HOW TO SUCCEED IN YOUR DIGITAL JOURNEY:
A SERIES OF TOOLKITS FOR FINANCIAL SERVICE PROVIDERS

TOOLKIT #4: DEVELOP OWN AGENT NETWORK

PART 1: BUSINESS MODEL DESCRIPTION

By PHB ACADEMY and MICROLEAD

Client transacting with NBS Bank agent in Malawi
Courtesy of Women's World Banking

mastercard foundation
PHB Academy towards financial inclusion
UNCDF MICROLEAD

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LIST OF ACRONYMS

ALM	agent monitoring and liquidity manager
ANM	agent network manager
ATM	automated teller machine
CapEx	capital expenditures
CBS	core banking system
DFS	digital financial service(s)
FI	financial institution
FINCA DRC	FINCA Democratic Republic of the Congo
FINCA Tanzania	FINCA United Republic of Tanzania
FSP	financial service provider
GPRS	general packet radio services
GSM	Global System (or Standard) for Mobile
IT	information technology
K Sh	Kenya shilling*
KPI	key performance indicator
KYC	know your customer
MIS	management information system
MNO	mobile network operator
MVNO	mobile virtual network operator
OpEx	operational expenditures
OTC	over the counter
PIN	personal identification number
POS	point of sale
SMS	short message service
TSh	Tanzania shilling*
US$	United States dollar*
USSD	unstructured supplementary service data
VPN	virtual private network

*Currency symbols: UNCDF uses the currency symbol 'K Sh' for the Kenya shilling, 'TSh' for the Tanzania shilling and 'US$' for the United States dollar.

DEFINITIONS

CONCEPTS	DEFINITIONS
AGENCY BANKING	Refers to when clients can transact on their mobile wallet and financial institution account either directly themselves or through assistance from a third party (e.g., agent). Note that deposits (cash-in) and withdrawals (cash-out) require an agent as intermediary. In Toolkits #3 and #4, the type of transactions and the interactions between the mobile money and the bank account are detailed.
ALTERNATIVE DELIVERY CHANNELS (ADCs)	Comprise new distribution channels that have developed over the past 10–15 years: Internet banking services, mobile banking services, agency banking services (as opposed to traditional distribution channels such as brick-and-mortar and automated teller machines).
DIGITAL FINANCIAL SERVICES (DFS)	Refer to financial services provided to clients through alternative distribution channels (e.g., mobile, Internet, agent) that have developed over the past 10–15 years.
DIGITAL FINANCIAL SERVICE PROVIDERS (DFSPs)	Can either be financial institutions or non-bank financial institutions, such as payment service providers, mobile network operators, etc. They offer a broad range of financial services that may be accessed through digital channels and/or over the counter. Usually they recruit their own agent network.
FINANCIAL SERVICE PROVIDERS (FSPs)	Comprise banks, mobile network operators and financial institutions that provide financial services to clients.
MOBILE AS A SERVICE	Refers to financial transactions performed using mobile technologies (e.g., mobile phone, tablet) that impact the account of the financial service provider.
MOBILE FINANCIAL SERVICES (MFS)	Refer to financial services provided to clients through mobile phones and mobile devices (e.g., tablet). The term is gradually being replaced with digital financial services, which is a broader term that also covers other distribution channels.
MOBILE BANKING	Comprises financial transactions performed via mobile technologies by the client him/herself, directly on the client's financial institution account (e.g., account balance check, loan reimbursement). Note that deposits (cash-in) and withdrawals (cash-out) still require an agent as intermediary. In Toolkits #5 and #6, the type of transactions and the interactions between the mobile money and the bank account are detailed.
MOBILE NETWORK OPERATORS (MNOs)	Refer to companies that have a government-issued licence to provide telecommunications services through mobile devices. Mobile penetration rate is measured by the number of SIMs in circulation as a percentage of the total national population.[a]
NON-BANK FINANCIAL INSTITUTIONS (NBFIs)	Comprise microfinance institutions, savings and credit co-operatives and microfinance banks, as opposed to mobile network operators and traditional banks, that provide financial services to clients.

CONCEPTS	DEFINITIONS
AGENT	Refers to 'any third party acting on behalf of a bank, mobile network operator or other financial service provider to deal directly with customers.'[a]
CASH-IN/CASH-OUT (CICO)	'Cash-in is the exchange of cash for electronic value (e-money); cash-out is the exchange of electronic value (e-money) for cash.'[a]
ELECTRONIC MONEY (E-MONEY)	Is 'a monetary value represented by a claim on the issuer that is stored in electronic form, including magnetic; issued immediately against delivery of funds of an amount not less than the monetary value issued; and accepted as means of payment by persons or entities other than the issuing institution.'[a]
E-MONEY ISSUERS	Comprise 'banks, financial institutions specialized in payments (or payment institutions), authorized microfinance institutions and other authorized non-financial institutions, which have been authorized by BCEAO [Banque Centrale des Etats de l'Afrique de l'Ouest] as EMEs [e-money establishments].'[a]
ELECTRONIC WALLETS (E-WALLETs)	Comprise 'electronic accounts that clients can manipulate directly to send payments to other wallets or merchants.'[a]
FLOAT	Is 'the balance of e-money, or physical cash, or money in a bank account that an agent can immediately access to meet customer demands to purchase (cash-in) or sell (cash-out) electronic money.'[a]
KNOW YOUR CUSTOMER (KYC)	Comprises 'a set of due diligence measures undertaken by a financial institution, including policies and procedures, to identify a customer and the motivations behind his/her financial activities. KYC is a key component of anti-money laundering/combating the financing of terrorism efforts.'[a]
OVER-THE-COUNTER (OTC) TRANSACTIONS	'Occur when clients hand cash to or receive cash from agents, who execute transfers electronically on behalf of senders and receivers. In such transactions, clients do not need to have their own e-wallets.'[a]

DEFINITIONS

CONCEPTS	DEFINITIONS
CORE BANKING SYSTEM (CBS)	Is the back-end data processing application/ software for processing all transactions that have occurred during the day and posting updated data on account balances.[b]
ENHANCED DATA RATES FOR GSM EVOLUTION (EDGE)	Is a technology that can provide up to three times the data capacity of general packet radio services. 'EDGE enables the delivery of more demanding mobile services, such as … multimedia messaging, full web browsing and e-mail on the move.'[c]
GENERAL PACKET RADIO SERVICES (GPRS)	Is a broadly deployed wireless data service, which 'enables people to enjoy advanced, feature-rich data services, such as e-mail on the move, multimedia messages, social networking and location-based services.'[d] The data system charges based on volume of data transferred, instead of billing per minute of connection time.
MANAGEMENT INFORMATION SYSTEM (MIS)	Is the entire back-office system, including portfolio management and reporting. It is broader than a core banking system, which is for capturing and processing data. As described by the World Bank, it is a system that helps management make, carry out and control decisions. They 'capture and store data, process data to produce meaningful and relevant reports, and support operations by enforcing defined processes and providing an audit trail.'[e]
MOBILE POINT OF SALE (mPOS)	'Is a smartphone, tablet or dedicated wireless device that performs the functions of a cash register or electronic point of sale terminal.'[f]
POINT OF SALE (POS)	Is a device that interfaces with payment cards to make electronic fund transfers. It is also known as a payment terminal, POS terminal, credit card terminal, or electronic fund transfer at POS terminal.
UNSTRUCTURED SUPPLEMENTARY SERVICE DATA (USSD)	Is a communications service controlled by mobile network operators. It is accessed from any mobile phone by dialling a number that starts with * and ends with #. It opens a session enabling the user to perform transactions such as mobile payments.
VALUE ADDED SERVICE (VAS)	Is 'a popular telecommunications industry term for non-core services of mobile network operators.'[a]
VIRTUAL PRIVATE NETWORK (VPN)	Is a network that is constructed using public wires—usually the Internet—to connect to a private network, such as a company's internal network. There are a number of systems that enable the creation of networks using the Internet as the medium for transporting data.
WIDE AREA NETWORK (WAN)	Is a telecommunications network or computer network that extends over a large geographical distance. The Internet is an example of a WAN.

a Raksha Vasudevan with others, 'Market System Assessment of Digital Financial Services in WAEMU,' CGAP Working Paper, pp. xxi–xxiii (Washington DC, CGAP, 2016). Available from http://www.cgap.org/publications/market-system-assessment-digital-financial-services-waemu

b Gartner, 'IT Glossary: Core Banking System.' Available from http://www.gartner.com/it-glossary/core-banking-systems/ (accessed April 2017).

c GSMA, 'EDGE.' Available from http://www.gsma.com/aboutus/gsm-technology/edge (accessed April 2017).

d GSMA, 'GPRS.' Available from http://www.gsma.com/aboutus/gsm-technology/gprs (accessed April 2017).

e Lauren Braniff and Xavier Faz, *Information Systems: A Practical Guide to Implementing Microfinance Information Systems*, p. 2 (Washington DC, CGAP/The World Bank, January 2012).

f Margaret Rouse, 'Definition: mPOS.' Available from http://searchcio.techtarget.com/definition/mPOS-mobile-point-of-sale (accessed April 2017).

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Client of CEC Cameroon performing transaction with agent
Courtesy of CEC Cameroon

INTRODUCTION: OVERVIEW OF THE TOOLKIT PROJECT

Delivery channels have evolved drastically over the past 10 years from traditional delivery channels that were mainly physical locations, such as bank branches or automated teller machines, towards alternative delivery channels, also often called digital channels. The latter encompass Internet banking, mobile banking and agent banking.

In the past, traditional channels could theoretically provide the full range of financial services to clients, whereas alternative delivery channels/digital channels could only provide limited services (cash-in/out in the case of mobile network operators, deposits/withdrawals in the case of financial institutions), balance enquiries, payments and transfers. This vision is less and less accurate as alternative delivery channels/digital channels evolve towards providing a full range of services, from client registration to savings collection through collectors or phones, and even credit scoring and loan requests, disbursements and repayments. Technology is facilitating the development of these new channels. Point of sale devices, mobile phones, tablets and netbooks are now enabling transactions anywhere, anytime. The technology is the means for transactions, whereas alternative delivery channels are the means of distribution. As pointed out in the 2015 International Finance Corporation *Handbook: Alternative Delivery Channels and Technology*, this distinction (technology versus channels) is fundamental.

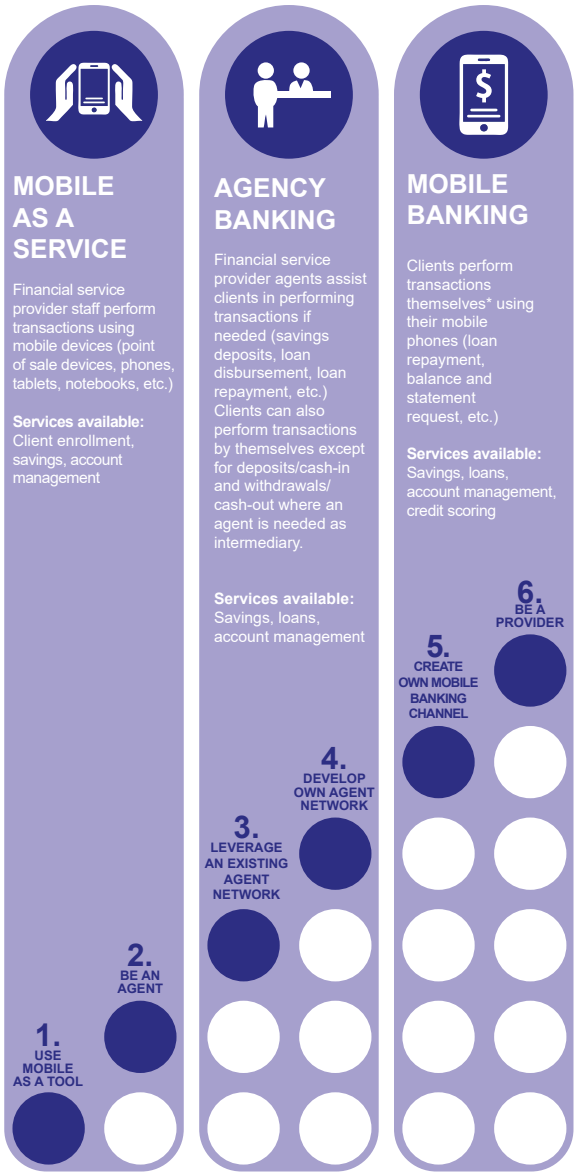
Another fundamental distinction is the critical difference between financial institutions and mobile network operators when it comes to digital finance transactions. Financial institutions 'own' the funds and hence prefer storing value (making money out of intermediation), while mobile network operators 'transact' the funds and hence prefer moving value (making money out of commissions). For the purpose of these toolkits, the authors refer to cash-in/out transactions when discussing mobile network operators and deposit/withdrawal transactions when discussing financial institutions.

MicroLead toolkit project

PHB Academy is supporting MicroLead, a United Nations Capital Development Fund global initiative, in releasing a series of toolkits designed for financial service providers to succeed on their digital journey, with a focus on financial institutions in particular. These toolkits capitalize on and complement existing research, publications and documentation and have been developed based on the experience of MicroLead and PHB with over 100 digital financial service implementations.

Six-step business framework

Six possible business models have been defined for financial service providers eager to go digital (see the figure). The business models are conceived as different steps financial service providers can take on their digital journey. Financial service providers are free to start anywhere in this framework but should be conscious that, the higher up they decide to start in the journey, the greater the efforts to bear.



* Except for cash-in and cash-out transactions performed at agents

The first two business models of this framework consist of using mobile as a service, where basic transactions are performed by staff of the financial service provider using mobile devices. They are described in 'Toolkit #1: Use mobile as a tool' and '#2: Be an agent.' Models 3 and 4 describe agency banking, where agents (of a mobile network operator, payment service provider or financial institution) assist clients with the transactions if needed. Clients can also perform transactions by themselves except for cash-in/out where an agent is needed as intermediary. They are described in 'Toolkit #3: Leverage an existing agent network' and '#4: Develop own agent network.' Models 5 and 6 describe mobile banking, where clients transact directly on their financial institution account, performing the operations themselves using their mobile phones. They are described in 'Toolkit #5: Create own mobile banking channel' and '#6: Be a provider.'

Microcred agent in Senegal
Courtesy of Microcred

OVERVIEW OF TOOLKIT 4

This toolkit is the **fourth** in a series of six toolkits aimed at supporting financial service providers to go digital.

This toolkit describes the fourth model that a financial institution can choose: **to develop its own (proprietary) agent network.** In this model, a financial institution identifies, recruits, trains, brands and manages its own network of third-party agents through which to distribute its financial products and services. The fact that it is the financial institution that handles all of these agent-related responsibilities is a key difference from Model 3 (Leveraging an existing agent network), in which the digital financial service provider (mobile network operator or payment service provider) recruits, trains and manages the agent network and the financial institution leverages it. Another key difference between Models 3 and 4 is that, in Model 3, the agent facilitates mobile money operations while, in Model 4, the agent facilitates operations directly on a financial institution account. Most often there is no e-money involved in Model 4.

This toolkit is composed of two documents:

- This document, 'Part 1: Business model description,' describes the business model and recipe for success. International examples from Equity Bank in Kenya and FINCA in the United Republic of Tanzania and Democratic Republic of the Congo illustrate how to successfully implement this model.
- The document 'Part 2: Case studies' describes the detailed cases of NBS Bank in Malawi and Microcred in Senegal, which have developed their own network of agents, and highlights the case of Caisse d'Epargne et de Crédit in Cameroon, which is in the process of implementing its own network of roving and fixed agents.

In this toolkit, the authors make a clear difference between financial service providers (FSPs) and financial institutions (FIs; banks or non-banks).

FIs are a form of FSP. FSPs are broader and cover FIs, mobile network operators and payment service providers.

When the term 'FI' is used in this toolkit, the authors refer specifically to financial institutions and non-bank financial institutions but NOT to mobile network operators and payment service providers.

While in many cases an FI would offer both agency banking and mobile banking, the authors have assumed for this toolkit **that the FI will only build its own agent network and that the interaction with clients will be over the counter** with the agent using a mobile/point-of-sale/web interface for conducting the transaction on behalf of the FI client.

The authors refer to fixed agents in this toolkit most often (as opposed to roving agents).

Mobile banking operations will be covered in 'Toolkit #5: Create own mobile banking channel' and 'Toolkit #6: Be a provider.'

Biometric transaction on POS device
Courtesy of FINCA DRC

SECTION 1:
EXECUTIVE SUMMARY

Agents are the cornerstone of any digital financial service (DFS). They allow clients to deposit or withdraw from their account, often at a small kiosk or local store, without needing to physically visit an FI branch. Given the importance of agents, an FI may decide that, rather than rely on an agent network offered by another DFS provider (mobile network operator [MNO] or third-party provider), it will identify, recruit, train, brand and manage its own agent network, **though this approach does come at a significant cost in both time and resources.**

An FI that wishes to develop its own agent network has three options from which to choose:

1. Contract with an existing agent network aggregator. This option is not the same as the model described in 'Toolkit #3: Leverage an existing agent network,' as these agents have to be set up and trained on a proprietary solution and technology.[1]

2. Leverage an existing distribution network (i.e., contract with an existing chain of shops like the post office, a supermarket chain or a petrol station company).

3. Create an agent network from scratch with independent third parties (i.e., grocery stores, small businesses or branded individuals located outside the branch in a busy area).

The benefit of developing and managing a fixed agent network is to significantly expand the number of financial access points for clients in a more cost-efficient way, as opposed to using salaried, roving staff, as is the case in 'Toolkit #1: Use mobile as a tool.'

