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# Designing and Implementing Agent Networks





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## Abbreviations

1. *FMCG* – Fast moving consumer goods
2. *ANM* – Agent network manager
3. *MFI* – Microfinance institution
4. *CSP* – Customer service point
5. *CBS* – Core banking system
6. *BM* – Branch manager
7. *POS* – Point of sale (device)
8. *BC* – Business correspondent (agent)
9. *BCNM* – Business correspondent network manager
10. *MNO* – Mobile network operator
11. *MIS* – Management information system
12. *KYC* – Know your customer
13. *AML* – Anti money laundering
14. *ARP* – Action research partner
15. *MMT* – Mobile Money Transfer
16. *ROSCA* - Rotating Savings and Credit Association
17. *ASCA* - Accumulating Savings & Credit Associations
18. *SHG* - Self Help Group

## Glossary

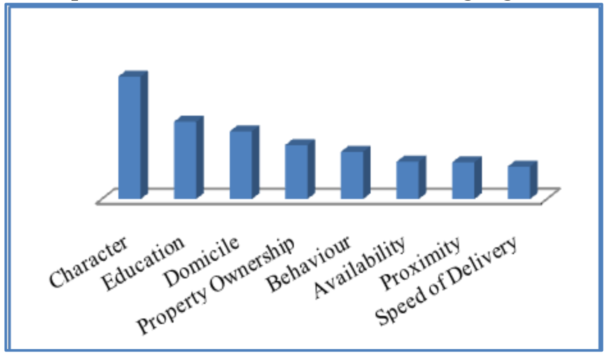
1. *e/m-banking (electronic/mobile-banking)* – A methodology of providing banking facilities through non-branch based front end mechanisms, typically using an electronic device or mobile phone to assist in the delivery. Sometimes referred to as e/m-banking or mobile financial services (MFS).
2. *Agent Network Manager (ANM)* – The entity which implements manages and monitors the agent network. It could be banks (if network is directly managed by them), mobile network operators, specialised third party service providers or super agents.
3. *Mobile Network Operator* (MNO) – The telecom service provider on whose network the mobile banking solution runs
4. *Business Correspondent* Network Manager (BCNM) – A BCNM is an ANM but specific to India. The third party entity (often specialised) in India which provides e/m-banking facilities through own agent networks.
5. *Technical Service Provider* (TSP) – The software vendor which offers e/m-banking solution
6. *Super Agent* – An entity in agency banking channel which is employed by an agent network manager to manage a group of sub-agents
7. *Sub-Agent* – The front end of an agency banking channel which is often employed by a super agent for delivery of customer end services
8. *Customer Service Provider (CSP)* – The entity which provides customer end services. Often the same as sub-agents.
9. *e-float:* The amount to be maintained by agents as e-money to facilitate transactions. All transactions done by customers at agent locations are adjusted against this e-float.
10. *POS Based System:* An e/m-banking system which used a Point of Sale (POS) device as the transaction device.
11. *Bank led Model:* A e/m-banking model in which the e-money issuer is a bank
12. *Non-Bank led Model:* An e/m-banking model under which the e-money issuer is not a bank.
13. *Panchayat:* A local self government body administering villages in India.
14. *Sarpanch:* A village headman in India.
15. *Chowkidar:* A local government official in Indian villages, literally meaning watchman or gatekeeper.
16. *Rotating Savings and Credit Association (ROSCA):* A Rotating Savings and Credit Association or ROSCA is a group of individuals who agree to meet for a defined period of time in order to save and borrow together.
17. *Accumulating Savings & Credit Associations (ASCA):* ASCAs are time-limited, informal microfinance groups. Unlike ROSCAs which may continue infinitely, in ASCAs after a pre-agreed period (often 6–12 months) all the loans are called back and the fund, plus accumulated profit, is distributed to the members.
18. *Self Help Group (SHG):* A self-help group (SHG) is a village-based financial intermediary located in India, usually composed of between 10-20 local women – essentially the Indian version of ROSCAs but often promoted by government directly and indirectly.

## Executive Summary

This paper tries to consolidate the views of different stakeholders involved in e/m-banking on the aspects related to 'Agent Network Management' – a critical piece of the puzzle that many have ignored, unfortunately, at their peril. In this paper, *MicroSave* summarises many of its findings observed and experienced from our various market research initiatives and direct technical assistance with our work with Agent Network Manager (ANM) partners across nearly a dozen countries over the past five years, complemented with some secondary source data. The focus of this paper is to examine different aspects of agent network management against the background of client, agent, and ANM operational requirements, to provide insights on how to design and implement a well-functioning agency model for the delivery of financial services to the un-banked. The different aspects studied include:

- Agent selection and recruitment
- Training
- Compensation structure
- Liquidity management
- Monitoring
- Customer support
- Marketing and communication

*Important Attributes in e-/m Banking Agents*




"Everything is based on trust" – m- banking customer in Tamil Nadu, India

**Agent selection** is the starting point for the agent management process. In general, the customer requirements from agent selection revolve around the need for them to trust the service provider and their assessment of the capacity of the potential agent to provide them with adequate services in a manner that is most convenient to them. What matters most to a customer in any financial service is security. For an agent banking model, this security is felt by customers to be dependent on the character, domicile and economic status, amongst other characteristics of the agent. In addition to security, the other prominent need pertains to service. Customers need agents capable of serving them adequately and appropriately. This need is the factor that leads to customer preferences for agents' education, behaviour, hours of operation, proximity and speed of service delivery. It is important to understand that the attributes preferred by customers are often context specific and tend to change across locations. The organisation involved would be well advised to assess customer needs on its own prior to expansion to new geographies.

The business case is the most important determinant for business people to decide if they are to act as agents for an e/m-banking solution. The ANM should be able to offer returns that match the agent's expectations. Though the transaction commissions are quite important, the expectation of returns may also be driven by the expectation of additional footfall for the agent's core business. Often, especially in rural settings, the prestige of being associated with a known brand, like that of a reputed bank also acts as an attraction to prospective agents.

There are also operational considerations of the ANM that determine the selection process. The pace of scale up foreseen, available resources, maturity of the solution etc. are major determinants of whether the organisation would prefer to handpick individual agents with its own selection criteria or look at established distribution channels like airtime dealers. Other aspects like target market, liquidity requirements, location, premises, current business etc. help the ANM to pick appropriate agent profiles and assist in individual agent selection. ANMs should also plan geographically to ensure adequate coverage, while making sure each agent has the potential to generate enough business to become viable.

From a regulatory perspective, central banks often have specific guidelines that restrict the available pool for agent selection and recruitment. These may be in the form of excluding specific categories of agents or by prescribing the profiles that can be selected as agents. Another form of regulatory intervention is by indirect means (for instance, a distance criterion) which will result in a restriction in the available pool of potential agents. All these need to be factored in while designing the selection parameters and processes.

**Training of agents** is the beginning to ensure efficient and consistent operations. Clients prefer agents that are educated (both general educational background and agent-related training) on the basis that such agents can support and service them well. Customers specifically believe that the agents should be trained in bookkeeping, documentation, processes and procedures and the basics of customer service. Another requirement from customers is with regard to assistance in choosing appropriate banking products and services, with which they believe agents should help. This will again require training the agent on need identification and recommendation of appropriate banking products.[1] Similarly, agents must understand the operational, technical and monetary structures of the model. The agents consider themselves to be an extension of the bank and demand that training be such that they are fully functional in that capacity – no less.

From the agent's perspective, it is important that the training covers aspects like emerging trends in the market, operations, technology and troubleshooting and soft skills stressing on customer service. Compensation structures in e/m-banking models are often felt to be complex by the agents, and they need a training component that can adequately explain and clarify their compensation. Another aspect is that agents (who are usually self-employed) have cannot be away from their businesses for long periods of time. They want the duration and timing of training to be determined after cross-checking with them. From the ANM's perspective, training also needs to include aspects of customer service and compliance.

In deciding the level and intensity of the training, the ANM would consider factors such as cost, structured vs. informal, venue, frequency, and rollout strategy so that an effective training plan can be developed. Thus a training implementation plan should include standards for the training team, curriculum, frequency, and monitoring and feedback of the training.

The regulator also has some interest in training, usually with regard to ensuring that the aspect of financial inclusion, consumer protection and security is covered in the course of training, but ideally leaves it to the ANM on how to cover these topics. For instance, the Reserve Bank of India has asked banks to develop a suitable training curriculum in local languages so as to provide attitudinal orientation and skills to the agents, but has been generally hands-off when it comes to detailed content under each topic.

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[1] Note that this would require a regulatory framework which permits agents to do this.

**Compensation** is usually the key motive for an agent to join any business. Agent dissatisfaction on this front can lead to dropping out of the business or e/m-banking being left as a non-priority. *MicroSave* found that agents carefully analyse the compensation structure on the basis of all the costs he must bear in this business, including abstract concepts like opportunity costs. The costs the agents consider important include the initial capital invested, operational expenses and the infrastructure expenses. In addition to the costs involving cash outlay, the agents also consider opportunity costs to be a key determinant of the attractiveness of the proposition; especially since most of the agents run other businesses simultaneously. The agents consider the likely returns from the business in the context of the costs so as to make a decision about participating. In addition to the costs and likely returns, the agents also consider the transparency in calculating commissions to be very important. They require the system to be direct and simple. The timeliness of commission payment comes a close second to actual incentive amounts with respect to agent requirements. Most agents would settle for a monthly payment, though most feel the sooner the payment is made after the transaction the better.

"The future is bright. I'll not sell cassettes in the future. Once there are transactions of Rs.200,000 to Rs300,000, I'll close down all other businesses. A security guard will have to be arranged. I'll make a glass office and work peacefully there." – A potential e/m- banking agent assessing the opportunity

For the ANM, the agent compensation must be set at a level to ensure that the agent can run a sustainable business. Quite often, the amount available to pay agent incentives, as well as to ensure sustainability, is dependent on the originator of the transactions (usually a bank or an MNO). So the ANM must be able to project the commissions required to be paid out to agents in order to conduct effective negotiations with the originator. In addition to the actual incentive amount paid, the ANM needs to make several decisions pertaining to the medium of payment, mode of payment, timing of payment etc. These decisions would depend on the external environment, life stage of the business, growth plans/rollout strategy etc. There may also be regulatory directives that govern compensation. An optimal compensation structure needs to consider and balance between these (sometimes) conflicting requirements.

Compensation structures usually seen in e/m-banking include flat fees, percentage commissions and tiered commissions. Flat and percentage commissions are generally easier to understand while tiered fees bring in an element of complexity. Percentage fees often motivate the agents to concentrate on larger transactions, sometimes at the expense of small savers; while flat fees may discourage a bank's objectives of deposit mobilisation. Tiered compensation structures often strike a balance between these objectives and may be the most suited when both financial inclusion and bank's sustainability are equally important.

**Liquidity management** refers to the movement and location of cash between the agent, ANM and the banks. Customers make it clear that they would not use an agent network in which many requests failed due to a lack of cash / e-float. Agents must then set cash aside for working capital and weigh the implications on returns and security. Since e/m-banking solutions are typically new for the agents, the build up of float is typically gradual, growing along with customer acquisitions and transaction growth. It is also vital that the agents are provided adequate inputs about the liquidity management process so that customers do not face transaction denial.

"When I need to withdraw a large amount, then I have to do so from three [different] accounts. Also, one agent does not have this amount, so I have to go to 2-3 agents." – A customer stressing the need for adequate float with agents

ANMs must consider factors such as the model, technology, target clients, areas of operation that would affect the need for cash. If the ANM's staff members act as transaction points, the liquidity management function is usually performed by the organisation itself; but if employing agents, the liquidity management responsibility is usually shared with between both. The area of operations, target customers, type of products and distance from bank usually determines the amount of e- float and physical cash required. For instance, an urban agent catering primarily to remitters may need more e-float than physical cash, while at the other end of the remittance transaction, his counterpart in the village catering to recipients may need more physical cash. Liquidity management must take into account several aspects including agent selection, conduct of transactions, cash movement and reconciliation and settlement.

