MicroSave Briefing Note # 69

Incentivising 3rd Party Agents to Service Bank Customers

Ben Davis and John Owens

Using 3rd party agents to service customers provides a potentially low cost distribution channel for financial service providers. Two models include:

1. ***Branchless banking servicing models*** adopted in South America. Driven by banks, agents act broadly as bank employees (although the legal definition still differentiates between bank employees and agents) in order to facilitate a number of services, including transactions, account enquiries and new account origination on behalf of a bank.
2. ***Mobile commerce providers*** operating in the Philippines, and more recently in Kenya and South Africa. Under these systems, agents fulfil a range of services for non-bank mobile money issuers (M-PESA and GCASH) as well as joint MNO – bank ventures (MTN Banking and SMART Money - Banco de Oro) service providers. Services provided by agents are typically more limited (money transfer only or new account origination only), however, providers have been increasing the range of services provided by agents, converging on the South American model.

In the case of both models, providing the appropriate incentives for agents to provide these services has been the primary challenge for banks and non-bank mobile money issuers alike. The branchless banking model adds another party between the financial service provider and the customer. In some cases, this creates "incentive incompatibility" issues, where agents may attempt to try and maximise incentives offered by the banks and/or non-bank financial service provider, which may negatively affect the relationship with the customer. So providing appropriate incentives is important in order to ensure that agents act in an appropriate manner on behalf of the financial service provider, while still ensuring an appropriate "return" for acting as an agent.

Experience has shown that four key factors affect the willingness of agents to provide these services:

1. Complexity of Services

a. Financial services are foreign to most potential agents, who do not work in the financial services sector. Training (sometimes required for Know Your Customer (KYC) and other regulatory reasons) is a critical component of the channels success. The more complex the product sold, the more training is required, raising the administrative burden and costs for the financial services provider.

b. Related to this is that individuals, acting as agents change regularly. In larger supermarket chains for example, staff turnover can be over 30% per annum. This requires ongoing training (and sometimes certification) of new employees.

c. If processes required to provide a service by an agent are lengthy or multi-staged, it is unlikely that the agent will actively promote the service, or will require significant incentives to do so. For every stage in a process the probability of the agent following the process incorrectly increases exponentially. Therefore, the most effective approach is to provide a straight-forward checklist type procedure that can be provided to frontline staff that is very easy to understand and follow[1].

Financial services providers should therefore design processes that are easy to understand. This inevitably means that the "front-end" platform used to process transactions incorporates a significant amount of process automation and user-friendliness in the hands of the agent. A good example of process automation and user friendliness is the account origination platform offered by a bank in South Africa through their agents. Account origination happens on a mobile phone interface with photographs of required KYC documentation captured by the agents. Back-end processes manage: customer verification through third-party client databases; account activation; card activation; setting of security protocols; linking mobile phone to account; activation of mobile phone banking solutions on mobile phone; and automated activation of internet banking. With this system, account origination takes just 5 minutes.

Critical to the success of the electronic account application process was getting regulator buy-in. In the case of electronic storage of KYC documentation, one bank in South Africa spent over 6 months lobbying the regulator for the required exemption. Compromises in terms of account functionality were offered to offset the perceived risks faced by the regulator. It should also be pointed out that KYC documentation in electronic format is easy to search and transactional limits set by regulators can also help to better manage Anti-Money Laundering (AML) risks.

Alternatively, mobile phone-based systems are being used in India, Kenya, and the Philippines under which agents complete tasks using manual procedures and simple SMS or STK (SIM Tool Kit) menu-based programmes to complete and authenticate transactions. In order to ensure appropriate training to frontline agents, mobile financial

[1] GCASH and SMART Money in the Philippines provide simple checklists with screenshots for each step of the transaction to be handled by the front-line personnel. Flyers and standees for customers are also provided with step-by-step instruction.

service providers needed to develop simple step-by-step guides with mobile phone screen shots to ensure that the customer and agent could easily process transactions.