Compared to using a third-party agent network, as in 'Toolkit #3: Leverage an agent network,' developing one's own network allows the FI to have full control over fees charged to clients and commissions earned by agents, as well as a minimum level of service provided by agents in terms of liquidity, service quality, branding, etc. Thus, the FI can ensure the clients get the user experience the FI wants them to have, rather than needing to compromise by using the agent network of another FSP. This approach should ultimately give clients greater trust in using the agency channel, while at the same time expanding the reach of the FI in a cost-effective manner by increasing proximity and convenience for existing and potential clients to access the needed services. Table 1 displays examples of FIs that decided to develop their own agent network, in East, West and Southern Africa.

Table 1: Examples of financial institutions that developed their own agent network in Africa

Geographical area	Financial institution examples	MicroLead Partners
East Africa	• FINCA, United Republic of Tanzania • UOB, Rwanda • ACSI, Ethiopia • Equity Bank, Kenya	• CRDB, Burundi
West Africa	• Diamond Bank, Nigeria • Microcred, Senegal • FINCA, Democratic Republic of the Congo	• CEC, Cameroon • Fidelity Bank, Ghana • RCPB, Burkina Faso
Southern Africa	• Microcred, Madagascar • FINCA, Zambia	• NBS Bank, Malawi

Acronyms: ACSI, Amhara Credit and Savings Institution; CEC, Caisse d'Epargne et de Crédit; RCPB, Réseau des Caisses Populaires du Burkina; UOB, Urwego Opportunity Bank

1 This option is not the same as model 3 since the agent uses an FI bank account to perform transactions and not e-money, as will been seen afterwards.

In this model, transactions are initiated by clients who visit an agent and conduct an over-the-counter (OTC) transaction. The majority of transactions are deposits and withdrawals, though other services also often include balance enquiries, statements, bill payments and additional transactions that can normally be completed in a branch. Where regulation allows, the FI may want to offer account-opening services as well. In most countries, applying for/opening an account can be initiated with an agent but must be finalized at the FI, either by having the client visit a branch to finalize the account-opening process or by having the FI validate the client's identity and documentation at headquarters and granting remote approval of the account.

The FI does not require a specific licence to operate under this model, though the FI usually does need permission from the central bank to develop its proprietary agent network and the FI at a minimum must comply with the country's regulations in terms of agent requirements and authorized services that agents can perform.

In this model, the FI does not need to form a partnership with an MNO (for transactions) as it is not using an MNO agent network. It may still require an agreement with an MNO to use the unstructured supplementary service data (USSD) channel of the MNO to perform transactions (although the FI might decide to use its own technology/platform, as will be seen in the section on technology later in this document).

Developing an agent network is often seen as the next big step for an FI that has begun its DFS journey by experimenting with mobile devices and its own staff (Model 1) and/or that does not want to rely on an agent network of a third-party DFS provider (Model 3). Yet, this model is not an easy nor a short path. Please refer to box 1 for what to consider before making the decision to develop a proprietary agent network.

Application on agent tablets to register clients
Courtesy of Microcred Senegal

Box 1: Critical considerations for a financial institution before it decides to develop its own agent network

An FI that is interested in developing its own agent network should be aware that agency banking is still in its relative infancy and that many deployments are as yet a work in progress. Thus, there are few examples of success (or failure) from different deployment models that have been operating for a lengthy period of time.

What is not in doubt, however, is that all agency banking models require considerable financial investment for capital expenditures (CapEx) and operational expenditures (OpEx), especially human resources to identify, recruit, train, brand and manage agents. Consequently, it can take considerable time to pilot and roll out the service. Thus, **it is normally recommended that only larger/more resourced FIs consider this model.** While the concept of agency banking is clear, not every organization has the means to create its own agent network; reaching breakeven under this model can be very difficult, even for well-resourced FIs (some of which also have financial and technical assistance). Refer to the case studies presented in this toolkit (both in Part 1 and Part 2) to read about the challenges some such FIs have experienced in developing their own agent network. Please keep in mind that all the FIs presented are microfinance banks with a large customer base and access to considerable financial resources, and yet they have not had a smooth path and have yet to achieve financial breakeven.

On one hand, it is very important to remember that agency banking is part of an outreach strategy that has as key target segments micro businesses and poorer households. Thus, an interested FI should ask, how profitable—even under best case operational scenarios—can the agency channel ever be? Where there are finite resources, the FI must consider the financial investment required and compare it against more profitable market segments. As a rule of thumb, 80% of the revenues of an FI come from the top 20% of its high net worth individuals, trade finance, and treasury bills, provided the FI has such clients to 'subsidize' the poorer segment.

On the other hand, while the agency channel in and of itself may be loss-making until it reaches significant scale, there are non-financial benefits that may sway a CEO and/or board of directors to decide to deploy an agency channel. Intangible assets that agents bring include building the brand and increasing market presence and awareness.

An interested FI should also consider the regulatory context in which it operates. In countries such as Nigeria where MNOs are not allowed to develop agency banking, an FI may have a competitive advantage to leverage. In others where agency banking is not allowed or not yet allowed for FIs, partnering with an existing digital FSP that already has its own agent network may be the best option for an FI.

The decision is also influenced by the competitive environment: both the FI positioning in the market (Is it a market leader with strong presence or a small player?) and what the competition is already doing. Are there already well-developed agent networks covering the country and the areas where the FI operates or wishes to operate? If so, it might be wiser for the FI to leverage an existing agent network than to recreate an agent network, which takes time and money. Yet, in a competitive market like the one in the United Republic of Tanzania, a proprietary agent network might be seen as a 'must have' for FIs, since all the major FIs have one or are developing one. In other words, those that have not done so might suffer from a competitive disadvantage. Another factor is the 'first mover/last mover' benefit in the digital market. An FI might decide that creating its own agent network will give it a 'first mover' advantage, which for instance is what Equity Bank in Kenya and Microcred in Senegal decided. If an FI is among the last in its market to embrace the digital path, it should consider whether a proprietary agent network will bring any competitive advantage—whether it is a 'must have' to remain competitive or whether it should ride on existing agent networks and enjoy the 'last mover' benefit of not having to invest in an agent network and instead being able to leverage existing ones.

With the above in mind, once an FI has 1) analysed the macro-economic, regulatory and competitive context and 2) taken into account its strategic positioning, direction and resource availability, and then 3) performed a self-assessment (using the tool provided in this toolkit) and determined that it meets the criteria and ultimately 4) made the decision to move forward with agency banking, the FI can consult this toolkit for a 'how to' or recipe for success.

SECTION 2:

DESCRIPTION OF THE BUSINESS MODEL

As their initial step into the formal financial sector, clients are increasingly likely to interact first with agents, since the chance of finding a kiosk or shop offering agent services near where they live or work is usually higher than finding an FI branch in the same area. This likelihood is particularly true in sub-Saharan African countries, where the rapid growth of mobile subscriptions is driving mobile money account-opening.[2] Moreover, with regulation changes to allow agency banking, it is now more and more the case that FI clients can access almost as wide a range of FI/banking services at an FI agent, as they can at an FI branch.

FIs increasingly understand the business case of leveraging a network of contracted agents to offer their products and services, as opposed to setting up brick-and-mortar branches; however, they often do not have the capacity to manage large-scale distribution networks nor the complex management information systems (MIS) to do so. As a result, many decide to partner with existing DFS providers and piggyback on their agent networks to increase their outreach (see Toolkit #3). Yet, relying on an external agent network does not allow FIs to have direct control over the client experience. Not having control means that, if agents are unable to provide quality services (e.g., agents lack consistent liquidity, causing problems for loan disbursement), the FIs may not only lose business generation from their clients but also risk their reputation and lose client trust and confidence.

With that in mind, this toolkit looks at the benefits and challenges for FIs that decide to develop and manage their own agent network, rather than partner with an FSP who has an existing network.

PRODUCTS AND SERVICES AVAILABLE WITH AGENTS

An agent is 'a person or business that is contracted to facilitate transactions for users.'[3] Depending on regulation, the main products and services that are offered through an FI agent network are these: 1) account-opening, 2) deposits and withdrawals, 3) loan disbursements and repayments (which have the same process as deposits/withdrawals since they go through a savings or current account), 4) account information, 5) transfers from account to account at the FI, and 6) interbank transfers, where regulation allows them (e.g., M-BIRR in Ethiopia, where the FIs are the founding owners of the service).[4] The agent should also actively promote the products and services of the FI as well as provide general information and a first line of support to clients regarding products available and their characteristics, fees for the services, opening times, means to contact the FI for a second line of support (e.g., call centre, branch contact) and answers to other frequently asked questions.

Account-opening

Depending on regulation, an agent may either fully open an account for a client or collect information for account-opening on behalf of the FI, usually for current and savings accounts. Account-opening generally involves collecting required know-your-customer (KYC) documentation, such as an identification with a picture, a signed form and sometimes biometrics, and then sending the information to the FI to create an account for the client. Registration can be done using a virtual private network (VPN) on a computer or via the agent's phone/tablet/point-of-sale (POS) device. The device must have in-network connectivity and capability for taking photos (of the client/identification), scanning fingerprints (if applicable) and potentially uploading the signed form, all of which are 'sent' electronically to the FI. There is also a process for FI field staff to collect hard copies from the agent, which is often required by regulation. NBS Bank in Malawi is using its agents to perform account-opening, as explored in a case study in Part 2 of this toolkit.

2 World Bank, 'The Little Data Book on Financial Inclusion 2012' (Washington DC, 2012); World Bank, 'The Little Data Book on Financial Inclusion 2015' (Washington DC, 2015).

3 GSMA Mobile Money for the Unbanked, 'Mobile money definitions,' p. 2 (London, July 2010). Available from http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2012/06/mobilemoneydefinitionsnomarks56.pdf

4 Refer to 'Part 1: Business model description' of Toolkit #3 for the case of microfinance institutions in Ethiopia.

Deposits and withdrawals

In a deposit transaction, the agent takes cash from the registered client and credits the client's FI account on the FI-provided device for the same value.[5] In most cases, the deposit is free of charge for the client, while the agent receives a commission.

In a withdrawal transaction, the client requests cash from an agent against a debit on his/her FI account. The cash the agent gives is from his/her own resources. Contrary to deposits, withdrawals are very often accompanied by a client fee, usually deducted automatically from the client's FI account and shared between the FI and the agent (commission). However, this is not always the case: in the FINCA International agency banking model, FINCA Express, both deposits and withdrawals are deliberately kept free of charge for clients to encourage adoption of savings behaviour (while agents do receive commissions from FINCA for both transactions).

Loan disbursements and repayments

Following the same logic as deposits and withdrawals, an agent network can allow for loan disbursements and repayments through agents. In a loan disbursement, the FI credits a client's account with the approved loan amount, which can then be withdrawn by the client at his/her convenience directly at an agent outlet. The client can withdraw a portion or the total amount of the loan. Usually the client withdraws the full amount, all at once. Vice versa, in a loan repayment, a client deposits the amount due for a loan instalment in his/her account, which is then automatically debited on the loan repayment date (alternatively, the repayment does not require a deposit if the amount is already in the client's account).

FIs need not necessarily offer both disbursements and repayments through agents (based on their own considerations and available technology): for example, the FINCA International agency banking model offers both loan disbursements and repayments through FINCA Express agents,[6] whereas the Urwego Opportunity Bank mHose model in Rwanda allows for loan repayments but not disbursements through its agents. Loan repayments through agents are more widespread than loan disbursements (often a second step), as the latter require more liquidity management to ensure agents have the required cash when customers want to withdraw their loans.

Account information

Agent networks can also enable FI clients to access information about their accounts, such as by making a balance enquiry or ordering an account statement. Sometimes there is a charge for this service, while other times the FI offers a limited number of free enquiries per month, after which a fee is charged.

Transfers

In a transfer through an agent network, the sender's account at the FI is debited by a given amount and the receiver's account is credited by the same amount. There may or may not be a client fee for this service.

Whether account-to-account transfers are only allowed within the same FI or also between different FIs depends on whether there is a national payment system available in the country and if the FI is connected to it, allowing for bank interoperability. In this instance, there is always a client fee.

Other products

Depending on regulation on the one hand and FI policies on the other, it may be possible for an agent to provide other services such as accepting loan applications (though the loan decision is always made at the branch/head office), providing bill payment services, offering airtime purchases, etc.

OVERVIEW OF DISTRIBUTION CHANNELS

An FI that wishes to develop its own agent network has three options from which to choose:

1. Contract with an existing agent network aggregator. This option is not the same as the model described in Toolkit #3, as these agents have to be set up and trained on the proprietary solution and technology of the FI.

2. Leverage an existing distribution network (i.e., contract with an existing chain of shops like the post office, a supermarket chain or a petrol station company).

3. Create an agent network from scratch with independent third parties (i.e., grocery stores, small businesses or branded individuals located outside the branch in a busy area).

5 Depending on the country's regulation, the agent might not be allowed to perform transactions directly on the client's account, in which case the agent has an account at the FI on which transactions are performed and then the money is credited/debited by a transfer to the client's account. Microcred in Senegal is using an agent account at the FI as an intermediary in the transaction.

6 The way FINCA Express works is that people need to have funds in any of their front-end accounts (current or savings), and on the due date, the system checks the balances and pulls the money first out of the current account and then out of the savings account if needed.

Option 1: Leverage an existing network—contract with an existing agent network aggregator

With this option, as shown in figures I and II, the FI enters into a partnership with the manager of an existing network of points of sales/services in the country in order to use its service points as agents. This type of partner is sometimes known as a 'super dealer.'

The partner/super dealer takes on the responsibility of recruiting agents (in collaboration with the agent network manager [ANM] at the FI), training agents, managing agents, handling liquidity management, monitoring quality and supporting the network to offer FI agent services.

The FI nominates an ANM who monitors the agent network and takes care of all administrative aspects, ensuring the core banking system (CBS) is reconciled, managing commissions, etc. This full-time position is what makes Model 4 different than Model 3, as in Model 3 the FI has no direct control over the agent network—the agents report to the MNO or digital FSP. In the present model, the agent network is that of the FI, even though there is an agent network aggregator as intermediary. The ANM is in charge of making sure recruitment, training, management and monitoring of the agent network goes according to the processes defined by the FI.

The FI can also decide to have a more hands-on approach by nominating a specialized agent monitoring and liquidity manager (ALM), or department, within the FI who works closely with the ANM. In this configuration, the FI gets more involved in the liquidity planning of agents. This approach is particularly necessary when agents can perform loan disbursements. There should be a 'dotted reporting line' between the super-agent ANM and the FI ANM so that the FI ANM can provide liquidity guidelines to the super-agent ANM and plan for peak periods (loan disbursements and repayments).[7] For that, the FI ANM works closely with the FI ALM who providers him/her with the schedule of planned disbursements.

The advantage of this option is that the FI can build upon a network of service points quickly, as they are already established and recognized in the country or target area of operation and the partner already knows how to manage an agent network. There is no need to identify and recruit agents one by one; rather, it is simply necessary to add an extra set of functions to the existing service points/agents, training and monitoring them to provide the products and services of the FI. Additionally, this option allows peaks in liquidity needs (e.g., loan disbursements) to be more easily forecasted and planned for than when working with independent retailers.

On the other hand, a disadvantage of this option is that the visibility of the FI may be reduced, as the existing service points/agents are primarily associated with the services provided by the super dealer rather than those of the FI. This situation could be exacerbated if the FI works with multiple super dealers and could end up diluting the brand. Another possible disadvantage is that existing agents may not be keen to take on an additional set of functions, hence limiting promotion of FI products. Finally, the FI is unable with this option to challenge the level of service provided across the agent network since it has less control over it.

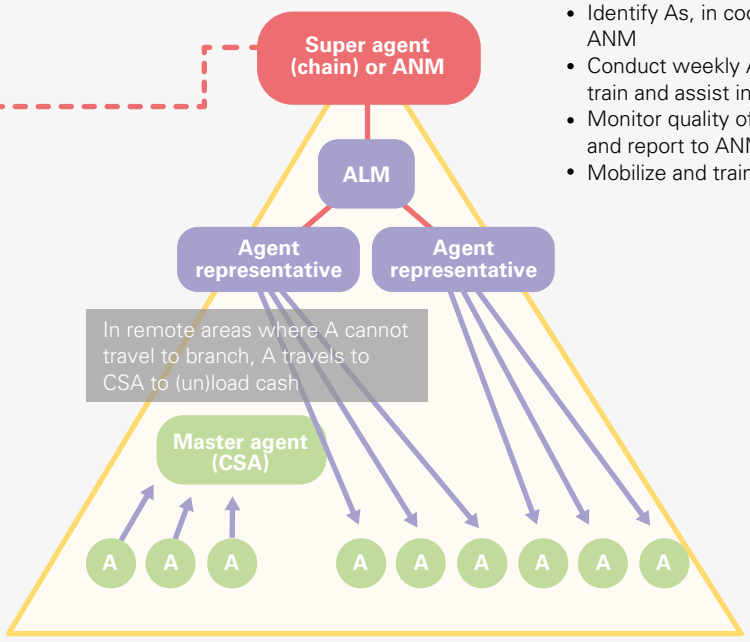
7 To clarify the difference between a super dealer and a super agent, a super dealer ONLY looks at liquidity issues while a super agent handles agent management, which should include liquidity management. At times, the super agent needs support from the super dealer, for example at the time of loan disbursement.

Figure I: Agent network structure when financial institution outsources most operations to super dealer

ANM or super agent:
- Selects and signs contracts with As
- Manages the A-Reps

ALM:
- Supports ANM and A-Reps with liquidity management and agent monitoring
- Takes care of administrative processes (agent commissions, reconciliation, etc.)