> "We are not able to maintain registers. There are so many customers that we miss out on half the transactions." – An agent mentioning inadequacy of monitoring measures

**Monitoring** ensures that service standards are maintained adequately and consistently at all levels of the business, especially helping to keep checks on agent activities and reduce chances of fraud or misappropriation. In e/m-banking, monitoring usually includes operational monitoring for process compliance, a more structured and formal internal audit, a facility for customer complaints and grievance redress and regular MIS based performance tracking. Excellent agent networks often have a qualitative research-based monitoring and management system to assess the health of the channel and the satisfaction of their customers. The clients' need for security and ensuring trust in the system should be the driver for developing and implementing monitoring systems.

*MicroSave* has found that agents feel that the model is new and actually want additional support so they can carry out the activities properly. At the same time, it is important to realise that for most agents, e/m-banking is an additional business, which at least initially, is often marginal. So, any monitoring system developed needs to be designed such that it does not take up disproportional amounts of the agent's time and effort, while ensuring that it is robust enough to prevent fraud and misappropriation and to provide guidance to agents.

The ANM needs to consider the available resources, technological capability, location etc. before developing the monitoring indicators and mechanisms. Often, the regulator will address the risks that may arise due to poor monitoring and will issue guidelines necessary for agent monitoring to mitigate these risks. Moreover, regulators often prescribe several aspects including the profiles of potential agents, pricing structure, and know your customer (KYC) norms. These aspects need to be subjected to strict monitoring to ensure compliance. The basic monitoring systems in e/m-banking should cover indicators like operational efficiency, handling transactions, bookkeeping, liquidity management, outreach to potential customers, fraud, service hours and outlet appearance.

> "If I have a problem, I email M-PESA, and it is sorted. It is the best ever [communication]." – M-PESA Agent

Good **customer support** ensures a long and fruitful relationship with the end customer but is just as important for the agents. Both customers and agents are typically new to the idea of e/m-banking, and hence require more inputs on customer service as compared to more typical banking staff and customers. They therefore need extensive support in the beginning to address operational and technical issues (and basic education on the products and how they work). For agents, it is typically a new line of business and as a result higher levels of handholding will be required with regard to policies, procedures and processes. Moreover, the technology intensive nature of most e/m-banking solutions also necessitates a certain threshold level of customer support dedicated to agents.

Equity Bank has a branch based Agency Manager who helps address complaints and queries of agents.

One factor affecting the implementation of customer support is the multiple players typically engaged in delivery of services. For instance, the players in a bank led model may include the bank, the MNO, technology service provider, the ANM and individual agents. The ownership of customers in such a scenario needs to be defined and the ultimate responsibility of customer service needs clearly owned; even if individual functions are outsourced to relevant parties. The customer support process also depends upon aspects like agent management, products offered, resources available, maturity of operations and the location of outlet.

The regulator will usually define broad guidelines related to consumer protection of which some cover customer service aspects, such as the RBI in India insisting that banks must create grievance redressal machinery within the bank for redressing complaints about services rendered by agents. Typically customer support processes should cover technology trouble shooting, account opening and transactional processes tracking, transaction confirmations, information about failed transactions, server down time, KYC/ anti money laundering (AML) norms, process requirements, product features, balance enquiry and agent locations.

As a new model, e/m-banking must use effective **marketing and communication strategies** to inform both customers and agents about the product and model. E/m-banking customers, especially in rural areas, lack access to traditional media. Moreover, as new and largely untested ventures, e/m-banking deployments often have small budgets for marketing and communication. This factor necessitates involvement of agents in the marketing and communication of e/m-banking solutions to new and existing customers. Agents themselves are typically new to these solutions and hence require careful and targeted marketing efforts when being recruited and clear communication during and after the training phase.

"When you go to the bank you see a queue like a snake that has curved six times and you feel like fishing them out and bringing them to your agency. I think the bank is scared that agents will take customers away." – Agent on lack of communication from bank.

For the ANM, the rollout strategy and available resources will often determine the intensity of marketing while target market, technological sophistication etc. will determine the mode and medium of marketing. Central banks often provide clear directives on what relevant information regarding the agent and the bank should be communicated and how. For instance, most central banks fix the ultimate responsibility on the bank and insist that this fact be communicated to the customers.

# Designing and Implementing Agent Networks

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## Background and Introduction

Lack of access to financial services is a persistent problem for most of the world's poor. For instance, about 40% of India's adult population is un-banked and approximately 59% of rural households do not have deposit accounts.[2] This is a constant cause of concern for policy making circles across the globe.[3] E/m-banking is seen as a solution to balance the requirement of financial access to the poor and the need for sustainability for service providers. E/m-banking is also compelling for commercial banks that either want, or are forced, to address financial inclusion but want to keep costs low. There have been many recent innovations in technology and transactions capability for e/m-banking, including increasing mobile phone access and network coverage. The number of organised players in the sector has increased from about 24 in 2008 to about 120 in 2011.[4]

Central to the delivery of financial services to un/under banked customers, who often reside in remote and rural areas, is the establishment and management of an effective last mile delivery channel. This need is driven by two issues: 1) nowhere on earth has any economy gone completely cashless - cash in/out points are still essential; 2) the best way to convince and educate the poor (especially the rural poor) about financial services using a new technology is through face-to-face contact, preferably from someone who is known. Branches, and even ATMs, are costly to maintain, and there are now many low-cost, mechanisms that sensibly combine technology and human interfaces to provide access to the last mile more cost-effectively. These solutions can include a combination of using local individuals, such as small business retailers as agents, or utilising existing infrastructure, such as post offices, all linked to technology.

Most e/m-banking agents are simply cash merchants with a primary function of buying and selling e-money and cash, as opposed to being full service delivery or "sales" agents providing financial advice and cross-selling different financial products. There are valid concerns on the risks of using agents for advising on financial products, such as the risk of improperly selling unneeded financial products to customers previously unexposed to formal financial services. As a result, regulations in many countries restrict permitted agent activities to act mainly as referral points for new products (with a registered staff expert to follow-up) and to conduct cash-in cash-out transactions.

It is also important to distinguish between normal agents and "super" agents. Agents in normal parlance generally refers to frontline service providers who facilitate e/m-banking services to customers, while super agents are essentially mini-agent network managers (ANMs) who deal with the frontline agents on a daily basis to service their needs. These super agents are typically individual entrepreneurs (or previous, successful frontline agents) who enrol frontline agents and help manage their liquidity requirements, advise them on issues that have arisen with customers etc. In the context of this paper, we focus primarily on frontline agents, and assume the role of super agents to be the near equivalent of ANMs.

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[2] Basu, Priya, "Improving Access to Finance for India's Poor", Rural Finance Access Survey, The World Bank, Delhi, 2003
[3] "Financial Inclusion – The Indian Experience" Speech by Smt. Usha Thorat, Deputy Governor, Reserve Bank of India at the HMT-DFID Financial Inclusion Conference 2007, Whitehall Place, London, UK on June 19, 2007.
[4] GSMA Mobile Money Deployment Tracking, http://www.wirelessintelligence.com/mobile-money.


Though the transactional processes vary according to the technology used, there are often elements involved in managing the delivery channel, especially when it comes to the human side of the business. The support functions involved in management of the delivery channel, in particular, are often the same. This paper is an attempt to collate information regarding agent requirements, operational considerations and regulatory restrictions so as to develop and manage an effective delivery channel. This paper will provide inputs for designing and managing the network on these parameters and provide actual case studies to highlight current practices. The areas covered under this paper include:

- Agent selection and recruitment
- Training
- Compensation structure
- Liquidity management
- Monitoring
- Marketing and communication
- Customer support

This paper is based largely on *MicroSave's* research on agent networks, dormancy in no-frills accounts and cost and willingness to pay for financial services across India and from field work conducted, providing technical assistance to our Action Research Partners (ARPs), largely in India (but also in other countries, including Kenya, South Africa, Colombia, Papua New Guinea and the Philippines). [5] We have tried to reinforce the message using external case studies and examples where appropriate. Since the inputs come largely from India, the focus of this paper is on bank-led models directed at financial inclusion.

There are other comprehensive and highly useful studies and resources created on e/m-banking solutions, particularly around agent management: most notably CGAP's "Agent Management Toolkit: Building a Viable Network of E/m-banking Agents" and GSMA's "Building, Incentivising and Managing a Network of Mobile Money Agents: A Handbook for Mobile Network Operators". This document complements both and is different in the following ways:

- This paper attempts to add more depth to one critical component, namely the field, on-the-ground reality of implementing and managing agent networks and not repeating the basics of set-up and what the different agent models are, etc. We have tried to provide more in depth examples and real world applications in this paper on that one main topic, field agent management, using direct qualitative (not quantitative) feedback from customers, agents and other stakeholders, such as ANM staff.

[5] Supported by the Bill & Melinda Gates Foundation and the Omidyar Network.

- The paper offers lessons learned and ideas implemented by others to be discussed, considered and modified in the appropriate way (or even thrown out if completely inappropriate!). This *MicroSave* resource complements the CGAP Managing Agents toolkit Chapter 5 by covering this important area in significantly more detail and depth.
- The complementary difference with that of GSMA's toolkit is that, as most of the data used comes from India, much of the content in this document is more bank-led model focussed.


## Agent Selection[6]

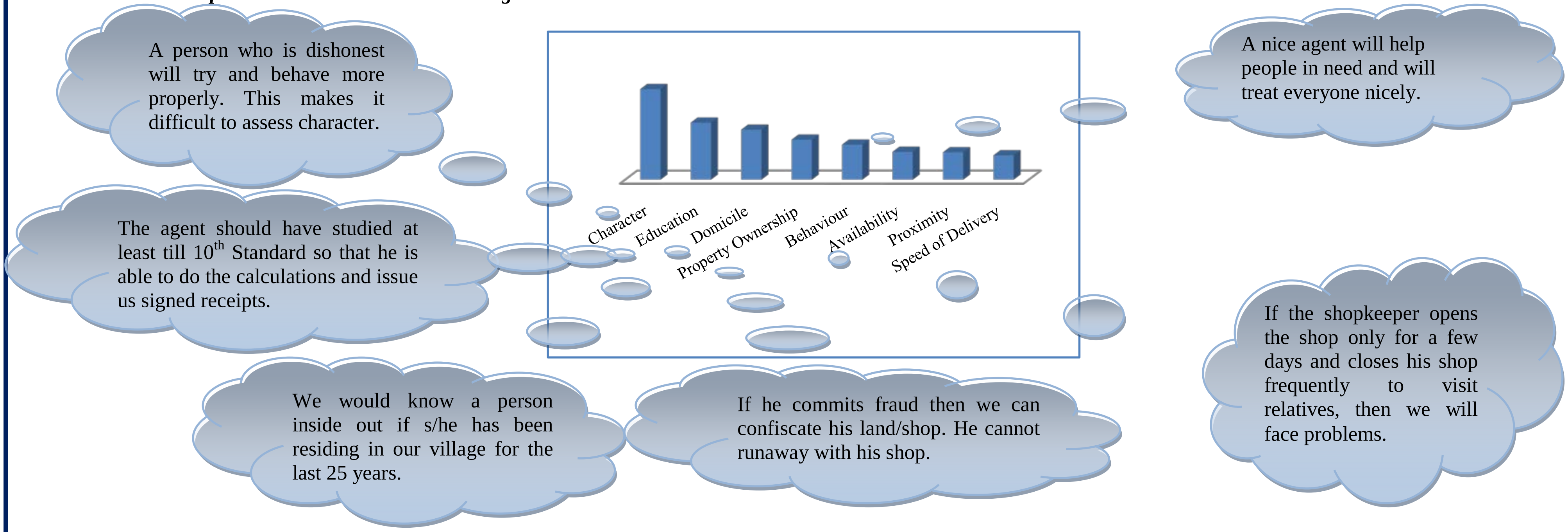
E/m-banking solutions are often quite technologically involved and may seem complex to the target customer. In this context, selecting the right agents is critical to the success of any e/m-banking initiative, especially during the most difficult introductory period, as the solution seeks acceptance in its target market. Agent selection needs to be tailored to customer requirements, address the operational considerations and conform to regulatory restrictions.

