

THE IMPACT OF BRANCHLESS BANKING SYSTEM ON THE FINANCIAL PERFORMANCE OF THE COMERCIAL BANKS IN PAKISTAN

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ABSTRACT

The purpose and goal of this research paper was to assess the impact of branchless banking on commercial banks' financial results in Pakistan. The research focused on the financial performance of commercial banks through agency banking and electronic banking platforms. The analysis also explores the mediatory effects on the relationship between branchless banks and the financial results in Pakistan from financial integration, and also the moderating influence of government policy. The thesis took a non-experimental style in exploratory testing. A survey was carried out in Pakistan of all 49 scheduled commercial banks. The annual reports of the various commercial banks and the Central Bank of Pakistan collected primary and secondary data and financial performance of banks. As the principal predictor of commercial banks' financial success, the Return on Assets (ROA) has been derived from SBP's annual reports. As metrics for agencies and electronic banking, the volume of expenditure in agency and electronic banking was used. Results from this study also suggest that financial inclusion depends on the strength of the connection between branchless banking and financial success in Pakistan. Findings suggest that the relationship between the agencies and electronic banking and financial success is partly moderated by government policies, with an impact substantial to the level of 5%. The study suggests that commercial banks invest both in agency and in electronic banking as a multi-channel approach for positive returns, since these networks are mutually complementary.

Key word: Branchless banking, Electronic banking and Bank performance

Introduction

Background of the study

Economic growth is driven by the successful allocation of financial capital to other productive activities in the economy by the Banking sector. In a country's economy banks play a very important role. Banks have three

primary activities: deposit, loan and securities investment. They use labour, physical infrastructure and financial resources (IMF, 2010), and skilled and non-skilled workers.

Faure (2013) states that commercial banks, too, are banks providing public banking services such as automatic deposits / deposit transfers, cheque, current accounts, other deposit accounts, overdraft facilities, leased mortgage advances, payment credit advances and so on. It also applies to banks that are called highway banks.

According to Khan, Gul and Shah (2017), Customer transfers or telephone transfers, e-taxes, POSs and automated Teller machines (ATM) often allow customers to pay through other payment methods. Commercial banks are primarily concerned with lending money to businesses and individuals and acting as a secure source for corporations 'or individuals' short-term funds. Commercial banks typically have two revenue streams: interest and non-interest profits.

The lending industry, which generates interest revenue because of the ties between this conventional sector and bank results, has been given much priority to academics (Bush & Kick, 2009). In the past, the profitability of the lending sector was cyclical and relied on loan customers' needs and strengths and on the economic cycle level. The non-interest-based portion is transaction fees and financial advice. Fees and financial advice are a more reliable income stream, and hence the banks stressed these income lines to ease their financial output more effectively (Basheera et al., 2019).

Branchless Banking

Branchless banking means providing financial services beyond traditional branches of the banking industry, using retail agents or third-party intermediaries as the main customer ties and the use of card reading technology. Technology Transaction data (POS) terminals and cell phones (CGAP, 2011).

According to Central bank of Pakistan (2010), the agency Bank is a corporation / entity operating on behalf of an additional bank, and thus, as the parent bank's agent, is unable to accept deposits or to expand credit under its own name. An agent is a retail outlet contracted to handle consumer purchases through a financial institution or mobile network operator. Instead of being a branch accountant, the process is being carried out by the store owner / employee, who lets consumers deposit, withdraw, and transfers money, pay their bills, inquire into the balance, or collect government benefits, or their employer's direct deposit. The same practice has been adopted in Pakistan in regard to branchless banking which add values and worth to economy.

Problem statement

Banking is of an immense significance in this incessantly changing business environment. Banking plays eminent role in the country economic development and in entrepreneurship. Banks in the world have invested heavily in the provision of technology-based banking products and services for mobile business networks and have lowered total operating costs (Capgemini, 2012). In order to generate revenues from technologically oriented distribution networks and to adjust to evolving client tastes and desires, these heavy investments were made into technology-driven modes of business (Frei et Al 1998). In order to optimize the advantages of branchless banking, the current study deals to find out the impact of branchless system on the financial performance of the commercial banks operating in Peshawar Pakistan.

Objective of the study

1. To evaluate the association of agency banking, electronic banking and financial performance of commercial banks in Peshawar.
2. To analyze the effect of agency and electronic banking on the financial performance of commercial banks in Peshawar.

Significance of the study

This study serves financial management scholars / researchers, national and regional politicians, shareholders and senior managers in commercial banks and customers. The research would add a great deal to the academics' expertise in the field of commercial banks' financial results. Management focuses on efficient control of the company's assets. Bank managers need to develop creative and effective management strategies to increase profits and create shareholder value. In particular by the smaller banks, the branchless banking model can be incorporated into market penetration strategies and cost control strategies. Branchless banking is one of the cheapest outlets for consumers in particular who use banking services for small transactions. It is also useful for customers living in rural and remote areas with less developed traditional banking facilities.