LEGEND
A agent
A-Rep agent representative
CSA cash-supply agent
ANM agent network manager
ALM agent monitoring and liquidity manager
FI financial institution



A-Reps:
- Identify As, in cooperation with the ANM
- Conduct weekly A visits to support, train and assist in liquidity
- Monitor quality of As and CSA and report to ANM
- Mobilize and train clients

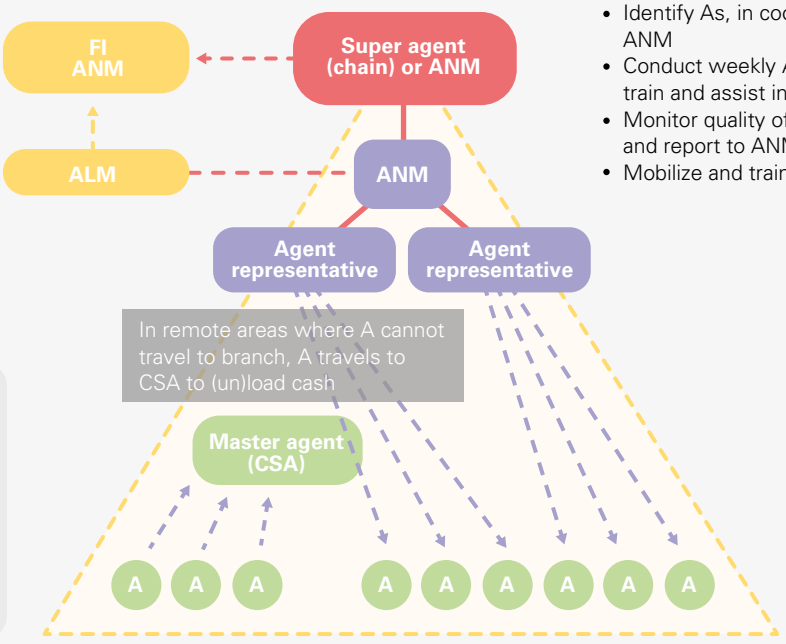
Agent network

Figure II: Agent network structure when financial institution manages liquidity in close collaboration with super dealer

ANM or super agent:
- Selects and signs contracts with As
- Manages the A-Reps
- Selects and manages super dealers

ALM:
- Supports ANM and A-Reps with liquidity management and agent monitoring
- Takes care of administrative processes (agent commissions, reconciliation, etc.)

LEGEND
A agent
A-Rep agent representative
CSA cash-supply agent
ANM agent network manager
ALM agent monitoring and liquidity manager
FI financial institution



A-Reps:
- Identify As, in cooperation with the ANM
- Conduct weekly A visits to support, train and assist in liquidity
- Monitor quality of As and CSA and report to ANM
- Mobilize and train clients

Agent network

Option 2: Leverage an existing network—contract with an existing chain of shops

With this option, as shown in figure III, the FI contracts with an existing network of organized points of sale (e.g., post office, petrol station company, retail chain or pharmacy chain).

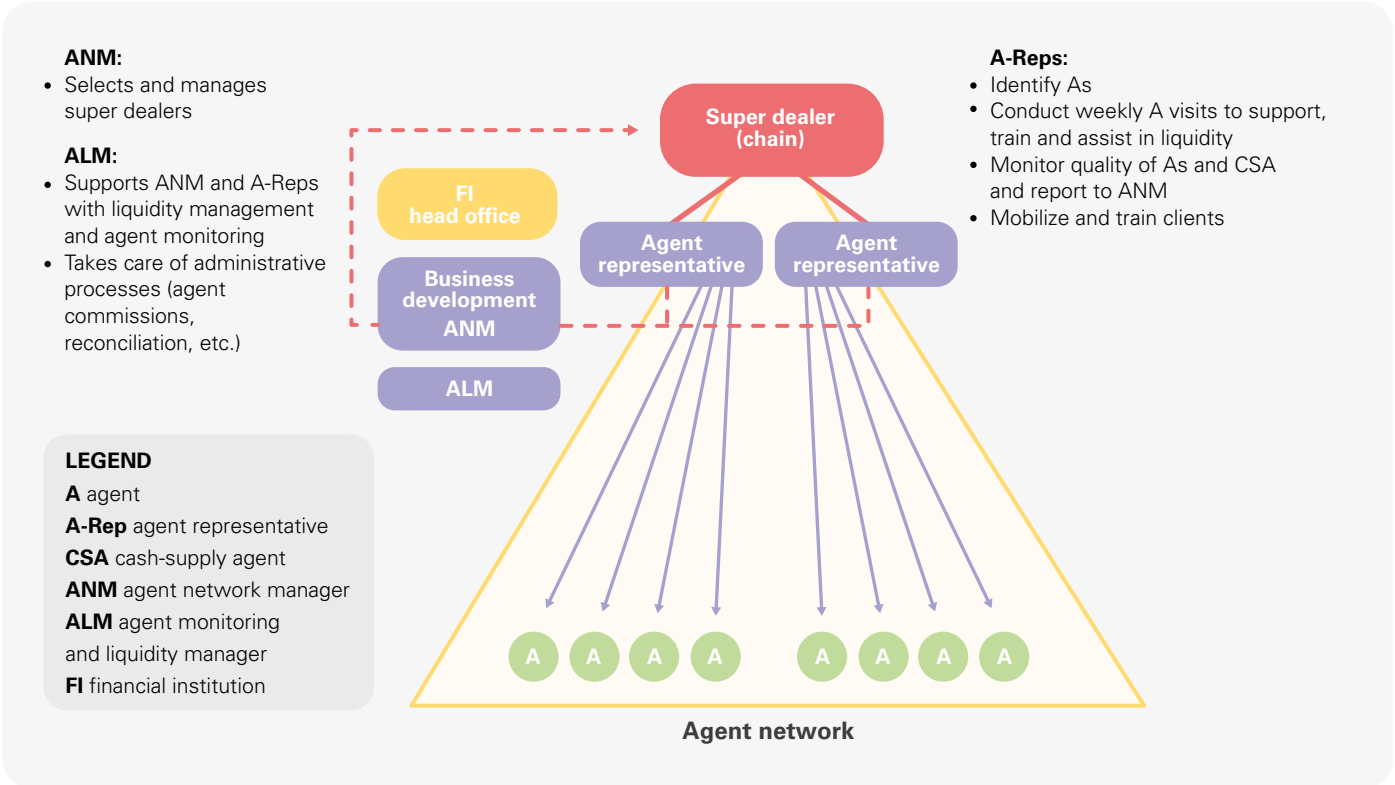
The FI is in charge of identifying the right partner and contracting with the partner. The partner is then in charge of training, monitoring and managing agents, including handling liquidity management. Most often, the set-up (training, etc.) is the responsibility of the partner and the operational management (monitoring and managing agents) is the responsibility of the FI. However, the FI usually nominates an ANM and an ALM to work closely with the partner/agent representatives of the chain to forecast liquidity of agents.

Like in option 1, the advantage of this option is that the FI can build upon a network of service points quickly, as they are already established and recognized in the country or target area of operation and the partner already knows how to manage an agent network. There is no need to identify and recruit agents one by one; rather, it is simply necessary to add an extra set of functions to the existing service points/agents, training and monitoring them to provide the products and services of the FI.

Additionally, this option allows peaks in liquidity needs (e.g., loan disbursements) to be more easily forecasted and planned for than when working with independent retailers.

The disadvantages of this option are that the retail shops of the partner may not be aligned with the target client segments of the FI (e.g., Shoprite/Total is not for the 'bottom of the pyramid') and that the shops may have other priorities than being the agents of the FI. The latter is likely to happen when the commission structure and priorities of sales staff are not aligned to that of the FI.

Figure III: Agent network structure with retail chain



Option 3: Create an agent network from scratch

With this option, the FI is solely responsible for identifying, recruiting, training, monitoring and managing agents. Thus, FI branches likely have a critical role in the agent network structure, directly participating in the selection and supervision of agents.

The FI can use its clients as agents, as they already have a history with the institution and it can be a way to incentivize them. Yet, agents are still recruited one by one.

As depicted in figure IV, agents usually report to an agent representative or supervisor, who in turn reports to the FI branch or a regional manager. Agents with considerable liquidity, who are called master agents, can also play a role in this option to allow for the rebalancing of agents, when they are in need of cash or float.

The main advantage of this option is that the FI maintains full control over the entire agent network structure, ensuring its maximum visibility across agents (who are branded and clearly identifiable as FI agents) and avoiding potential conflicts of interest as in the super-dealer option.

The main disadvantage of this option is that it is costlier and more time-consuming than the super-dealer or retail-chain options, since it needs to be literally built from zero. Moreover, the multiplication of different agent networks developed by a variety of providers such as MNOs, FIs, etc. can lead to increased competition for agents' time and liquidity, which might diminish their motivation to continue providing the FI services if they do not feel they are being adequately compensated.

Figure IV: Agent network structure with independent agents

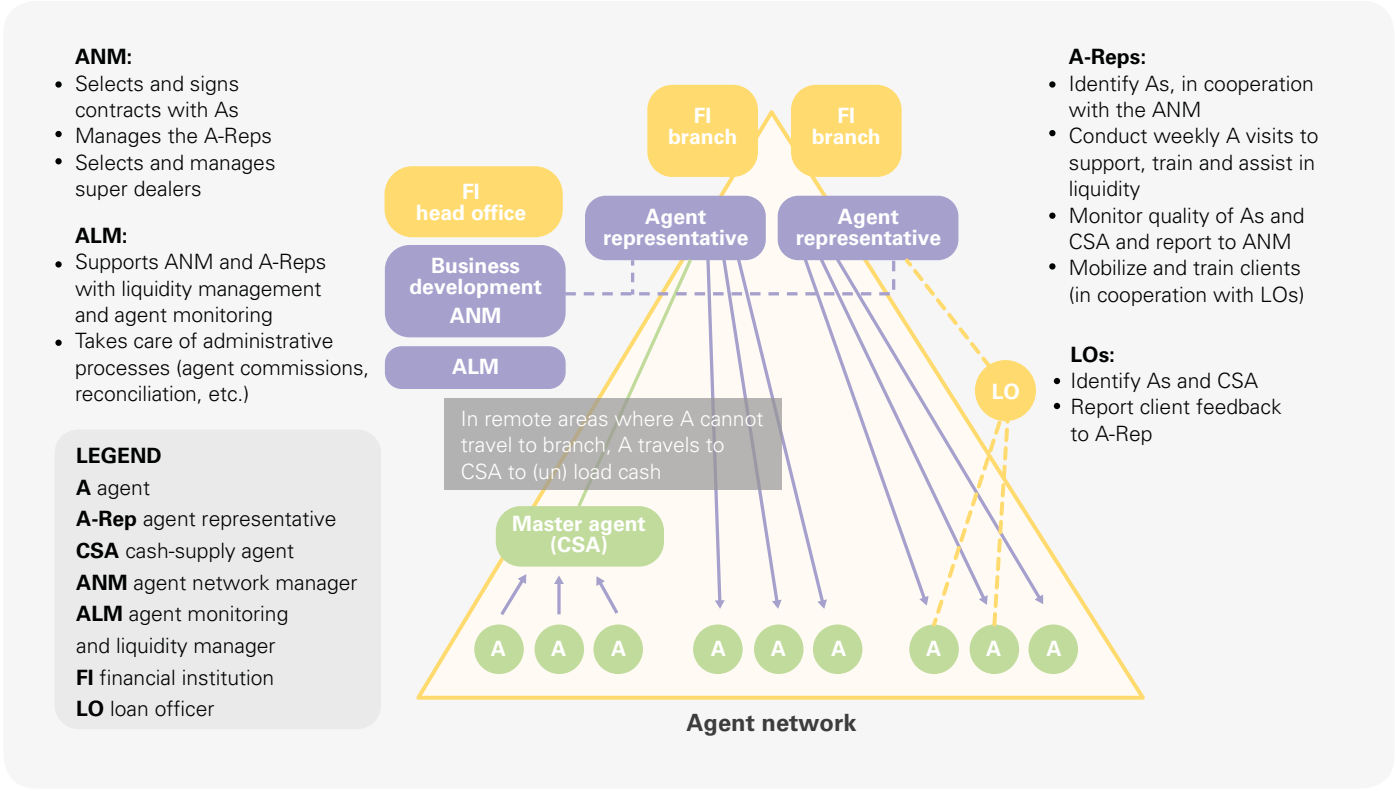


Table 2 summarizes the three options, including their respective advantages and disadvantages.

Table 2: Summary of the three options for building a proprietary agent network

	Option 1: Leverage an existing network—contract with an agent network aggregator	Option 2: Leverage an existing network—contract with an existing chain of shops	Option 3: Create an agent network from scratch
Partner	Manager of an existing network of points of sales/services in the country	An existing network of organized points of sale (e.g., post office, petrol station company, retail chain or pharmacy chain)	None
Split of roles for agent network			
Identifying agents	Partner/Super dealer in coordination with FI ANM	Partner	FI
Recruiting agents	Partner/Super dealer in coordination with FI ANM	Partner	FI
Training agents	Partner/Super dealer in coordination with FI ANM	FI	FI
Managing agents	Partner/Super dealer in coordination with FI ANM	FI	FI
Handling liquidity management	Partner/Super dealer in coordination with FI ANM and/or ALM	FI	FI
Monitoring quality	Partner/Super dealer in coordination with FI ANM	FI	FI
Role of ANM	Monitors the agent network	Trains and monitors the agent network	Recruits, trains, manages and monitors agents
Role of ALM	Plans liquidity	Plans liquidity	Plans liquidity
	Ensures reconciliation	Ensures reconciliation	Ensures reconciliation
	Manages commissions	Manages commissions	Manages commissions
Advantages	FI can build upon a network of existing service points quickly	FI can build upon a network of existing service points quickly	FI has full control over the entire agent network structure
	Partner already knows how to manage an agent network		FI has maximum visibility across agents (who are branded and clearly identifiable as FI agents)
	There is no need to identify and recruit agents one by one	There is no need to identify and recruit agents one by one	FI avoids potential conflicts of interest, as in the super-dealer option
	Peaks in liquidity needs (e.g., loan disbursements) can be more easily forecasted and managed	Peaks in liquidity needs (e.g., loan disbursements) can be more easily forecasted and managed	
Disadvantages	Visibility of the FI may be reduced	The partner retail chains may not be aligned with the target client segments of the FI	It is costly and time-consuming
	Agents may not be keen on taking on an additional set of functions	The shops may have other priorities than being the agents of the FI	Multiplication of different agent networks developed by a variety of providers such as MNOs, FIs, etc. can lead to increased competition for the agents' time and liquidity

TECHNOLOGY

Front-end technology

An FI that wishes to develop its own agent network can choose from a variety of different technologies (e.g., USSD, mobile applications, biometrics, cards) and devices (e.g., mobile phones, laptops, tablets, POS devices) for agents to provide services to clients. Many agent networks rely on dedicated applications developed for use with a mobile phone either owned by the agent or provided by the FI. These applications can include SIM application toolkits and USSD menus (for traditional phones without Internet connectivity) and/or mobile applications (for smartphones/tablets with Internet connectivity).

Alternatively, the FI can choose to provide its agents with a POS device or a USSD/phone application with a personal identification number (PIN) to connect in real time with its MIS. This set-up is used by NBS Bank in Malawi, in its agency banking model called Bank Pafupi: clients who are not registered to use the NBS mobile banking platform can use their automated teller machine (ATM) card at agent outlets provided with POS terminals to perform card-based (rather than phone-based) transactions. Urwego Opportunity Bank in Rwanda also relies on POS terminals, providing its clients with mVisa-branded cards that can be used both with POS terminals at agents and ATMs at partner FIs. Most FIs decide to provide agents with the devices to make the value proposition more attractive for agents (lower entry costs as POS devices or smartphones are expensive), yet some FIs (such as Microcred) require their agents to have their own phone or computer and provide (in the case of Microcred) only the biometric device needed to register clients.

Another option is for agents to have a web interface, though this approach often requires greater investment and training by the FI and a stable Internet connection that can handle significant amounts of data.

Receipts

It is very important to build customer trust in the agency channel, especially when using third-party independent agents whom customers are likely to be initially wary of handling such sensitive information at the start of the service, even when branded under the FI name. As such, it is critical that, at the completion of each transaction, the customer gets a receipt. Ideally, it should be a paper receipt but minimally a short message service (SMS) confirmation.

Integration with financial institution systems

The FI must have, at a minimum, a centralized CBS and should have a VPN connection between the head office and branches.

It is paramount for the FI to carefully choose an external partner to provide it with the technical platform(s) needed. For this reason, the FI must be business requirement led and not service provider led, otherwise the FI may get functionalities it does not need and lack others it does need. The FI should conduct a request for proposals to assess providers based on business and technical requirements listed. The FI system needs to be able to integrate with the technical provider's platform. Other integrations might be required to perform transfers to external entities or to an SMS platform provider to send SMS confirmations.

Alternatively, instead of using an existing technical platform, the FI can decide to develop its own technical platform, as will be seen in 'Toolkit #5: Create own mobile banking channel.'

Card provider

Often clients access their accounts with the agent through the usage of a card, unless using biometric technology, USSD with PIN, or phone application with code. It is important when developing the business requirements to address both the card-accepting device and the card itself.

An FI might partner with a third-party digital payment provider like Visa to use its platform or with a national switch like Eth-Switch in Ethiopia to provide digital financial products as well as to benefit from their network and brand.

