking which will create an enabling environment for offering financial services to the new target group.
- Ensure compliance with Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) standards set by AML/CFT rules, regulations, guidelines and instruction issued by Bangladesh Bank
- In an underutilized branch, fixed costs are distributed over a smaller number of transactions, resulting in significantly higher costs per transaction. Agent banking systems, on the other hand, receive a commission only if transactions are realized.
- By bringing the channel closer to the client, agent transaction platforms may also benefit from additional revenue associated with transactions acquired by the agent, such as person-to-person transactions and bill payments. Although customers can conduct these transactions in a branch, proximity may increase their willingness to pay for these services and increase the number of transactions conducted through the channel.
- As a result of lower transaction costs and a transaction-driven revenue model, agent banking systems are most cost effective for transactional accounts with low balances and frequent transactions.

11. Recommendations

- We recommend that Bangladesh Bank adopts the “test-and-learn” approach to developing further regulation regarding agent banking.
- Bangladesh bank should relatively straightforward to amend regulations.
- Bangladesh bank tries to apply a good principle which is “ minimum law, maximum regulation” so that the laws on which the regulations are based do not have to be changed so often as the market develops, the necessary adjustments being made through changes in the regulations.
- Agent banking in Bangladesh is as open as possible; in terms of who can act as an agent and the type of transactions they can undertake in order to encourage the spread of agent banking and remote access financial services.
- We recommended that both individuals and entities should be permitted and it would be particularly beneficial to ensure that organizations with large distribution networks are permitted to act as agent.
- The approval from the regulator should be necessary for a principal to start using agents, but that subsequent approval of each agent should not be required.
- Non-exclusivity of agents should be allowed and agents should be able to provide a full range of financial services.
- A risk based approach to the supervision and regulation of agents should be adopted in Bangladesh. The principal institution should be held fully liable for the action of its agents and have proper risk management, consumer protection and AML/CFT systems in place.
- Customer should not have to pay extra fees to use an agent, the agent should receive a commission from the principal for each transaction carried out.
- Central bank should be encouraged particular banks to establish agent networks. If some banks start to see the benefits of using agents and to make a profit from doing so, other banks should be encouraged to follow suit.
- We also suggest three main options for gradually developing of an effective agent banking network in Bangladesh: (i) to revolve out the network making use of existing infrastructure, (ii) to work through agent network management companies who may already have arrangements with existing agent networks throughout the country, (iii) to fabricate agent networks from scratch.

12. Conclusion

The study reveals that agency banking in Bangladesh starts with a little extent and will continue to grow in the near future. Bangladesh Bank has proper guideline and policies for agent banking. The banks have to be very cautious to employ those policies to make it the biggest triumph story. Agent banking systems are most cost effective for transactional accounts with low balances and frequent transactions. The application of agent banking will in no doubt enhance customers’ accessibility and profitability of banks. This service opens the separate era for financial institutions which in turn have a great impact on the country’s national economy.

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