Agent Banking and Poverty Alleviation: An Empirical Study from Nigeria

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Abstract

Poverty remains a major socio-economic challenge in Nigeria despite several government interventions to promote financial inclusion. Many rural and low-income earners are grappling with lack of access to formal financial services and limited participation in economic activities. However, the impact to bridge the financial services gap between the banked, unbanked and underbanked through third-party agents is uncertain. This is where this study is motivated to examine the extent to which agent banking contributes to poverty alleviation in Nigeria. The study adopted ex post facto research design, while data was sourced from CBN statistical bulletins. The statistical technique was simple regression. Findings of the study have revealed that agent banking has no significant effect on human capital development. Similarly, the rising poverty profile of the people negates poverty reduction in the country. The study therefore, recommends that the Central Bank of Nigeria (CBN), in collaboration with the Nigerian Communications Commission (NCC), should regulate fees and charges imposed by telecom providers on agent banking transactions to curtail high cost that may discourage usage. Again, CBN should control processes, relationship and interest rates on loans by Fintech agency banking operators in Nigeria.

***Keywords*:** agent banking, poverty alleviation and human capital development, financial inclusion, automated teller machine.

Introduction

The desire to grow earnings and market share has been an important objective of any banking establishment. In order to achieve poverty alleviation, financial inclusion, as a strategy, is being identified as a cardinal objective for the introduction of agent banking. Agent banking is gaining importance, as a contemporary business model by which financial institutions bring their services closer to the people at the grass root and in far-flung remote rural areas (Chude & Chude, 2014).

Agent banking also helps banks to divert existing customers from crowded branches thus providing a "complementary" and often more convenient channel of delivering banking products and services to under-banked and unbanked segments of the population. Other financial institutions especially in developing economies use agency banking to reach an additional client segment or geography underserviced by financial or banking coverage. (Afande & Mbugua, 2015).

The Central Bank of Nigeria (2013) defined agent banking as the provision of financial services to a third party (agent) on behalf of a licensed deposit taking financial institution and mobile banking operator (principal). It is also meant to promote financial inclusion. The term 'agent banking' can as well be defined as the process whereby an agent or operator, acts in some capacity on behalf of a financial institution. (Chude & Chude, 2014).

According to Ivantury et al. (2006), agent banking and mobile banking operations could be of benefit to the clients in the following ways; lower transaction cost by being closer to clients home, customers can therefore make withdrawals or deposit little amounts without incurring extra costs like transport to a bank's branch, longer hours of operations since this businesses operate for longer hours than banks, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches. Therefore, customers save on time that they would otherwise have had to make a trip to a bank's branch, and the time they have to wait in line to be served.

Business operations are also made easier, with more flexibility, employment opportunities, training and mentorship. Subsistence earnings customers frequently feel more relaxed performing their transactions at their local agent, which is in contrast to going to a physical bank's branch. To add to this, agent bankers and mobile banking operators, can depend on available retail banking facilities, which converts to reduced launching and operating costs.

CBN had initiated steps to unlock financial services to non-core licensed banking operators. To add to this, guidelines for the regulation of agent banking and mobile banking operators, were issued by CBN (CBN, 2013). The guideline provides for categorisation based on an agent's banking data base which is subdivided into super-agent, sole agent and sub agent. Financial services are made available via channels such as restaurants, provision stores, filling stations and various other retail outlets. Furthermore, the guideline allows the operators to offer the following services: cash deposits and withdrawals, transfers, bills collection and payment, balance inquiry, account opening and documentation (Nwankwo & Nwankwo, 2014).

Owing to the evolving competition and advancement in the financial system in the present period has resulted in all banks researching on how to innovate on the feasible methods to expand and enhance clients' accessibility and profitability with a view to still command their market share. As a follow through, Agent-banking has been recommended by the CBN as one of the viable strategies towards of providing broader service delivery by banks to customers.

Additionally, most regions in Africa generally and Nigeria specifically have financial service providers finding it hard and pointless to plant branches in the hinterlands, which makes for the requirement of third parties (Agents) to deliver banking services to individuals in those regions. The setback is on how to create a connection between agent banking and customers accessibility to foster financial inclusion in Nigeria considering their existence, spread, size and availability of IT infrastructure which has called for this study.