Agent management platform

It is important for the FI to be able to manage its agent network. If the FI does not have an agent management module as part of its CBS/MIS and/or through the card management platform, then it is necessary to either buy this additional functionality from the existing vendor(s) or purchase new software with the specific purpose to manage the agent network. It should include the capabilities to issue reports, easily change fee and commission calculations, create enclosed groups of agents (levels) with different characteristics, and add billers' groups (with different commissions), merchants, etc. However, it should be noted that the FI will have to go through the integration process, which can be very challenging, and there may be issues of scalability. These considerations should be taken into account when doing due diligence of potential vendors.

The FI should define the business requirements and then put the contract out to tender vendors to bid for the business. Key functionality (at a minimum) should include the following key performance indicators (KPIs): agent volume and value of transactions, types of transactions, location/mapping of agents, fees paid by customers and commissions earned by agents, number of customers per agent, number of active customers per agent (i.e., in 30-day period) and mapping of other financial access points (as applicable/known).

Short message service platform

Depending on the model for providing confirmations of transactions, it may be necessary for the FI to interface with an SMS gateway so that an SMS is automatically sent upon completion of a transaction. Negotiating this partnership/service with an MNO may be both time-consuming and costly. However, it is also possible to have an interface with a third-party bulk SMS provider. The usual model for working with a bulk SMS provider is to pre-purchase an SMS bundle (e.g., 10,000 SMS). The FI can also choose to purchase its own SMS platform.

Call centre

As customers will no longer interact directly with FI staff, it is important that they be able to call the FI directly to ask for additional technical or operational clarification, to question any information on their accounts or to report doubtful agent behaviour. Similarly, agents should have support if they encounter any challenges, not least of which device failure. With these communication needs in mind, the FI should invest in appropriate call centre type software to log all queries and should develop a resolution process.

Connectivity

There is a range of different channels available to enable the selected agent devices (mobile phones/tablets/POS devices) to communicate with the DFS technical platform. As seen in other business models presented in this series, selecting one channel over another depends on a number of factors, such as network quality, compatibility with available devices, user experience, security, cost and ease of deployment.

The main communication channels available are the following:

- **USSD:** Most large-scale DFS providers in developing countries, particularly MNOs, rely on USSD as their primary mechanism for connectivity with agents or clients. USSD is a communications service controlled by MNOs. It is accessed from any mobile phone by dialling a number that starts with * and ends with #. It opens a real-time session enabling the user to perform transactions such as mobile payments. USSD exchanges are not stored on the network (unlike SMS).

- **SIM application toolkit:** Interfaces based on a SIM application toolkit comprise a set of commands programmed onto the user's SIM card. The menu for accessing the commands is embedded in the SIM card and accessible on the phone's menu.

- **Internet:** This channel comprises mobile, wireless or fixed line Internet connections.

Choice of device is guided primarily by the communication capacity in the target area. Different devices have different capabilities but also require different levels of data transfer. Data transfer capacities and the corresponding devices can be classified as follows:

- 2G/EDGE (Enhanced Data Rates for GSM [Global System for Mobile] Evolution): Allows for voice, SMS and USSD; works with traditional phones, smartphones and tablets (only text, no photos/signatures/biometrics).

- GPRS (general packet radio services): Allows light data transfer; works with the above plus POS devices (can transfer very light media files).

- 3G/4G: Works with the above plus laptops with dongles (can transfer photos/signatures/biometrics).

- Wi-Fi/Satellite: Is usually only available in FI branches; works with all of the above.

All of the above enable real-time exchange of data but at very different speeds and with different levels of coverage. Moreover, some devices can function in both online and offline mode. The offline mode enables agents to perform transactions when connectivity is low or absent, provided regulation of the country permits it. Transactions are documented in the device and uploaded once the device is connected, through Wi-Fi or mobile data.

Offline strategy

Though offline transactions should be a last resort due to the additional risks they present, it is nonetheless very important for the FI to have an offline strategy (if regulation allows it) as well as to have a risk mitigation plan for offline transactions in case of the following: a drop in network connectivity or damage/loss of the mobile device, which would cause considerable inconvenience for clients and potentially a lot of additional work for the FI. For example, if a client is due to make a loan repayment but is unable to do so because the agent is incapacitated, the CBS may automatically charge the client a late payment fee as well as the accrual of interest. With this situation in mind, it is important that the FI have a way for agents to quickly report any technical challenges and allow for suitable corrective action by the FI.

An offline strategy is especially important in rural areas where connectivity is often not as consistent as in urban areas and where devices can be more easily broken (e.g., by a build-up of dust). A possible mitigation strategy would be to invest in devices that can have multiple SIM cards.

SECTION 3:

DIVING INTO THE PERKS—RATIONALE FOR A FINANCIAL INSTITUTION TO DEVELOP ITS OWN NETWORK OF AGENTS

PERSPECTIVE OF THE FINANCIAL INSTITUTION

Greater control over agents

One of the key reasons for an FI to decide to develop its own agent network is to have greater control over agents, especially in terms of service quality, liquidity and branding (i.e., the client experience).

A proprietary agent network enables an FI to be fully responsible for the client experience it offers. Agents are contracted, trained, coached and monitored directly by the FI, so it is uniquely up to the FI to ensure the network performs up to expectations. For example, when relying on a third-party network, FI clients may experience difficulties finding agents with sufficient liquidity to satisfy their withdrawal needs. In this case, the FI usually has limited means to solve the problem, given it is not responsible for agent management, and can at most act as a master agent to rebalance agents with liquidity issues. In contrast, with a proprietary agent network, the FI takes direct control over the issue of agent liquidity, monitoring agents remotely and through regular on-site visits to ensure that agents are fulfilling their roles and keeping to the training. Of course, this increased control over agents comes at an increased cost for the FI, which needs to supervise agent performance directly.

With a proprietary agent network, it is up to the FI to make sure that the service offered by agents (who are contracted and not employed) is comparable to the standards of the FI (e.g., the service offered at branches).

Lastly, a proprietary agent network enables the FI to brand agents with its name and logo, which in turn facilitates a closer relationship between the FI and the clients who will associate agents directly with the FI (in contrast, co-branded agents can give clients mixed messaging).

Expanded outreach in underserved (rural) areas

Another common reason for an FI to set up an agent network is to expand its outreach in rural areas, increasing penetration and coverage among underserved clients in these areas. Indeed, the CapEx of setting up an agent are only a fraction of the cost of opening a new branch.[8] Transaction costs with agents range from US$0.27 to US$0.58 per transaction versus US$0.70 to US$1.00 at branches.[9] However, the CapEx of establishing an agent network can still be significant due to the scale of agents that must be rolled out. Different FIs have different branch-to-agent ratios, but Equity Bank in Kenya, for example, uses a ratio of 1 branch to support 40 agents.

Reduced costs

Developing a network of agents allows an FI to not only reduce fixed asset investments associated with building/renting brick-and-mortar branches but also to decrease operational and funding costs in the medium and long term (after all the costs associated with setting up the agent network have been absorbed).

An agent network allows an FI to lower its cost of funding by increasing deposit mobilization among clients and hence reducing its dependence on commercial funding sources. For example, one of the goals of FINCA International was to leverage deposits through its agent network channel, FINCA Express (along with other DFS channels), which combined should help FINCA reduce the cost of funding from more than 20% (interest paid to institutional lenders) to 2% (interest paid to depositors)—a decrease in cost of funding of 90%.

8 CapEx include the purchase of devices and the training of agents. However, OpEx are not to be underestimated (agent management, terminal duration, data consumption, etc.).

9 CGAP, 'Understanding the business case for banks in branchless banking,' presentation in February 2012.

Increased client trust

Having control over the agent network means the FI can directly impact clients' experience. If clients trust the agent to be a representative of the FI, then it can help the FI in its overall brand positioning and client loyalty. Trust can also be built through SMS confirmations and printed receipts with the name or logo of the FI to confirm the transaction.

Decongested branches

Giving clients the possibility to perform the most common transactions, such as deposits and withdrawals, at agent outlets allows branches to reduce congestion and focus more on sales and value-added services, thus improving branch staff productivity. Similarly, if clients can withdraw and repay loans from and to their accounts by visiting an agent, field officers can devote more time to prospecting and appraising new loan clients.

PERSPECTIVE OF THE CLIENT

Greater trust

Trust is of upmost importance, and in the context of this business model, it specifically refers to clients having trust in the agent to act on behalf of, and in the best interest of, the FI. In other words, from the client's perspective, carrying out a transaction through an agent should make them feel like they are interacting directly with the FI. It is for this important reason that clients should always get a receipt for any transaction carried out, whether that be a paper receipt or an SMS confirmation.

Increased proximity and convenience

By using agents, an FI can increase clients' proximity to a point of services, where they can carry out a range of the most common financial transactions. By not having to visit a distant branch, clients enjoy reduced transportation cost and travel time. Proximity and convenience can apply to both existing and new clients who would be attracted to this value proposition. However, for new clients, often there are other more important considerations such as loan availability, collateral requirements and loan interest rates; these factors are frequently a bigger determinant of which FI a client will choose.

Improved services at branches

As branches become less congested, and the FI starts to offer additional services, the value proposition to clients will improve for the occasions when they do go to a branch. Waiting time in branches, often a major client complaint, will decrease, which would be a welcome improvement for all clients but a particularly significant value added for premium customers. In comparison, the queue waiting time for clients who complete banking services with an agent is usually short. The FI may want to increase the types of branch-based services that can also be completed through agents in order to reinforce the financial reason for clients to use agents for certain transactions.

PERSPECTIVE OF THE AGENT

Whether the FI partners with an existing agent network, or builds a network from scratch, there are three primary reasons to become an agent: 1) commissions, 2) increased footfall, and 3) positive brand association and co-branding opportunities. An additional motivation for a potential agent is that he/she could have a smaller amount of cash float, as a result of clients making withdrawals, which would reduce the number of times he/she needs to physically go to a branch to make a deposit. Under this model, the agent could simply make a transfer when he/she has too much cash on hand. Note, however, that this motivation is more likely the case for rural agents; it is likely that the opposite is true for urban agents.

Commissions

The primary reason for becoming an agent is earning commissions. The retail agent and/or super dealer earn a commission on most transactions. There are three commission models: 1) flat fee, 2) percentage, and 3) tiered. A flat fee per transaction is usually used for activities such as opening accounts and checking balances. A percentage commission is normally used when the agent facilitates deposits and withdrawals. A tiered commission is typically used to make fees easier for the customer to remember. FIs that implement this model usually use tiered commissions.

There may be slightly different percentages for facilitating loan disbursement cash-out, as this transaction requires additional liquidity. Depending on the model being used and the relationship between the retail agent and the super dealer, the commission is usually split. A common commission share is 80% to the retail agent and 20% to the aggregator. Other times it might be 70%:30%.

Increased footfall to cross-sell core products/services

When a client needs to complete a banking service, implicitly there is additional footfall into the agent's business. Thus, there is an opportunity for the agent to cross-sell his/her own products/services to the FI client that came to transact on his/her FI account, whether they be agricultural inputs, groceries or indeed any type of product/service from the agent's business.

Positive brand association and co-branding opportunities

FIs are usually trusted organizations in the community. Being an agent shows that the FI has trust in the agent to carry out important roles of the FI and to uphold best practices and ethics of the FI when acting on its behalf. This positive brand association can help increase business for the agent's core products/services.

BUSINESS MODEL – KEY PERFORMANCE INDICATORS AND AVERAGE ANNUAL COSTS AND REVENUES

Setting up an agent network is a costly venture. Information technology (IT), devices, staff salaries and marketing materials are the main expenses.

Key performance indicators

Table 3 provides the forecast one FSP completed before launching its agent network in 2013. The FSP expected the activity rate to start high, with a lot of interest from clients, and then to decrease and stabilize in the second year after the 'hype' of using the service died down among regular clients.

THIS MODEL IS FOR AN FI THAT…

- ☑ Has a strategy that looks to increase outreach through physical touchpoints with its clients
- ☑ Has suitable resources to develop and grow an agent network (key costs include recruiting, training, managing and branding agent locations)
- ☑ Has capable communication and commercial teams that are ready to leverage the benefit of an increased number of touchpoints in the market

THIS MODEL IS NOT FOR AN FI THAT…

- ☒ Does not have appropriate financial resources to invest in a channel/agent management team
- ☒ Experiences national regulatory restrictions on deploying an agent network in the country

Table 3: Example forecast of key performance indicators before launch of this model

	FORECAST				
KEY INDICATORS	2014	2015	2016	2017	2018
Customers	40 000	300 000	375 000	465 000	530 000
Active customers	20 000	120 000	150 000	186 000	212 000
Agents	60	330	375	390	430
Commissions for agents and internal staff (US$)	18 295	222 659	215 986	276 653	326 803
Client activity rate (%)	50	40	40	40	40
Active clients per agent	333	364	400	477	493

Investments and recurring costs

The initial investment cost (CapEx) for this model is estimated at US$250,000 but can easily go up to US$500,000–US$1,000,000, depending on the IT investment needed and the agent network size. The recurring cost (OpEx) is in the range of US$250,000–US$500,000 yearly.

As a result, revenues from both fees on transactions and savings realized (on transaction costs, for instance) have to be in the range of US$300,000–US$1,000,000 per year to make the model profitable. Breakeven is not reached before year 3 at best, year 5 most often. Table 4 provides the detailed breakdown.

Table 4: Example benchmarks for capital expenditures, operational expenditures, and revenues for this model

	Benchmark (US$) – when at full speed (after 2–3 years)
OPEX (RECURRING EXPENSES)	
HUMAN RESOURCES	**>200 000**
Salaries	155 000
• Alternative Delivery Channel Manager	35 000
• DFS team in head office	90 000
• Onsite team to supervise agents	30 000
Recruitment and training	
• Staff recruitment cost	450 per staff
• Staff training cost	140 per staff
• Agent recruitment cost	225 per agent
• Agent training cost	70 per agent
MARKETING AND PROMOTION	**>150 000**
Campaign launch	40 000
• Above-the-line marketing: radio	15 000
• Below-the-line marketing: market activations	25 000
Annual promotion	30 000–45 000
Customer-related expenses (cards, packaging, etc.)	3 per client
Agent-related expenses (posters, books, etc.)	12 per agent
TRAVELLING AND COMMUNICATION	**31 000**
Monitoring and travel (visits to agents)	8 000
Communication	20 000
Data for agents	3 000
IT-RELATED OPEX	**68 500**
IT maintenance fee	3 500
Integration support	65 000
TOTAL OPEX (PER YEAR)	**>450 000**

Table 4: Example benchmarks for capital expenditures, operational expenditures, and revenues for this model (continued)

	Benchmark (US$) – when at full speed (after 2–3 years)
CAPEX	
SOFTWARE DEVELOPMENT, WHICH INCLUDES PLATFORM INTEGRATION AND OTHER DEVELOPMENT COSTS	**50 00–100 000**
IT EQUIPMENT	**35 000–60 000**
Computers and printers	1 000–10 000
Servers	35 000–50 000
EQUIPMENT FOR AGENTS/FIELD OFFICERS	**400–1 000 per agent**
Signage/Branding	350 per agent
Mobile phones for agents	30 per agent
POS devices for strategic agents	600 per agent
AMORTIZATION (3–5 YEARS)	
TOTAL ESTIMATED CAPEX BASED ON 100 AGENTS	750 000
REVENUES	
Fees collected on transactions	200 000–250 000
Savings on financing costs	300 000–700 000
TOTAL YEARLY REVENUES	**500 000–950 000**

Client performing transaction on agent phone - NBS Bank Malawi
Courtesy of Women's World Banking

Equity Bank Limited is a network of six microfinance banks in six East African countries: Democratic Republic of the Congo, Kenya, Rwanda, South Sudan, Uganda and United Republic of Tanzania (see table 5 for data on each bank).

Table 5: Equity Bank Group key performance indicators (2015)

Country	Launch	Customers	Branches	Agents
Uganda	2008	500 000	31	NA
South Sudan	2009	160 000	11	NA
Kenya	2010	10 000 000	167	15 000[a]
Rwanda	2011	392 000	11	833
United Republic of Tanzania	2012	764 000	14	1 000
Democratic Republic of the Congo	Procredit: 2005 Acquisition: 2015	170 000	23	NA

Source of table data except where noted: Equity Group Holdings Limited, *2015 Annual Report and Financial Statements* (Nairobi, n.d.). Available from www.equitybankgroup.com/index.php/files/download/917 (accessed May 2017).

a Equity Bank, 'Agency Banking deepens financial inclusion,' Equity News, Issue #8 (March 2015).

SUMMARY

In 2010, Equity Bank started agency banking using a hub-and-spoke model that leveraged its existing branches in Kenya. Each branch is responsible for agent recruitment, training, branding, marketing, liquidity management, operations support and monitoring, with the branch manager having agent-related KPIs. There are currently ~30,000 agents (as of March 2017).

