

Factors Shaping the Prospects of Agent Banking in Bangladesh

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Abstract: *This study attempts to examine the current state of agent banking in Bangladesh. It also tries to identify the factors that may shape the prospects of agent banking in the country. It used both primary and secondary data. The sample for the study includes one hundred agents working in agent outlets. The secondary data from 2015 and 2018 were used to ascertain the trend of agent banking services. Descriptive statistics and Kendall's W test were used to reveal the important advantages of agent banking and the challenges it faces. The results show that financial inclusion, remittance channeling, quick and efficient transactions and cost effectiveness are the major motivators behind the buoyant progress of agent banking in Bangladesh. However, its potential for growth may be hindered by transaction limits, lower remuneration of the agents, information technology and infrastructural deficiency, inadequate training of the agents and system failure. So, reaping the advantages and mitigating the challenges are crucial issues for the expansion of agent banking around the country.*

Keywords: *Agent banking; Factors; Prospect; Bangladesh*

1. Introduction

Agent banking is a distribution channel for providing several banking services to the underprivileged people through banking agents without establishing any formal branches. Limited scale of deposit collection, loan distribution, utility bill payments, fund transfer and remittance facilities are available in agent banking. This rapidly growing banking service is gradually ensuring financial inclusion in a country. More than fifteen countries in Latin America and many countries from Asia and Africa are introducing this service to ensure banking facility to the financially underprivileged portion of their community. Recently, Bangladesh has also introduced this service to bring its unbanked population under the umbrella of financial services as more than half of its population does not have access to formal banking services.

Bangladesh Bank, the central bank of the country, issued guidelines on agent banking on December 09, 2013. Then two private commercial banks namely Bank Asia Limited and

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Dutch-Bangla Bank Limited started providing agent banking services to a limited scale in 2015. However, the full-fledged agent banking services were introduced to the country in 2016. According to Global Findex Database 2018, only 50% of Bangladeshi adults have a bank account. In case of women, the report shows that only 35% are banked. Agent banking model has been introduced to address such issues by increasing the population under banking coverage and indeed it shows a huge potential for growth within a short period of time. Agent banking services ensure manifold benefits to the banks. Banks have advantages in terms of higher customer outreach, low infrastructural and operational costs, increased deposit collection and loan disbursement, and a high profit margin. In addition, banks providing agent banking services are contributing to reduce the informal channels of fund transfer like 'Hundi' and bringing the customers under formal banking coverage. Currently, nineteen banks are providing this service and more are seeking licenses to reap its benefits. Customers are showing a quick response to the service as a convenient gateway of financial services at their doorsteps. Again, they are getting saving and investment opportunity and easy access to loans at lower interest rates than interest rates charged by Micro Finance Institutions (MFIs).

In spite of having a widespread success of agent banking, it faces some challenges. Intense competition with MFIs, inadequate training facilities for the agents, deficiency in infrastructural development, system failure, lack of participation of women as agents and customers are considerable challenges of agent banking in Bangladesh. Unfortunately, these challenges are often overlooked. Though there are several studies on agent banking in Bangladesh, there is a dearth of studies addressing these challenges in determining the prospects of agent banking in the country. Besides, most of the studies are based on secondary data while this study is grounded on both primary and secondary data. The study is sought to assess the prospects of agent banking in Bangladesh through an evaluation of current position and critically gauging the advantages and challenges of agent banking in terms of service offerings, market development and clients' expectations.

The study is expected to help take decisions by banks and other financial institutions. Banks can weigh future investment initiatives in agent banking sector as the study presents up to date information regarding the current scenario of agent banking. The study also presents prospects of agent banking taking into account its benefits, building blocks and particular challenges of agency banking. Moreover, the study enriches the literature by critically assessing the inception of agency banking in Bangladesh, evaluating different services offered by it and also by demonstrating the benefits and challenges in providing agent banking services.

