International Journal of Asian Business and Information Management
Volume 11 • Issue 1 • January-March 2020

Agent Banking and Financial Inclusion:
The Case of Bangladesh

Nabila Nisha, North South University, Dhaka, Bangladesh
Kashfiya Nawrin, North South University, Dhaka, Bangladesh
Anika Bushra, Johns Hopkins University, Baltimore, Maryland

ABSTRACT

Access to financial services has always been limited in Bangladesh. The need for financial inclusion has thus largely surfaced in the country. As a result, agent banking services were implemented via an inclusive digital financial program across rural and unbanked areas of Bangladesh. Despite having a significant impact upon financial inclusion across developing countries, literature in this realm lacks in-depth investigations on agent banking and its impact on financial inclusion. This study thus aims to represent the overall aspect of agent banking and its association with financial inclusion in the setting of the developing country of Bangladesh. For this research, a case study approach has been employed. The study highlights that agent banking is an effective and credible way of entrenching financial deepening across the unbanked areas of Bangladesh. Moreover, the study emphasizes that agent banking can secure access to financial services for the rural poor and generate wholesome development for Bangladesh.

KEYWORDS

Agent Banking, Agents, Bangladesh, Banks, Financial Access, Financial Inclusion, Rural Poor, Unbanked Population

INTRODUCTION

Financial inclusion is defined as the process of ensuring timely and adequate access to financial services at an affordable cost. The primary idea behind financial access is to provide the rural people with credit and other financial services so that they can raise their income levels and improve their living standards (Khalily, 2004). Extending access to finance, especially for the unbanked rural population, can therefore be a building block towards economic growth and poverty alleviation.

In line with this notion, a vision for universal financial access was first announced by the World Bank Group President Jim Yong Kim at the 2013 World Bank Group-IMF Annual Meetings (The World Bank, 2017b). Following this, some 700 million people gained access to financial services between the years 2011 and 2014. Despite this progress towards financial inclusion, global statistics revealed that an estimated 2 billion adults universally do not have access to basic bank accounts (The World Bank, 2016). Lack of enough money, barriers to account-opening, long distance from a financial service provider, lack of necessary documentation papers, lack of trust in financial service providers,

DOI: 10.4018/IJABIM.2020010108

and religion have been cited as key reasons behind the exclusion of people from the formal financial system. Later, the World Bank Group with their public and private sector partners issued numeric commitments to achieve Universal Financial Access by 2020 (UFA2020) and help promote financial inclusion. The UFA2020 envisions that people worldwide will have access to a transaction account or an electronic instrument to store money, send payments and receive deposits as a basic amenity to manage their financial lives (The World Bank, 2017b). In other words, it is an enabler and a catalyst for global financial inclusion and aims to provide financial access to all unbanked people across the world. In fact, it is stated to end extreme poverty by 2030 and boost shared prosperity for the bottom 40 percent of the population in all developing countries (World Bank Group, 2015).

As part of UFA2020, the World Bank Group has invested in a number of innovative projects across 25 priority countries and is working in more than 100 countries globally to advance financial access and inclusion (The World Bank, 2017b). One such focus of the World Bank Group is Bangladesh, a developing country in South-East Asia. A glance at the recent information and communication technologies (ICT) like internet and mobile banking already affirms the progress towards greater financial access in Bangladesh. With an aim to contribute to global financial inclusion under UFA2020, Bangladesh has currently initiated an agent-based financial service system, namely agent banking. This latest ICT project of Bangladesh is specifically known to target the country's unbanked population in rural areas. While the success of mobile financial services is well-documented (e.g. Islam and Tareq, 2017; Iqbal et al., 2017; Lee et al., 2017; Nisha et al., 2015; Van der Boor et al., 2014), the effectiveness of this new banking channel in the rural areas of Bangladesh still remains a question.

It is imperative to divulge into this new initiative of agent banking services for two reasons. First, the concept of agent banking is still unknown to many banking sector of a number of countries. Second, the effectiveness of agent banking as a new banking channel and it impact upon financial inclusion needs documentation. This study therefore aims to describe the multi-faceted nature of agent banking services and its impact upon financial inclusion in developing countries like Bangladesh. To pursue the purpose, this study discusses the concept of agent banking by particularly highlighting its framework, offerings, benefits and challenges. In doing so, the study will contribute to existing literature on financial inclusion as well as add to the trending topic of agent banking services. The study is specifically targeted towards financial sector stakeholders like banks, customers and agents involved in agent banking services in Bangladesh. In fact, this study will be of particular significance to the central bank of Bangladesh in reviewing their guidelines and regulations related to agent banking services. Outcomes of the current study will also be important in policy formulations. It can help government in the formulation and modification of agent banking policies to enhance or remove outstanding hindrances to financial inclusion. In practice, this study will be of importance to the banks as well because they will get to know about the benefits and challenges attached to agent banking. The study will further provide information to the agents, customers, and the entire banking sector on the impact of agent banking on reaching the previously unreached segments of the society.

BACKGROUND

Global View of Agent Banking

The general agent banking model is one in which banks provide financial services through non-bank agents, such as grocery stores, retail outlets, post offices, pharmacies, or lottery outlets (AFI, 2012). This model allows banks to expand services into areas where they do not have sufficient incentive or capacity to establish a formal branch, or places where a high proportion of people are unbanked.

In recent days, agent banking has become recognized as a feasible and useful strategy in some countries for extending formal financial services into rural areas. Agent banking is adopted and implemented in various developing countries with varying degrees of success, particularly in Latin America. For instance, Brazil is often recognized as the global pioneer in this sector since it adopted the model pretty early. Brazil developed a mature network of agent banks covering more than 99% of the country's municipalities (AFI, 2012). In fact, the central bank of Brazil reported that since the introduction of agent banking, 12 million current accounts were opened at the banking agents and the total amount of transactions reached 2.6 billion within the first three years of its operations (Business Today, 2017). Other countries in Latin America followed suit as well, including Peru, Colombia, Bolivia, Ecuador, Venezuela, Mexico and Argentina, over a period of years from 2005 till 2010 (AFI, 2012). The agent banking model has also been utilized to expand financial services in a number of countries, including Pakistan, India, Philippines, Uganda, Kenya, Malaysia and South Africa. For example, the Central Bank of Kenya released regulations allowing banks to offer services through third party agents. A total of 13 commercial banks were authorized by CBK to offer banking services through third parties agents, with 19,649 agents facilitating over 58.6 million transactions in the country (Ndungu and Njeru, 2014).