***Customer Preferences for Agent Profiles[7]***

While looking at customer preferences for agent profiles, we need to be aware that these preferences are often context specific. For instance, during the course of our research, in the Indian State of Tamil Nadu, many customers mentioned that they prefer agents to be women since they are considered to be generally more trustworthy, while in the remote villages of Orissa, the respondents mentioned that they prefer male agents due to safety concerns. However, there are many common threads across different geographic locations, as detailed in the chart below:

[6] Refer to *MicroSave* Briefing Note # 81, "M-Banking Agent Selection"
[7] Refer to *MicroSave* India Focus Note 66, "What Do Clients Want in E/M-Banking Agents?"

***Chart 1 – Important Attributes in a Potential Agent*[8]**




[8] Based on a recent research project on Agent Networks conducted by *MicroSave* covering 89 respondents across two states in India. The 'Y' axis denotes relative importance as indicated by the respondents. See [*MicroSave* India Focus Note 66 "What Do Clients Want in E/M-Banking Agents?"]

***Table 1 – Important Parameters for Agent Selection***

| SL No | Parameter/ Criteria | Rationale (*Source: customer feedback in multiple studies across India*) |
|---|---|---|
| 1 | Character | • The most important factor influencing safety of savings<br>• Underpins trust – of the agent and ultimately the e/m-banking system<br>• Customers are typically cautious when dealing with agents for financial services<br>• Driven by less than ideal past experiences with informal and formal service providers, e.g. chit funds and non bank financial corporations (NBFCs) |
| 2 | Education | • Associated with capability to provide financial services<br>• Financial services considered inherently complicated due to activities like bookkeeping<br>• An understanding of banking processes is required<br>• Agents expected to play an advisory role with regard to financial services |
| 3 | Domicile (i.e. duration lived in locality) | • Indicates familiarity and thereby establishes credibility<br>• Is considered to have ties to the location and hence the intention to run away with the money is limited<br>• The longer the period of domicile, the greater the credibility |
| 4 | Property Ownership | • Binds the agent to the location<br>• Provides insurance against a dishonest service provider since the property can act as collateral of last resort<br>• Indicator that agent is rich enough to have sufficient liquidity |
| 5 | Behaviour | • Expectation of superior customer service – compared to that received at bank branches<br>• Need to be treated politely and with respect<br>• Driven by perceived rude behaviour of bank officials when low income customers conduct transactions at bank branches |
| 6 | Availability / hours of operation | • Need to be open 7 days a week<br>• Need to be open beyond normal banking hours<br>• Expectation driven by the need to prevent opportunity costs due to wage loss |
| 7 | Proximity | • Tied to the ease of accessing an agent<br>• Faster total transaction time, since travelling time would be minimal<br>• Prefer agent to be in customer's own locality<br>• Reduces direct transaction costs, i.e. travelling expenses, such as bus or rickshaw and the indirect costs due to wage loss |
| 8 | Speed of Service Delivery | • Need to complete transaction in the fastest possible time<br>• Time saved can be spent with family / other productive purposes |

In the course of research, the customers also provided feedback on some common profiles for potential agents for e/m-banking services. The most common profiles mentioned include mobile stores, grocery stores, medical stores and financial services agents, like insurance agents. The clients generally seem to prefer grocery stores since they are felt to be more accessible compared to others. Moreover, grocery stores are frequented for purchasing other daily necessities and clients find this to be efficient. The table provided below outlines their feedback.

***Table 2 – Sample Agent Profiles – Feedback from Customers***[9]

| Mobile Stores | Grocery Stores | Medical Stores | Financial Service Agents |
|---|---|---|---|
| *Advantages*<br>1. Quick service time<br>2. Knowledge of computers - so better suited for internet related banking<br>3. High footfall<br>4. Shops are usually clean, organised and tidy<br>*"There is not much paraphanelia lying around."*<br><br>*Disadvantages*<br>1. Mostly younger generation is involved<br>2. Mostly visited by men | *Advantages*<br>1. Most frequently visited shop by men and women - more comfortable, has more trust<br>2. The shops are usually in close proximity and open for longer durations<br>3. Higher presence in rural areas<br><br>*Disadvantages*<br>1. Less space<br>2. Multiple products - delay in bank work | *Advantages*<br>1. The owner is generally educated<br>*"No illiterate can open a medical store"*<br>2. Shop are usually neat and products are well placed<br><br>*Disadvantages*<br>1. Low frequency of visits by a household<br>2. Usually crowded in rural areas | *Advantages*<br>1. Educated and can conduct bank related formalities easily<br>2. He or she typically has good behaviour<br>3. Experience of handling deposits<br>4. Able to provide door step services<br><br>*Disadvantages*<br>1. Not necessarily domiciled in village, less information about their property - and hence less trust<br>*"The agent does not have property; also [I] do not know where he lives."*<br>2. Availability is an issue due to travel.<br>3. Past track record is discouraging. |

[9] Based on a recent research project on Agent Networks conducted by *MicroSave* covering 89 respondents across two states in India.

### *Agent Requirements*

Based on feedback from agents, their main requirements when deciding if they want to offer e/m-banking to their customers are the following:

> "If you rack your brain for half an hour you get Rs.30. If we sell a mobile handset then I can get Rs.100 by just spending 15 minutes".
> - An agent of one m- banking solution

*Agent Business Case:* Agents are more likely to have other businesses, and the agency banking business should offer adequate returns to the agent. Even during the selection process, the Agent Network Manager (ANM) must ensure that the prospective agent understands the business potential (and pitfalls). For example, airtime dealers were initially used by M-PESA to rapidly rollout a large channel in Kenya. However, M-PESA has since moved away from using airtime resellers and focused more on specialist agents and ANMs because of a lack of focus and motivation by the airtime resellers. Similar attempts to use this channel for e/m-banking in both the Philippines and India have not yielded positive results either, since airtime commissions have been higher traditionally compared to commissions for financial transactions and agents prefer to spend their time and capital on the more lucrative airtime product. (See adjacent Box.)

*Association with a Respected Brand*: One of the major motivators for agents to enrol was that association with a well known name, especially a bank, would contribute to their status in society.

*Additional Footfall:* Many prospective agents expect that with the provision of agency banking services, more customers should come to their store. They expect e/m-banking customers to buy their other retail products (e.g. snacks, refreshments, groceries, etc.), as well while they are availing financial services.

*Initial Costs:* Most are concerned about set-up costs and/or the investment required in terms of security deposits and initial float balances. Many are hesitant to block these upfront funds prior to the solution being tested and proven.

**Airtime Dealers as M-Banking Agents – The Experience So Far**

Many m-banking deployments across the globe have tried to use existing airtime dealers as agents. The main advantage is that this can theoretically provide a readymade channel for service delivery and allow for fast scale-up, especially when there is a deep-pocketed mobile network operator (MNO) involved.

However, the experience with airtime dealers so far has shown that they may not necessarily be the best channel for providing m-banking services. G-Cash and SMART in the Philippines, M-PESA in East Africa, and Eko in India, all initially launched using airtime dealers as the primary delivery channel, but later moved on to other, more dedicated channel options. Some of the factors which contribute to the unsuitability of airtime dealers for m-banking are:

- *Incentives:* Incentives on airtime are so high in many markets that commissions on m-banking transactions are not attractive enough. This was a major issue in both India and the Philippines.
- *On-phone airtime sales:* Airtime agents are very aware that e-money can be used to buy airtime – thus cannibalising their original core business.
- *Liquidity Management:* Airtime dealers are not used to the levels of liquidity needed by m-banking solutions.
- *Transaction Time:* Airtime purchase is usually a very fast transaction done in a matter of seconds. In financial transactions, the time involved is typically higher and can act as a major disincentive for airtime dealers.
- *Age of the Operator:* Airtime dealers typically are young, who are generally less trusted on financial matters.

**Operational Considerations**[10]

*Rollout Strategy:* The rollout strategy is an important determinant of the kind of agents used. For instance, if a rapid build up is the objective, it is more prudent to access existing distribution channels like those for airtime, microfinance or fast moving consumer goods (FMCG) products. However, if the rollout is planned to be gradual, the careful and individual selection of agents against a set of pre-determined criteria is to be preferred.

> Gram Tarang in India wants rapid scale-up, and as a result, is appointing temporary staff as Customer Service Points (agents) and is recruiting across existing and new operational areas *en masse*.
>
> Commonwealth Inclusive Growth Services (CIGS) enables customers to make purchases of retail goods at merchant locations using their e/m- banking solution. They are growing at a comparatively slower pace due to their focus on mercantile transactions. CIGS is primarily recruiting merchants who want to use the smart card provided by CIGS to improve footfall in their regular business.

*Maturity of the M-Banking Solution:* The kind of agents that an m-banking solution can select and recruit is highly dependent on the maturity of the solution. A new solution needs to be marketed and explained to a carefully selected pool of potential agents. Moreover, a new, untested solution is less likely to interest large chains of established agents. On the other hand, a mature solution is more likely to be adopted by a large, existing distribution channel. So, perhaps it makes better operational sense to look at individual agent selection if the solution is new (and needs to be tested) ,while established solutions can look at partnering with large distribution chains. For example, Eko tried and tested its new offering in limited localities of Delhi and Bihar before rolling out their solution across larger geographies.

*Target Customers:* The target market for the solution needs to match with the target market of the retailer. For instance, one organisation in North India wanted to use a network of petrol pumps as its agents, which has been tried in other countries. However, customer demand-side research revealed that the target customers, the rural poor, rarely visited petrol pumps – and thus pterol pumps were not a suitable channel at all.

*Existing Relationship with the Institution:* If potential agents already have an existing relationship with the organisation, they could be easier to recruit and train. Moreover the existing relationship means that the comfort levels between the organisation and the agent is comparitively better (and faster to establish). For instance, when ICICI Bank initiated its e/m-banking strategy, it turned to many MFIs with which it had on-lent funds for microcredit to serve as agent network managers.

*Liquidity Requirements:* Most mobile banking agents are simply required to act as cash in/out points for customers. This requires that the agents have adequate cash (both physical cash as well as e-money) to enable transactions. The size and frequency of expected transactions will significantly influence the liquidity requirement and therefore the nature of the ideal agent. Due to this, it is generally seen that cash intensive businesses, such as retailers, are preferred as agents.

*Location of the Outlet:* In the *MicroSave* Cost and Willingness study, 32% of the respondents mentioned that the nearest bank branches were at a distance of at least five kilometers or more. If a customer is lucky enough to be banked, they often incur costs when the branches are far away including direct costs such

[10] For more on operational considerations, please refer to *MicroSave* Briefing Note # 81: "M-Banking Agent Selection"

as travel and indirect costs such as wage losses. This acts as a deterrent for many to either become customers or actively use their accounts, especially when small transactions are involved. Hence it is vital that the location of the agent be near the customers. Another consideration is that the agent location should also not be very far from the bank, as the agent may be required to visit the bank for liquidity management purposes.