2. Literature Review

The business model of agent banking is rapidly being undertaken in many of the developing countries of the world. Identifying the advantages and challenges in implementation of the service is one of the major issues in determining its prospects. Although there are many studies focusing agent banking services of developing countries (e.g. Atandi, 2013; Wairi, 2011; Chiteli, 2013; Chan-Lau, 2017; Mbugua, 2005; Ombutora and Mugambi, 2013; Barasa and Mwirigi, 2013), they mainly dealt with the agent banking of other countries, especially Kenya (e.g. Mbugua, 2005; Ombutora and Mugambi, 2013; Barasa and Mwirigi, 2013). In the context of Bangladesh, there is a dearth of literature in this area.

Infrastructural cost reduction of the banks, increased customer outreach and providing financial products to accumulate small savings along with approval of small loans are the key motivators for emerging agent banking service in Bangladesh. Ivatury and Mas (2008) identified several factors for the progress of branchless banking in many developing countries including cost reduction in delivery channel through mobile operators, retail outlets and post offices, easy implementation and diversified bill payment system under agent banking model. Wairi (2011) also ascertained cost reduction and increase in the number of the customers through retail outlets as the prime factors influencing the adoption of agent banking services in Kenya. Additionally, it has been assessed that particular banks in Kenya offering agent banking services enjoyed low infrastructure cost and low administrative cost as well as secured rapid customer growth and high deposit mobilization from rural portion (Chemutai, 2017). Being a lower cost distribution scheme of banking services, agent banking model provides several opportunities widening the scope of the banking facilities. These include enhanced brand image of bank (Moretaza, 2018), increased profitability from the establishment of a positive relationship between agent banking and financial performance of the banks (King'ang'ai, 2016), improved banking performance and productivity, reduced cash robbery and high level of confidence in the banking sector (Patricia-Nezianya and Izuchukwu, (2014), increased market share and greater accessibility of the customers leading to profitability of the banks (Mwando, 2013). Agent banking model has been being used as an inclusive financing tool in many of the developing countries. Increased customer base and geographical spread of agent banking activities ensures financial deepening (Waithanji, 2012). Agent banking ensures enhanced financial activities in the remote parts of the country and greater access of the marginalized people and thus can contribute to financial inclusion (Mahmood and Sarker, 2015).

The prospect of agent banking in Bangladesh depends not only on its advantages but also on challenges faced by the banks, agents and clients. Lack of infrastructural development,

shortage of start-up capital for agent business, insecurity and financial illiteracy were marked as severe impediments for agent banking business in Kenya (Atandi, 2013). A recent research identified seven important challenges of agent banking in Bangladesh (Islam, 2018). These include improper selection and ineffective monitoring of agents, complexities in clearing and issue of cheque book, transaction limit, system failure, settlement of complaints, cash management, risk of cash carrying, and cyber security. Consistent with this study, Moretaza (2018) depicted that the disbursement of loan is still not available in many of the agent banking outlets. Furthermore, Islam (2018) highlighted that limited services such as account opening and money transfer are being provided in most of the agent outlets, although they should provide different ranges of agency banking services to the clients.

The previous literature shows that a few studies are conducted on agent banking of Bangladesh (Siddiquie, 2014 and Amit 2018). These studies either focused on theoretical framework of agent banking or contribution of agent banking in some specific sectors, for example, Ready Made Garments. So, there is lack of studies regarding growth of agent banking based on analysis of its opportunities and challenges in the implementation of the model and analyzing its prospects thereby. Moreover, primary data based research on agent banking in Bangladesh is rare. This study can help improve knowledge gap regarding agent banking in Bangladesh stating its current status and its prospects. The objectives of this study are to present current status of agent banking in Bangladesh and to identify its main advantages and challenges. Agent banking has many advantages over branch banking which can help it grow faster. In contrast, it faces several challenges which might hinder its expansion. More importantly, the advantages and challenges are not equally important to the agent banking operators. Identifying the key opportunities and challenges is likely to help agent banking succeed in the future. Hence, consideration of the following hypotheses regarding the advantages and challenges of agent banking is essential for understanding the prospects of agent banking.

Hypothesis 1: Null Hypothesis (H_0): There is no significant difference among the participants' opinions regarding advantages of agent banking.