A comprehensive economic growth cannot be achieved without consummating clear and targeted agenda to reduce poverty via access to finance. Against this back drop, the study seeks to discuss the fundamentals of agent banking towards the paramount goal of poverty alleviation.

Statement of the Problem

The initiation of agency banking has generated some recognition to Nigeria because of various types of service rendered by agency banking. Some of the services provided by agency banking include but not limited to account opening balance enquiry, deposit and cash withdrawal, mini-statements generation, funds transfer (local), bills payment, taxes payments, tenement rates, utilities, subscriptions, payment of salaries, collection of bank mails and cheque book request and collection, stop cheque, block cards. However, most of these services rendered through agency banking in the country are hindered by different issues, such as poor network service which, most of the time, lead to incomplete transactions, which constitute a problem between the agent and the Nigerian (Akighir et al. 2020).

Likewise, agency banking provides services at a reduced charge to Nigerians which supplements financial inclusion by spreading banking and financial services to the under banked and unbanked residents. However, agency banking exposes agent bankers to higher expenses, especially in the form of charges by the bank, cost of renting an office, payment of government tax, rates, electricity bills and this may have an adverse effect on the operators of agency banking in the country (Ulokoaga, 2020).

Additionally, agency banking also helps ensure quick service are offers to study in payment of their fees and levies. However, most students make complaints of network failure which most Nigerians accounts will debit without getting the needed service and this most a time delayed the students in undertaking other activities of the day (Ogbebor, 2018). Finally, it is observed that, despite the continued adoption of agency banking by assorted banks in Nigeria, there is no empirical proof that displays how agency banking sway poverty alleviation in Nigeria with the use of the proxies adopted in this study.

Objectives of the Study

The main objective of this study is to analyse, based on evidence, the impact agent banking will have on alleviation of poverty in Nigeria. The specific objectives of the study are:

i. To examine the effect of agent banking on human capital development in Nigeria
ii. To evaluate the impact of agent banking on poverty reduction in Nigeria

To guide the study, two research questions were asked:

i. How do agency banking affect human development index (HDI) in Nigeria?
ii. How do agency banking impact on poverty reduction index in Nigeria?

This resulted in the following Research Hypotheses:

$H0_1$: Agency banking has no significant effect on human development index (HDI) in Nigeria.

$H0_2$: Agency banking has no significant impact on poverty reduction index in Nigeria.

Literature Review

Concept of Agent Banking

Agent banking is a delivery channel in which banks or licensed financial institutions appoint third-party individuals or entities to provide financial services on their behalf, particularly in areas without a formal bank presence (Central Bank of Nigeria [CBN], 2013). According to Investopedia (2021), an agent bank performs financial services for another bank or consortium of banks, including deposits, withdrawals, and fund transfers. The concept emerged as a response to the need for cost-effective and inclusive financial systems.

In Nigeria, the Central Bank of Nigeria (CBN) formally introduced the agent banking model in 2012 under its *National Financial Inclusion Strategy (NFIS)*. The approach seeks to bridge the gap between the banked and unbanked populations by leveraging digital platforms and agent networks to enhance accessibility and promote a cash-lite economy (CBN, 2020).

Mechanisms and Models of Agent Banking

Agent banking in Nigeria operates through various channels, including Automated Teller Machines (ATMs), Point of Sale (POS) terminals, mobile banking, and internet banking. These channels enable customers to perform transactions conveniently and at lower costs. According to the Nigerian Communications Commission (NCC, 2022), there were over 226 million active mobile subscriptions in Nigeria, representing a strong foundation for agent-based financial service expansion.

CBN has licensed several mobile money operators and super-agents to drive inclusion and competition. Companies such as Opay, Paga, Palmpay, and NowNow provide mobile payment solutions and agent networks across the country. These platforms complement deposit money banks, particularly in underserved areas, by offering faster and more flexible financial services (Nairametrics, 2023).

Financial Inclusion and its Link to Agent Banking

Financial inclusion refers to the process of ensuring access to useful and affordable financial products and services that meet the needs of individuals and businesses—transactions, savings, credit, and insurance—delivered responsibly and sustainably (World Bank, 2018). It is a cornerstone for reducing poverty, promoting entrepreneurship, and achieving inclusive economic growth.