Research conducted in the plains of Tamil Nadu and Orissa in India found that customers prefer that agents be located in their own villages, unsurprisingly. Yet in the hills of Uttarakhand, the customers are fine with agents based in small towns as long as the agents were located near common market areas where the customers go to purchase necessities on a regular basis.

"The agents we selected were distributors and their footfall was mostly from retail [shop owners]. They were not getting any retail customers. So they had to be closed." – An ANM staff member on the mistakes they made in agent selection.

*Current Business:* Ideally, the existing business activity of the agent should be compatible with the e/m-banking service. The kind of business the potential agent is involved can both attract and repel customers. For instance, a pharmacist is often considered a trusted advisor in many rural localities in India, while places such as teashops which are frequented by men, may not be ideal if an organisation wants to attract women customers. One other consideration when selecting an agent is the current customer footfall. It should neither be too low or too high. Too many existing retail customers at the shop could mean that the agent may not be able to deliver a new product or add new customers for the banking service. If there are too few retail customers, then there might not be a steady base of prospective customers to pull from. A study done in Eko found that the average footfall at its agents was 150 per day.

*Willingness and Attitude:* The merchants should have the willingness and motivation for the new products as they may need to attend meetings, training and exert extra effort in managing the banking service.

*Appropriate Premises:* Just like any other banking service, e/m-banking also benefits from a safe and secure transaction environment. Customers must be able to transact, securely and safely in a pleasant environment that has the security to handle a particular volume of cash. Premises must be sufficiently large to accommodate customers to form a queue and transact in the midst of the agent's existing business. Moreover, as an extension of the service provider, the agent premises act as a reflection of the image of the service provider and makes this factor even more important. Oxigen, which operates e/m-banking through an internet-based platform, mandates that each agent must have the required physical infrastructure in place, including seating capacity requirements, shop size, computer hardware, etc.[11]

*Other Agents in the Locality:* Agent networks need to be planned in a manner such that agents do not overly cannibalise each other's business; yet at the same time the agents must be close enough to be able to support one another for cash management needs and if one agent is unable to transact for one reason or another.

***Implementing the Agent Selection Process***

[11] Refer http://www.myoxigen.com/

Implementing the agent selection process should incorporate customer requirements, operational considerations and regulatory constraints into the identification, selection and appointment process for potential agents. The typical agent selection process usually covers the following five main steps: 1) obtaining applications (sometimes paper and sometimes soft copy); 2) initial screening; 3) selection; 4) appointment; and 5) announcement to customers. The following pages also provide two case studies on how two organisations implement the agent selection phase. In the first case study, Eko uses pre-determined criteria to conduct the initial screening of agents and employs reference checks before final selection. Before appointment, Eko communicates the roles and responsibilities to the agents so there is no lack of clarity. In the second case study, Gram Tarang uses the local bank branch to generate applications and reference feedback. Pre-determined eligibility criteria are used for short listing applications, and Gram Tarang conducts interviews with the finalist for selection. Gram Tarang communicates roles and responsibilities through a formal training prior to appointment to the new agents.

***Table 3 – Implementing Agent Selection***

| | |
|---|---|
| **Sourcing and Obtaining Applications** | • Can be obtained by collecting feedback from the field - from NGOs or MFIs working there, or by site vists by the ANM - see discussion above about the importance of agent profiling selecting the right type of agent.<br>• Referrals from existing agents and/or customers can be used to obtain agent leads. This is particularly useful when there is an existing distribution channel, e.g. airtime resellers<br>• Advertisements in the local or regional newspaper have also been used successfully. |
| **Initial Screening** | • A set of pre-determined criteria can be used to obtain the best suited profiles from the applications recieved<br>• Scoring can be used to facilitate the process of selection<br>• It would be desirable to use this step only to identify a suitable pool of applicants from which a shortlist can be made rather than using a scoring tool for final selection since subjective criteria such as reputation, willingness etc. would be difficult to quantify through scoring. |
| **Selection** | • Reference checks may be used to assess the reputation of the potential agent<br>• Interviews or behavioural tests may be used to make the final shortlist of the potential agents |
| **Appointment** | • Appointment may involve initial communication of roles and responsibilities of the agent<br>• The arrangement should be formalised through formal contracts<br>• Opening agent accounts, loading pre-paid value etc. are done (training would also be conducted at this point - see next section) |
| **Announcement to Potential Clients** | • The announcement of a new agent should be done publically in front of potential customers, ideally in the presence of bank officials and local opinion leaders to signal their support<br>• ID cards, POS machines/SIM Cards and operational stationary may be handed over to the agent during this public function to enhance client trust |

***Case Study 1: Agent Selection at Eko***

The potential locations for agent appointment are identified based on the bank's priorities, Eko's expansion plans and feedback from the field team. Based on the location identified, the field team visits potential shops in the locality. Shops that fall under the following criteria are excluded:

- If the primary line of business is electrical, telecommunications, consumer durable, hardware shops, newspapers or alcohol/cigarettes (mostly based on prior experience by Eko – except alcohol/cigarettes, which are excluded for ethical reasons).
- If the owner has been in business at the proposed agent location for less than two (2) years

Before even entering the shop, initial due diligence is conducted by checking aspects such as the size of the shop, the exclusion criteria (mentioned above), inventory levels and cleanliness. If the parameters are within acceptable standards, then the field staff person approaches the shopkeeper to pitch the idea and conduct further due diligence. The business proposition is explained to the shop owner using a Pitch Dossier, which details the Eko business model and the product details. If the person shows interest then the expectations from the agent in terms of investment and commission structures for compensation are shared.

If the prospect is interested, then the required forms are filled. Prospective agents are also informed about the documents needed for account opening, e.g. identification documents and address proof, and the date when field staff will collect them. The agreement draft is handed to the prospective agent, and the field staff person explains the agreement terms and conditions to the prospective agent. After the initial screening and visit, Eko conducts reference checks with community members and neighbours.

The field staff person then returns to the prospective agent on a pre-determined date to collect account opening documents, the demand draft (DD) for a security deposit and to load pre-funding the e-wallet; these are passed on to the Eko head office for processing and then onto the bank for approval. Once the bank approves the agents, the data of the agent is loaded onto Eko's Core Banking System (CBS), and the field team informs the agent about his selection.

The agent is provided training in a batch of other new agents with an Eko trainer and a bank representative present. Once the training is completed, the agent is provided a soft kit including the agent certificate, agent identity card, registers, promotional material and the OkeKey Booklet (a unique transaction security tool with a series of one-time-use passwords in which the PIN of the user must embedded). The marketing material, including the sign board, is then delivered and installed at the agent location before the agent goes live.

***Case Study 2: Agent Selection at Gram Tarang–Temporary Staff as Transaction Points***

Gram Tarang recruits local youth as staff on a temporary basis to act as transaction points. The local branch of Gram Tarang's partner bank is leveraged to identify suitable staff from the locality.

For Gram Tarang's agent selection process, the Branch Manager (BM) of the partner bank involved communicates the requirements of agents to regular bank customers and other personal acquaintances that he feels can refer to him suitable candidates for the position. He might also speak with a *sarpanch* or other influential/well known persons in the village for agent prospects. The eligibility criteria for candidates include educational qualification (minimum 10$^{th}$ pass), basic computer knowledge and other characteristics (young, trustworthy, good with calculations and understands basic accounting). Interested candidates contact the BM via phone or in person to learn more about the nature of the work and the documents required. The required documents include a photocopy of educational certificates, computer course certificates, if any, residential proof (like a ration card, letter from village *sarpanch*, etc.) and three passport size photographs.

The BM prepares a list of at least two prospective candidates for each village and mails the list with details of such candidates to the Gram Tarang District Manager (DM). The Gram Tarang DM then communicates the date of the interview at respective branches to the concerned BMs. The BM contacts prospective agents over the phone to inform them about the date, venue (mostly bank branches) and time of interview.

Once the prospective agents arrive with necessary documents, the Gram Tarang DM and the bank BM conduct interviews of shortlisted candidates and explain to them about project and their role. They evaluate the candidates on computer proficiency skills (by asking them to perform a set of functions on a computer) along with other aspects such as educational qualification, prior experience and feedback of the candidate that the BM has gathered from people who have referred the concerned candidate.

The Gram Tarang DM conveys (over the phone) the list of selected agents to the concerned BM one day after the date of interview. The BM contacts the selected agents, informs them about their selection, and asks them to prepare a security deposit of Rs.10,000 in the form of a bank draft (payable to Gram Tarang) at the time of training. Also, the BM informs candidates to collect a "Certificate *cum* Declaration Form" that needs to be signed / attested by their village *sarpanch.* Selected agents, who have arranged for the funds, visit the branch and hand over the draft and the documents to the BM. If agents are unable to arrange for the draft/certificate, their selection is cancelled and the next best candidate from the same village is contacted.

The Gram Tarang DM contacts the bank's BM and informs him about the date of training and venue. Gram Tarang DM schedules such trainings once a minimum of four agents have been selected per branch. The BM informs the selected agents regarding the date/time/venue for training. The Gram Tarang DM issues laptops/fingerprint readers to agents who have submitted necessary documents and delivers the training on the processes to the selected agents. The agreement is then signed with the agents, post-completion of training.

There are clear customer preferences with regard to e/m-banking agents. These preferences need to be built in the selection process so that the agents selected are appropriate for their role. The table below outlines some selection criteria which could be used to identify appropriate agents and the indicators which could be used to assess the agent's suitability vis-à-vis the selection criteria.

***Table 4: Sample Selection Criteria and Indicators***[12]

| Attribute | Indicator |
|---|---|
| ***Easily verifiable*** | |
| **Education** | • Verification of educational certificates<br>• Test of literacy and bookkeeping abilities |
| **Domicile** | • Proof of residence<br>• Feedback from customers and villagers |
| **Property Ownership** | • Physical verification of shop/store<br>• Verification of property documents |
| **Availability** | • Self reporting by potential agents combined with field observation<br>• Feedback from customers or other shop keepers close-by |
| **Proximity** | • Physical verification of the location of the shop in the village versus where most customers reside and/or work |
| **Footfall** | • Physical verification of shop/store<br>• Feedback from customers or other shop keepers close-by |
| **Liquidity** | • Verification of stock and type of business<br>• Turnover (and footfall) can often be a proxy for liquidity |
| **Premises (What is the state of the premises? Are the adequate and clean?)** | • Physical verification of shop/store |
| **Current Business (on excluded list or not?)** | • Physical verification of shop/store |
| **Experience in Current Business** | • Feedback from customers or other shop keepers close-by |
| ***Qualitative / Subjective*** | |
| **Character** | • Credential checks from customers and villagers, especially community leader and covering not only the agent, but also the agent's family, what they do, their economic status, acceptance by other villagers, etc. |
| **Behaviour** | • Customer feedback-whether the agent is short tempered or inattentive or disrespectful of customers |
| **Speed of Delivery** | • Feedback from customers |
| **Willingness and Attitude** | • Personal interviews<br>• Behavioural tests |

[12] Source: *MicroSave* India Focus Note # 66: "What do Customers Want in E/M-Banking Agents?"


## Agent Training[13]

Agent training is to ensure that the person understands, appreciates and follows his/her responsibilities as a service provider for a reputed financial institution. A well structured and monitored training programme ensures that reputation, compliance and operation risks are minimised. It is beneficial if regular, refresher trainings are organised as well, to keep agents up-to-date with new developments in the technology, regulations and the model as a whole.

### *Customer Requirements for Training*

Customers feel agents should be well-versed in documentation and be able to help customers to select appropriate banking services. This is more important in the case of full service "sales" agents as opposed to basic cash merchants. Customers state that they prefer an educated person for these needs, but the expected standard of service delivery can also be implemented by an agent with limited education through effective training. Based on the customers' feedback the training curriculum should provide inputs on documentation and on the various banking products that he will offer. This should include information on the product, the documentation required and the process. This agent should understand the basics of customer service and other soft skills, especially in assisting customers to select products.