On the other hand, Malaysia achieved one of the highest levels of financial inclusion among middle-income countries through its experience with agent banking (Bhunia, 2017). The central bank of Malaysia, Bank Negara Malaysia (BNM) launched the framework for agent banking in response to demand from customers and agents. While only 46% of the sub-districts in Malaysia had access to financial services in 2011, three years after the implementation of agent banking the number increased to 97% (Bhunia, 2017). In addition, the Foundation for International Community Assistance (FINCA) even introduced agent banking in Tanzania, Zambia and the Democratic Republic of Congo in order to provide basic banking services to the citizens of the countries (Business Today, 2017).

Literature Review

While the practical reach of agent banking has been well-documented across the countries mentioned above, academic research has garnered substantial interest in agent banking too. There has been a sporadic amount of literature that captures agent banking in various aspects and in the settings of different developing countries. For instance, Atandi (2013) highlight the challenges that hinder the rural people of Kenya from benefiting from agent banking services. The factors include lack of mobile network services and capital, float restrictions, issues of insecurity and fear of robbery. Yet, the paper successfully emphasizes the need of agent banking to entrench financial deepening in unbanked areas of developing countries like Kenya. Next, Barasa and Mwirigi (2013) analyzes the benefits and provides insights into the actual performance of agency banking in Kenya. Findings of this study particularly discusses the pivotal role of agent banking in enhancing the penetration of banking services in unbanked markets of the country. Chiteli (2013) then investigate agent banking operations as a competitive strategy for commercial banks in Kenya. Findings reveal that control policies and procedures, technological advancement, and regulations make agent banking viable in countries like Kenya. In addition, this study highlights reputational and legal risk, anti-money laundering, and consumer protection for commercial banks and liquidity, operational and credit risk for the agents as part of such operations. Mwando (2013) also stress the influence of agency banking on the financial performance of commercial banks in Kenya. Regulations by central bank, followed by low transaction costs, accessible financial services and increased market share positively impact the financial performance of commercial banks.

In another study, Ombutora and Mugambi (2013) examines the role of agency banking on the performance of entrepreneurs across Nairobi. Using census survey, findings of the study reveal that poor security, regulations and time transactions influence agency performance of the entrepreneurs. Across Bangladesh, few studies have recently embarked on the investigation of agent banking. Ferdous et al. (2015) evaluates the facilitating and obstructing factors that contribute to the enclosure of agent banking in Bangladesh. Findings highlight that while customer service, convenience and initiating SME business in unbanked remote areas facilitate agent banking, lack of mobile financial services and regulatory prohibitions hinder such operations. Another research by Afzal (2016) states the need of a unified system based on mobile platform for customers to get quick and risk-free financial services like agent banking in Bangladesh. Other recent studies in the realms of agent banking are summarized in Table 1.

Although agent banking has increasingly gained importance in few countries, the extent to which it can be used as a tool to deepen the financial sector remains largely unknown. This is because the regulations, design and implementation of agent banking may vary across countries. There can be differences in the variety of services offered by agents, the types of businesses acting as agents, the types of financial institutions that work through agents and the business structures employed to manage them (AFI, 2012). These differences ultimately contribute to the disparities in the extent to which agent banking can actually bridge the financial inclusion gap in different country settings. In particular, it is crucial to look into agent banking practices that can address financial inclusion in developing countries owing to their large unbanked population. As such, it is imperative to study the impact of agent banking operations upon financial inclusion in developing countries.

Financial Inclusion

Typically, financial inclusion signifies extending financial services to rural areas mainly populated by vulnerable, weak and low-income groups (Nisha and Rifat, 2017). Lack of financial services in rural areas often arises since it tends to be more expensive and unprofitable for traditional banking institutions to open branches in such areas (Nisha et al., 2015). As a result, the rural population with low and unstable incomes, little or no land/assets and low social status remain financially disadvantaged in a number of developing countries (Maanen, 2004).

Financial inclusion is currently a common objective for many central banks among the developing nations and Bangladesh is no exception. This is because financial services are unavailable in some regions of the country and are used only by a section of the population (Nisha and Rifat, 2017). Despite there being huge demand for financial services, often Bangladesh is not able to provide for it. These excluded regions tend to be rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services (Atandi, 2013). Moreover, high operational costs of financial services like branch opening, employee training, technological costs, etc. are other reasons for financial exclusion in the developing nation of Bangladesh (Nisha and Rifat, 2017). It has also been seen that the poor living in urban areas do not utilize financial services as they find banking transactions

Table 1. Summary of recent literature

Year	Authors	Aim of the Study	Findings
2017	Kilonzo et al.	To examine the influence of agent characteristics, banking products offered, agents' operating hours, and banks' location on the use of agency banking by bank customers of Kenya.	Reveals a strong positive correlation and a significant relationship between the agent characteristics, agency banking products, operating hours, location of mainstream bank and the use of agency banking.
2017	Mchembere & Jagongo	To establish the effects of agency banking operation on the profitability of commercial banks in Nairobi.	Reveals the impact of agency banking account opening services, deposits and withdrawal transactions as positive and statistically significant for bank's profitability.
2018	Ahmed & Ahmed	To analyze how innovation in the banking sector can aid poor people to gain access to financial institutions through the Agrani Doer banking business model.	Elaborates on the rules and regulations of agent banking on the basis of Ansoff's Growth Matrix and emphasizes the role of technology and innovation in the business strategies of agent banking services.
2018	Vu et al.	To propose an agent-based approach to construct an interactive inter-bank system in Vietnam.	Highlights the role of network connectivity and credit in the agent-based model of the banking system.

costly and thus it becomes unaffordable for them (Nisha et al., 2015). Hence, even if financial services are available, the costs of travelling to branches and performing transactions prevent the poor from accessing them.