Hypothesis 2: Null Hypothesis (H_0): There is no significant difference among the participants' opinions regarding challenges of agent banking.

3. Methodology

The study is quantitative in nature. The unit of analysis for the research includes agents who run the agent banking outlets since the key purpose of the research is to examine the challenges and advantages of agent banking. The population for the study was agents from Dhaka, Chandpur and Shariatpur districts. These areas were selected to reflect the

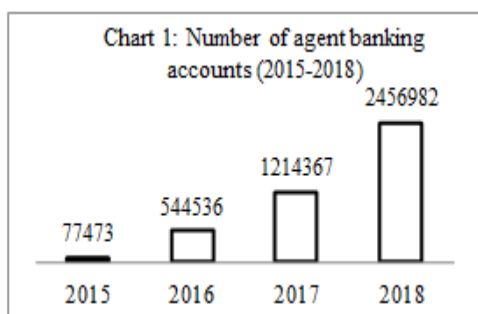
results of the study from different settings of the country. Dhaka is a commercial hub and a large number of outlets are located here to capture the customers having no access to formal banking services. On the other hand, agents from Shariatpur and Chandpur were taken to show the development of agent banking networks in the remote districts of Bangladesh.

The non-probability snowball sampling technique has been used to select the participants due to difficulty in having access to the agent outlets within a stipulated time. The use of a non-probability snowball sampling technique enabled to reach the target participants easily. A total of 100 agents were surveyed using questionnaire. The survey method was employed due to its utility for collecting the required data through face to face interview. The data collection period was between July and September of 2018. Data analysis was conducted through descriptive statistics and other statistical techniques such as Kendall's W test, also known as Kendall's coefficient of concordance, to identify the agreements among the responses of participants under study.

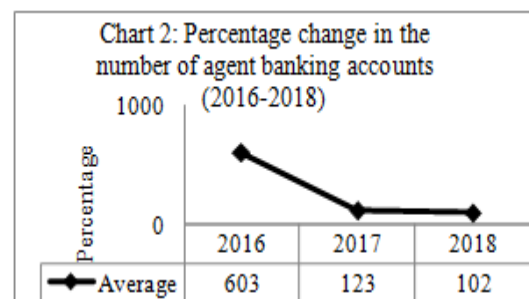
4. Results and Discussion

4.1 Current Scenario of Agent Banking

After a successful implementation of Mobile Financial Services (MFS), Bangladesh Bank had taken attempts to introduce agent banking in 2013 with the intent to bring the country's unbanked population under banking network. Following the guidelines, Bank Asia Limited and Dutch-Bangla bank Limited opened their agent outlets in remote areas in early 2015. At present, a total of twenty one banks have taken license, whereas nineteen commercial banks are providing banking services through agent banking network. The following section shows the current scenario of agent banking and its growth in Bangladesh in terms of number of agent banking accounts, number of agents and number of agent banking outlets throughout the country.



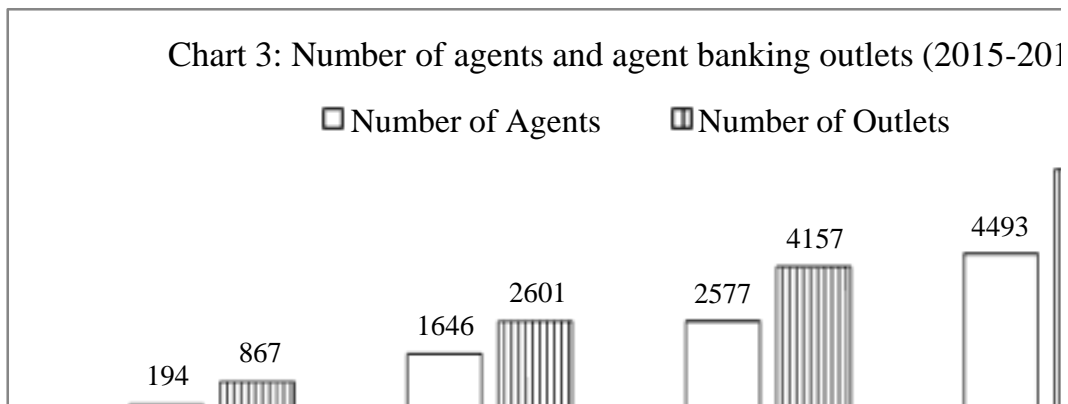
Source: Bangladesh Bank's Quarterly Publications on Agent Banking Activities