Research Gap

The credit risks are the foster problems in developing countries for banks. For example Non-performing loans and losses provisions for loans ratio has been increased. The banks and their decision makers are also confronting an issue of less deposits so the capital shortage is a big challenge these days. Similarly the banks greater liquidity is another impediment as it reduces the growth as well as return. Instead of this, the bank investment in different opportunities can bring more return. Thus it's a greater challenge to place the funds in more promising prospects and avenues. While the element of bank risk is associated with its operation, capital, solvency, liquidity and credit. In Pakistan researchers have considered mostly most of the other factors other than branchless banking i.e. agency banking and electronic banking relation with the financial performance, so the gap is therefore such a research which will elaborate the impact of branchless banking system on the financial performance.

Literature Review:

The banks' economic performance has major consequences for the economic development of the entire country, according to Ongore and Kusa (2012). The shareholders reward their investment with good financial results. This in turn stimulates further investment and contributes to economic growth. Failure to perform banking on the other hand can lead to bank failure crises, which have adverse effects on growth. Studies have found that Sub-Saharan African Commercial Banks (SSA) have a 2 percent average return on assets (ROA) over the last decade, more profitable than the rest of the world.

In the post-liberalization period in Pakistan, Kamau (2011) carried out a study to analyze the intermediation efficiency and productivity of the banking sector. Although the banking sector is a significant component of Pakistan's financial systems, there is little information on its intermediation efficiency and productivity role in this report. Monetary management companies are of utmost importance to financial performance. There are a number of scenarios in literature for its role, material and liquid management standards. Every company needs to manage the cash flow at the rate of sale rate, as well as the proportion of the risk at which the risk is acceptable. The liquidity management is seeking to control and control a remitted expenditure such as bad debts, debt management costs, losses and cost of financing the cost of financing the receivables. Therefore, Inqui (2006), which explains the LDT administration, generally maintains public trust, which is rapidly funded by the market and satisfied by the market, by focusing on sufficient funds.

In order to calculate the productivity gains of banks in Pakistan, the study adopted a non-parametric data envelopment analysis (DEA) for analysis of bank intermediation efficiency and the Malmquist Development Index (MDI). She noticed that while the banks were not completely structured, they did so.

Effect of agency banking on the financial performance of commercial banks

Banks and other business service providers are seeking new ways of making money by offering financial services and goods for unbanked individuals in rising numbers. They have banking and payment services, including grocers, supermarkets, seed and fertilizer stores and fuel stations, in addition to their own field officials and their own bank branches (CGAP 2006). Policymakers and regulators show great interest in

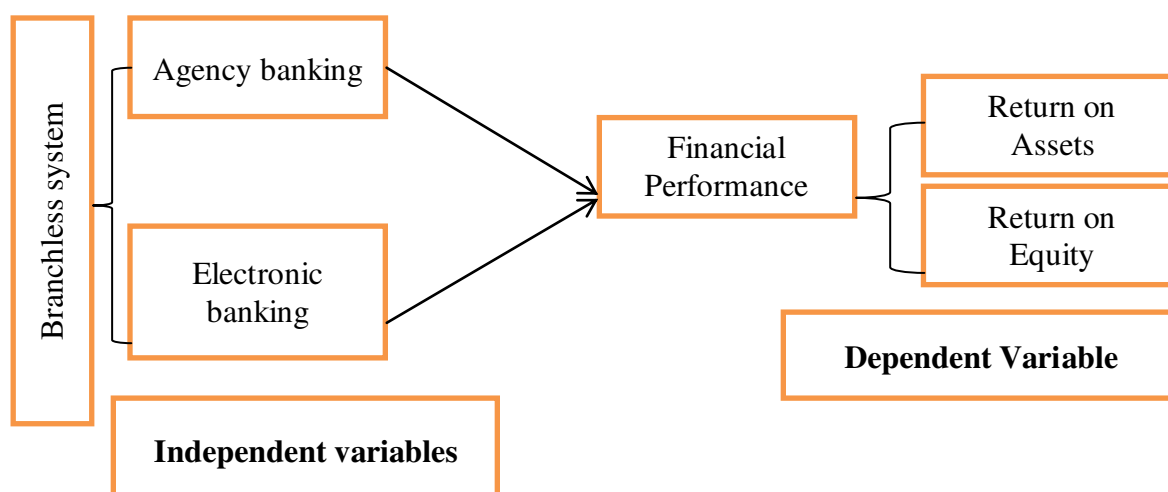
branchless banking, but stringent regulations continue to curb the emergency of branchless banking in most countries.