### *Agent Requirements for Training*

An agent is a representative of the bank and hence, agents should be trained to deliver the services in a manner befitting the bank's image. Agents want to be trained in all the aspects of the e/m-banking business, so that they would feel more confident and independent to conduct transactions. An ideal training curriculum from an agent's perspective would cover the following topics:

> "The trainers were not proper. Most of the CSPs came back to us to understand how to do the transactions." - A Super Agent describing inadequacy of training

*Emerging Trends in the Market* – Agents would like to be aware of the emerging trends in the agency business. They want to stay updated on the developments in regulations, technology and new players as these developments would affect their business.

*Banking and E/m-banking Operations* – An agent needs to understand basic banking and related e/m-banking operations, as well as the broader structure of the bank and its operations in order to identify his place in it. This can also cover the bank's genesis and history, its mission, vision and range of operations.

[13] Please see *MicroSave* Training of Trainers – Toolkit

An agent may relate more to the bank after appreciating the scale of its operations and its overall strategy. This component also requires a briefing on the roles and responsibilities of a bank's agent.

*Technology Platform and Troubleshooting* – Technology is typically an integral part of the e/m-banking model. An agent should know the basics of the technology used and how to address the most common troubleshooting errors. Since agents are sometimes located in distant areas which are not well connected, it is both costly and time consuming for a technical staff to visit them if there is an issue with the technology.

*Soft Skills Training*: Soft skills training would be beneficial for an agent to be able to manage happy and unhappy customers and ensure effective customer service.

*Compensation Structure*: The agent would want to know the compensation structures as well as the process of calculation and crediting of the remuneration. The training may also want to provide agents guidance on how to optimise profits with the existing compensation structure.

***Operational Considerations***

To design a comprehensive training procedure for the agents, the following operational factors should be considered. **Table 5** also provides the key steps one should take to create and deliver an agent training programme.

*Agent's Willingness:* Since the training could be from a few hours to a few days, it is vital that the agents are ready to attend the programme. Most agents are self-employed retail shop owners and attending training would mean a loss of business for the time involved. As a result, they may be reluctant to attend the training programme. The length and location of the training must balance the agents' needs with the operational requirements and quality. One option could be to offer on-the-job training to agents by the ANM field staff in agent locations.

*Cost of Training*: Before initiating training, it is important that the ANM understand the cost of conducting such trainings. The cost may vary depending on factors such as venue, duration, resource persons for training and logistics, etc. To keep costs in control, the ANM should develop a detailed policy on the training preparations and delivery. Standardising these aspects helps managing budget requirements.

*Desired Outcomes*: Before rolling out training, the ANM should determine the desired outcome of the training. At the same time, a monitoring system needs to be implemented to track performance and take corrective measures.

*Duration of Training*: The ANM should decide on the duration of a training based on the availability of agents. The training should be long enough to cover the planned curriculum and be concise so that agents' time is used to an optimal level.

*Resources Available*: The ANM may decide to conduct training in-house – centralised or decentralised - or decide to outsource it, based on the availability of competent staff and adequate financial resources.


M-PESA
Authorised Agent
Hours of Business
A.M
P.M
MONDAY - FRIDAYS 6:00 TO 10:00
SATURDAYS 6:00 TO 10:00
SUNDAYS AND PUBLIC HOLIDAYS 6:00 TO 10:00
Safaricom


Receive M-PESA from the UK.
Send money home
Relief
Opportunities
Send and Receive Money, Pay Bills, Buy Airtime. Anywhere, Anytime in an instant.
Safaricom
M-PESA ni SIMple
M-PESA got Better!
Now earn
Bonga
facebook
YouTube


Coca-Cola

**Table 5: Implementing Agent Training**[14]

| Activity | Inputs for Implementation |
|---|---|
| Organise a core training team | • Define the roles and responsibilities of the team for developing the curriculum and also identify personnel to conduct the trainings at various levels and at regular intervals. |
| Develop a training curriculum | • The training curriculum should be based on a detailed training needs assessment system for agents. This should seek out feedback from customers, agents, internal audit staff and middle management (and perhaps inputs from the bank partner).<br>• The curriculum should define training needs and objectives. It should also clearly explain the expected outcomes from a training programme.<br>• The curriculum would typically include topics such as financial inclusion, banking, the transaction process, compliance, technology, customer service and support, compensation structure and agent support systems. |
| Frequency of training | • The training plan of an ANM should specify the frequency of core training and subsequent follow-up trainings.<br>• The training could be planned as core training and refresher (+ advanced topics) trainings at regular intervals. |
| Monitoring the impact of training | • An assessment tool and process should be designed to monitor the impact of the training and identify areas for improvement.<br>• The system should also cover the process on how modifications are made. |

M-PESA, Kenya, Safaricom designs and oversees the agent training programmes itself. However, the trainings are actually executed by an outsourced company called Top Image. This is in contrast to the more common model of completely outsourcing the agent training to agent aggregators (or super agents).

At Celpay, Zambia, 'sales generators' from the Mobile Transactions Team stay at each of the new agent locations for 2 weeks to train them. The training especially emphasises the importance of cash-out liquidity to agents.

Gram Tarang in India organises one-day training for the agents mapped under the same bank branch. The training is conducted as a team by both bank officials and the Gram Tarang District Manager. The topics covered under the training are financial inclusion and the agent's role, an overview of Gram Tarang, operational details, compensation, use of hardware devices, account opening formalities and KYC documentation. The devices are handed over to agent at the end of the day.

[14] For more on principles on training adults on financial services for financial inclusion, refer to *MicroSave*'s Training of Trainers - Toolkit.


## Agents' Compensation Structures[15]

As with any other business, compensation is one of the primary motivations for an agent to enter and continue in the e/m-banking business. The compensation requires careful thought and planning, as it needs to be weighed against customer requirements, overall strategy and goals, operational considerations and regulatory restrictions, so that an optimal model can be designed.

### *Customer Requirements*

> "Rs.20,000 was to be transferred. The agent made 4 transactions of Rs.5,000 each which resulted in a heavy deduction from my account." – A customer mentioning the instance of an agent breaking an amount into several transactions to earn a higher commission.

Compensation of an agent may not be a direct concern of the end customer, but could potentially have an impact on the service that s/he receives. If an agent is not satisfied with the compensation structure, he/she may decide not to provide the services, or may continue but may favour customers of his/her core business.[16] The agent could pull out of the e/m-banking business altogether, thus reducing the number of customer transaction points. Furthermore, inappropriate commission structures can lead to split transactions or limited transaction limits (or additional charges for highly valued services), all of which result in higher costs to the customer. Clearly agent compensation directly affects customer experience and could lead to reputation risk for the bank and the ANM.

[15] Refer to *MicroSave* India Focus Note 71: "Sustainability of BC Network Managers (BCNMs) in India - How are BCNMs Paid?", India Focus Note 72: "Sustainability of BC Network Managers (BCNMs) - Review of Commission Structures", India Focus Note 67: Clients' Willingness to Pay "Reasonable Fee" for BC Services, India Focus Note 51: Understanding the 'Cost of Cash' for Low Income Clients: Why and How?, Briefing Note # 69 - Incentivising 3rd Party Agents to Service Bank Customer, Briefing Note # 96 - Measuring Willingness to Pay, Staff Incentive Schemes – Toolkit and Cost and Willingness to Pay Study in India

[16] For the ease of classification of business and customers, an agent's existing business before starting the banking services is termed as core business.

***Agent Requirements***

Agents are a key component of marketing, implementation and customer service, and should be treated and managed as end customers themselves. This includes paying them well, on time, and in a way that the funds are easily accessible. It also includes being transparent on how they are calculated. For most agents, the prime motive to join an e/m-banking model is to earn additional revenue, which can be achieved through additional customer footfall in the core business (which was the feedback given by agents in South Africa during a recent research trip) or through direct compensation received for e/m-banking activities. Net agent compensation can be defined as the incentives that the bank/ANM pays the agent, less the costs incurred for start-up (e.g. security deposits, equipment purchased) and on-going operations (e.g. transportation costs to/from the bank branch and also opportunity costs of lost sales, etc.).[17] *MicroSave* has found that prospective and current agents consider the following factors when making decisions whether to take on e/m-banking or not:

*Costs:* While evaluating the compensation structure, agents expect that the following costs should at least be covered. **Table 6** provides three ANM profile examples from India and the magnitude of different costs involved for their agents.

***Table 6: Comparison of Costs incurred in 3 ANM Models***

| Costs | EKO | FINO | Oxigen |
|---|---|---|---|
| **Operational** | Low | Low-Medium | Medium-High |
| **Infrastructure** | Low | High | Medium |
| **Initial capital** | High | Low-Medium | Medium |

**1. Operational** – In all three models above, the onus of cash movement lies with the super agent or the staff of the ANM. At FINO, the agent bears the travel cost if s/he goes to the customers for collections of the deposits. At Oxigen, equipment maintenance costs are typically higher, as the agents use desktop printers, requiring ink cartridges and paper, and have monthly internet connection costs.

**2. Infrastructure** – At Eko the only additional investment required is the need for a mobile phone, which is normally already owned. At FINO, the POT is either purchased (or rented) to the agent. At Oxigen, the agent must have a desktop / laptop computer, printer and broadband connection.

**3. Initial capital** – Eko requires an upfront investment from the agent for security deposit as well as e-float while FINO has no such requirements. Oxigen has a requirement for upfront investment in e-float but does not require a security deposit.

<u>Operational Expenses –</u> Operational expenses could include travel costs incurred to deposit collections at the bank branch to which the agent is mapped, as seen with FINO in Table 6, section 2. In addition to this, there are several other possible expenses an agent might incur based on the model employed, such as equipment maintenance, a higher electricity bill, additional security measures, etc. Though the maintenance cost of equipment may be low for POS or mobile based models, it is higher in internet based models (also seen in Table 6, Section 2 for Oxigen) which use costly hardware such as printers. If the ANM has strict space requirements or if the agent simply does not have extra space at all, he may need to rent additional space in a near-by or adjacent location.

The agent may also need to hire or devote existing staff for e/m-banking work or may do the work by himself. In either case, some time would be forgone from the core business to conduct banking transactions or in making trips to the bank branch, etc. This time spent may be low in the initial months, but as the business grows, this could increase substantially.

[17] **Mas**, Ignacio and Hannah Siedek, "Banking through network of retail agents", CGAP, 2008

<u>Infrastructure Expenses</u> –In general for agents with existing businesses, infrastructure expense will not be very high since basic facilities would be already in place. However these costs would be high for those needing or wanting to start a dedicated e/m-banking outlet, as we have seen with M-PESA in Kenya; or if modifications to the location are required to meet the ANM's location requirements, e.g. seating, cleanliness, dedicated space, etc. For equipment, the cost is generally low for a mobile-based technology platform, but for a computer-based or POS-based system, the cost could be several hundred dollars (US). (However, some ANMs or their partner banks have been willing to purchase the POS devices for their agents.) In addition, the outlet must be branded, and banks/MNOs operating e/m-banking are slowly beginning to improve the quality of agent branding. For example, Equity Bank in Kenya defines exactly how its agent outlets are to be branded, as well as empanelling a limited number of local suppliers authorised to paint and brand the outlets.

<u>Initial Capital Cost:</u> To enter the business, initial capital usually must be invested by the prospective agent. Capital is usually in the form of a security deposit that the agent has to maintain with the ANM/bank. Moreover, the agent often has to maintain an average float balance at all points of time, as seen in the first section of Table 6.