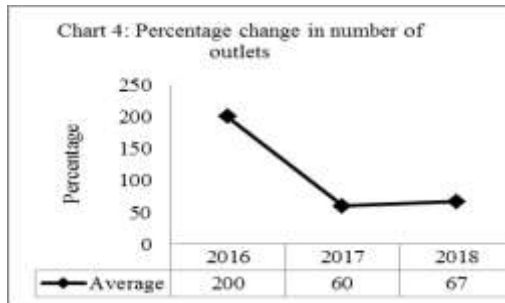
Source: Authors' calculation

Chart 1 shows the number of agent banking accounts was 77,473 in 2015 which increased to 2,456,982 in 2018. The accounts in 2018 are almost 32 times the number of accounts in 2015. The huge increase in the number of agent banking accounts provides evidence of a quick approval of agent banking among the customers as a secured and trustworthy medium of transaction. The percentage growth of the number of agent banking accounts is depicted in Chart 2. Each year the number of agent banking accounts grew by more than 100%. In 2016, the immediate year after the introduction of agent banking services, the number of agent banking account grew by 603% which illustrates a rapid expansion of the service among the unbanked population. Afterwards, the rate of growth was 123% in 2017 and 102% in 2018, demonstrating a thriving trend of agent banking services in the country. The geometric average of the number of agent banking accounts is 216% which indicates the consistent acceptability of agent banking services.

To meet the increasing demand for agent banking services, banks have been appointing more agents and establishing agent outlets to focus on unbanked areas. Outlets are increasingly being opened at village markets, Union Digital Centers and others. Chart 3 demonstrates that number of agents in the outlets and number of agent banking outlets in Bangladesh from the year 2015 to 2018. The number of agents was merely 194 in 2015 which rose to 4,493 in 2018 resulting in a 23 times increase. Again, the number of outlets increased to 6,933 in 2018 from 867 in 2015 which is around 8 times higher. It is evident that each year the number of outlets is higher than the number of agents because in larger agent outlets, where agent banking transactions are more frequent, banks recruit executive officers to run the outlets as a mini branch.



Source: Bangladesh Bank's Quarterly Publications on Agent Banking Activities



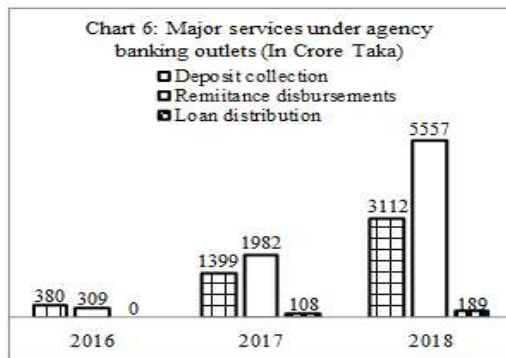
Source: Authors' calculation



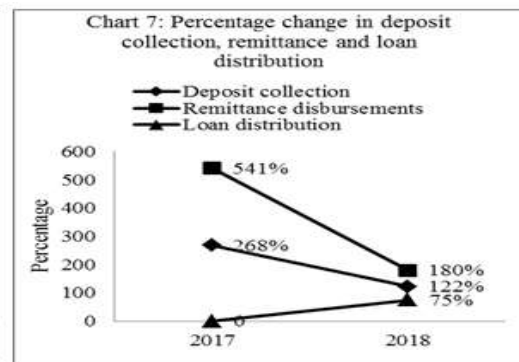
Source: Authors' calculation

The percentage changes in the number of agent banking outlets and the number of agents from 2016 to 2018 are shown in Chart 4 and Chart 5. The number of outlets increased by 200% in 2016 and the rate of increase is high in the first year as there was a rapid expansion of agent banking in most of the remote areas of Bangladesh. After this the growth rates were 60% and 67% in 2017 and 2018 respectively, indicating a substantive enhancement of banks' outreach in underserved areas. The average growth (geometric) of the number of outlets is 200% which also reveals a high propensity of the banks to establish more outlets as it is a cost effective strategy in offering banking services.