Equity agent logo
Courtesy of Equity Bank website

OBJECTIVES FOR DEVELOPING ITS OWN AGENT NETWORK

Despite the fact that Safaricom already had an extensive network of M-Pesa agents in the country, Equity Bank Kenya decided to develop a proprietary agent network for two main reasons. First, it wanted to have control over fees charged to customers and commissions paid to agents. Second, its long-term strategy was to be a mobile virtual network operator (MVNO), which would make Safaricom/M-Pesa a future direct competitor that would put any current collaborations under considerable stress. As such, these were the primary objectives of Equity Bank Kenya for agency banking:

1. Offer the full range of banking services to customers without them having to visit a branch
2. Increase outreach to customers who cannot easily and conveniently access its urban and rural branches (reach the bottom of the pyramid)
3. Decongest bank branches

SERVICES AND CHANNELS USED

Proprietary agents of Equity Bank Kenya are a commercial entity that must be duly approved by the Central Bank of Kenya. The *2015 Annual Report* revealed that agency banking transactions had increased by 35% to 51 million in the previous 12 months (at the group level).[10] Services offered by agents include the following:

1. Application for account-opening (finalized at branch)
2. Cash deposit and withdrawal
3. Money transfer
4. Payment of school fees and rent
5. Link to mobile banking (Eazzy 24/7)

10 Equity Group Holdings Limited, *2015 Annual Report and Financial Statements* (Nairobi,

Box 2: Developing its own agent network—The case of Equity Bank in Kenya (continued)

6. Issuance and top-up of Equity prepaid card
7. Top-up of Equitel airtime
8. Application for ATM card
9. Bill payment
10. Purchase of airtime from any MNO
11. Application for reactivation of dormant account

As a 2014 case study of Equity Bank explains, agent services function thus:

> The agent opens a separate bank account for the agency business. With each cash transaction performed by the agent on behalf of the bank, this account is automatically debited (for client deposits) or credited (for client withdrawals). The amount of money in this account therefore determines (and limits) the amount of business an agent can handle on a daily basis, whether deposits or withdrawals. EBL [Equity Bank Limited] provides each agent with a GSM-enabled POS and cell phone, at no cost to the agent, which are able to connect directly to the EBL server in Nairobi.[11]

TWO-PHASE STRATEGY

Equity Bank Kenya followed a two-phase strategy by first establishing its own network of third-party agents to offer agency banking in 2010 (phase 1). In July 2015, it launched Equitel as an MVNO,[12] in order to have proprietary mobile money services that leveraged its existing agent network (phase 2). To do so, Equity Bank Kenya required an e-money licence from the Central Bank of Kenya (see 'Toolkit #6: Be a provider' for more details on its experience as MVNO).

In the first two years, Equity Bank Kenya reached 7,000 agents and 2 million transactions. As of the end of 2016, 43 million transactions were processed through agency banking versus 16 million at branches.[13] Figures V and VI demonstrate the impressive growth agency banking has experienced.

TWO KEYS TO A SUSTAINABLE BUSINESS MODEL

Ease of account-opening

To open an account, the customer fills out an account-opening form. Agents with a GPRS-enabled mobile phone input customer details, using an online application form, and take a photograph. The application is processed at the head office, and assuming no KYC issues, the account is opened. At that time, the customer receives an SMS with the account number and a PIN. An advantage of this model is that every customer account opened (by an agent) is on the CBS, which means customers do not have to go to a distant, crowded branch.

Value proposition for agents and extensive training

The value proposition for agents is fourfold:

- **Revenue:** Enjoy new revenue streams and diversify existing revenues
- **Customer acquisition:** Grow their customer base
- **Efficiencies:** Optimize cash management
- **Brand:** Benefit from the Equity brand

Equity Bank pays commissions to agents for withdrawals and deposits. As is common practice, while customers are not charged for deposit transactions, the bank still pays the agents for deposits to motivate them to enable these transactions. Equity Bank Kenya did not disclose the amount paid to agents. For clients, Equity Bank charges a bit more than an ATM withdrawal charge: K Sh 30 (US$0.29) flat fee for transactions below K Sh 2,500 (US$24) at agent outlets, K Sh 45 (US$0.44) for transactions between K Sh 2,500 and K Sh 5,000 (US$49).[14] Customers are willing to pay this charge due to the added convenience, since there are more agents than ATMs, as well as the customer service they receive. Thus, agents get both the volume of customers and the value of transactions to make the commission they earn attractive (see table 6 for all the fee tiers).

n.d.). Available from www.equitybankgroup.com/index.php/files/download/917 (accessed May 2017).

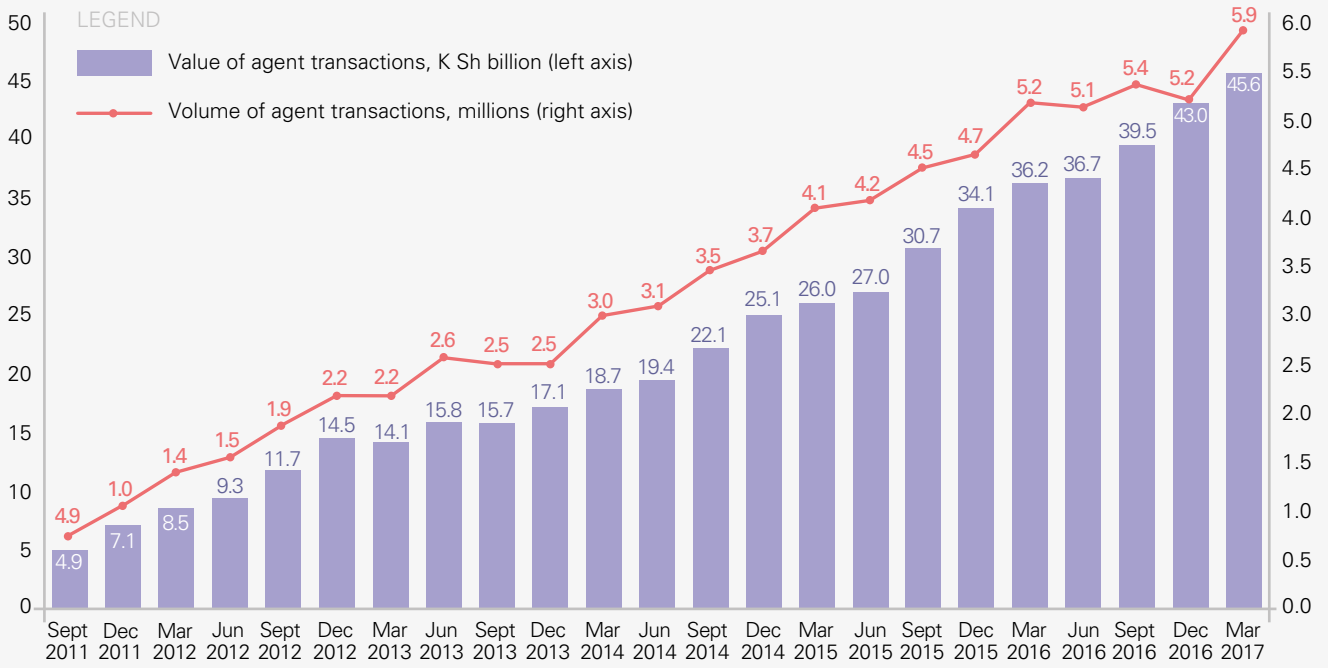
11 Ann Duval, 'Increasing Financial Inclusion in East Africa: Equity Bank's Agent-Driven Model,' p. 9 (n.p., UNCDF-MicroLead, July 2014).

12 An MVNO provides mobile services to end-users without possessing its own radio spectrum licence, or operating the infrastructure together with the base stations, switches and gateway with the home location register. A bank in this case buys/leases/partners with an MNO to use its excess capacity of existing network and can issue its own SIM cards.

13 Equity Group Holdings Limited, 'Investor Briefing & Q1 2017 Performance,' presentation. Available from http://equitybankgroup.com/uploads/default/files/2017/EquityGroupInvestorBriefingandQ12017FinancialResults.pdf

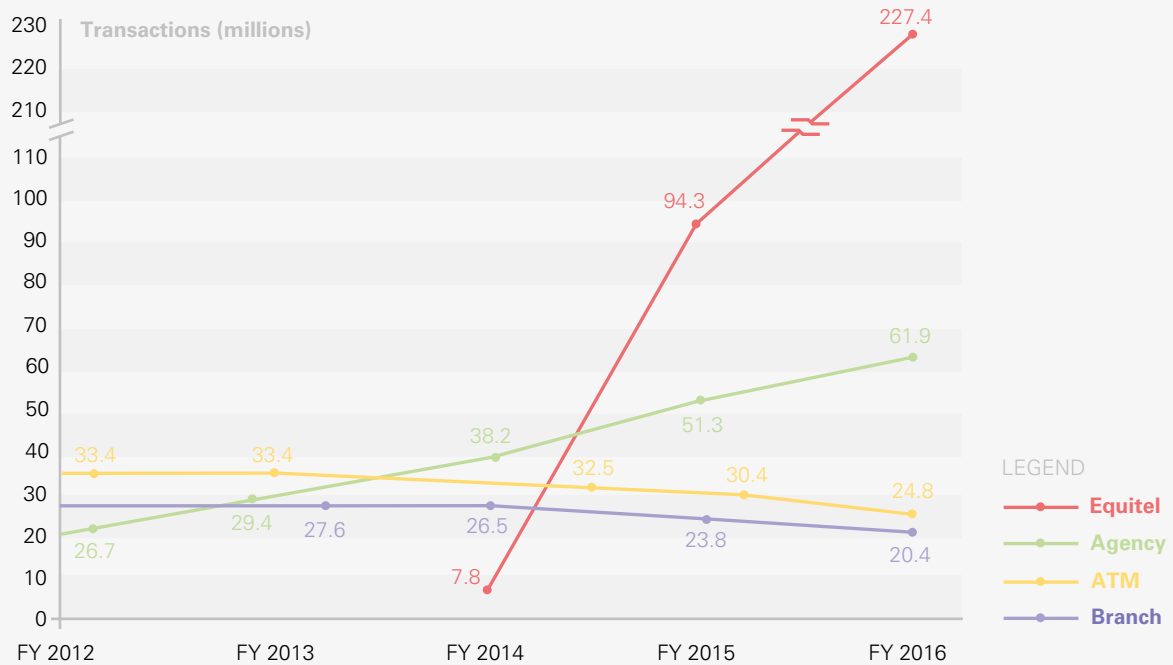
14 Conversion rate: K Sh 1 = US$0.00978 (*Source*: www.xe.com, 31 December 2016).

Figure V: Growth of agent transactions in volume and value at Equity Bank Group, 2011–2017



Source: Equity Group Holdings Limited, 'Investor Briefing & Q1 2017 Performance,' presentation, slide 44. Available from http://equitybankgroup.com/uploads/default/files/2017/EquityGroupInvestorBriefingandQ12017FinancialResults.pdf (accessed May 2017).

Figure VI: Split of transactions at Equity Bank Group, 2012–2016



Source: Equity Group Holdings Limited, 'Investor Briefing & FY 2016 Performance,' presentation from March 2017, slide 39. Available from http://equitybankgroup.com/uploads/default/files/2015/equitygroupinvestorbriefing2016fullyearfinancialresults.pdf

Box 2: Developing its own agent network—The case of Equity Bank in Kenya (continued)

Table 6: Equity Bank Kenya customer fees for withdrawals at agents

Transaction tiers (K Sh)	Customer fees
100–2 500	K Sh 30 (US$0.29)
2 501–5 000	K Sh 45 (US$0.44)
5 001–10 000	K Sh 75 (US$0.73)
10 001–20 000	K Sh 145 (US$1.42)
20 001–35 000	K Sh 170 (US$1.66)
35 001–50 000	K Sh 195 (US$1.91)
50 001–100 000	K Sh 225 (US$2.20)

Source: Biasharapoint East Africa, 'Equity Bank Agency Transactional Fees,' 22 March 2016. Available from http://biasharapoint.com/blog/equity-bank-agency--transactional-fees/

Another key to success is the extensive training agents receive: seven days of on-site training, which allows for Equity Bank branding to take place and results in new agents being in business within two weeks.

BREAKEVEN ANALYSIS

Equity Bank Kenya did not disclose any amount in terms of investments or recurring costs. No data was provided as to revenues or when financial breakeven should be reached.

For now, the main benefits are the brand, presence and market awareness that agents bring to the bank (i.e., intangible assets that cannot be quantified, rather than financial benefits).

MAIN CHALLENGES

- Establishment costs
- Recurrent training costs
- Technological issues: Network coverage
- Security issues: Increased cases of fraud
- Operational issues: Agent management
- Public awareness and acceptance

Equity Bank did not want to comment more on the challenges experienced.

KEY SUCCESS FACTORS

The following factors were identified as contributors to the success of Equity Bank Kenya in developing its agency banking channel.

Conducive environment

M-Pesa, the mobile money service of Safaricom in Kenya, came to prominence in 2007 and enjoyed success that other mobile money services worldwide are trying to replicate. Two key success factors of M-Pesa were a large existing GSM customer base and a strong brand; Equity Bank Kenya had both of these attributes at the time of launch of its agency service as well.

Currently, M-Pesa has the largest agent network (~124,000) followed by Equity Bank (~30,000) and then Airtel Money, which is the second largest MNO (~18,000). As one article reported, 'as at March 31 [2016], there were 17 commercial banks [in Kenya] that had contracted 40,224 agents which had facilitated over 170.5 million cumulative transactions valued at Sh 930.2 billion.'[15] The total number of agents in Kenya, including those of MNOs, reached over 161,000 as of the end of Q1 2017.[16]

Agency banking in Kenya was enabled by an amendment to the Banking Act (2010). Banks must first apply to the Central Bank of Kenya to receive approval to conduct agency banking business. As the same article cited above explains, 'existing rules provide that for one to be an agent they will be vetted for reputation and morals, have a certificate of good conduct and must have a good history for loan repayment. In the case of a legally registered company, it must have records of audited accounts and be of good financial standing. However, the regulations put responsibility to the bank to determine, based on agent risk assessment, which services a particular agent should provide.'[17]

As a separate article further explains, 'the bank agency model has been a hub and spoke model [rather than a third-party agent network management model], with agents being associated with a nearby bank branch from which their liquidity is managed by the bank, hence in a sense, still rides the existing brick-and-mortar networks of the bank.'[18]

15 KCB Bank, 'CBK: Kenyan banks record growth in agency banking model,' 19 September 2016. Available from https://www.standardmedia.co.ke/brandingvoice/kcb/article/17/cbk-kenyan-banks-record-growth-in-agency-banking-model

16 Communication Authority of Kenya, 'Second Quarter Sector Statistics Report for the Financial Year 2016/2017 (October–December 2016) (Nairobi, March 2017).

17 KCB Bank, 'CBK: Kenyan banks record growth in agency banking model.'

18 Mwema Kerich, 'The Rise of Agency Banking in Kenya,' 2 July 2015. Available from http://blog.mahindracomviva.com/rise-agency-banking-kenya/

Strong commitment from management as well as dedicated agency banking department and structure

Equity Bank Kenya received the commitment of the CEO to agency banking and, in turn, substantial resource allocation. In particular, at the head office, a new multi-person department for agency banking was created that reports directly to the Director of Operations and, through the department's manager, is in direct communication with the CEO. The department addresses business development, distribution, operations, training, customer experience and quality assurance. Establishment of this department catalysed all-important branch buy-in and ensured staff support, bolstered by corresponding KPIs.

Each branch has a dedicated Agency Supervisor who reports to both the Branch Manager and the agency banking department at the head office. The supervisor to agent ratio should not exceed 1:40.

There is a differentiation between cash merchants (cash-in and cash-out) and sales agents who are responsible for selling the Bank's products.

Value proposition for all stakeholders

On top of the value proposition for agents described above, Equity Bank also designed a value proposition for customers and the Bank itself:

- **Customers**
  - Access
  - Inclusion
  - Reach
  - Savings
- **Equity Bank**
  - **Cost reduction:** Reduce costs incurred in setting up a branch and branch regulation
  - **Competitive pricing:** Achieve better pricing for customers due to transaction volumes
  - **Profitability:** Gain more profit for the Bank
  - **Faster growth:** Do not be constrained by physical infrastructure
  - Leverage technical infrastructure

Clear multi-channel distribution strategy

Equity Bank combines different channels where customers can perform different types of transactions:

- **Branches:** High-value transactions and full suite of services including loans, credit, insurance, savings, etc.
- **Franchise:** Services beyond cash-in/cash-out such as loans, credit, insurance, savings
- **Agents:** Cash-in/Cash-out, insurance, bill payments, account origination plus ability to hire sub-agents
- **Sub-agents/Cash merchants:** Cash-in/Cah-out, airtime sales, bill payments
- **Merchants:** Possible cash-out services, e-payments for goods and services

KEY LESSONS LEARNED

The following lessons were learned by Equity Bank Kenya and could benefit other FSPs:

1. Keep a strong focus on branding and marketing, including a launch event through multiple channels using both above- and below-the-line activities
2. Ensure consistency and strong branding at agent outlets
3. Always seek customer and agent feedback
4. Have a dedicated contact centre for both agents and customers
5. Conduct a quarterly 'Customer and Channel Satisfaction Measurement and Management' survey

NEXT STEPS

Equity Bank has replicated its agency banking model in other countries, and it is currently refining its agency business model to open more outlets by allowing its agents to sub-contract cash-in and cash-out services to cash merchants.

KEY FIGURES ON THE INSTITUTION

- Launch: 1984 (bank licence in 2004)
- Gross loan portfolio (March 2017): K Sh 213.8 billion (US$2.1 billion)[19]
- Deposits (March 2017): K Sh 277.3 billion (US$2.7 billion)[18]
- Clients (end-2015): 10.1 million[20]
- Branches: 167[21]

RESULTS ACHIEVED THROUGH AGENCY BANKING (2015)

- Active agents: >15,000
- Channel mix: 60% via agency banking[22]

No other data was provided by Equity Bank Kenya despite several requests.

19 Equity Group Holdings Limited, 'Investor Briefing & FY 2016 Performance,' presentation from March 2017, slide 39. Available from http://equitybankgroup.com/uploads/default/files/2015/equitygroupinvestorbriefing2016fullyearfinancialresults.pdf (accessed May 2017).

20 Equity Group Holdings Limited, *2015 Annual Report and Financial Statements*.

21 Central Bank of Kenya, 'Commercial banks.' Available from https://www.central-bank.go.ke/commercial-banks/ (accessed May 2017).