Besides, access to formal financial services requires documents of proof regarding a persons' identity, income, and other personal information (Triki and Faye, 2013). The poor people do not have these documents and thus are excluded from these services. In case, they have documents other non-price barriers like high distance between the bank and residence, poor infrastructure, etc. can obstruct these people from financial inclusion (Nisha and Rifat, 2017). Behavioral aspects also inhibit financial inclusion to some extent. Many people may not be comfortable in using formal financial services in Bangladesh due to illiteracy, difficulty in understanding language, various documents and conditions that come with financial services, and such others (Triki and Faye, 2013). As such, emergence of new financial service delivery models is necessary in order to drastically change the economics of banking the poor in Bangladesh. Within this scope, concept of agent banking is considered to be a viable strategy in Bangladesh for extending formal financial services, especially into poor and rural areas.

METHODOLOGY

For the purpose of this research, a case study approach has been employed. According to Yin (2009), the case study approach is preferred to conduct exploratory investigations and one of the essential characteristics of using this approach is that it focuses on one instance of the thing that is to be investigated. This particular methodology is known to emphasize the ability of qualitative research to capture the real-life context within which events take place and to capture the essence of events, especially as they unfold (Gerring, 2007). In addition, Bryman and Bell (2015) argue that case studies can be valuable in situations where existing knowledge is limited, often providing in-depth contextual information, which may result in an in-depth level of understanding. Case studies can even be advantageous when the focus of the study is not typical but something unusual, unexpected, covert or illicit (Johnson et al., 2007).

In the scope of the current study, this methodology is an appropriate approach since case studies can provide a rich understanding of the concept of agent banking. Case studies can employ various methods, like documentation, archival records, interviews, direct observations, participant observations and physical artifacts (Saunders et al., 2011). The research methods thus include in-depth interviews and secondary sources. First set of interviews were conducted with the officials, agents and clerical staffs working for banks where agent banking system in currently operational. The representatives from the banks were particularly interviewed regarding the concept of agent banking, their offerings and how they operate, the problems and challenges they face in serving the market, and so on. Next, agents were asked to relate their experiences regarding the structure of the system, how they conduct their work, their interactions with customers and subsequent challenges that they come across. Second set of interviews were conducted with customers who have been exposed to the concept of agent banking and their perceptions about the system was taken into account.

Based on all these responses, a general picture has been represented in this study which reflects the overall aspect, perceptions and perspectives of agent banking system in Bangladesh. A focus on the models, activities, operational structures and product portfolios of agent banking can provide further insights to the relationship of agent banking and financial inclusion in Bangladesh. It can also address the challenges surrounding agent banking in the banking sector and overall economy. Recommendations have also been proposed to promote the development and implementation of agent banking at a larger scale in the country.

AGENT BANKING

An Overview of Bangladesh

Access to financial services had always been very limited in Bangladesh. Back in year 2010, the formal financial market consisted mainly of bank services such as savings, credit and insurance (Nisha et al., 2015). Banks as well as other financial service providers had not been able to penetrate all parts and reach out to all people. With the introduction of mobile financial services, Bangladesh recently emerged as an interesting case of digital innovation. Now, the market includes households that have mobile banking accounts. As a result, more than 40 percent of households in rural regions can access formal financial services today. While, 49.76 percent households have access to formal financial services in urban areas of the country (The Daily Star, 2015).

Yet, there are still many households that do not have access to financial services. Day labor-led households are one of them, as almost a quarter of them do not have access to any financial market. Moreover, people working in garments factories tend to need remittance services every month and the volume of these transactions is huge in amount. Conventional and mobile banking system grabbed only 15% of this population, but amongst them only 9% accounts are active (Siddiquie, 2014). As such, it became essential to innovate and improvise financial products to broaden the outreach of financial services offered by the banking sector. The opportunity for agent banking arose from this perspective and was implemented by the central bank of Bangladesh - Bangladesh Bank, via an inclusive digital financial program (The World Bank, 2017a).

The newly inaugurated banking service dispersal model of agent banking is increasingly getting embraced by remote consumers in Bangladesh where a bank branch is not available. Bangladesh Bank, the central bank of Bangladesh, outlines agent banking as a means of providing limited scale banking and financial services to underserved population through engaged agents under valid agency agreements, rather than tellers/cashiers (The Daily Star, 2017b). It is the owner of an outlet who conducts banking transactions on behalf of a bank under this system. As per their guidelines, agent banking will be increasingly utilized as an important distribution channel for financial inclusion. The policy further says NGOs, micro-credit agencies, cooperatives, post offices, companies, mobile-phone operators' agents, union information service centers, local government institutions and any individual capable of offering financial services based on information technology can be appointed as agents in Bangladesh (bdnews24.com, 2015).

Current Status

Bangladesh Bank allotted licenses in December 2013 to four banks for operating agent banking services, especially in remote areas where formal bank services were not accessible to a large extent (The Daily Star, 2017d). Agent banking was first introduced by two commercial banks - Bank Asia and Dutch Bangla Bank Limited (DBBL) in Bangladesh. They started to appoint agents from the core levels from January 2015 (The Daily Star, 2017c). Bank Asia initially appointed 49 agents in 32 Upazillas under 17 districts while Dutch-Bangla recruited six agents. Following this, banks started to buy fast into this concept. Subsequently, other banks like South Bangla Agriculture and Commerce Bank, and NRB Commercial Bank also initiated to launch the service (The Daily Star, 2014a).

Agent banking has garnered so much popularity in the banking sector that about 3.3 lacs agent banking accounts were opened in the first half of 2017 leading to an increase of 60.18 percent in the use of this new form of banking service across the country (The Daily Star, 2017a). As a result, banks of Bangladesh are now giving higher priority to developing their agent banking infrastructure than to building their mobile banking platform. Statistics by Bangladesh Bank in 2017 reveal that around 17 banks have signed up for agent banking licenses. Of the 17 banks, 12 are already running their own agent banking operations, with one in the process of rolling out their service. The banks that are currently providing agent banking services in the country are: Dutch-Bangla, Bank Asia, Al-Arafah Islami, Social Islami, Modhumoti, Mutual Trust, NRB Commercial, Standard, Agrani, Midland, First Security Islami, and City Bank. Of them, Dutch-Bangla is the market leader with its 1,454 agent outlets and 5.75 lacs agent banking accounts. It is followed by Bank Asia, which has 1,238 agent outlets and about 2 lacs agent banking accounts (The Daily Star, 2017a). A closer look at market shares state that Dutch-Bangla captures around 68% of agent banking services in Bangladesh, while 24% of the market belongs to Bank Asia. In contrast, Al-Arafah Islami Bank has around 6% of the market share, followed by NRB Commercial and Social Islami which has 1% share each in the market of agent banking accounts (The Daily Star, 2017b).