2. Expected Volume of Transactions

Possibly the most difficult issue to manage is that transaction volumes cannot be too low to obviate the initial time and effort needed to understand the services offered, but also not too high to limit time needed to service their primary business. For example in the card acquiring business, credit card transactions per month per device are typically managed to between 500 and 1,500. In addition, limits on mobile money transaction amounts must also be set and balanced against the needs of the clients, amounts that agents can easily handle and the concerns of regulators. Ideally, transaction limits should be similar to those set for ATM transactions in a given country.

Another important factor is ensuring that the accreditation and activation of agents is carefully planned in order to avoid a "chicken and egg" situation where there are either too few agents, or too few clients cashing in or cashing out at agents.

3. The Impact on the Agent's Primary Business

Non-financial benefits of the agency model can provide significant incentives to potential agents. This confirms the experience of POS deployment for businesses. Businesses are willing to accept a merchant discount because: card users are then guaranteed access to available funds in their accounts; businesses reduce cash handling costs; businesses with Card Association signage attract higher income customers (including foreigners with Card Association branded cards); and electronic POS transactions allow easy accounting reconciliations. Some of these same strategies can also be deployed by mobile money issuers as well as banks and their 3rd party agents. Specific advantages to agents offering branchless banking services include:

1. Bank or mobile money branding at an agent's store which can increase the spending rate in the store.
2. Cash recycling (cash withdrawals) allows agents to reduce their own cash handling costs by reducing the number of deposits made on a weekly basis.
3. Increasing the spend rate in the store by providing access to funds through the agency relationship.
4. Allowing the business to access products and services offered by the service provider (i.e. supplier payment services, salary payments and credit).

4. Fee Generated Per Transaction

Identifying what and how the fee needs to be paid to the agent to incentivise agents to provide the service is more than just the application of a margin above the service providers' costs. The fee should be determined after taking into account the previous three issues as well as determining the agents' willingness to provide the service.

Also a key benchmark that needs to be set is the hypothetical revenues generated from other transactions, either on an aggregated or per transaction basis. This sets the opportunity cost of processing transactions on behalf of the service provider.

For example, (excluding the positive impacts on current business and the fact that the reseller may have spare time available to process the transaction), if an airtime reseller receives a discount on average airtime sold totalling $0.10 per 30 second transaction, it is unlikely that the reseller would provide alternative services, unless this hurdle rate is met or the volume of mobile phone-based banking business is substantially larger.

Another issue that may be faced by potential agents is the cost associated with processing higher cash-in payments. In the case of South Africa, banks charge a cash deposit fee of 1% of the value. Providing cash deposits outside bank branches therefore requires the deposit fee to cover this cost. In the case of the cash-in leg of the Money Transfer, the fee would need to be at least $0.50 to cover the cash deposit fee of an average money transfer. In the Philippines, both Smart and Globe Telecom covered the costs of the cash-in fee at their branches as well as at various bank and major 3rd party agent locations, thereby making it basically free for customers to convert cash into mobile money.

In contrast for cash-out payments, the agents' fee could be very low as funds are transferred into the agents account at no cost, obviating cash deposit fees. However, in the case of M-PESA in Kenya, limited access to cash at "cash-out" points has forced M-PESA to incentivise agents to hold cash by offering higher agency fees for larger value transactions.

Concluding remarks

The role of 3rd party agents is one of the most important issues for those undertaking branchless banking initiatives. The key is to develop a straightforward system that provides enough of a value proposition for the 3rd party agents while properly controling costs for the branchless banking operator.

Critically, the importance of local conditions requires managers undertaking a branchless banking initiative to:

- Investigate international experiences (see CGAP Technology site for more information) ;
- Adapt to local market conditions;
- Balance the timing and deployment of agents vs. potential clients; and
- Balance the amount and types of incentives in order to ensure that there are no "incentive incompatability" issues.