22 Equity Bank, 'Agency Banking deepens financial inclusion,' Equity News, Issue #8 (March 2015).

Box 3: Creating a proprietary agent network—The case of FINCA in the Democratic Republic of the Congo and the United Republic of Tanzania

The experience of FINCA International subsidiaries in the Democratic Republic of the Congo (FINCA DRC) and the United Republic of Tanzania (FINCA Tanzania) is interesting as they are different sizes (FINCA DRC is twice as big as FINCA Tanzania in terms of clients and size of loan portfolio) and yet have achieved similar results in terms of the reduction in transaction cost at agents versus branches (US$0.70–US$0.85 versus US$1.30–US$1.40) and the share of total transactions through alternative delivery channels versus branches (50%–60%).[23] The main difference between them is the number of agents (450 at FINCA DRC and 130 at FINCA Tanzania).

FINCA Tanzania was established in 1998. Its mission is to alleviate poverty by providing financial services to the lowest-income entrepreneurs, in order to create jobs, build assets and improve standard of living. FINCA Tanzania was the first microfinance institution in the country to be granted a microfinance banking licence (2013),[24] allowing it to mobilize savings with the goal to reduce its cost of funding. Today, FINCA Tanzania has ~63,000 borrowers and ~107,000 depositors.

FINCA DRC was established in 2003, before the country's civil war officially ended,[25] as a 'société de microfinance.'[26] In 2009, it converted into a deposit-taking microfinance institution (category 3, as per Central Bank of the Congo regulations[27]). Today, FINCA DRC is one of two category 3 microfinance institutions in the country and is the biggest microfinance institution in terms of the number of borrowers (~123,000 borrowers, end-2015), depositors (~274,000, end-2015) and size of loan portfolio (US$71 million, end-2015), representing 50% of the country's micro-borrowers.[28]

FINCA DRC started agency banking in 2011, creating its own agent network called FINCA Express. Full roll-out took place at the end of 2013. At the time, services included deposits, withdrawals, balance enquiries and statements.

FINCA Tanzania started its digital journey by piloting mobile banking in 2013 with Vodacom (M-Pesa), using USSD for loan repayments and savings. In 2014, FINCA Tanzania decided to pilot agency banking with its own agents using POS devices, offering deposits for loans/savings, withdrawals, account-to-account transfers, balance enquiries and statements. It rolled out agency banking nationwide, under the brand name FINCA Express, in 2015. In the same year, FINCA Tanzania broadened its mobile banking offering by leveraging the agent network of three MNOs (Vodacom, Airtel and Tigo), using both USSD and SIM application toolkit, and by extending the service offering to loan repayments, savings, withdrawals, transfers and e-wallets.

MAIN OBJECTIVES FOR AGENCY BANKING

The goal of FINCA, as in institution, was to reduce its cost of funding through agency banking by mobilizing more savings. Agency banking was also intended to help FINCA grow its customer base and increase outreach. The goal of FINCA, for its customers, was to increase proximity and convenience and improve access to financial services to achieve greater financial inclusion.

AGENCY BANKING PRODUCTS AND SERVICES OFFERED AND TECHNOLOGY USED

FINCA Tanzania and FINCA DRC offer a wide range of financial products and services, including different types of loans (business, education and small group), different types of savings accounts,[29] alternative delivery channels such as FINCA Mobile (mobile banking services) and FINCA Express (agency banking services), cash management and payroll solutions, and SMS alerts to help clients keep track of their accounts (see table 7 for a summary).

23 This number includes both agency and mobile banking at FINCA Tanzania whereas it includes only agency banking at FINCA DRC, which has focused mostly on agency banking.

24 FINCA, 'History.' Available from http://www.finca.co.tz/who-we-are/history/ (accessed May 2017).

25 The civil war ended in 2002 but the official end of the war was 30 June 2003.

26 A 'société de microfinance' is a limited shareholder company, allowed to provide loans.

27 Category 3 microfinance institutions are the only type of microfinance institution allowed to collect savings and provide loans. Category 1 and category 2 microfinance institutions cannot collect deposits and are limited in terms of loan amounts.

28 As of MIX Market data available upon subscription (accessed May 2017).

29 See FINCA, 'Savings.' Available from http://www.finca.co.tz/what-we-offer/savings/ (accessed May 2017).

Box 3: Creating a proprietary agent network—The case of FINCA in the Democratic Republic of the Congo and the United Republic of Tanzania (continued)

Table 7: FINCA agency banking products and services offered and technology used

AGENCY BANKING	
	
Products and services	• Deposits • Withdrawals • Account-to-account transfers • Loans disbursement/repayments • Mini-statements • Account balances
Distribution	• FINCA agent network
Technology	• FINCA payment switch • POS terminals with biometric identification
E-money	• No e-money

How clients access the service

Client registration is a simple process, performed at FINCA branches only. Customers are registered for both agency banking and mobile banking. Agents do not perform client registration, but they do raise awareness to attract new clients to open a FINCA account. Agents also participate in client education to enhance use of the channel, bolstering registered clients' interest in the service.

For FINCA Express, agents use a POS device. Clients can access their FINCA account through a simple fingerprint, using a biometric scan. Since the POS device depends on biometrics, the agency banking service is easy and convenient to use even for less-educated clients because there is no PIN to remember.

SETTING UP THE AGENCY BANKING CHANNEL

Agent recruitment and training

Among other selection criteria, start-up capital requirements to become a FINCA Tanzania Express agent are the following:

- TSh 2 million (US$894) in cash[30]
- TSh 2 million (US$894) in the account[29]

Agents are identified, recruited and trained by FINCA Channel Business Officers/Delivery Channel Officers.

Agent network management

Both FINCA Tanzania and FINCA DRC created a dedicated team for agency/mobile banking at the head office, which is in charge of agent network management for the FINCA Express agents (its own agents).

FINCA Tanzania started with banking services (back-office staff) managing the new channels. Later it shifted the responsibility to the office of the Chief Commercial Officer. FINCA Tanzania has a Channel Business Manager, who reports to the Chief Operating Officer. The Channel Business Manager is in charge of both the mobile and agency banking channels and is responsible for managing the Channel Business Officers who promote these channels at the branch level. Branches play a critical role in the development of agency banking.

FINCA DRC appointed a Delivery Channel Manager for FINCA Express, who reports to the Head of Banking Services. The Delivery Channel Manager has a dedicated team of 20–25 people, within the head office (2 full-time employees) but mostly in branches (4 Agency Network Supervisors and 15–20 Delivery Channel Officers). Agency Network Supervisors in the head office manage Delivery Channel Officers located in branches. Delivery Channel Officers in branches recruit and manage FINCA Express agents (30–40 agents each). Master agents are also involved for liquidity management.[31]

Liquidity management

FINCA itself monitors the liquidity of FINCA Express agents through branches. FINCA branches anticipate disbursement and reimbursement to avoid liquidity shocks and distribute the planned amounts to agents every week. Channel Business Officers make sure agents have the needed liquidity. Agents are trained on liquidity management.

30 Conversion rate: TSh 1 = US$0.000446823 (*Source*: www.xe.com, 29 May 2017).

31 Master agents are agents either at a fixed location or on a motorcycle who collect surplus liquidity or provide needed liquidity to agents. This service was introduced in 2013.

Box 3: Creating a proprietary agent network—The case of FINCA in the Democratic Republic of the Congo and the United Republic of Tanzania (continued)

At FINCA DRC, FINCA Express agents rebalance with super agents or at FINCA branches using a priority card that allows them to cut queues and thereby avoid inefficiencies.

Financial implications

For the agency banking channel (its own agents), each FINCA subsidiary had an initial investment of ~US$70,000 for the payment platform. Subsequently, they pay an annual recurring fee of US$10,000 for the platform. FINCA also had to invest in POS devices (from Ingenico) to equip its agents (US$1,000 per device).

BENEFITS ACHIEVED THROUGH AGENCY BANKING

For FINCA

- Target existing FINCA clients (at the first stage) as well as new clients through sales drives
- Increase savings mobilization, as agents are located near busy, residential areas for easy access to the services
- Achieve lower cost of funding at FINCA Tanzania, going from 20% to 2%

For clients

- Reduce transaction costs (time spent in branch, cost to travel to branch, and other transaction costs typical of microfinance operations)
- Improve access and convenience, due to 24-hour service availability and not having to wait in a queue at the bank
- Gain a very good savings opportunity (clients pay no interest and even receive a 2% annual interest rate)

Results achieved

- Larger network size
  - FINCA Tanzania reached 130 agents and FINCA DRC over 450 agents, as of March 2017.
  - Expansion was fast: FINCA DRC had 500 POS at the end of 2015 and over 1,000 by the end of 2016.
- Greater volumes
  - Transaction split in volume between channels at FINCA Tanzania was 50% at branches, 30% with FINCA agents and 20% via mobile, as of the end of 2015.
  - At FINCA DRC, FINCA Express agents performed 60% of loan transactions by the end of 2015.
- Reduced transaction costs
  - Transaction cost with FINCA Tanzania Express agents decreased from US$3.32 at launch to US$0.85 two years later (2015), compared to US$1.21 for a branch-based transaction.
  - Transaction cost at FINCA DRC was US$0.70 with agents versus US$1.43 at branches, as of the end of 2015.
- Reduced operating expenses
  - Operating expense to loan portfolio ratio decreased from 56% in 2011 to 39% in 2014 at FINCA DRC.
- Improved customer convenience
  - The service eased congestion in branches considerably, which in turn improved customer service by reducing wait time for other services conducted at branches.
  - FINCA DRC Express agents serve on average 600 customers, compared to approximately 400 for loan officers.
  - A cash deposit/withdrawal takes an average of three minutes at the teller counter at FINCA DRC versus less than one minute with a POS agent.

From the client's perspective, the value proposition is interesting as transactions are free of charge with FINCA Express agents (subsidized by FINCA). As a consequence, FINCA agents are used more than MNO agents, whom clients have to pay to conduct transactions.

KEY SUCCESS FACTORS AND LESSONS LEARNED

Key success factors

1. A value proposition for all stakeholders: clients, agents and FINCA
2. A conducive environment for agency banking (regulation and familiarity by clients with agency banking) in the case of FINCA Tanzania and a well-established presence in the case of FINCA DRC (largest microfinance institution)
3. A focus on savings through agency banking instead of on transfers like MNOs and other banks do

Box 3: Creating a proprietary agent network—The case of FINCA in the Democratic Republic of the Congo and the United Republic of Tanzania (continued)

Lessons learned

Derived from a case study by FINCA and The MasterCard Foundation[32] and another case study by FINCA and PHB Development,[33] the following success factors and lessons learned are highlighted:

1. An institutional assessment should be conducted and a service-level agreement should be formalized prior to engaging in a partnership.
2. Business ownership for the appropriate delivery channel should be ensured right from the start and driven by the Chief Operating Officer and the Head of Retail Banking.
3. A dedicated team for the DFS channel should be put in place to reduce overwork and demotivation.
4. A pilot should be carried out before commercial launch.
5. Processes should be simplified to avoid forcing 'old' manual microfinance processes into the modernized electronic payment structure.
6. Operations should be subjected to continuous risk analysis.
7. Periodic campaigns should be carried out that focus on customer awareness and education as well as dedicated sales, which are key for success.
8. Feedback mechanisms based on interaction with customers should inform improvements.
9. It should be recognized that implementation of delivery channels will disrupt operations significantly.
10. Support should be sought from experienced external consultants to ensure a broad, detailed analysis of the challenges.

NEXT STEPS

FINCA International intends to replicate agency banking in other subsidiaries. FINCA Zambia started it in 2016, while FINCA Malawi, Nigeria and Uganda piloted it in 2016.

FINCA Tanzania would like to expand the network of its own agents and use MNO agents in remote areas. In the long term, the delivery channel strategy of FINCA Tanzania is the following:

- Leverage **branches** to perform **high-value transactions**, with branches remaining the back bone of distribution
- Leverage **agency banking** as a **proximity service** in high business areas, promoting savings mobilization since it is free of charge for customers
- Leverage **mobile banking** as an entry point **accessible to all customers**, as it can be accessed all the time, and leverage it mainly in remote rural areas

KEY FIGURES ON THE TWO FINCA INTERNATIONAL SUBSIDIARIES

Key figures on FINCA Tanzania (2015)[34]

- Gross loan portfolio: US$29.21 million
- Deposits: US$10.40 million
- Assets: US$38.40 million
- Active borrowers: 63,020
- Depositors: 107,200
- Offices: 26
- **DFS channels:** 50% of transactions at branches, 30% with agents and 20% via mobile

Key figures on FINCA DRC (2015)[35]

- Gross loan portfolio: US$71.38 million
- Deposits: US$31.82 million
- Assets: US$85.98 million
- Active borrowers: 122,650
- Depositors: 274,160
- Offices: 18
- **DFS channels:** 60% of loans via agents

Further reading

FINCA/The MasterCard Foundation, 'Expanding Access to Finance through Mobile Payments' (n.p., June 2015). Available from http://www.finca.org/files/2015/06/FINCA-MasterCard-Case-study-2015.pdf

PHB Development with e-MFP Digital Innovations for Financial Empowerment Action Group, 'FINCA EXPRESS Tanzania: Mobilizing Savings Through Agency Banking' (n.p., October 2015). Available from https://www.phbdevelopment.com/pdf/FINCA_Tanzania_Success_Story_final_web.pdf

32 FINCA/The MasterCard Foundation, 'Expanding Access to Finance through Mobile Payments' (n.p., June 2015). Available from http://www.finca.org/files/2015/06/FINCA-MasterCard-Case-study-2015.pdf

33 PHB Development with e-MFP Digital Innovations for Financial Empowerment Action Group, 'FINCA EXPRESS Tanzania: Mobilizing Savings Through Agency Banking' (n.p., October 2015). Available from https://www.phbdevelopment.com/pdf/FINCA_Tanzania_Success_Story_final_web.pdf

34 MIX Market, 'FINCA – TZA,' 2015 data accessible through registration.

35 MIX Market, 'FINCA – DRC,' 2015 data accessible through registration.

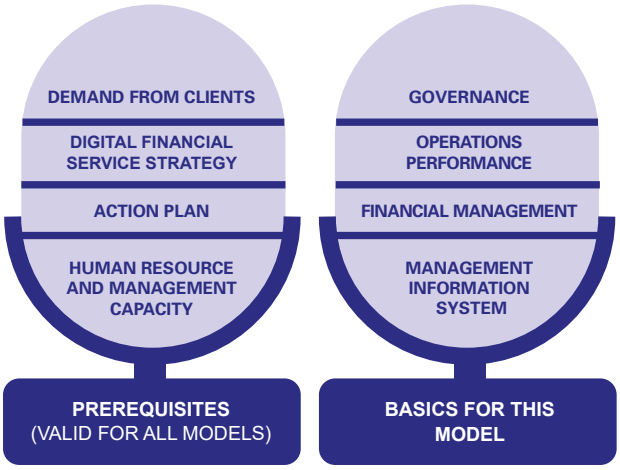
SECTION 4:

INGREDIENTS FOR SUCCESS

What are the prerequisites an FI should meet if considering this business model?

Figure VII provides a snapshot of the prerequisites for this business model, while the accompanying sub-sections, boxes and table 8 provide more detail.

Figure VII: Prerequisites and basics to meet



PREREQUISITES

Demand/Need from clients

Any new product or service should address a client need in order to ensure its adoption. Understanding client needs and challenges is crucial, especially when it comes to introducing a new channel. Focus-group discussions and/or quantitative studies can help identify these needs/gaps (e.g., cost of travelling long distances to branches, time spent queueing at branches). The FI should perform an in-depth analysis of its market in an effort to do the following:

1. Customize its value proposition so as to meet as many of its clients' current pain points as possible and be attractive to new clients.
2. Be a data point for future research (i.e., act as a baseline).
3. Indicate where the FI should pilot first (i.e., where there is greatest need). Other considerations include network connectivity, local competition, etc.
4. Extract data that can be used to help build the business case for establishing an agent network (e.g., data to forecast the number of new clients and the operational savings [from branch transactions] versus CapEx and OpEx). Data on costs can be collected from industry reports (ideally from the country in which the FI operates). Forecasting demand should be done via primary research of existing and potential client bases.

Strategy and action plan

The first step in going digital is to define a strategy. What are the objectives of building an agent network? What will be the benefits for both the institution and the clients? Which products and services will be available through the digital channel? Which clients will be targeted (existing/new, rural/urban, middle-end/low-end, etc.)? How will the new digital channel or product be marketed and distributed? Which technology will be used? Will agents be recruited directly or through an aggregator of some sort? What will be the value proposition for an aggregator and/or individual retailer to become an agent?

The next step, once the strategy is defined, is to create an action plan. An action plan should consider the different steps needed to achieve the strategy and should define, for each activity to be carried out, the person(s) responsible, the deliverables and the deadlines. A list of activities is not enough. A project manager should be in charge of following up on the action plan and ensuring that activities are on track. KPIs also need to be defined and monitored from the beginning. Mapping potential risks with mitigation strategies is highly recommended.