Effect of electronic banking on the financial performance of commercial banks

The use of the web was seen from the bank perspective as more successful as Sadeghi and Farokhian (2011) than other distribution strategies. Malhotra and Singh (2009) also showed that on average internet banks are larger, more profitable and more operationally effective in their analysis of the effect of internet banking on banking efficiency and risk (Basheer et al., 2019). They also find that the quality of the assets of internet banks has improved and the capital costs have been reduced better and that online banks in India rely substantially on deposits.

THEORETICAL MODEL

A theoretical model of the study as that branchless banking system is our independent variable which includes two sub variable i.e. agency banking and electronic banking. The dependent variable is financial performance of the commercial banks.



Hypotheses

- H1: There is a relationship of Agency banking, electronic banking and firm performance.
- H2: Agency banking and Electronic banking has significant effect on commercial bank's financial performance.

Research Methodology

The methodology used for the analysis has been the aim of this chapter. The study design, the analytical model, the target population, the methods used to collect data, data collection techniques, review and report and how the study instruments' validity and reliability are dealt with.

The sample of the study will consist of 34 Schedule banks and 15 Private banks from in banking organizations located in Peshawar as out of the total population these banks have branchless activities.

Nature of Research

This research is of quantitative type being post positivistic. The nature of research is descriptive and co-relational because the focus of the study is to find the impact of branchless banking system on the financial performance of the commercial banks. This thesis has followed a non-experimental exploratory approach for testing. This is because experiments were conducted in order to assess the

influence of the independent variable on the dependent. The analysis has measured the independent (branchless) variable from the dependent (financial) variable.

The "cases analysis" research approach discussed in this chapter examined these problem, such issues. There are six main parts in this chapter. In the first section, the four paradigms of science are explored and the model of realism chosen for this inquiry as a case study is clarified (Muneer et al.,1819). The next section includes a qualitative method of study rather than a quantitative method of analysis. The third section justifies the use of the reliability and validity tests carried out of the case study within the framework of realism.

Positivism:-

Positivism believes truth is human-independent. It is not mediated by one's senses and rules by unchanging laws. Positivists have an ontological stance that is rational. Good people tend to perceive the external world as natural. In essence, the interaction between phenomena is causal and once it has been established, it can be expected in the future for many reasons. The same goes with the inner environment and constructive campaigners. During a time and location various scholars work in separate environments to the same findings on a certain phenomenon as truth is context-free. Positivists' epistemological stance is objectivism. Researchers come to study events independently of them as neutral observers and they do not influence what is observed or perturb it. You can use vocabulary and metaphors, without any intervention, to define phenomena's in their original shape as they exist. According to Hutchinson (1988), "positivists interpret the universe as 'out there' and more or less statically open for research" (cited in Gall et al., 2003, p. 14). Positivists feel that social phenomena are regulated by legislation and that these rules should be established by applying empirical principles and provided with objective claims.

Population and sampling

According to Saunders, *et.al* (2003) population is the full set of cases from which a sample is taken. Total Schedule banks (34 banks) and 15 private sector banks operating in Peshawar are the total population of this study. All 49 commercial Pakistani banks based at Peshawar will be examined. The implementation of branchless banking in the banking industry is not consistent and by the end of the financial year 2019. The study thus formed an imbalanced panel for some periods to care for missing data.

Instrument of Data Collection

Questionnaire

Administration of the Tools

Primary data has been used. A questionnaire has been distributed to Head of Offices of all 49 scheduled banks and 15 private banks along with 09 branchless banks providers and then collected. For data collection, the modified questionnaire has been used. Five Likert Scale Questioners to collect the data. The most prominent branchless banking are:

Omni	Paymax
UBLomni	JS Bank
Jazzcash	HBL Express
Upaisa	MeezanUpaisa
EasyPaisa	

Metrics and Methods (Where Applicable).

To check the impact of branchless banking on the financial, data have been analyzed statistically through regression tests.

Data collection Procedure

Data has been collected through filling of questionnaires of Likert scale by the respondents during personal visits of the researcher. Follow ups issued through phone calls, whatsapp messages and emails.

Data Collection and Analysis

The sample consists of 34 banks operating in Peshawar. Since it is a simple and time-saving technique for regression analysis of data and correlation test, restrictive simple random sampling technique is chosen. The collected data combined to create a worksheet. The data shall be collected and arranged using Microsoft Excel and analyzed with SPSS and STATA (analysis) tools. Phase of data analysis started when descriptive statistics are measured and tabulated before analysis.