Agent banking plays a crucial role in advancing financial inclusion by extending formal banking services to populations traditionally excluded from the financial system. Through agent networks, customers in remote communities can open accounts, deposit and withdraw funds, transfer money, and pay bills without visiting bank branches. According to CBN (2021), agent banking has contributed significantly to the reduction of financially excluded adults in Nigeria—from 46.3% in 2010 to 36.8% in 2020. However, persistent barriers such as infrastructural deficits, weak digital literacy, and transaction costs continue to limit full inclusion.

Challenges of Agent Banking in Nigeria
Despite its potential, agent banking in Nigeria faces several constraints. These include limited POS infrastructure, poor interoperability between service providers, and weak regulatory enforcement in rural areas (Olayemi, 2020). Network failures, inadequate cash float management, and lack of financial literacy among agents also hinder smooth operations. Addressing these bottlenecks requires collaborative efforts between the CBN, financial institutions, and telecommunication firms to strengthen the digital ecosystem.

Theoretical Framework
This study is underpinned by the **Technology Acceptance Model (TAM)** (Davis, 1989) and the **Diffusion of Innovations Theory** (Rogers, 1962). TAM suggests that an individual's decision to adopt technology is influenced by perceived usefulness and ease of use. The Diffusion of Innovations Theory explains how new technologies spread through social systems over time. These theories jointly justify how awareness, trust, and perceived benefits shape the adoption of agent banking and its subsequent impact on financial inclusion, poverty reduction, and human capital development in Nigeria.

Empirical Review

Agent Banking and Financial Inclusion
Empirical studies consistently highlight the positive role of agent banking in enhancing financial inclusion. Aduda and Kalunda (2012) found that agency banking in Kenya significantly improved access to financial services among rural dwellers. In Nigeria, Okoye and Ezejiofor (2021) reported that agent banking positively influenced financial inclusion, although infrastructural challenges constrained its efficiency. Similarly, Inegbedion and Obadiaru (2020) confirmed that mobile banking and POS usage have expanded financial access, particularly in semi-urban communities.

Agent Banking and Poverty Reduction
Empirical evidence on the effect of agent banking on poverty reduction remains mixed. Chima and Chukwu (2019) observed that agent banking enhanced small-scale business operations, facilitated micro-savings, and improved household income. However, Olayemi (2020) found that despite increased access, high transaction charges and network failures reduced its overall poverty reduction potential. These findings suggest that while agent banking promotes inclusion, its impact on poverty is conditional on affordability and consistency of service.

Agent Banking and Human Capital Development

Onuoha and Otu (2021) revealed that agent banking has contributed to job creation and entrepreneurship, as many young Nigerians now operate as agents or provide support services within the ecosystem. Adebayo (2022), however, argued that many agents lack adequate training and financial literacy, limiting the broader developmental outcomes of the sector.

Comparative Studies

Evidence from other developing countries reinforces the transformative role of agent banking. Mwangi and Brown (2020) found that agent banking in Tanzania reduced operational costs for banks while improving accessibility. Similarly, Bhatt and Chatterjee (2021) observed that mobile and agent banking in India significantly accelerated financial inclusion among low-income households.

Summary of Empirical Gaps

Although most prior studies affirm the positive relationship between agent banking and financial inclusion, few have comprehensively examined its simultaneous effects on human capital development and poverty reduction in Nigeria. Furthermore, many existing studies focus on accessibility metrics rather than socio-economic outcomes. This study seeks to fill this gap by empirically evaluating the extent to which agent banking influences financial inclusion, human capital development, and poverty reduction within the Nigerian context.

Method

The *ex-post facto* research design was used for the study. The data was obtained from CBN statistical bulletin. The data covered from 2010 to 2022. Hypothesis 1 and 2 were analysed using simple regression.

The model for hypothesis 1

HCD = F(AB)

HCD = $\beta_0 + \beta_1$AB + Ut

Where:

HCD = Human capital development proxy by Human capital development index

AB = Agent Banking proxy by Automated Teller Machine

μ = error term

α = is the intercept

$\beta 1$ = are the parameters estimate or coefficients in the equation

it = firm i, time t

A priori expectation for the regression parameters $\beta 0 = \beta 1 > 0$,

The model for hypothesis 2
PRI = F(AB)
PRI = $\beta_0 + \beta_1 AB + Ut$
Where:

PRI = Poverty reduction proxy by poverty reduction index
AB = Agent banking proxy by Automated Teller Machine
μ = error term
α = is the intercept
β1 = are the parameters estimate or coefficients in the equation
it = firm i, time t
A priori expectation for the regression parameters $\beta 0=\beta 1>0$,