Implementation tools

Action plan template:
Contains the different categories required for an action plan and provides a non-exhaustive list of activities to carry out for this model

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Basics to have in place for this model

Table 8: Basics to have in place for this model

Dimension	Prerequisite	Description of the basics needed
Internal capacity	Management	• A channel manager or ANM (at senior management level) needs to be recruited/appointed within headquarter staff and should be exclusively dedicated to building/managing the agent network. The channel manager should inform his/her supervisors of channel activity on a regular basis (e.g., initially through weekly reports that can later evolve to monthly ones).
	Staff capacity	• The FI must identify how many agents it needs at time of launch and have a roll-out plan for recruiting agents. It is important to have a detailed process to identify, recruit, train, brand and manage the agent network. At launch, and on a daily basis, there needs to be a dedicated agent team, including the following: marketing staff, IT staff (in charge of system integration and management) and back-office staff in charge of service-level monitoring, settlement with agents, KPI monitoring, etc. • The FI needs a channel manager/ANM at headquarter level but also staff in charge of managing agents at branch level. • The FI should ensure that internal auditors start to measure and record agent-related activities specifically.
	Human resource policy and training	• Someone with agent experience should be recruited as ANM since it is a full-time position. Job descriptions need to be adapted/created, and staff involved in the new channel need to be trained. Depending on the business model selected, there may be a need for training super-dealer staff.
Financial capacity	Financial self-sustainability/ Breakeven	• The FI should be financially self-sustainable (financial self-sustainability rate >100%) to engage in this model.
	Financial resources	• The FI should use its own resources, complemented with external resources. The FI should plan to spend at least US$250,000 for developing its agent network, though that number can easily go up to US$1,000,000 depending on the model chosen.
Operational capacity	Liquidity/Cash management	• The FI is solely responsible for liquidity management (in the eyes of the client). Potentially, if working with a super dealer, the FI may provide initial cash liquidity (for withdrawals). For independent agents, the FI should have a clear liquidity plan, especially for loan disbursements. Daily reconciliation should be done at all branches/agents and audited at headquarters. An ALM should be nominated at the FI and interact with agent representatives or the super dealer. • Liquidity management should be automated, not manual.
	Operational self-sufficiency/ Breakeven	• Operational self-sufficiency should be greater than 100%—ideally, around 120%–130%. The FI should not engage in developing its own agent network when it is still trying to reach its equilibrium.
	Regulation	• The FI should have a regular FI licence. There may or may not be a need to have a specific agent/ distribution licence for this model. At minimum, the FI should have authorization from the central bank to have its own agents. • There is, however, a definite need for the FI to follow agent regulation set by the central bank, including the policy for recruiting and managing agents, which will largely focus on agent KYC requirements. It is important to check regulation in the country regarding activities that agents can perform (i.e., loan applications) and if agents are required to be exclusive or not. Informing the central bank of plans and seeking approval is recommended (and compulsory depending on regulation).
Technical capacity	Connectivity	• Agents need to have in-network connectivity, ideally within a VPN. The FI should develop an offline strategy as part of the risk management plan.
	MIS	• Ideally, the FI should have a CBS/MIS that includes modules for agent management, card management, call centre and SMS. Depending on the business model and platform functionality, the FI might want/need to invest in new hardware and software. • Transactions should be in real time and not batches to avoid issues.
	Interfaces	• The FI must be able to reconcile all transactions carried out by its agents on a daily basis with those that have happened in its CBS/MIS. The FI should integrate its CBS with the technical platform of its provider in real time.
Stability	Quality of portfolio	• For MFIs, the portfolio at risk greater than 30 days should be less than 5%. For banks, the capital adequacy ratio should be more than 8%.
	Governance	• The FI should have stable governance to be able to plan and roll out an agent network. • The board should support the project fully.

Implementation tools: Is the FI ready?

Self-readiness assessment tool:
Assesses which prerequisites of the model the FI currently meets and which ones still need to be addressed

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Challenges and risks to anticipate

The FI should anticipate challenges along the path and prepare for them. Table 9 lists the most common challenges experienced by FIs that have rolled out their own agent network. The list is not exhaustive, and new risks may arise during the implementation process. Refer to the toolbox in this document for risk mapping and mitigation strategies. For more depth on risk, refer to the IFC *Digital Financial Services and Risk Management Handbook*.[35]

Table 9: Most common challenges with this model

Type of risk	Description of the risk
(1) Strategic risk	• Incomplete understanding by provider of its target market for DFS (misaligned client value proposition) • Marketing and communication: Lack of targeted marketing to inform clients of new channel • Cannibalization of customers • Lack of interoperability • Rejection of service by agents • Rejection of service by clients • Resistance to change
(2) Operational risk	• Reconciliation and account variances: Transactions not recorded in real time, causing issues for loan repayment and/or for customers making a deposit at an agent and wishing to withdraw at another agent or channel • Lack of proof for customer identities • Non-compliance with authorized thresholds (cash and e-value) • Lack of agent/customer helpline • Poorly trained sales teams
(3) Technology risk	• System failure: Instability of network connectivity (crucial for tablets, phones and POS devices) • Transaction delays • Hardware failure: Poor reception and/or delay of SMS confirmation • Integration failure: Unstable integration and/or technical problems between the POS devices and the FI CBS/MIS • Lack of (flexible and reactive) agent management software • Lack of offline strategy • Loss of data
(4) Financial risk	• Project costs exceeding plans or revenues being less than planned • Commission structure not providing enough revenues to agents • Unauthorized fees
(5) Fraud risk	• Customer fraud: Stolen identity • Customer fraud: Impersonation of provider or agent • Agent fraud • Unauthorized fees • Unauthorized access of agent devices • Internal collusion to commit fraud

35 IFC, *Digital Financial Services and Risk Management Handbook* (n.p., 2016). Available from https://www.ifc.org/wps/wcm/connect/06c7896a-47e1-40af-8213-af7f2672e68b/Digital+Financial+Services+and+Risk+Management+Handbook.pdf?MOD=AJPERES

Table 9: Most common challenges with this model (continued)

Type of risk	Description of the risk
(6) Agent risk	• Lack of agent availability • Poor customer experience with agents • Lack of agent liquidity • Agent inactivity • Lack of agent supervision • Poor agent branding • Agent business case: Rapid agent network roll-out that lacks business for sufficient return to agents, making them reduce investment and creating liquidity problems • Agent training: Agents poorly trained to support clients
(7) Reputational risk	• Transaction failure • Poor customer experience
(8) Security risk	• Hacking of the agency banking channel • Lack of back-ups • Robbery of/by an agent

Note: The terminology to describe the risk types is based on the following source, though the numbering has been modified: IFC, *Digital Financial Services and Risk Management Handbook* (n.p., 2016). Available from https://www.ifc.org/wps/wcm/connect/06c7896a-47e1-40af-8213-af7f2672e68b/Digital+Financial+Services+and+Risk+Management+Handbook.pdf?MOD=AJPERES

Refer to the toolbox for a description of each risk, its mitigation strategy, its likelihood and its impact.

Implementation tools: Are the risks carefully identified and mitigated?

Risk mapping grid:
Provides a list of frequent risks with possible impacts and mitigation strategies

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FINCA eXpress

BALANCE ENQUIRY

DATE/TIME: 07/03/17 15:01:38
TID: 20028853

A/C: 101207028029 (1/1)
A/C Type: SAVINGS ACCOUNT
A/C Name: CHILUFYA MWAZEMBE

Total 392,293.48
Available 386,293.48

You were served by Chilufya.

Balance Enquiry printed by FINCA POS devices
Courtesy of PHB Development


Terminal ID No: 20028853
Name: CHILUFYA MWAZEMBE
A/C : 101207028029
Available Balance: 386,293.48
Actual Bal: 392,293.48

Date Amount
Description

30/01/2017 6,000.00
20028853 - Cash Deposit *|

30/01/2017 5,000.00
20028853 - Cash Withdrawal *|

28/09/2016 2,000.00
20028826 - Cash Deposit *|

Mini statement received by FINCA clients
Courtesy of PHB Development

SECTION 5:

RECIPE FOR SUCCESS, OR 'HOW TO'

Figure VIII: Steps to take for successful implementation

This section describes the key activities FIs should perform to implement an agency banking project. Key success factors are identified, while practical tips for FIs are provided in side boxes. Useful implementation tools (Excel files) are also provided to assist in the digital journey.

PHB Development and MicroLead defined six different steps for successful DFS implementation, based on 100+ successful implementations across the globe (see also figure VIII):

1. Opportunity assessment
2. Market entry strategy
3. Development and pilot preparation
4. Pilot
5. Implementation
6. Performance improvement

Throughout the digital journey, seven workstreams should be assessed to ensure all key areas are consistently covered (see also figure IX):

1. Regulation and partnerships
2. Market and products
3. Distribution
4. Technical/IT
5. Internal organization (operations and human resources)
6. Financials
7. Project management

Figure IX: Workstreams to assess

STEP 1:
OPPORTUNITY/MARKET ASSESSMENT

OBJECTIVE	Decide whether there is an opportunity for the FI and whether to roll out a proprietary agent network: • Assess market readiness for agent/OTC services • Assess clients' needs and pain points to understand how they can be addressed • Assess the different technology providers offering agent-related solutions in the market • Assess the existing agent networks in the market • Identify potential business strategies, critical success factors and constraints		
KEY ACTIVITIES	Analyse existing demand and supply, define objectives and assess readiness (see table 10 for more detail and accompanying boxes for more tips and practical tools)		
DECISION	GO or NO GO?	**RECOMMENDED DURATION**	2–3 months

Table 10: Opportunity/Market assessment activities and key success factors

Workstream	Activities
Regulation and partnerships	• Identify central bank requirements to roll out agent network—formal authorization (required in many countries) or approval (in all cases)—and ensure compliance with specific agency banking regulations. • Review agent requirement forms (generally include number of years in business, level of education, turnover, services allowed for agents, etc.) to understand types of agents available in the market, as well as exclusivity laws. • Identify potential partners in the market (e.g., agent management software providers, existing agent/merchant infrastructure/networks); if using a partnership strategy with an existing network, determine which super dealer addresses the needs of the FI and compliments the strengths and weaknesses of the FI, and vice versa.
Market and products	• Carry out market study to understand clients' needs and pain points: Which locations (agents) would make the most sense to pilot with? Which agents are the most popular and trusted among FI clientele (focus groups and individual interviews in different areas of FI presence should be able to address this)?
Distribution	• Assess the different agent networks in the market and which FIs have created their own agency banking networks, which ones use super dealers and which ones are most visible in areas of operation of the FI. • Assess liquidity of agents, especially if planning on doing loan disbursements. • Assess field and head office staff's capability to roll out an agent network. • Assess headquarters' capability of handling more transactions (ensure there is enough transaction-processing capacity/audit control, especially in finance/accounting departments).
Technical / IT	• Assess Internet connectivity at headquarters. • Assess capacity of internal MIS: Can it be integrated with other systems? Does it allow for real-time transfer of data? Can it create reconciliation reports, etc.? • Assess connectivity at potential agent locations. • Assess which would be the most appropriate interface for agents: phone, web or POS. • Assess how to manage agents: Is there need for an agent management platform?
Key success factors	
Partners	• Develop shortlist of super dealers (if using this strategy) and look at their market strategy: number of agents; daily, weekly and monthly process and procedures; commission structure; positioning; client value proposition; market expansion strategy; etc.
Internal organization	• Assess institutional readiness (using the self-readiness assessment tool from this toolkit, for instance). • Anticipate impact on staff (resistance to change): if possible, make staff part of the change from the start. • Evaluate whether there is a need to hire new staff with specific agent management experience.
Financials	• Prepare a business case with costs and revenues, which will help the FI understand all the elements to consider to balance costs with revenues and calculate the time needed to give a return on investment.
Project management	• Identify potential project team (front- and back-office support, dedicated members, project governance, etc.). • Secure top management awareness and buy-in and create a steering committee.

Checklist of deliverables

- ☑ Developed a shortlist of potential super dealers and independent agents
- ☑ Completed market study report
- ☑ Identified benefits for clients, agents and FI
- ☑ Reviewed options for distribution: agent locations
- ☑ Completed software/hardware assessment
- ☑ Finished connectivity assessment
- ☑ Completed organization capabilities scan and what-is-needed-to-reach-objectives
- ☑ Developed business case
- ☑ Established steering committee and project team

Implementation tools

Agent requirement form:
Provides template of an agent requirement form to identify and recruit agents
Click on the icon to download

Business case template:
Identifies the main categories of costs and revenues to consider to plan the business case
Click on the icon to download

Project team template:
Provides template for the project team and steering committee
Click on the icon to download

STEP 2:
MARKET ENTRY STRATEGY

OBJECTIVE	Define how to seize this opportunity/Decide how to roll out the agent network: • Select the right agent partner(s)/retail agents based on target clientele and objectives • Define market strategy (positioning, targeting, segmentation) • Define distribution strategy • Plan the overall project • Develop a prototype		
KEY ACTIVITIES	Complete service-level agreement, market strategy, distribution strategy, internal strategy, IT plan and project team recruitment (see table 11 for more detail and accompanying boxes for more tips and practical tools)		
DECISION	How to go to market	**RECOMMENDED DURATION**	3 months

Table 11: Market entry strategy activities and key success factors

Workstream	Activities
Regulation and partnerships	• Prepare documents needed to obtain central bank approval or licence to roll out agent network, and demonstrate compliance with specific agency banking regulations. • At a minimum, develop policies and procedures that follow central bank guidelines on how to identify, recruit, train, brand and manage agents. • Finalize partner and agent contracts, which should include a service-level agreement and commission structure.
Distribution	• Choose distribution option: partnering with agent super dealer or existing agent network, or creating a network of independent agents. • Assess required agent liquidity levels (this assessment influences if the FI can provide loan repayments and disbursements). • Develop market expansion strategy (e.g., decide whether to start offering the services in only one or a few areas or nationwide).
Technical / IT	• If the FI has no MIS or if the MIS is not sophisticated enough to handle card and/or agent management, shortlist the most cost-efficient platforms in the market by taking into account cost, speed-to-market and functional capabilities.
Internal organization	• Determine whether existing staff members are capable of handling the additional new tasks or if new channel-specific staff need to be hired. • Adapt/Create job descriptions. • Define rules for cash management (e.g., determine how much a client can withdraw in one day; define upper limit above which a client must go to a branch to complete the withdrawal). • Develop a training needs assessment and put in place a training agenda, including for 1) head-office staff, 2) field staff and 3) agents.
Key success factors	
Partners	• Finalize partners'/agents' value proposition.
Market and products	• Define target groups and segment clients if needed (by rural/urban, products, etc.). • Define range of products and services that will be available through agency banking: account-opening, deposit, withdrawal, balance enquiry, transfer, etc. • Define clients' value proposition(s) (there could be more than one for different target segments). • Define potential marketing campaigns, particularly if working with an existing network of agents.
Financials	• Define detailed business case (revenue and cost streams, breakeven point, cash flows). • Define pricing structure for clients and commission structure for agents and get feedback from partner(s)/agents.
Project management	• Plan project as a whole, including the pilot and corresponding resource allocation. • Involve staff in the process (it is important not to underestimate the need for buy-in of staff and the change management required to implement new services).

Implementation tools

Agent contract:
Provides a template of a contract to be used with an agent
Click on the icon to download

Agent job description:
Provides a template to be used for describing the job of an agent
Click on the icon to download

Cash management rule:
Provides guidelines for cash and liquidity management for agents
Click on the icon to download

Action plan template:
Offers a template for an action plan
Click on the icon to download

Checklist of deliverables

- ☑ Negotiated commercial contracts, if working with partners
- ☑ Developed commercial contracts for independent retail agents
- ☑ Finalized market strategy: positioning, client and agent value proposition, service(s) to be offered via agency banking, market expansion strategy, etc.
- ☑ Completed internal strategy: organization, job descriptions, hiring plan, training needs
- ☑ Prepared technical roadmap in case new or adapted MIS is needed
- ☑ Developed detailed business case
- ☑ Action plan and business case validated by all stakeholders

Tips: Develop a prototype agent service

The agency channel should be tested in the market to get user and agent feedback using human-centred design principles. The prototype will not be a fully developed service but will use quick, simple and cheap solutions to gather clients' and agents' feedback on main functionality, terms and conditions, etc. The testing may involve some manual processes and, as such, will be considered a very limited research market. This testing is NOT the same as a full pilot, which will be done after the product/service has been fully developed. The prototype should test/investigate the following:

1. User interfaces
2. Pricing
3. Marketing/Promotional activities – communication strategies
4. Financial education and literacy messages

The prototype testing should include the following tasks:

1. Ensure the new products/services are launched in a timely manner and administered in line with product specifications
2. Ensure commitments to clients are kept
3. Understand operational processes, and define and design back-end processes
4. Troubleshoot any problems that emerge with a particular product feature, with a particular client or overall
5. Maintain effective partnership and cooperation between FI staff and agents involved in the testing

STEP 3:
PILOT PREPARATION

Once the FI defines the product and signs off for market launch, the FI will work to the agreed-upon pilot plan. The pilot should be used for any final fine-tuning before commercial launch.