Currently, agent banking is in its definition stage in Bangladesh. The main aim of Bangladesh Bank behind this initiation is to ultimately reach the poor segment of the society with a range of financial services, particularly in the geographically dispersed locations (The Daily Star, 2017a). As a result, the central bank as a regulatory body of agent banking services is learning to seal loopholes and addressing issues as they arise. This calls for an in-depth investigation and evaluation of agent banking in order to explore its full potential for financial inclusion on a greater scale in Bangladesh.

Banking Models

Globally, banks along with telecom companies, internet service providers and a large network of agents recruited by banks have developed different agent banking delivery channels. According to Veniard (2010), four types of recognized agent banking models currently in practice are: POS-enabled bank agent (an agent managed by a bank that uses a payment card to identify customers); Mobile phone-enabled agent (an agent managed by a bank that uses a cell phone to identify customers); Mobile wallet (an agent managed by a telecom, uses a cell phone to identify customers, and provides store-of-value accounts called mobile wallets that are backed by bank deposits); and, Bank-provided account linked to a mobile wallet (rather than an agent, it is a bank account that is linked to a mobile wallet and it is the telecom that manages deposits and withdrawals). Under these delivery models, various retail points are being used as cash merchants or agents to provide agent banking services. For instance, points of service range from post offices in the Outback of Australia where clients from all banks can conduct their transactions; to rural France where financial services are provided by the bank Crédit Agricole or Green Bank using corner stores; to small lottery outlets in Brazil at which clients can not only easily access their bank accounts but receive their social payments too.

Taking the global delivery models into account, Agent Banking Guidelines have been framed by Bangladesh Bank to permit banks to engage in agent banking services in the country. Bangladesh Bank has issued this guideline as per the authority conferred to it by Article 7A (e) of Bangladesh Bank Order, 1972, Section 45 of Bank Company Act, 1991 and Section 4 of Bangladesh Payment and Settlement Systems Regulations, 2009 (Bangladesh Bank, 2017). The main purpose of this guideline is to provide regulatory framework for agent banking services in Bangladesh, to enable a safe environment for conducting banking transactions through agents, and to ensure compliance with Anti-Money Laundering and Combating Financing of Terrorism standards set by Bangladesh Bank. In addition, Bangladesh Bank issued a new guideline titled “Prudential Guidelines for Agent Banking Operation in Bangladesh” in order to set minimum standards of data and network security, customer protection and risk management to be adhered under the agent banking services (The Financial Express, 2017).

Following this guideline, any bank willing to offer agent banking will first need to obtain prior approval from Bangladesh Bank. To apply, banks must provide full details of the services to be offered through agents including tentative implementation schedule. Next, banks may engage the following persons or entities as their agents - NGOs-MFIs that are regulated by Microcredit Regulatory Authority of Bangladesh; other registered NGOs; cooperative societies formed, controlled and supervised under Cooperative Society Act 2001; post offices; courier and mailing service companies registered under Ministry of Posts and Telecommunications; companies registered under The Companies Act 1994; agents of mobile network operators; offices of rural and urban local government institutions; Union Information and Service Centre (UISC); and, educated individuals capable to handle IT based financial services like agents of insurance companies, owners of pharmacies, chain shops and petrol pumps/gas stations (Bangladesh Bank, 2017).

Operational Structures

The agency relationship begins upon vetting and appraisal by the bank and subsequent approval by the Bangladesh Bank upon which the agent signs a contract with the bank. This contract defines clauses related to confidentiality, safety, soundness and accuracy of all the transactions that will be made by the agents for the banks. It also states full financial disclosure, transparency and accountability of the agents. Following these approvals, agents can initiate providing services. The agents are usually equipped with a combination of point-of-sale (POS) card reader, mobile phone, barcode scanner to scan bills for bill payment transactions, Personal Identification Number (PIN), and sometimes personal computers that connect with the bank's server using a personal dial-up or other data connection. Clients who conduct their banking transactions through these agents use a magnetic stripe bank card or their mobile phones to access their bank account or e-wallet respectively. Identification of customers is normally done through a PIN but could also involve biometrics in some cases. With regard to the transaction verification, authorization, and settlement platform, agents function in a similar way to that of a formal bank branch. Agents may not charge customers directly for providing services to them. It is the banks who will charge an applicable fee from its customers if they avail such services and in turn, pay agents a reasonable amount of commission for providing such services.

Bangladesh Bank requires a lot of adherence from the banks who are/will be offering agent banking services in Bangladesh. For instance, bank officials need to submit agreement copies signed between banks and their agents to Bangladesh Bank before launching the product. Moreover, the list of agents, their names and addresses must be submitted to Bangladesh Bank and should be updated on a monthly basis. An overall report on agent banking services must also be submitted. Additionally, the bank must brand their agent banking services in such a way so that the customer realizes that the agent is providing services on behalf of the bank. Bangladesh Bank further requires banks to develop mechanism that enables the agent to report any transaction as and when it occurs. In addition, banks need to ensure that adequate measures for customer protection, awareness and dispute resolution are in place. Alternatively, banks must take a deposit of a fixed amount of money from the agents or establish a credit limit for them up to a level to which the agents can make transactions with the clients. Moreover, banks should apply due diligence to select and appoint agents to provide agent banking services efficiently and effectively. In the customer end, banks need to ensure that transactions are executed on real time basis, customers get instant confirmation of their transactions and no transactions are performed in case of communication failure. Banks also need to establish internal policies, procedures, systems and controls to support agent banking at all stages, consistent with the Bangladesh Bank Guidelines. Banks shall even be responsible for the mitigation of all kinds of risks such as liquidity, operational, fraud, cheating including money laundering and terrorist financing risks.