Chart 5 exhibits that the number of agents increased by 748% in 2016 in accordance with the increasing establishment of agent banking outlets. The number of agents had an enormous rise to meet the huge demand for agent banking transactions in the outlets. In the next two consecutive years, the growth rates of agents were 57% and 74%. The mounting recruitment of agents in agent banking outlets also created employment opportunities. The geometric average of the number of agents is 284% which represents a rising need of manpower in the outlets to manage the mass transactions by the customers. The agents provide various services to their customers. There is a huge growth of each of these services over the study period. The following charts give a clear view of three major services agent banking and their growth.



Source: Bangladesh Bank's Quarterly Publications on Agent Banking Activities



Source: Authors' calculation

There are some services which are taken more frequently by customers in the agent banking outlets (Chart 6). They include deposit collection, remittance distribution and loan disbursement. Remittance collection is the most popular transaction among the customers. Amount of deposit collection is also significant whereas loan distribution through agent banking outlets is yet to launch in full swing. Chart 7 displays the amount of deposit collection through agent banking accounts. The deposit collection increased by 268% in 2017 which is followed by 122% in 2018. It is a new window to accumulate even smaller deposits from customers. The geometric average growth is 285% which signifies that agent bankers can mobilize deposits from their customers considerably.

Remittance distribution through agent banking network is one of the mostly accepted services in both rural and urban areas. The remittance collection through outlets increased by 541% and 180% in 2017 and 2018 respectively. The growth of remittance collection is higher than that of deposit collection. The geometric average of remittance transfer is 424%, indicating that agent banking is a popular means of transferring funds from one area to another. During the earlier stage of agent banking, loan distribution service was not commenced in most of the outlets due to restrictions provided by Bangladesh Bank. Of late, small loan disbursement through agent banking outlets has been permitted and it has an increasing trend of growth in the last year. The amount of loan increased provided by the outlets increased by 75% in 2018, the year after the inception of the service. The growth is expected to increase in the years to come as there is an enormous demand for small loans in the underserved areas.

4.2 Prospects of Agent Banking

Agent banking scheme in Bangladesh is still passing through its blooming period. Considering its wide range of advantages and challenges of implementation can best help determine the prospects of agent banking in Bangladesh. This section analyzes the prospects of agent banking in Bangladesh.

4.2.1 Demographic Information of Participants

Agents working in agent outlets of different banks are the participants under the study. Among the participants, 96% are male and only 4% are female which indicates lower participation of women as agents in agent banking outlets. Again, 31% aged between 18-30 years whereas most of the agents (59%) aged between 30 and 40. Among the respondents 80% of the agents have annual income between one and three lakhs and the rest 20% have annual income of more than 3 lakhs. Sixty percent of the agents have agent banking experience of less than 1 year, 27% between 1 and 2 years and the rest 13% have experience of more than 2 years.

4.2.2 Descriptive Statistics

Table 1 shows daily transactions including cash withdrawal, deposit, remittance collection, utilities payment and fund transfer by the customers in agent outlets. The mean value shows average transaction of each service per day in different outlets. According to the mean, cash withdrawal and deposit, remittance collection, account opening and utility bill payment are the most popular services to the customers. According to some agents, cash withdrawal and deposit in the outlets are as frequent as in a branch of a bank. It is because most customers consider outlets as more convenient and accessible service centers. But the amount of transaction is typically smaller in the outlets. Remittance collection by the customers is very frequent during a month with a higher trend in the early days of the month. Again, utilities payment is of great demand during the first fifteen days of a month. Account opening is a day to day transaction in most of the outlets whereas balance inquiry, account statement and fund transfer are less frequent activities held in the outlets.