Result and Discussion
Simple Regression Result for Hypothesis One
Dependent Variable: HCD
Method: Simple Regression
Date: 03/24/24 Time: 12:14
Sample (adjusted): 1 13
Included observations: 13 after adjustments

Table 1
Simple regression result for hypothesis one

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AB	1.019265	1.117281	0.912272	0.5321
C	1.104327	1.042168	1.059643	0.2097

R-squared	0.502347	Mean dependent var	1.927521
Adjusted R-squared	0.501026	S.D. dependent var	3.192751
S.E. of regression	3.192382	Akaike info criterion	11.19276
Sum squared resid	3.119206	Schwarz criterion	12.19261
Log likelihood	-2.102932	Hannan-Quinn criterion.	19.19020

F-statistic	0.102831	Durbin-Watson stat	1.192717
Prob(F-statistic)	0.293000		

Source: E-Views 12 computation

From the simple regression results as shown in Table 1, the adjusted R-squared of 0.501026 revealed that 50% of the total variations in the dependent variable agent banking (AB) was accounted by the explanatory variable (human capital development), while the remaining 50% was explained by the stochastic variable in the model. Also, a unit increase in agency banking (AB) will increase human capital development by 1.019265 units.

Decision on Hypothesis 1

$H0_1$: Agent banking has no significant effect on human development index (HDI) in Nigeria

The p-value (0.5321) of agent banking in Table 1 is greater than 0.05. Hence, the null hypothesis (H_{o1}) was accepted and the alternative hypothesis rejected that agent banking has no significant effect on human development index (the proxy for human capital development) in Nigeria.

Simple Regression Result for Hypothesis Two

Dependent Variable: PRI

Method: Simple Regression

Date: 03/24/24 Time: 12:14

Sample (adjusted): 1 13

Included observations: 13 after adjustments

Table 2

Simple regression result for hypothesis two

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AB	1.012375	1.829311	0.553418	0.7871
C	1.120431	1.021087	1.097292	0.1176

R-squared	0.528277	Mean dependent var	1.910911
Adjusted R-squared	0.512031	S.D. dependent var	3.110751
S.E. of regression	2.110982	Akaike info criterion	4.124936
Sum squared resid	1.123236	Schwarz criterion	5.192831
Log likelihood	-2.132102	Hannan-Quinn criterion	1.138940
F-statistic	0.119203	Durbin-Watson stat	1.135467
Prob(F-statistic)	0.212080		

Source: E-Views 12 computation

From the simple regression results as shown in table 2, the adjusted R-squared of 0.512031 revealed that 49% of the total variations in the dependent variable agent banking (AB) was accounted by the explanatory variable (poverty reduction index), while the remaining 49% was explained by the stochastic variable in the model. Also, a unit increase in agent banking (AB) will increase poverty reduction index by 1.012375 units.

Decision on Hypothesis 2

$H0_2$: Agent banking has no significant effect on poverty reduction in Nigeria

The p-value (0.5321) of agent banking in Table 2 is greater than 0.05. Hence, the null hypothesis (H_{o2}) was accepted and the alternative hypothesis rejected that agent banking has NO significant effect on poverty reduction in Nigeria.

Summary of Finding

The study revealed that:

i. Agency banking has no significant effect on human capital development in Nigeria.

ii. Agency banking has no significant impact on poverty reduction in Nigeria.

Conclusion

Agency banking has become one of the essential services in the banking industry in bringing services nearer to the Nigerians. This includes remote areas where banking service have been barely available. The introduction of agency banking by CBN in 2013 is seen as a solution to problems encountered by clients of financial services in country in the hands of Deposit Money Banks and Micro Finance Banks in the process of carrying out their financial transactions.

However, most of these services rendered through agency banking in Nigeria is hampered by diverse issues such as poor network service which always led to incomplete transaction and generates problems between the agent and the clients. Hence, the study examined the relationship between agent banking and poverty alleviation in Nigeria.

Recommendations

The following recommendations were made by the researcher:

- CBN in collaboration with the Nigerian Communications Commission (NCC) should regulate the fees and charges earned by Telecom providers of network to agency banking as this contributes to cost of transactions.
- CBN should regulate and reduce the charges on agency banking transactions.
- CBN should control the interest rates on loans provided by Fintech Agency Banking operators.

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