This multi-faceted guideline established by Bangladesh Bank for agent banking services is definitely going to have a dramatic impact on improving access to financial services, especially in the rural areas of Bangladesh. In fact, it is an impressive step taken by the central bank to encourage the deepening of the financial sector and raising overall levels of financial literacy in the country.

Service Offerings

Past studies like Mwando (2013) argue that agent banks offer similar services as a real bank. Across various countries of the world, agent banking services thus range from cash deposits and withdrawals, disbursement and repayment of loans, payment of salaries, pension, transfer of funds, and issuance of mini-bank statements, among others. In some countries, agent banking also facilitates new account opening, credit and debit card application, and cheque book requests. This further eliminates the need for the banks to have physical branches everywhere.

All these global service offerings of agent banking are being replicated to a large extent by the banking sector of Bangladesh in their rural areas. Bangladesh Bank has developed guidelines and regulations for agent banking to state the set of services that can be offered by banks through agents. The list of services includes: collection of small value cash deposits and cash withdrawals; inward foreign remittance disbursement; facilitating small value loan disbursement, utility bill payment and fund transfer; recovery of loans and installments; cash payment under social safety net programme of the Government; balance inquiry; collection and processing of forms/documents in relation to account opening, loan applications, credit and debit card applications from public; post sanction monitoring of loans and advances and follow up of loan recovery; receiving of clearing cheque; and, other functions like collection of insurance premiums including micro-insurance (Bangladesh Bank, 2017). However, agents are not allowed to provide the following services on behalf of the banks. This list of services includes: giving final approval of opening of bank accounts and issuance of bank cards/cheques; dealing with loan/financial appraisal; encashment of cheques; and, dealing in foreign currencies.

Service Benefits

Past studies like Podpiera and Weill (2008) state that agent banking improves the economics for banking institutions compared with branches, especially for high-transaction, low-balance accounts that are common among poor users. In Bangladesh, banks have little incentive or capacity to establish formal branches in rural areas. However, the set-up of agent banks is less costly and more flexible than traditional bank branches since it reduces the need to invest in staff and physical infrastructure (Kasekende, 2008). Hence, the convenient and cost-effective nature of agent banking services is one of main reason for banks to undertake it. In addition, agent banking also reduces fixed costs by leveraging current retail outlets and minimizing the need for financial service providers to invest in their own groundwork (Kimalu et al., 2002). As a result, banks have lower expansion costs and can enjoy the ease of expansion of their services to unreached areas.

One other notable reason of venturing into agent banking is the product or service diversity of the banks. This is because market is comparatively competitive in this sector as there are 57 scheduled banks in Bangladesh who are providing almost similar types of services to the customers (Bangladesh Bank, 2017). In such a case, agent banking not only improves efficiency of providing services but encourages a wide variety of service provisions as well. Moreover, agent banking services provide access to additional revenue sources for banks by offering financial services to hard-to-reach and geographically dispersed areas (Barasa and Mwirigi, 2013). Agent banking services even minimizes foot traffic, promotes the wave of digitalization in the industry and deeply boosts penetration of low-cost banking services in the country.

Not only financial institutions, this model of agent banking also have advantages for customers and agents. For the customers, advantages are in the form of lower transaction costs, longer opening hours, and shorter queues than in branches (Tarazi and Breloff, 2011). In addition, the access to bank services through agents in retail shops allow customers to enjoy a one-stop shop for banking and retail purchasing in some cases (Ignacio, 2009). Furthermore, agent banking services are more accessible for illiterates and the very poor who might feel intimidated in branches (Beck et al., 2007). On the other hand, advantages in the form of increased sales from additional foot-traffic, differentiation from other businesses, and additional revenue from commissions and incentives can be identified for the agents (Tarazi and Breloff, 2011). Moreover, reputation from affiliation with well-known financial institutions is an added benefit for the people who participate as agents in such banking services.

In a nutshell, agent banking services help banks to establish themselves among low income populations, benefits agents to become financially secure and aids customers to avail banking services over electronic or mobile platforms.

Service Challenges

Agent banking clearly is an important step towards the enhancement of financial sector deepening. However, there are also certain challenges that banks, agents and customers encounter with regard to agent banking services.

Customers play a key role in the successful establishment of services like agent banking. So, the acceptability of agent banking among customers in it is a great challenge. This is because the core target customer group of this service belongs to remote areas of Bangladesh. Making such people believe that agent banking is a parallel service provided by banks is difficult as these people have a preconceived notion of physical branches and traditional banking system. Moreover, issues like credit risk (e.g. the transaction is not communicated to the bank or monetary fraud by agents) and network failures (e.g. agents' electronic system is slow or down and banking transactions cannot be performed) can negatively influence clients' perceptions (Ignacio, 2009). It should also be noted that albeit low, clients do have to incur some charges in order to avail agent banking services that they would otherwise not pay in the traditional banking services. All this hampers the bank-client relationships in the long-term and impede the process of financial inclusion through agent banking.

The agents too face certain challenges while offering agent banking services. According to the regulation of Bangladesh Bank, agents are not permitted to provide ultimate approval on opening new bank account, issuing bank cards/cheques, providing loan or financial appraisal and dealing in foreign currency (Dhaka Tribune, 2017). Guideline also instructs that per day maximum number of transactions cannot exceed four time including two withdrawals and two deposits. As a result, the agents cannot make excess profit out of the available excess opportunities due to guidelines. Another challenge for the agents is to operate the service outside the metropolitan, city corporation or municipality area of Bangladesh. This can be quite a challenge since agents have to reside in the rural areas to be able to offer such services – which are not feasible for all due to family and other personal reasons. Besides, other issues for the agents include lack of sufficient cash to meet customers' requests for withdrawals, lack of experience in offering the agent banking services, monetary loss if the bank fails to reimburse, fraud, data leaks, inadequate physical or electronic security, poor backup systems, and such others (Chiteli, 2013).