Variable	Type of variable	Operationalization	Indicators	Measurement in the research instruments
Branchless banks financial performance (Return on Assets (ROA))	Dependent	Total bank's Net profit percentage of Total Assets	Ratio of Net Income/Assets	Data set
Agency Banking	Independent	Amount of overall bank investment in agency banking	Amount of commercial bank's annual investment in agency banking	Questionnaire
E:Banking	Independent	Amount of overall bank investment in electronic banking	Amount of commercial bank's annual investment in electronic banking	Questionnaire
Financial Inclusion	Mediating	Market share of Branchless banks, branchless banking accounts opened and transactions value through branchless banking	Deposits Market share of the commercial banks, accounts opened through branchless banking and value of transactions conducted through branchless banking	Questionnaire
Government Policy	Moderating	Rules and regulation (Branchless Banking)	Extent of regulation, adequacy and effectiveness of regulation	Questionnaire

Source; Author (2016)

Money playing a vital role (likes blood in body) in the business. The banking industry is the life force of modern commerce and economic growth. Banks control, promote and incorporate economic practises, such as mobilising money, reducing hunger, generating and distributing public funds. The

financial success of commercial banks in the financial sector and in the country as a whole has great consequences and will remain a major concern of all banking stakeholders. Commercial banks have invested extensively in techniques based banking methods such as branchless banking that includes use of agency-banks and electronic banking platforms for the delivery of banking products and services both locally and globally in order to boost financial efficiency (Basheer et al., 2021). Despite this huge investment, though, the payouts related to these technology-based forms of banking are also difficult to identify. The early adopters in Pakistan of branchless banking had to focus on studies from South America which had a different geographic and social background. In addition, the literature available in Pakistan has taken into account either the isolation of branchless banking networks, used study plans and models that restrict the generalisation of findings and have neglected to recognise the impact on the relationship between branchless banking and commercial-bank financial success in Pakistan of financial inclusion and policy by the government. This research was strongly anchored in the philosophy of financial mediation.

<u>Item</u>	<u>Pilot Test</u>	<u>Main Survey</u>
<u>Cronbach Alpha</u>	0.733	0.764
<u>Scale Statistics</u>		
Mean	15.52	15.84
Standard Deviation	6.979	5.629
No. of Items	4	4
<u>Inter-item correlation between:</u>		
Branchless banking and financial performance	0.477	0.489
Branchless banking and financial inclusion	0.586	0.601
Branchless banking and government policy	0.579	0.609
Financial inclusion and financial performance	0.493	0.491
Government policy and financial performance	0.424	0.459
Government policy and financial inclusion	0.553	0.599
Range	0.424 -0.586	0.459 -0.609
<u>Corrected item- total correlation</u>		
Branchless Banking	0.773	0.791
Financial performance	0.408	0.441
Financial inclusion	0.603	0.621
Government Policy	0.489	0.505
<u>Cronbach alpha if item is deleted</u>		
Branchless Banking	0.609	0.633
Financial performance	0.751	0.767
Financial inclusion	0.659	0.697
Government Policy	0.789	0.801

As financial inclusion indices, deposit market share, branchless bank accounts and transaction volume is used. This detail is collected through a questionnaire from the corresponding commercial banks. Analysis of predictive data was performed with statistical tools SPSS and STATA. Hypothesis checks, description statistics and diagnosis tests have been performed. Using tables and maps, data was introduced. Results of the survey showed the major negative impact on financial performance in isolation; both agencies and electronic banking. However, if agency and electronic banking platforms were used together as a multi-channel approach, the financial result was significantly positively affected at a 5 percent average. Secondly, to allow the industry to gain optimum returns from

branchesless banks, the government should develop policies to promote financial integration in the banking market. Finally, to enhance its efficacy in resolving the risks and opportunities associated with the branchless bank models of banking in Pakistan, the Government should revisit policies on branchless banking.

Conclusions

The purpose of this analysis was to determine the effects of branchless banking on commercial banks' financial results in Pakistan. The thesis draws four main conclusions from the research results and the interpretations given. First, it was found that the financial performance of commercial banks in Pakistan is significantly affected by agency banking. Secondly, the report also concludes that the financial success of commercial banks is being affected by electronic banking. The study found the substantial negative impact on the financial performance of commercial banks in Pakistan. When, however, both organisation and electronic banking were used as a multi-channel approach, they had a strong and important impact on financial results. Therefore, the two channels balance one another, and if they used a Multichanal Approach in place of a single channel Strategy, banks would benefit more from their branchless banking investment. Agency banking and electronic banking establish synergies that can be clarified by the synergy principles of processes, where the total exceeds the number of its components. The third conclusion is that financial inclusion mediates in part the interaction between branchless banking and commercial banks' financial success in Pakistan. The studies indicate that the extent of the relationship between branchless banking and commercial banks' financial success in Pakistan depends on financial inclusion. Finally, the analysis concludes that government policy moderates in part the relationship between branchless banking and Pakistan's commercial banks' financial efficiency. The findings of descriptive analyses also show that controlling branchless banking is relevant and government policies have been able to overcome branchless banking danger and potential.

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