Table 1: Descriptive Statistics

Agent Banking Services	Minimum	Maximum	Mean	Standard Deviation
Cash withdrawal	3	22	8.84	4.2
Cash deposit	2	40	7.56	6.35
Loan repayment	-	-	-	-
Remittance collection	1	4	2.14	0.95
Account opening	1	8	2.92	1.89
Balance inquiry	0	0.85	0.8	0.085
Account statement	0	1	0.18	0.388
Utilities payment	1	30	3.1	4.74
Transfer of funds	0	10	1.06	1.8

4.2.3 Kendall's *W* Test

Kendall's *W* Test is widely used to make decisions based on ranking of the constructs of a model. The test allows identifying the mean rank of every item of the questionnaire. Moreover, this test is chosen as a non-parametric test since the data of this study were collected using non-probability snowball sampling method and no conclusion was drawn about the normality of the distribution.

Kendall's W Test for the Advantages of Agent Banking

The advantages of agent banking are defined by ten constructs. The mean values are used to rank the variables to determine the advantageous factors for agent banking business. The following tables illustrate the result of Kendall's W Test for the advantages of agent banking.

Table 2: Advantages of Agent Banking

Advantages	Mean	Rank
Customer growth	3.43	5
Deposit collection	3.24	6
Lower operating cost	3.65	4
Remittance channeling	3.89	2
Small loan disbursement	2.83	10
Quick and efficient transaction	3.88	3
Inclusive financing	3.90	1
Less complexity	2.93	9
Relative advantage over other MFIs	3.13	8
Perceived Use Value of customers	3.14	7

Table 3: Kendall's W Test

Test Statistics			
N	100		
Kendall's W ^a	.301		
Chi-Square	1434		
Df	4		
Asymp. Sig.	.000		
a. Kendall's	Coefficient	of	
Concordance			

Table 4: Result of hypothesis testing

Hypothesis	Kendall's W	P value	Comment
There is no significant difference in participants' opinion regarding advantages of agent banking	0.301 < 1	.000 < .05	Rejected

Table 2 shows advantages of agent banking ranked according to their mean values. Inclusive financing (3.90) is the key motive for agent banking marked by the agents. Remittance channeling (3.89) is the next influencing factor for rapid growth of agent banking which is followed by quick and efficient transaction (3.88). Lower operating cost (3.65) is one of the most pursuing benefits of agent banking which is followed by high customer reach (3.43) by the agents. Deposit collection (3.43) by the agents implies creation of saving opportunity for the customers that lays a positive effect on agent banking. Perceived Use Value (PUV) of customers (3.14), relative advantage over other MFIs (3.13), less complexity (2.93) and small loan disbursement (2.83) are less motivating factors in implementing of agent banking. Table 3 shows that the result of Kendall's W Test for the advantages of agent banking is 0.301 and the significance level is less than 0.05. According to the Kendall's W Test result 0 indicates differences in

concordance and 1 means no differences. As Kendall's W Test result is less than 1, the null hypothesis is rejected (Table 4). The result indicates that there is difference in the ranking of advantages of agent banking by the respondents.

Kendall's W Test for the Challenges of Agent Banking

Proper implementation and rapid progress of agent banking throughout the country are affected by several challenges. Inadequate training for the agents, limit on transaction and competition with other mobile financial services are the major challenges for proper implementation of agent banking scheme in Bangladesh. Ten key challenges of agent banking are ranked by the mean values calculated through Kendall's W test from the observed data.