<u>Opportunity Cost:</u> While not as widely mentioned, *MicroSave* has found that agents all over are very aware of opportunity costs, especially those already in high margin businesses, such as airtime reselling, and who see e/m-banking as a low margin business. This problem means that both G-Cash and Smart in the Philippines were not able to use their airtime or "load" resellers as their cash in/out merchants – agents used to receiving more than 10% commision for selling load were unimpressed with 1% commission on transactions. If the return on the capital invested in e/m-banking is lower than the return he/she can earn by investing the same capital in his core business, the agent may be disinterested in the model. There is also opportunity cost of the agent's time, as he may lose precious time for his business as well as time for his family and personal interests.

*Competition:* Competition from an agent's perspective in most countries (currently) is mostly to their advantage. The service is too new, and good, honest and driven agents are too few. So it has been very difficult for ANMs to find the right number of agents, often due to significant turnover or poor recruitment drives. Thus, agents, especially those who fit the desired profile, are in an advantageous position and can choose from the best offers, as the ANMs are compelled to work out better terms for prospective agents.

*Stage of Business:* During the initial stages of e/m-banking, the number of transactions is low for agents as only early adopters enrol in the service. In these crucial months, when the agent has just started the business and invested significant up-front capital, low returns may be quite de-motivating and may even result in agents dropping out. In this early stage, therefore, agents would prefer a consistent income either as a fixed component to cover fixed costs and/or incentives driven by enrolments. If the income does not fluctuate much and meets a certain minimum threshold in these crucial months, there is a high likelihood that agent would continue and thrive. In later stages when the business grows and there are higher numbers of transactions, variable incentives, e.g. on per transaction or per value basis, should then be a focus to drive growth.

An emerging ANM, *Gram Tarang*, pays fixed compensation to its agents, called a monthly 'honorarium,' and beyond that pays a specified amount for each account opening.

*Timing and Transparency:* Through feedback from agents, *MicroSave* has found that being paid on time and in a transparent way is almost as important to agents as the actual incentive amounts paid by ANMs. Most agents prefer to be paid on a regular basis (the sooner the better of course), but monthly seems to be adequate for most. However, from the ANM's perspective, this should be conducted in an economical way, and paying often (such as daily) could lead to higher costs. Also agents want to be able to either calculate their incentives by themselves or be able to check their incentives on a regular (even daily) basis.

***Operational Requirements***

The ANM has his own operational considerations for agent compensation including:

*Expected Return on Investment:* As with agents, ANMs also have an expected return on investment from the e/m-banking business. Compensation offered to ANM agents is largely paid first to the ANM by the service partner (bank or MNO) and then passed on (in part) to the agents. The ANMs often decide how much of the service partner payment it keeps and how much goes to its agents. Therefore the ANM's own return largely defines what the agents earn. While considering a compensation structure, the ANMs also calculate the cost for its operations (MIS, field monitoring, liquidity management etc.) and deduct this from the commissions received from banks. Ultimately, the pricing and costing structure should be created such that earning is able to cover the expenses of and provide an adequate return for each stakeholder: the bank, the ANM and the agents.[18]

*Stage of the Business:* Compensation also depends on the stage of the business. If the e/m- banking business has just been launched, the focus should be on driving the number of customers (focused on customer acquisitions in the first months, then on transactions), but with extra effort to monitor the quality of business. Equally, compensation in these initial months should be linked to the number of customers enrolled and the quality of business generated in terms of usage, balances maintained etc. (For instance, some service providers defer part of the payment to the agents till a pre-specified number of transactions are conducted. Others link part of the agent compensation to balances maintained in the account) and must be simple for the new agents to understand. In the later stages when the customer base is higher, the compensation structure can be linked more to transaction volumes and average transaction sizes, and perhaps even marginally more complicated pricing, such as tiered-compensation based on transaction sizes, can be deployed.[19]

*Activity to Incentivise:* The ANMs may not be directly compensated by end customers for certain transactions, (for example the common decision not to charge for deposits). However, regardless of the pricing structure for customers, the agents must still be compensated to ensure they will have an incentive to conduct the transaction and not turn the customers away. The ANM may or may not be compensated by the bank or MNO running the system. If the ANM is not to be compensated for these transactions, it must then make-up the operational cost shortfall through the transaction types that are charged.

FINO provides both a base salary and performance based incentives over and above the base salary to its field staff, who act as agents.

*Medium of Payments*: Most ANMs do not pay agents in cash for their incentive payments. The mode of payment could be through bank account or additional float credit on the agent's float balance, which can be redeemed through the account if over the minimum level required for the business. Some e/m-banking models (for example Airtel Money in East Africa) actually used to (but no longer) allow agents

[18] See *MicroSave* Briefing Note # 107, "Pricing for E/M-Banking" and *MicroSave* Briefing Note # 106, "Pricing Mobile Banking Services"
[19] See *MicroSave* Briefing Note # 109, "Incentivising E/M-Banking Agents"

to charge customers fees directly, but most ANMs (and some countries' regulatory regimes) do not allow this because of the loss of control (and the resultant higher risk of abuse or fraud as well as reputation risk) and the loss of ability to test different pricing regimes.
*Rollout Strategy:* The rollout strategy – whether a rapid rollout is envisaged or a gradual one – plays a large part in deciding the compensation structure. If rapid growth is desired, the compensation structure could be aggressive with higher compensation to agents (and perhaps incurring losses initially); while for a gradual growth plan, the compensation structure may be more moderate and based on profitability from the beginning.

*Negotiations with Other Stakeholders and Leverage:* Ultimately, what ANMs pay their agents is largely driven by the originator of the service, e.g. banks, MNOs, etc. ANMs can improve their negotiating positions in two main ways:
1) showing the bank what it actually costs to run the business at the ANM and individual agent levels, and what agents need in compensation (from actual data and qualitative feedback); and
2) helping the partner meet its own goals.

In India in particular, those goals lie with central bank-defined mandates, such as the number of villages and number of poor customers served. Larger ANMs are able to fulfil such mandates better, but smaller ANMs can also make the case based on their own local knowledge, etc. Some of the better ANMs in India have begun to decline bank offers to take on new contracts if the opportunity is too small (and economies of scale are not possible, such as offering only one village at a time), if the compensation economics do not meet minimum criteria, or if the contract terms are too short-term focused, such as purely focusing on account opening (and not servicing).

The ANMs negotiating leverage also depends on its experience, reputation and size – the more of each, the more leverage it has when negotiating. This is true when negotiating with service partners, such as banks or MNOs, but also true when negotiating with its own agents. ANMs who have a strong reputation with significant resources, such as Hindustan Unilever India, can likely offer less in compensation to agents than a start-up ANM with little name recognition.

*Markets and Competition:* ANMs should first analyse the reach of existing players in the identified market and their own agent compensation structures. Adequate agent compensation is also much easier to achieve when there are more ways than one to compensate agents. Focusing on transaction and balances (and not just account opening) is one way, but identifying other products to offer such as remittances and insurance, based on the market need, also provides additional revenue opportunities for the agents and thus reduces product dependency risk.[20]

[20] See *MicroSave* India Focus Note 65 "Successful Banking Correspondents Need a Compelling Product Mix"

***Different Incentive Structures***

Three prominent incentive structures are often followed to remunerate e/m-banking agents – flat, percentage of transaction amount and a tiered incentive. **Table 7** outlines each of these methods and looks at the advantages and disadvantages of each (and when the incentive structure might be the most appropriate).

On transactions, Eko pays compensation on a tiered basis as a percentage of the transaction amount. The compensation is paid monthly by crediting the amount in the e-float of the agent. This enables ease of transaction for both agent and Eko.

The compensation for account opening is fixed per account. For account opening, a portion of the amount is credited on account registration, and the rest is deposited once the KYC norms are cleared by the bank, ensuring the agent focuses on filling in and collecting the correct information.

***Table 7: Different Incentive Structures*[21]**

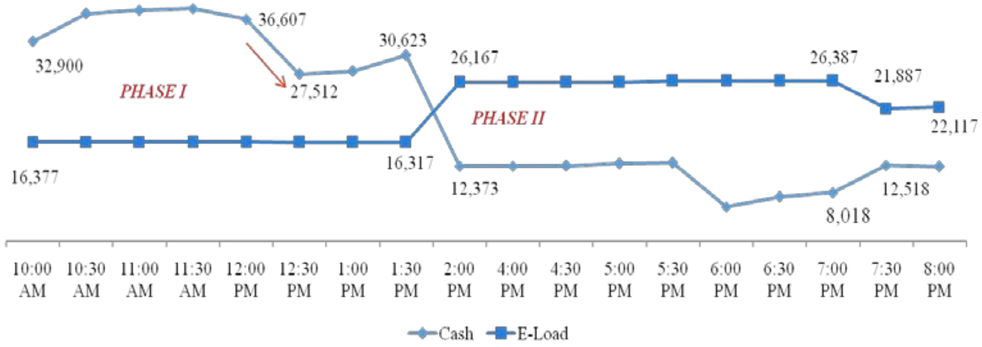
| Payment structure | Advantages | Disadvantages | Stage of business when most suitable |
|---|---|---|---|
| Flat – The agent receives a flat, fixed fee on each transaction; irrespective of the value of the transaction. | 1. Easy to understand.<br>2. Agent may be motivated to follow up with customers to convince them to use accounts more frequently.<br>3. Most suited (and most common) for compensating for number of accounts opened. | 1. There is no incentive on transaction amount and thus the agent may ask the customer to break the amount in smaller sizes to earn more, gaming the system.<br>2. This system may not motivate agents to help financial institutions' achieve their primary goal of using deposits for lending – which requires generating larger deposit balances.<br>3. People who deposit smaller amounts are effectively penalised more by paying more percentage-wise than larger amount depositors. | Launch stage (with focus on customer acquisition) |
| Percentage of transaction amount - The agent earns a specific percentage of the transaction amount. | 1. Easy to understand (but less so than fixed).<br>2. Agent may focus on transactions with larger amounts, which in turn should translate into higher float for the bank.<br>3. More equitable to low value depositors | 1. The agent may not accept low size transactions (and thus avoid poorer customers).<br>2. More difficult for customers to understand than flat fees. | Launch and post-launch (to encourage account usage) |
| Tiered – For example, the incentives can be structured in tiers based on the transaction amount or by the number of accounts opened. | 1. More motivating for the agent to cater to both small and big transaction amounts than pure percentage based incentives.<br>2. Can be used to balance out a focus on account opening, number of transactions and transaction amounts.<br>3. Most equitable/beneficial to all stakeholders: agents, ANM and service provider (bank, MNO) | 1. Most complex to understand for customers and agents. | Post launch (use with existing agents and customers who are comfortable with the service) |

[21] Refer to *MicroSave's* India Focus Note 71: "Sustainability of BC Network Managers (BCNMs) in India - How are BCNMs Paid?" and *MicroSave* India Focus Note 72: "Sustainability of BC Network Managers (BCNMs) - Review of Commission Structures".


## Liquidity/Cash Management[22]

Liquidity management, in the context of e/m-banking, entails balancing between the sometimes conflicting requirements to maintain sufficient e-money as well as physical cash at the outlet to enable deposit and withdrawal transactions. This is of critical importance in agency banking models since the ability of an agent to provide cash-in and cash-out services is dependent on the agent's ability to manage cash effectively. The chart below shows the interplay of cash and e-float at one agent's location over the course of one day in Bihar, India. [23]

***Chart 2: Fluctuations in Cash and E-load of an Agent in Bihar[24]***




***Customer Requirements***

An agent's inability to honour customer's needs to withdraw can lead to customer frustration and a loss of business for the service provider and ANM. This need - to ensure that customers are not denied transactions – is clearly reflected in customers' requirements for agent selection. For instance, when customers mention property ownership as one of the most desired attributes in an agent, they may be trying to ensure that the person has adequate money to ensure that the transactions happen unhindered. Another aspect clients consider important is the safety of how the money is handled. If they see the agent handling their money carelessly or transporting it in an informal manner, they may feel less secure. A more formal process of cash handling and movement may act as reassurance to the customers with regard to security of their savings.