Of all, it is ultimately the banks that face most of the challenges while offering agent banking services. Their problems are related to their institutional structures, dealing with agents and handling customers from rural areas. For instance, banks have to incur financial costs like fees, applicable commissions or charges to the agents against the service provided by the agents. In addition, agent banking service includes the transactions only in the national currency (BDT) rather than any other currencies which may be another notable challenge for the banks (The Daily Star, 2014b). Even, making customers understand that agent banking can be considered as a user-friendly banking service is also a significant task for the banks. This is because banks may need to educate the rural customers with necessary financial literacy to build the acceptability of agent banking service among them. Compared to the neighboring market India, rural people are not likely to embrace banking services over the electronic platform and through agents in Bangladesh. As a result, initially banks may have to invest time and money to promote the financial inclusion among the rural and poor customers. On the other hand, guidelines of Bangladesh Bank too cause impediment to execute agent banking services for the banks. The banks have to maintain a current account with the agents and the balance on that account may not exceed 1 million BDT (The Daily Star, 2015). To add more, the upper limit of the transactions can only be 25,000 BDT– resulting in lower profit for the banks.

Often, banks need to ensure safety of the customer and the agent as well since agent banking services operate in high risk rural areas of the country. Alternatively, banks need to protect themselves from risks like money laundering and financing of terrorism by fraud customers and agents alike. Agent banking is also exploited in the market under cover by some unethical businessmen in the form of hundi business. This secret agent banking is rising at an alarming rate nowadays in Bangladesh. As a result of this, the banks are incurring heavy losses and reputation risk of losing image in the market. Moreover, banks face other risks like maintain confidentiality for all customer information, ensuring service quality through agents, consumer protection from agents, and such others (Barasa and Mwirigi, 2013).

SOLUTIONS AND RECOMMENDATIONS

Bangladesh's agent banking is still in hatching stage and needs to evolve further to achieve its potential and achieve financial inclusion. Nevertheless, agent banking certainly is a replacement of branches in the remote part of the country, provided the regulators and the government make necessary facilitation in regulation. Based on the number of issues and challenges that arose during this study, the following recommendations can thus be suggested.

To make agent banking an effective competitive strategy, banks need to ensure a strong internal control system that will be evaluated periodically. This will guarantee confidentiality of information and banking transactions of customers, control the activities of agents, combat fraud and poor banking practices. In establishing systems and infrastructures to support agent banking, banks should focus more upon real time processing and secured network so that sensitive customer information do not remain stored at the end points. There should also be frequent updates of policies and procedures to be used under agent banking by Bangladesh Bank in consultation with the banks and agents offering such services. In fact, regulations can be made more flexible in terms of transaction limits as well as daily transaction number to motivate banks and agents alike. Regulatory relaxations in terms of product innovation can be an agenda as well. For example, SME loan and credit facilities for readymade garment workers can be brought under the scope of agent banking by banks. Alternatively, banks can expand their agent network and collaborate with NGOs and cooperative societies for the purpose.

Frequent audit should be carried out on the agent banking services and automation of such processes should be checked at least quarterly to determine any loopholes which needs to be sealed. For instance, banks should visit the agent's outlets at a regular interval to ensure that the agents are working in accordance with the terms and conditions of the agreement and following the rules, regulations and guidelines issued by the regulators. This audit can further control secret agent banking practices and stricter surveillance of banking transactions through agents can be put in place. Additionally, bank management needs to undertake agent training more frequently, alongside creating awareness and educating rural customers regarding agent banking services. With regard to agent trainings, banks must provide adequate education to agents on device authentication, auto reversal features for incomplete transactions, document verifications, and most importantly, on how to handle error processing and time out features. In the customer end, banks must run a call-center to receive and process customer complaints via telephone or texts to agents and/or to customers themselves.

Even the government and Bangladesh Bank collectively should work out solutions to make the electronic and mobile platform more secure for agent banking services to perform effectively. Emphasis should also be directed towards the development of infrastructure, both physical and technological, so that no portions of disadvantaged and low-income segments of the population suffer financial exclusion in Bangladesh.

CONCLUSION

Bangladesh Bank is working relentlessly to realize the vision of inclusive finance to make banking services available for all sorts of households and enterprises. Within this scope, Bangladesh Bank has introduced the services of agent banking. The goal of agent banking is not mere maximization of profit. There is a far greater cause which is to bring unbanked population under banking services for the overall development of the nation. It is an initiative that helps social inclusion, national integration and consolidation of citizenship. It is high time to popularize agent banking with a view to gearing up the initiatives of financial inclusion for achieving the target of sustainable economic growth of Bangladesh. Although agent banking is new in the country and still at its formative stages, a lot of new developments and new changes are appearing. Hence, this study conducted an in-depth investigation on agent banking services to see the overall as well as a focus-based impact of agent banking on financial inclusion in Bangladesh. The current study concludes that securing access to financial services for the rural poor is the key to wholesome development for Bangladesh and agent banking is an effective way to do so. The innovation and digitalization brought forward by agent banking services will surely set Bangladesh firmly on the path to becoming a middle-income country.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The scope of this study was limited to agent banking operations as a competitive strategy for local commercial banks in the developing country of Bangladesh. It would be worthwhile to study agent banking operations as embraced by commercial banks in a different country context. Moreover, this study has mainly emphasized on the assessment of the operational structures, benefits and challenges of agent banking from a holistic perspective. A longitudinal study can be adopted in future works to examine a research model in order to examine the perspectives and attitudes of bank officials, agents or customers providing or using agent banking services in Bangladesh. This will provide a better insight into the perceptions of people related to the implementation of agent banking and can help to enhance the understanding of individual users of such services in the context of Bangladesh.