Table 5: Challenges of Agent Banking

Challenges	Mean	Rank
Inadequate training	3.68	4
Transaction limit	3.94	1
Cash management risk	3.23	7
System failure	3.62	5
Settlement of complains	3.52	8
Cyber security risk	3.44	6
Competition with MFIs	3.11	9
Financial illiteracy of the customers	2.98	10
Lower commission for the agents	3.88	2
Infrastructural and network problem	3.86	3

Table 6: Kendall's W Test

Test Statistics	
N	100
Kendall's W ^a	.480
Chi-Square	1995
Df	7
Asymp. Sig.	.000
a. Kendall's Coefficient of Concordance	

Table 7: Result of hypothesis testing

Hypothesis	Kendall's W	P value	Comment
There is no significant difference in participants' opinion regarding challenges of agent banking	0.480 < 1	.000 < .05	Rejected

Table 5 shows challenges of agent banking according to their mean values. Transaction limit (3.94) is the most challenging factor for the proper growth of agent banking. According to the prudential guidelines by Bangladesh Bank, there are some restrictions on cash deposit and withdrawal limit and volume of transactions. So customers cannot transact more than the specified limit in a particular day. Lower commission for the agents (3.88) is another challenge for agent banking that is followed by infrastructural and network problem (3.86). Agents are low paid employees of the banks in comparison

with the employees of formal branches. This negatively affects their working attitude and professionalism. Lack of electricity, unavailability of Information Technology and other infrastructural deficiency directly hinder the establishment of agent outlets. Inadequate training (3.68) of agents is responsible for inefficient performance of the agents that can negatively affect their ability to take prompt decisions in liquidity management. System failure (3.62) and cyber security risk (3.44) are frequently faced by the agents and these are also major threats for providing efficient services. Stiff competition with MFIs (3.11) and financial illiteracy of the customers (2.98) are barriers to quick expansion of agent banking model in several rural areas. Kendall's W Test result for the challenging factors of agent banking is 0.48 and significant at 1 percent level (Table 6 & 7). As Kendall's W test result is less than 1, the null hypothesis is rejected which indicates that there is significant difference in the ranking of the challenges of agent banking.

5. Concluding Remarks

Agent banking is one of the most innovative banking services for a country like Bangladesh where a large portion of people are still unbanked. It largely contributes to inclusive financing by bringing financially excluded population under formal banking net. Within a very short course of time, agent banking spread almost every district of the country and acquired much popularity among the unbanked people.

The emerging markets for agent banking are swelling due to its cost efficiency to the banks, higher customer outreach and greater perceived value to the customers. Banks can ensure their liquidity position through the accumulation of smaller savings from underserved portion of the community. Banks can also enrich the profitability by managing outlets at a lower cost and disbursing loans to the unbanked people. In a broader sense, agent banking is contributing to several major macroeconomic objectives including deposit mobilization, employment generation and financial inclusion of the country.

Nevertheless, implementation of agent banking has some challenges. Daily transactional limit, lower remuneration for the agents, inappropriate training facility, competition with MFIs, system failure and infrastructural drawbacks are obstructing its rapid growth. Putting more weight to the most important advantages and addressing the challenges can ensure a proper way to reap the full benefits of the agent banking in Bangladesh which will ultimately lead the country towards financial depth.

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Appendices

Table A1: Demographic Information of Agents

Characteristics	Group	Frequency	Percentage
Gender	Male	96	96
	Female	4	4
Age	18-30	31	31
	31-40	59	59
	41-50	10	10
Education	Up to SSC	30	30
	HSC	22	22
	Graduate	42	42
	Post graduate	6	6
Annual income	Less than 1 lakh	52	52
	1 lakh-3 lakh	80	80
	More than 3 lakh	20	20
Agent banking experience	Less than 1 year	60	60
	1-2 year	27	27
	More than 2 years	13	13

Table A2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Error	Std. Deviation
Withdrawals	100	3.00	22.00	8.84	0.42	4.18
Deposits	100	2.00	40.00	7.56	0.63	6.32
Loan repayments	100	0.00	0.00	0.00	0.00	0.00
Remittance	100	1.00	4.00	2.14	0.09	0.94
Account opening	100	1.00	8.00	2.92	0.19	1.88
Balance inquiry	100	0.00	4.00	0.80	0.09	0.85
Account statement	100	0.00	1.00	0.18	0.04	0.39
Utility bill payment	100	0.00	30.00	3.10	0.47	4.72
Fund transfer	100	0.00	10.00	1.06	0.18	1.79
Valid N (list-wise)	100					