"When I need to withdraw a large amount, I have to do it from three accounts, and also, one agent does not have this amount so I have to go to 2-3 agents." – Customer mentioning issues of transaction denial

***Agent Requirements***

[22] Refer to *MicroSave* Briefing Note # 78 – "M-Banking Liquidity Management"
[23] Obtained from Agent Journals Research conducted by *MicroSave* among agents of Eko in Delhi and Bihar in 2011.
[24] Amount in Indian Rupees

The main goal of liquidity management is to achieve a perfect balance of having neither too much nor too little cash in the system to:

1) Ensure that customer transaction requirements are met quickly; and
2) Check that there is not too much cash in the field, as there are carrying costs of unproductive cash and higher risks of theft, loss or even fraud, with higher cash balances sitting with agents.

In this light, agents are the primary stakeholder affected by liquidity management. The general feedback from potential agents regarding cash management tends to include the following aspects:

- Potential agents (largely retailers) mention that they are already in the business of cash management and consider themselves to be best for the business.
- Retailers want clarity on aspects of liquidity management, including the ANM's staff role in carrying cash and depositing it at branches; the amount of e-float to be maintained; collateral to be deposited; amount of cash to be maintained at their location; and the basis on which, and the process by which, cash transfers will be made to the retailers. Most agents prefer not to have to carry cash back and forth to the bank branches due to the time required, opportunity costs and risk of theft.
- Retailers are concerned about aspects such as safety during transportation (especially in rural areas where distances to bank branches are typically higher) and prefer that cash transportation be arranged by the ANM. Another requirement is for "cash in transit" insurance, which the agents want the ANM to pay. Many also demand that the ANMs provide them with equipment such as lock boxes to safely secure the cash.
- In locations where the solution is new, retailers are often reluctant to maintain adequate e-money balances. Even the early adopters choose to increase the float in their stored value wallets gradually as transactions and returns from the business pick up (so they do not lock up idle capital).

***ANM Operational Requirements***

The nature of the front end or agent will play a part in the choice of the ANM's liquidity management policies and procedures. For instance, if the agent is a temporary or permanent staff employed by the ANM, the agent may not require his/her own investment as working capital. If a third party like a retailer is used as an agent, the organisation may insist that the agent maintain the float on his own. If the ANM has an existing relationship with the agent, it may be able to better rely on the agent and be more willing to provide the float on behalf of the agent. M-PESA agents often use other agents who are close by to help with liquidity management. This is done more easily when one agent owns and operates several e/m-banking shops all within a reasonable distance of one another.

*Area of Operations and Target Customers:* The cash needs of an agent depend upon the area where he is operating and the target customers being served. For example, if an agent is operating in an urban location where many migrant workers from rural areas come to work and reside for months at a time, he may witness more deposits and fewer withdrawals. In this case,

> One ANM in India ensures that the business of the prospective agent is cash intensive by collecting the records of the agent's bank account transactions for the last six months.

> At FINO, the block coordinators, who supervise 10-12 agents, visit each agent at least every other day to collect or provide cash. In some areas which are in remote areas, FINO has appointed "super customers" who help agents to manage their liquidity by depositing or withdrawing money with the agent.

the agent would need to maintain high e-float (not cash) with frequent cash deposits and re-charge of the e-float. On the other hand, his counterpart in a rural area, where remittances are received, may see a greater number of withdrawals, meaning more physical cash would be needed on hand.

*Distance from Bank Branch:* Another factor to be considered is that the customers prefer the agent location to be close to their place of residence or work. As a result, some of the agent locations may be quite remote. This can mean that the rebalancing activity that involves the movement of physical cash from the agent location to the bank branch may not be done every day due to the distance involved. This distance means increases transportation costs and the risk of theft in transit. This needs to be balanced against the opportunity cost of maintaining the e-float/cash float to conduct transactions and the risk of theft of the cash from the agent's location. The distance factor also influences the need for cash in transit insurance. Some banks could actually allow agents to visit other bank branches that are closer to their location through a correspondent banking arrangement.[25]

*Structure of the Operating Model:* The way the model works also has an impact on the cash management strategy. For instance, if there are cash collection routes used by the ANM staff person (or by a third-party super agent) collecting the end of the day balances, the cash required to be maintained as e-float might be much lower, since the cash collected by the ANM staff would go towards re-charging the e-float. Many models that use e-float effectively significantly reduce cash management because cash from the agent's core business is intermingled with the e/m-banking cash, and therefore, trips to/from the bank only occur when the net of both core and e/m-banking businesses require him to do so.

For Eko, super agents' staff members (known as "Feet on Street") have the responsibility for cash collection and visiting the agents at frequent intervals. The responsibility of replenishing agents' e-money lies with the super agent who would do so upon receipt of cash for prefunding the retailer account.

*Costs, Benefits, and Available Resources for ANMs:* The ANM decides which stakeholder will be in charge of cash management. The first question is, whether the ANM should take the responsibility. This should be based on the costs, benefits and available resources. Costs include staff salaries/super-agent compensation, technology requirements, transport costs and insurance. There are specialist companies, such as Brinks Arya, which ANMs can contract, who manage cash for banks/financial institutions (for cash movement between branches and ATMs). Beam, an up-and-coming e/m-banking ANM in India, has its origins in cash management for banks and may find this core competency to be a key competitive advantage for managing its own agent network.[26]

When an ANM manages liquidity it has more control over how this key component of the system functions. Managing liquidity also provides an opportunity to check-in with the agents on other issues. The availability of adequate resources is another factor how liquidity is managed. If an organisation has adequate staff strength, it may choose to employ its field staff for the purpose of cash movement; it may even choose to employ its own funds to maintain the required float, by providing agents a line of credit to use.

[25] Not to be confused with the Business Correspondent model of India for branchless banking. Correspondent banking is a long existing model in which two banks agree to service one another's customers. This is most common for two banks in different countries; however, this could be beneficial for domestic banks that, for example, cover different regions or an urban and rural bank.

[26] Refer to http://new.beam.co.in

*Technological Capability:* The technological capacity of the organisation involved also plays a part in liquidity management. For instance, if the technology deployed takes care of reconciliations in real time or by the end of the day, the daily cash movement can be significantly reduced, provided the agent has adequate float (i.e. the agent can just intermingle the e/m-banking cash with his own core business cash and decide whether he needs to go to the branch or not). If the technology deployed is limited, reconciliations may need to be done manually and for this purpose, daily verification of physical cash may be required. Some ANMs, such as Oxigen and FINO, have tracking software that shuts down equipment when there is too much physical cash at the agent's location (requiring a deposit at a bank branch before transactions can restart).

Implementing liquidity management needs careful thought, from the conceptualisation stage of the model. This aspect needs to be built into different aspects of agency management, including recruitment and selection, cash –in, cash-out, cash movement and EOD settlement, as detailed in the table below.

***Table 8 - Implementing Liquidity Management***

| | |
|---|---|
| **CSP Recruitment and Selection** | • Cash intensive businesses need to be targeted. It is essential that the agent is already working in a line of business which requires regular cash transactions. Examples of such businesses are grocery stores, medical shops etc.<br>• Selection criteria can look at adequate proxies for liquidity of the agents, such as cash in hand, stock on hand, daily footfall, bank balances etc.<br>• Prospective agents ideally need to have a pre-paid e-wallet, which should be loaded immediately after selection |
| **Conduct of Transactions** | • Adequate float should be maintained to enable easy transactions<br>• The type of transactions expected would determine the amount of e-float versus physical cash required. If more withdrawals are expected, a higher amount of physical cash needs to be maintained, and if more deposits are expected, higher amounts of e-float needs to be maintained |
| **Cash Movement** | • May be done by putting in place cash routes which are serviced by ANM staff or external agencies to move cash, the agents themselves visiting the bank branches or by putting in place an intermediate structure like a super agent who takes care of cash movement<br>• Frequency of cash movement will depend on planning for adequate e-float by the agents |
| **Reconciliation and Settlement** | • Preferably should be done against a pre-paid wallet of the agent - realtime or on an end of the day basis<br>• If prepaid wallets are not maintained, daily visits may be necessary for reconciliation |

***Case Study 4: Liquidity Management at SEED[27]***

SEED, an ANM in India, works with several banks on their financial inclusion initiatives. The processes for liquidity management may vary from bank to bank. The process detailed below is specific to Punjab National Bank (PNB) and to facilitate electronic benefit transfers (EBT – essentially government transfers to individual citizens for social programmes and pensions).

PNB provides funding support to SEED to enable it to manage the liquidity requirements, especially the large requirements associated with disbursements of government benefits. A global limit has been sanctioned to the SEED organisation to facilitate transactions, and the estimated fund requirement is informed to the bank in advance. The disbursement is made by debiting an *imprest* account opened in the name of SEED, and the funds are transferred to the current account of SEED. The staff members at the SEED HO along with the Block Co-ordinator creates a disbursement plan based on the list received from the Technology Service Provider (TSP). The Block Coordinator intimates the cash requirements to the PNB bank base branch (generally the nearest branch to the disbursement venue). The Block Coordinator is given a cheque signed by the authorised signatories matching the amount to be disbursed. The Block Coordinator along with the field agent visits the bank base branch to encash the cheque and to transport the cash to the disbursement venue. The cash is handed over to the agent for disbursement. After disbursement of the government benefits, SEED must reconcile all payments no later than the 3rd working day before 2.00 PM, and the entries in the *imprest* account must be adjusted by then.

***Case Study 5: Liquidity Management at M-PESA[28]***

Safaricom buys and sells e-float only to a select range of distributors and banks with which it has signed an agency agreement. To buy (sell) e-float, these distributors and banks should deposit (collect) the appropriate amount of money in (from) Safaricom's account with its custodian banks (Commercial Bank of Africa or Standard Chartered Bank). It could potentially take up to one or two days for the transactions to be settled. This effectively means that distributors and banks need to maintain sufficient liquidity for two days. These banks and distributors buy and sell e-float from retail outlets which depend on them. As with customer transactions, an offset between cash and e-float happens. The transfer of cash may happen by the retailer visiting the agent's premises or by depositing and withdrawing cash at the nearest bank branch where they both hold bank accounts.

[27] Refer to http://www.seed.net.in

[28] Mas, Ignacio, Frederik Eijkman and Jake Kendall, Bridges to Cash: the Retail End of M-PESA - The Challenge of Maintaining Liquidity for M-PESA Agent Networks, IFC, 2010

***Case Study 6: Liquidity Management by Agents of Eko***

In April-May 2011, *MicroSave* conducted a study of the cash management practices of Eko agents (18) in Delhi and Bihar, India. The focus of the study was to understand detailed cash-flows within Eko agents' business in order to:

- Understand the interplay between cash and pre-funding for the mobile money business and the agent's core business.
- Understand liquidity issues and how agents manage these issues to assess options and optimise liquidity management
- Understand agents' expectations and issues

The key findings of the study were:

- Overall, a majority of the agents (63%) did not have any major problems in maintaining cash. This percentage is highest in urban centres - 77% of agents in urban Delhi did not face problems in maintaining cash. According to the agents, the excess cash is either transferred to their house or is transferred to a Super Agent through their Feet on Street (FOS), who visits once a day to pick up cash.
- However in rural Bihar, most agents (67%) said they faced difficulties in maintaining cash. The various problems faced by the agents were risk of theft, difficulty in handling excess cash due to high deposits, shortage of cash due to Electronic Benefits Transfer (EBT – government social programs) payments and raw material purchases for their core business.
- For many of the urban agents (8/18), managing withdrawals was not an issue as they had enough cash accumulated from frequent sender remittance transactions. This gave the agents enough cushion to meet withdrawal requests throughout the day.
- Some agents (4/18), managed cash liquidity by transferring extra cash to their Super Agent through FOS. Another 22% (4/18) deposited excess cash directly into their Super Agent's bank account twice a day. The average amount deposited ranged between Rs.200,000 ($4,444) to Rs.300,000 ($6,667) per day.
- A majority of the agents noted that they always maintain a minimum e-balance during the day and pre-fund their account when it decreases below that minimum level. The minimum float level for each agent was different (ranging between Rs.5,000 to Rs.80,000) and was proportionate to their banking business.
- Most of the remaining agents mentioned that their frequency of pre-funding their account is need-based and is proportionate to the amount of expected business for that day. So, they frequently pre-fund in smaller amounts based on day-to-day requirements. A smaller number of agents said that they make pre-fund their account in the morning and repeat again in the day when and if required.
- More than half of the agents pre-funded against actual cash, whereas 21% of the agents were pre-funded by the Super Agent on short-term credit. Usually, credit from Super Agents was offset on the same day in frequent intervals by deferred payments by a few hours. Agents paid back the Super Agent during the course of the day as cash began to accumulate. Some agents even provided advance deposits to their Super Agents and called them when needed to credit their e-balance against the advance deposit balance.