REFERENCES

AFI. (2012). *Agent banking in Latin America*. Discussion paper, Alliance for Financial Inclusion. Retrieved from https://www.afi-global.org/sites/default/files/discussion_paper_-_agent_banking_latin_america.pdf

Afzal, M. H. B. (2017). Sustainable development of rural communities in Bangladesh by integrating mobile internet and agent banking technology. In *Leadership, Innovation and Entrepreneurship as Driving Forces of the Global Economy* (pp. 361–370). Cham: Springer. doi:10.1007/978-3-319-43434-6_31

Ahmed, J. U., & Ahmed, A. (2018). Agrani Doer banking: Agent banking business in Bangladesh. *Business Perspectives and Research*, *6*(2), 154–164. doi:10.1177/2278533718765532

Atandi, F. G. (2013). Challenges of agent banking experiences in Kenya. *International Journal of Academic Research in Business and Social Sciences*, *3*(8), 397–412. doi:10.6007/IJARBSS/v3-i8/161

Bangladesh Bank. (2017). *Guidelines on Agent Banking for the Banks*. Retrieved from https://www.bb.org.bd/aboutus/regulationguideline/psd/agentbanking_banks_v13.pdf

Barasa, D. A., & Mwirigi, F. M. (2013). The role of agency banking in enhancing financial sector deepening in emerging markets: Lessons from the Kenyan experience. *European Journal of Business and Management*, *5*(21), 19–21.

bdnews24.com. (2015). *Bangladesh launches agent banking in areas with no bank branches*. Retrieved from https://bdnews24.com/economy/2015/03/06/bangladesh-launches-agent-banking-in-areas-with-no-bank-branches

Beck, T., Demirgüç-Kunt, A., & Levine, R. (2007). Finance, inequality and the poor. *Journal of Economic Growth*, *12*(1), 27–49. doi:10.1007/s10887-007-9010-6

Bhunia, P. (2017). *World Bank report highlights role of Agent Banking in Malaysia's successful financial inclusion push*. Opengovasia. Retrieved from http://www.opengovasia.com/articles/7664-world-bank-report-highlights-role-of-agent-banking-in-successful-financial-inclusion-push-in-malaysia

Bryman, A., & Bell, E. (2015). *Business Research Methods*. Oxford University Press.

Business Today. (2017). *Why agent banking is a win-win*. Retrieved from http://www.businesstoday.in/opinion/columns/why-agent-banking-is-a-win-win/story/258171.html

Chiteli, N. (2013). Agent banking operations as a competitive strategy of commercial banks in Kisumu city. *International Journal of Business and Social Science*, *4*(13), 306–324.

Dhaka Tribune. (2017). *Small businesses make up 29% of agent bank users*. Retrieved from http://www.dhakatribune.com/business/2017/05/15/small-businesses-make-29-agent-bank-users/

Ferdous, J., Al Mosharrafa, R., & Farzana, N. (2015). Agent banking in Bangladesh - A new era in financial institution by enhancing customers' accessibility and profitability of banks. *International Journal of Business and Management*, *3*(3), 206.

Gerring, J. (2007). *Case Study Research: Principles and Practices*. New York: Cambridge University Press.

Ignacio, M. (2009). The economics of branchless banking. *International Journal of Arts and Entrepreneurship*, *1*(5), 243–256.

Iqbal, M., Nisha, N., & Raza, S. A. (2017). Customers' perceptions of green banking: Examining service quality dimensions in Bangladesh. In Managerial Strategies and Solutions for Business Success in Asia (pp. 1-20). Hershey, PA: IGI Global.

Islam, S. R. U., & Tareq, M. (2017). A study on the macroeconomic antecedents and trends of mobile banking services in Bangladesh. In *Proceedings of the Tenth International Conference on Management Science and Engineering Management* (pp. 1495-1503). Springer Singapore.

Johnson, R. B., Onwuegbuzie, A. J., & Turner, L. A. (2007). Toward a definition of mixed methods research. *Journal of Mixed Methods Research*, *1*(2), 112–133. doi:10.1177/1558689806298224

Kasekende, A. L. (2008). Africa continues steady growth. In *Presentation Paper at the Africa Forum*. Academic Press.

Khalily, M. A. (2004). Quantitative approach to impact analysis of microfinance programmes in Bangladesh - what have we learned? *Journal of International Development*, *16*(3), 331–353. doi:10.1002/jid.1081

Kilonzo, E. M., Ariemba, J., & Migosi, J. (2018). Factors influencing the use of agency banking by bank customers in Makueni Sub-Country. *International Journal of Finance & Banking Studies, 6*(4), 28-40.

Kimalu, P., Nafula, N., Manda, D. K., Mwabu, G., & Kimenya, S. M. (2002). A Situational Analysis of Poverty in Kenya, The Kenya Institute for Public Policy Research and Analysis. KIPPRA Discussion Paper.

Lee, J. N., Morduch, J., Ravindran, S., Shonchoyand, A. S., & Zamany, H. (2017). Poverty and Migration in the Digital Age: Experimental Evidence on Mobile Banking in Bangladesh. IGC.

Maanen, G. V. (2004). *Microfinance: Sound of Business or Development Instrument*. Voorburg.

Mchembere, D., & Jagongo, A. O. (2017). Effect of agency banking operation on profitability of commercial banks: A case of selected commercial banks in Nairobi county. *International Journal of Finance and Accounting*, *2*(1), 123–127.

Mwando, S. (2013). Contribution of agency banking on financial performance of commercial banks in Kenya. *Journal of Economics and Sustainable Development*, *4*(20), 26–34.

Ndungu, C. G., & Njeru, A. (2014). Assessment of factors influencing adoption of agency banking in Kenya: The case of Kajiado North Sub County. *International Journal of Business and Commerce*, *3*(8), 91–111.

Nisha, N., Idrish, S., & Hossain, M. Z. (2015). Consumer acceptance and use of mobile banking services in Bangladesh. In *Green Banking in Bangladesh and Beyond* (pp. 155–182). Zaman Printing and Packaging.

Nisha, N., & Rifat, A. (2017). Reducing poverty and sustaining growth: A microfinance approach. In M. Mieila (Ed.), *Measuring Sustainable Development and Green Investments in Contemporary Economies* (pp. 50–75). Hershey, PA: IGI Global. doi:10.4018/978-1-5225-2081-8.ch003

Ombutora, E. K., & Mugambi, F. (2013). Role of agency banking on the performance of banking agent entrepreneurs: A case study of Co-operative Bank Co-op Jirani in Kibera, Nairobi. *International Journal of Social Sciences and Entrepreneurship*, *1*(5), 243–256.