OBJECTIVE	Sign contracts with agents and prepare detailed project management process: • Finalize the technical integration between the FI system and other platforms (as required) • Adapt business operations impacted by the new channel, and develop process manual for OTC transactions • Adapt business operations impacted by the new channel, and develop process manual for all transactions • Define and prepare the institutional motivation and capacity to run the pilot, including setting KPIs		
KEY ACTIVITIES	Define marketing and communication strategy with agents, identify locations for pilot, recruit staff, perform user acceptance tests, and develop pricing and incentive structures (see table 12 for more detail and accompanying boxes for more tips and practical tools)		
DECISION	Launch pilot or not?	**RECOMMENDED DURATION**	2–3 months

Table 12: Pilot preparation activities and key success factors

Workstream	Activities
Distribution	• Identify agent locations for pilot. • Recruit and train staff who will manage and provide the service during the pilot (the training should take place no more than two weeks before the pilot launch so that staff do not forget what they have learned). • Establish a call centre (ensure there are separate hotline numbers for clients, agents and staff).
Technical / IT	• Purchase agent management platforms (if necessary). • Integrate the FI system with the platforms. • Perform user acceptance tests.
Internal organization	• Develop or refine business processes impacted by the use of OTC (process manual). • Develop invoicing and accounting procedures at the head office. • Prepare map of risks and mitigation strategies. • Define KPIs and monitoring scheme.
Financials	• Define incentives for staff (e.g., number of transactions through new channel, deposits mobilized through new channel, value of loans disbursed).
Key success factors	
Regulation and partnerships	• Define and sign the commercial agreement: negotiate services, commissions, liquidity management, exclusivity clauses, etc. • Include a service-level agreement that will 'stipulate the expectations with regards to the services provided and the consequences for both parties in case of non-delivery to the agreed service-level standards.'[a] • Get regulatory approval/licence for pilot (if necessary).
Market and products	• Define service specifications and client experience. • Refine branding and communication strategy, and plan for the pilot. • Develop a marketing plan (e.g., co-branding, delivery dates of posters and brochures, promotional gear for launch). • Start with a limited service range (although many FIs offer a wide range of services, the FI might want to start with the services identified during the market study as being most needed by clients, so as not to overwhelm the agent network; or, the FI might want to start with services that are more manageable, such as deposits and withdrawals, and then at a later stage offer loan disbursements and repayments, which are more difficult for agents to manage given the liquidity strains).
Project management	• Get project team up to speed. • Validate pilot implementation plan. • Create a risk management framework. • Have an escalation matrix.

a FINCA/The MasterCard Foundation, 'Expanding Access to Finance through Mobile Payments: Lessons Learned for MFI-Mobile Network Operator Partnerships,' Case Study, p. 4 (n.p., June 2015). Available from http://www.finca.org/files/2015/06/FINCA-MasterCard-Case-study-2015.pdf

Is FI ready for pilot to go live?

- ☑ Completed and signed agent contracts
- ☑ Documented approval of regulator (if needed)
- ☑ Finalized marketing plan and communication material
- ☑ Identified agent locations for pilot
- ☑ Recruited and/or trained agency channel team
- ☑ Finalized process specifications
- ☑ Completed IT integrations and user acceptance tests
- ☑ Updated risk management process
- ☑ Completed KPIs and monitoring scheme
- ☑ Revised pricing structure
- ☑ Revised incentive structure
- ☑ Detailed and validated pilot implementation plan

Tips

- Anticipate and do not underestimate the impact on the FI—there will be financial, technological, operational, marketing, human-resource and customer-experience implications
- Do not underestimate the time needed for IT integrations if platforms are needed for agent management, card management, call centre and/or SMS gateway
- Complete a user assessment test before launch

Implementation tools

Risk mapping grid:
Provides a list of frequent risks with possible impacts and mitigation strategies
Click on the icon to download

KPI template:
Offers suggested KPIs and measurement strategies
Click on the icon to download

STEP 4:
PILOT

OBJECTIVE	Run pilot and prepare for launch: • Test services and liquidity management, and take corrective actions • Check pilot actuals against expectations (i.e., KPIs) • Monitor and evaluate outcomes of the pilot, and provide feedback on any technology and business issues (including marketing, pricing, sales, processes, etc.) that arose during the pilot to see how they can be addressed • Validate plan for the launch		
KEY ACTIVITIES	Test all operational processes in real-life environment, identify outstanding risks and develop corrective actions as needed for improvement (see table 13 for more detail and accompanying boxes for more tips)		
DECISION	GO or NO GO? Readiness to move to national launch	**RECOMMENDED DURATION**	3 months minimum, 6 months more likely

Table 13: Pilot activities and key success factors

Workstream	Activities
Distribution	• Provide training to agents/trainers of agents. • Provide communication material to staff to publicize/sell the new service. • Brand the agents who will help facilitate this new OTC channel. • Distribute marketing materials to agents and field officers alike about the new services.
Technical / IT	• Test all technical functionalities and monitor performance. • Plan the transition from pilot to permanent organization (route to market plan).
Financials	• Check on fraudulent behaviour (internal from staff and external from agents and/or clients). • Ensure proper reconciliation between the agent and the FI accounts.
Key success factors	
Regulation and partnerships	• Keep regulatory authorities informed of progress (if necessary). • Review pilot results with partner(s) and manage relationship(s).
Market and products	• Launch communication actions for pilot. • Test services and make adjustments as needed.
Internal organization	• Adapt business processes as needed. • Monitor KPIs on daily/weekly basis. • Identify improvements needed and implement on the run.
Project management	• Evaluate pilot results on weekly and/or monthly basis and prepare improvement action plan. • Plan commercial launch when ready (pilot should take as long as needed to sort out any challenges that arise).

Implementation tools

At this stage, implementation depends on the FI. It becomes difficult to provide generic tools applicable to all FIs. The authors recommend seeking support from consultants for this phase. They will help in designing customized tools.

Is the FI ready to go live nationally?

Pilot results (regulation conformity)

- ☒ Conducted regular pilot reviews with partner(s)
- ☒ Reviewed communication material
- ☒ Completed internal training material and reviewed results
- ☒ Devised transition plan to permanent organization
- ☒ Reviewed fraud conformity results
- ☒ Followed up on KPIs
- ☒ Evaluated pilot results, and developed and implemented an action plan for improvement
- ☒ Developed commercial launch plan
- ☒ Revised business case with multiple year targets
- ☒ Completed backlog of pending actions

Tips

- Start with restricted number of products/services (i.e., deposit and withdrawal)—add loan disbursement/repayment at later stage
- Start with restricted number of agents/branches (who support x number of agents) with different profiles to assess take-up, and then decide on expansion plan (progressive or all branches at once)
- Remember that training of agents and staff is key and can determine the success or failure of the digital project—staff need to master operations and procedures before going live and agents need to be well trained on new services
- Even if approval of regulator is not needed to launch, keep regulator in the loop
- Prepare client education/sensitization plan for new products/services offered by the FI to build trust in new channel
- Perform weekly and monthly pilot assessments and take corrective actions
- Monitor KPIs and implement changes as needed

STEP 5:
LAUNCH/IMPLEMENTATION

OBJECTIVE	Operate the business on a daily basis: • Formally hand over from project team to operations team • Conduct IT stress/capacity test: can the systems handle the forecasted load? • Refine business model based on pilot results • Complete plan for full launch with resource allocation • Check if all preconditions for the launch have been met, and assess all aspects of the service • Coordinate, refine and troubleshoot the scale-up of the commercial launch and monitoring scheme
KEY ACTIVITIES	Implement product expansion, scale up, strengthen, evaluate, hand over and monitor (see table 14 for more detail and accompanying boxes for more tips)

Table 14: Launch/Implementation activities and key success factors

Workstream	Activities
Regulation and partnerships	• Share results of pilot with regulator to ensure FI is meeting all regulatory requirements and FI is recording expected KPIs.
Distribution	• Scale up (geographic expansion), and recruit new channel staff for headquarters and/or branches as needed. • Extend training of all staff involved with the service offering. • Provide training to new agents/trainers of agents. • Brand new agents who will facilitate this service.
Technical / IT	• Ensure there are no bugs in the integration between the FI and the agent management platform. • Receive regular reports from the agent management platform regarding system-related issues (connectivity problems, system being down, SMS messages not being received, etc.).
Key success factors	
Market and products	• Identify new market segments, and expand product/service offerings over time if desired (e.g., loan disbursement/withdrawal, money transfer). • Ensure agents are well branded with FI posters and have communication material to take advantage of cross-selling opportunities if possible.
Internal organization	• Ensure operations team has taken full ownership of the service(s). • Evaluate new business processes, and adapt over time if necessary. • Prepare human resource capacity plan with scale-up in mind.
Financials	• Use pilot results to 1) evaluate business case and 2) confirm or adapt pricing. • Ensure proper reconciliation between agents and FI. • Ensure payment of commissions as per terms of contract.
Project management	• Ensure project team hands over project to operations team that will manage the product on an ongoing basis. • Continue close monitoring of results.

Tips

- Even if approval of regulator is not needed to launch, keep regulator in the loop
- Start with restricted number of agents targeting different client segments to assess take-up and then decide on expansion plan (progressive or all at once)
- Create feedback loop to regularly assess (every quarter, every month, etc.) results and take corrective actions

Implementation tools

At this stage, implementation depends on the FI. It becomes difficult to provide generic tools applicable to all FIs. The authors recommend seeking support from consultants for this phase. They will help in designing customized tools.

STEP 6:
PERFORMANCE IMPROVEMENT

OBJECTIVE	Improve performance of services launched and build culture of continuous improvements: • Develop near-term improvement plan • Set up business intelligence to monitor service daily • Implement corrective actions
KEY ACTIVITIES	Conduct assessment including interviews with clients and staff to evaluate perceptions (see table 15 for more detail and accompanying box for more tips)
RECOMMENDED TIMING	6 months after launch minimum, 12 months ideally

Table 15: Performance improvement activities and key success factors

Workstream	Activities
Distribution	• Assess and align both the client and the agent experience of using the agency channel (quantity, quality, localization, performance, revenues) through focus groups and mystery shopping. • Evaluate compliance with service-level agreement.
Technical / IT	• Evaluate IT capabilities (loss of data, ease of use, time per transaction, etc.). • Evaluate integration between systems.
Key success factors	
Market and products	• Align client segmentation, value proposition and client journey through focus groups and interviews with clients. • Assess and improve cross-selling strategy (leveraging the agent network).
Internal organization	• Identify efficiency opportunities in internal organization, resources and processes.
Financials	• Evaluate and adapt business plan (if needed). • Evaluate pricing structure, including perception by clients, and adapt pricing structure (if needed). • Evaluate and adapt incentive structure for internal staff (if needed). • Evaluate and adapt commission structure for agents (if needed).
Project management	• Based on assessments, define quick wins, near-term improvements and mid-term improvements.

Is FI ready for continuous improvement?

☑ Revised segmentation, value proposition, agent interaction and client journey:
- ☒ Assessed experience of clients and channel staff
- ☒ Evaluated integration between FI system and agent management platform
- ☒ Revised business plan
- ☒ Pricing validated by clients
- ☒ Commissions validated by agents
- ☒ Incentive structure validated by staff
- ☒ Devised plan for continuous improvement of internal processes

SUMMARY:

THIS IS THE RIGHT MODEL FOR A FINANCIAL INSTITUTION IF…

THE FI IS LOOKING FOR A DISTRIBUTION SOLUTION MEETING THESE CRITERIA (SEE TABLE 16)…

Table 16: Summary of this model

TIME NEEDED

6–9 months to pilot graduation
based on meeting KPI targets (e.g., uptime)

TOOLS

POS, Phones, Tablets, Computers

- Integration between the FI CBS/MIS and other platform for real-time transactions
- Mobile phones, web interface or POS devices at agent locations

BUDGET

Total estimated cost is US$250,000–$500,000.

- In many cases, the primary expenses are branding and training of agents as well as the development of new back-office processes, which may require hiring consultants.
- It may also be necessary to invest in an upgrade of or a new MIS and then to cover integration expenses.
- It might also be necessary to purchase platforms for agent management, card management, call centre and/or SMS gateway.
- Other expenses might include market research, commissions for agents and incentives for staff.

BENEFITS

- Complete control over agent network
- Available and efficient agent network in target areas
- Very cash-liquid agents, if offering loan disbursement
- Super dealer with capable agent management and project management staff, as one option
- Ability to adapt staff to offer services through this new channel and to recruit and/or train field operations staff, marketing staff, new channel management staff, back-office/finance staff and IT staff

OBJECTIVES

- Greater control over agents
- Increased outreach in underserved areas
- Reduced footfall in branches
- Improved client service (convenience, cost and time)
- Improved operational efficiency
- Added value to brand

TRANSACTIONS

- Account registration
- Deposit/Withdrawal
- Loan disbursement/repayment
- Bill payment
- Balance enquiry
- Account-to-account transfer

… AND THE FI HAS CONSIDERED THESE STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SEE TABLE 17).

Table 17: Analysis of strengths, weaknesses, opportunities and threats of this model

Strengths	Weaknesses/Effort required	Opportunities	Threats
• Provides complete control over agent network • Offers possibility to use existing staff • Allows for experience in managing loan officers to translate to managing agents	• Needs significant investment, especially for training, marketing/ branding and sales • Requires client awareness and financial education, especially for an FI that targets rural and/or illiterate clients • Calls for extensive staff training • Implies significant cost and time to identify, recruit, train, brand and manage the agent network • Requires investment in new/ upgraded platforms, depending on functionality/capacity	• Improve the range and quality of services offered to clients • Reach out to new customer/ market segments • Create cross-selling opportunities for agents • Reduce footfall in branches, thus freeing resources to offer high-quality/other services • Set fees and commissions	• Platform or interface failure • Network coverage failure • Without interconnection between branches and head office, risk of clients going to multiple locations and withdrawing more than what is in their accounts • Staff/Agent/Client fraud • Equipment and/or application failure • Rejection of service by staff (resistance to change, lack of incentives) • Lack of proper liquidity management negatively affecting services • Reputation risk from working with agents who do not represent the FI appropriately • Regulatory limits on activities that agents can and cannot do and resulting confusion for customers (e.g., account-opening process in which agent takes application but branch authorizes)

MICROLEAD AND PHB TOOLBOX

This page provides a summary of tools that MicroLead and PHB have developed to help FSPs succeed on their mobile banking journey and that are available throughout this toolkit.

TOOL	DESCRIPTION	DOWNLOAD DOCUMENT
Shared tools and templates across all toolboxes (but customized to each business model)		
Action plan template	A template that contains the different categories required for an action plan and provides a non-exhaustive list of activities to carry out for this model	XLS
Business case template	A template that identifies the main categories of costs and revenues to consider to plan the business case	XLS
KPI template	A template of suggested KPIs and measurement strategies	XLS
Project team template	A template for the project team and steering committee	XLS
Risk mapping grid	A list of frequent risks with possible impacts and mitigation strategies	XLS
Self-readiness assessment tool	A tool to assess which prerequisites of the model the FI currently meets and which ones still need to be addressed	XLS
Specific tools for this model		
Agent contract	A template of a contract to be used with an agent	XLS
Agent job description	A template to be used for describing the job of an agent	XLS
Agent requirement form	A template to identify and recruit agents	XLS
Cash management rule	Guidelines for cash and liquidity management for agents	XLS

Clients transacting with Bank South Pacific agent in Papua New Guinea
Courtesy of PHB Development

ABOUT MICROLEAD

MicroLead, a UNCDF global initiative which challenges financial service providers to develop, pilot and scale deposit services for low income, rural populations, particularly women, was initiated in 2008 with support from the Bill & Melinda Gates Foundation and expanded in 2011 with support from The MasterCard Foundation and LIFT Myanmar. It contributes to the UN's Sustainable Development Goals, particularly SDG 1 (end poverty), SDG 2 (end hunger, achieve food security and promote sustainable agriculture) and SDG 5 (achieve gender equality and economic empowerment of women), as well as the Addis-Abeba Financing for Development Agenda (domestic resource mobilization).

MicroLead works with a variety of FSPs and Technical Service Providers (TSPs) to reach into previously untapped rural markets with demand-driven, responsibly priced products offered via alternative delivery channels such as rural agents, mobile phones, roving agents, point of sales devices and informal group linkages. The products are offered in conjunction with financial education so that customers not only have access but actually use quality services.

With a specific emphasis on savings, women, rural markets, and technology, MicroLead is a performance-based programme that supports partnerships which build the capacity of financial institutions to pilot and roll out sustainable financial services, particularly savings. As UNCDF rolls out the next phase of MicroLead, it will continue to focus on facilitating innovative partnerships that encourage FSPs to reach into rural remote populations, build on existing digital financial infrastructure and emphasize customer-centric product design.

For more information, please visit www.uncdf.org/microlead. Follow UNCDF MicroLead on Twitter at @UNCDFMicroLead.

ABOUT PHB ACADEMY

PHB Academy provides training and coaching aimed at improving financial inclusion. We focus on increasing the take-up and usage of digital financial services (DFS). PHB Academy offers training and coaching face-to-face and online, as well as in blended format (a mix of face-to-face and e-learning). Workshops and programmes can be custom-designed and tailored to our clients' specific needs. The design of our programmes is based on the latest insights in adult learning and executive coaching. We change behaviour by doing more than just transferring technical knowledge. We focus on the development of the practical skills and positive attitudes that managers and field staff need to design, manage and deliver DFS in a sustainable manner. Experiential learning methods and a focus on self-management are key to our success. Our offer is available to financial institutions, mobile network operators, remittances & payment providers and development agencies that pursue financial inclusion through innovative delivery channels.

PHB Academy is the Training & Development Practice of PHB Development, a specialist consulting firm with operations across the world. Since 2006, PHB Development has been committed to increasing financial inclusion in underserved markets. PHB has helped its clients develop viable financial services and delivery channels throughout more than 100 projects.

For more information, please visit http://phbdevelopment.com/. Follow PHB at @PHBDevelopment on Twitter.

ABOUT UNCDF

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

For more information, please visit **www.uncdf.org** and sign up for our Newsletter at http://uncdf.org/en/content/subscribe-our-newsletter. Follow UNCDF at @UNCDF on Twitter and Facebook.

ABOUT THE MASTERCARD FOUNDATION

The MasterCard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest private foundations its work is guided by its mission to advance learning and promote financial inclusion to create an inclusive and equitable world. Based in Toronto, Canada, its independence was established by MasterCard when the Foundation was created in 2006.

For more information and to sign up for the Foundation's newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MastercardFdn on Twitter.

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