Podpiera, J., & Weill, L. (2008). Bad luck or bad management? Emerging banking market experience. *Journal of Financial Stability*, *4*(2), 135–148. doi:10.1016/j.jfs.2008.01.005

Saunders, M. N., Saunders, M., Lewis, P., & Thornhill, A. (2011). *Research Methods for Business Students*. Pearson Education India.

Siddiquie, M. R. (2014). Agent banking, the revolution in financial service sector of Bangladesh. *IOSR Journal of Economics and Finance, 5*(1), 28-32.

Tarazi, M., & Breloff, P. (2011). *Regulating bank agents*. Cgap. Retrieved from https://www.cgap.org/sites/default/files/CGAP-Focus-Note-Regulating-Banking-Agents-Mar-2011.pdf

The Daily Star. (2014a). *Agent banking, a step toward inclusive finance*. Retrieved from http://www.thedailystar.net/agent-banking-a-step-toward-inclusive-finance-23855

The Daily Star. (2014b). *BB sets limit on agent banking*. Retrieved from http://www.thedailystar.net/bb-sets-limit-on-agent-banking-17084

The Daily Star. (2015). *Four in five households have access to financial services*. Retrieved from http://www.thedailystar.net/business/four-five-households-have-access-financial-services-128914

The Daily Star. (2017a). *Agent banking accounts soar 60pc*. Retrieved from http://www.thedailystar.net/business/agent-banking-accounts-soar-60pc-1460974

The Daily Star. (2017b). *Agent banking getting popular*. Retrieved from http://www.thedailystar.net/business/agent-banking-getting-popular-1380442

The Daily Star. (2017c). *Agent banking getting popular with remitters*. Retrieved from http://www.thedailystar.net/business/banking/agent-banking-getting-popular-remitters-1416508

The Daily Star. (2017d). *Transaction limit raised for agent banking*. Retrieved from http://www.thedailystar.net/business/transaction-limit-raised-agent-banking-1464772

The Financial Express. (2017). *BB issues new guideline for agent banking*. Retrieved from http://thefinancialexpress.com.bd/economy/bangladesh/bb-issues-new-guideline-for-agent-banking-1505749770

The World Bank. (2016). *Pakistan Microfinance Network commits to reaching 50 million new depositors through UFA2020 initiative*. Retrieved from https://blogs.worldbank.org/psd/category/tags/ufa2020

The World Bank. (2017a). *Digital Financial Inclusion of the Rural Poor in Bangladesh*. Retrieved from http://blogs.worldbank.org/endpovertyinsouthasia/digital-financial-inclusion-rural-poor-bangladesh

The World Bank. (2017b). UFA2020 Overview: Universal Financial. Retrieved from http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020

Triki, T., & Faye, I. (2013). Financial inclusion in Africa. *African Development Bank*. Retrieved from http://www.microfinancegateway.org/sites/default/files/mfg-en-paper-financial-inclusion-in-africa-2013.pdf

Van der Boor, P., Oliveira, P., & Veloso, F. (2014). Users as innovators in developing countries: The global sources of innovation and diffusion in mobile banking services. *Research Policy*, *43*(9), 1594–1607. doi:10.1016/j.respol.2014.05.003

Veniard (2010). *How Agent Banking Changes the Economics of Small Accounts*. Global Savings Forum, Bill & Melinda Gates Foundation. Retrieved from https://docs.gatesfoundation.org/documents/agent-banking.pdf

Vu, A. T., Le, T. P., Duong, T. D., & Nguyen, T. T. (2018). Interbank contagion: An agent-based model for Vietnam banking system. In *Proceedings of the International Econometric Conference of Vietnam* (pp. 397-420). Springer. doi:10.1007/978-3-319-73150-6_32

World Bank Group. (2015). *Universal Financial Access by 2020: Global Overview and Progress Overview*. Retrieved from http://www.felaban.net/archivos_memorias/archivo20151202144802PM.pdf

Yin, R. K. (2009). *Case Study Research: Design and Methods*. London: Sage Publications.

Nabila Nisha is currently pursuing her PhD under the Research School of Management, College of Business and Economics at the Australian National University (ANU), Australia. She has been teaching as a Senior Lecturer at the Department of Accounting & Finance under School of Business and Economics of North South University, Bangladesh. She completed her bachelor's degree with dual concentration in Accounting & Finance and Marketing from North South University, Bangladesh and received her master's degree in Banking & Finance from University of Essex, UK. Besides teaching, she has been part of a research project on Green Banking financed by World Bank and Ministry of Education of Bangladesh. She has a number of international journal publications in USA, UK and India, along with local and international book chapters as part of her research work. She has authored two books as well, which has been published by Lambert Academic Publishing and is available in the international market.

Kashfiya Nawrin completed her Master of Business Administration degree with a major in Finance from North South University, Bangladesh and she also worked for The Governance and Justice Group (GJG). She started working with GJG as a Project Research Analyst, then contributed to the team as the Team Leader of Project Management. Previously, she completed her Bachelor of Business Administration degree from the School of Business and Economics of North South University, Bangladesh. She is very enthusiastic to conduct research specifically in financial and banking sector. Her keen interest to conduct research has also helped her to contribute to a research project named as "National Justice Audit Bangladesh" of GJG. She is interested to contribute to various journal papers not only to augment her writing passion but also to support the society. She is passionate to work with honesty and professional integrity, while serving as a vigilant expertise and become a valued diligent member by learning.

Anika Bushra has completed her Bachelor of Business Administration degree with the prestigious academic distinction of Cum Laude from North South University, Bangladesh and completed her Masters degree in Finance with a Dean's Scholarship Award from Johns Hopkins University, USA. She was awarded BSI Fellowship by the Johns Hopkins SIL Committee for her entrepreneurial spirit and commitment towards social innovations in the community while she was doing her masters degree. Due to her leadership and passion for bringing a positive change in society, she served as the Vice President for Johns Hopkins Carey Net Impact and also as the Ambassador for Johns Hopkins Women in Business. In addition, she has an enriching experience of working in the corporate sector of both GrameenPhone and MGH Group, Bangladesh. She is currently working as a Finance Specialist for a nonprofit organization called City Life which works in the areas of community revitalization and real estate development. Being passionate about research, she is also currently working in areas of financial policies and banking sector of Bangladesh.