**Monitoring**[29]

Monitoring the activities of an agent is essential for any e/m-banking initiative, because if the services are not monitored effectively, issues and problems can quickly arise, then customers may lose confidence in the service, and they may stop using it completely. Moreover, by definition, agency banking involves agents who are outside the direct control of the banks, and this factor necessitates even higher levels of monitoring and supervision. There are typically four levels of monitoring for e/m-banking:

1) Operational, day-to-day monitoring in which the ANM staff visit agents (and a customer sample) to check compliance;
2) Internal audit and control is a more structured process that takes place periodically, e.g. quarterly, and based on clear and pre-defined criteria (often through a scoring/checklist mechanism);
3) Customer service call lines should also be available for customers (or agents) to call-in if there are issues. Customer Service Groups can also be proactive and make calls to customers to measure satisfaction; and
4) MIS data and reports should provide the first level of monitoring in which anomalies can be more closely examined on the ground by ANM staff.

The information collected from these mechanisms should not only drive improvements in the field, but also improvements in induction and refresher trainings, updates to the processes, and risk mitigation for the entire system. Excellent ANMs supplement this with a qualitative market research system (for example *MicroSave*'s Customer and Channel Satisfaction Measurement and Monitoring system [CSM], which is based on the ServQual methodology) to assess the key drivers of customer and agent satisfaction and how the organisation is perceived to be performing on these drivers.

***Customer Requirements***

A *MicroSave* study on agent networks conducted in Uttar Pradesh and Gujarat in India reveals that the security of transactions is one of the most important criteria in choosing the e/m-banking service. This is because many typical users of such a service have faced instances in the past where agents/companies (not through e/m-banking but through chit funds, etc.) have run away with their money.[30] Also, they are typically illiterate and have not been exposed to formal financial services and hence are sceptical about using the service. The customers need to trust the service

> Agent audit processes have been developed by Celpay in PNG to ensure agents deliver good customer experience. Celpay has four team representatives responsible for managing their agent network. The team conducts regular audits to ensure that agents are adhering to brand guidelines, have a functional POS terminal, and deliver a good customer experience.

[29] Refer *MicroSave* Internal Audit and Control – Toolkit, India Focus Note 37: Listening to Clients of M-Banking in India, India Focus Note 38: Listening to Agents of M-Banking in India
[30] See *MicroSave* research on "Optimising Agent Networks, Uttar Pradesh", December 2010

provider to be reassured about the security of the service. Trust is a function of both the integrity of the agent who serves the customer, as well as the robustness of the system of the agent network that prevents the agents from cheating the customers. Therefore, building a strong monitoring (and audit) system to protect the interests of the customers and also to increase acceptance of the service among the customers is essential for every ANM.

***Agent Requirements***

Many m-banking agents sign on because they think they could become associated with a trusted bank, and leverage the bank's reputation to attract more customers and earn additional revenue. [31] At the same time they expect constant operational and technical support from the ANMs, as the concept is new, and neither they, nor the customers, are familiar with the system. Also, as the agency business is only a secondary source of revenue for most agents, these revenues are still small compared to that earned from their core business. Therefore, they can devote only a fraction of their total time and resources on the agency business. Thus, a monitoring system designed by ANMs should not demand disproportionate amounts of time, money or effort from the agents, but at the same time, should be robust enough to prevent fraud and misappropriation (and provide support to agents).

"People from the BCNM come only when there is a visitor coming to see the business" – An agent mentioning the lack of monitoring.

***Operational Requirements for ANMs***

While designing a monitoring system for its network of agents the following issues should be considered by the ANM.

*Rollout Strategy:* If the ANM plans a rapid expansion of the agent network then it should develop a strong monitoring system before the roll out (as major changes will be difficult during expansion). If this is not done then it may lead to increased chances of fraud, non compliance or poor service delivery (and stressed out agents and staff). The pace of growth would also determine the dependence on technology for monitoring. With rapid expansion (in terms of number of agents as well the geographic coverage), it may not be possible to physically monitor each agent location due to prohibitively high travel costs and lack of staff. Therefore reports generated by the MIS should provide enough information about the quality of services delivered at the agent location so that any discrepancy in the system is immediately flagged.

*Available Resources:* The availability of resources with the ANM will determine the amount of agent activity it can monitor itself, and the amount that it may have to outsource. For example, if an ANM with

Eko sends SMS messages to their agents updating them about their daily performance in terms of number and value of transactions handled and the number of new accounts opened. It also has access to real time data of transactions taking place at agent locations, and therefore any anomaly is noted immediately.

FINO also uses a GPRS and SMS-based system to track the activities that their agents are in fact the field, as they are always mobile.

At Eko, periodic visits by super agents at agent locations to rebalance cash and regular visits by Eko employees help to monitor the agents. Issues related to lapses in processes are hence identified, raised and rectified. Eko also does a Customer and Channel Satisfaction Measurement and Management (CSM) study with the help of *MicroSave* to assess perceptions of customers and agents about the quality of service delivered by Eko.

At FINO, frequent visits by Block Coordinators at *Bandhu* (agent) locations also help in monitoring the processes.

[31] See *MicroSave* India Focus Note 38, "Listening to agents of Mobile Banking in India"

limited staff strength establishes a network of agents, it may not have enough internal human resources to monitor the activities at the ground level. It may have to depend on an external agency or other (super) agents to perform such functions. These ANMs will also need to use technology extensively for monitoring agent activities. On the other hand, if a large distribution network provides agency services, then it should have enough internal resources to conduct monitoring activities. Such an ANM can leverage its large staff network for field based monitoring, yet even in these instances, technology would still need to be used to monitor MIS data on trends, alerting the field monitors to agents with abnormal transactions (either too high or too low), etc.

*Maturity of the E/M-Banking Solution:* During the initial growth stage of an e/m-banking initiative, the focus may be more on enrolling new customers. This implies that the ANM would have to focus on the monitoring of the member enrolment process and ensuring that all the enrolments are in compliance with the central bank's guidelines on KYC/ AML. As the service offered, and the processes followed to offer the services, change, the field monitoring and internal audit functions must change as well.

*Location of Outlets:* If the agents are situated in remote locations, it may not be possible for ANM's staff to visit these agents at frequent intervals. This necessitates a mechanism that enables monitoring from a central location. This could be mitigated by bringing on super agents/distributors or the idea of master franchisees, in which the best agents take on more responsibility and manage other agents' performance (with incentives to encourage them to do so).

*Technological Capability and Compatibility:* The ANM must analyse the data storage and report generation capability of the technology platform used. Also, the scope for modification and system upgrade is crucial as the ANM might be required to present additional reports, according to the requirements of the partner banks. However, no system will work if it is completely dependent on technology to monitor performance. Everyone at the ANM should spend some portion of their time in the field every month, from area managers to the CEO, to see how the system is working (or not). Numbers can be manipulated, but constant (and sometimes surprise) face-to-face visits provide a real understanding of the realities in the field.

The Simplibank platform of Eko provides a real time view of e-float balances with agents. The agents themselves can access their own balances through the mobile network by just dialling a balance check string.

FINO POS machines can work both offline and online depending on the availability of the network providing updates of balances at the Head Office level and electricity.

*Structure of the Operating Model:* The structure of the model defines what processes and stakeholders are to be monitored. To help ANMs create monitoring and internal audit functions, *MicroSave* begins by process mapping all the key processes (account opening, transactions, cash management etc.) to assess what should be monitored, and to help optimise the risk-efficiency trade-off. From there, the process maps can be used by the training department and the monitoring and internal audit functions to create checklist and grading tools based on desired agent performance thresholds. For example, SEED underwent a process mapping exercise and created a simple one page checklist for regular monitoring visits by staff, and plans to outsource the internal audit function, based on a modified version of this checklist, to a third-party over time.

A monitoring system for agents that incorporates the requirements of customers, operational considerations and the regulatory restrictions can be designed by adopting the typical inputs detailed in the table below: operational efficiency, transactions, bookkeeping, cash management, communication with customers, customer service, etc.

***Table 9 - Implementing Monitoring Mechanisms***

| Areas | Inputs for Implementation |
|---|---|
| **Operational Efficiency** | • Use MIS or SMS based system to track and monitor individual agent performance and by region, etc.<br>• Set and monitor standard operational efficiency ratios such as: case load per agent, number of transactions per agent per day and active accounts to total accounts opened, etc.<br>• Track the daily performance of agents against set targets, such as transaction turnaround time, number of accounts opened, etc. |
| **Handling Transactions** | • Verification of filled-out account opening forms to check compliance with KYC/AML norms.<br>• Mystery shopping agents – often done by new recruits to the ANM as part of their induction process.<br>• Customer feedback (small sample) about the process adopted by the agent for regular transactions.<br>• Observation of transactions taking place. |
| **Bookkeeping** | • Verify whether the agent is maintaining a daily log sheet.<br>• Reconciliation of cash with receipts and/or log books with MIS reports. |
| **Cash Management** | • Real time monitoring of cash and e-float balance of agents through the use of online MIS.<br>• Customer feedback to understand if they have been denied transactions because of lack of cash or e-float.<br>• Analysis of account summary of agents to check accumulation of cash or e-float at any point in time and the reasons for the same.<br>• Physical verification of agent location to assess the safety measures taken by the agent for the security of cash, e.g. safe, etc.<br>• Monitor any delays, if any, in end of day settlement of cash collections. |
| **Outreach to New Customers** | • Customer surveys to assess their awareness level about the e/m-banking product offering.<br>• Verify whether the agent is displaying all marketing materials appropriately or not. |
| **Customer Service/ Complaint Management** | • Super agents may monitor how the agents handle customers' queries with a help of a standard framework.<br>• Use of call centres to handle customer queries and complaints.<br>• Monitor the number of queries/complaints received and solved and the duration for individual agents.<br>• Discussions with a small sample of customers |
| **Fraud/Unethical Practices by Agents** | • Surprise audits by employees of ANM.<br>• Feedback from customers about charges paid by them for services, etc.<br>• Analysis of transaction logs to find any anomaly such as frequent transactions in particular accounts, etc. |
| **Service Hours** | • Surprise visits to check whether the agent is opening and closing the shop on time.<br>• Customer feedback about the timing of services.<br>• Analysis of transaction logs to observe the time of transactions. |
| **Appearance of Agent Location** | • Verify whether the marketing material provided for the agents is displayed at agent locations.<br>• Verify the usage of stationery provided by the ANM. |

| Areas | Inputs for Implementation |
|---|---|
| | • Marketing material checklist could be used to verify their availability and usage. |

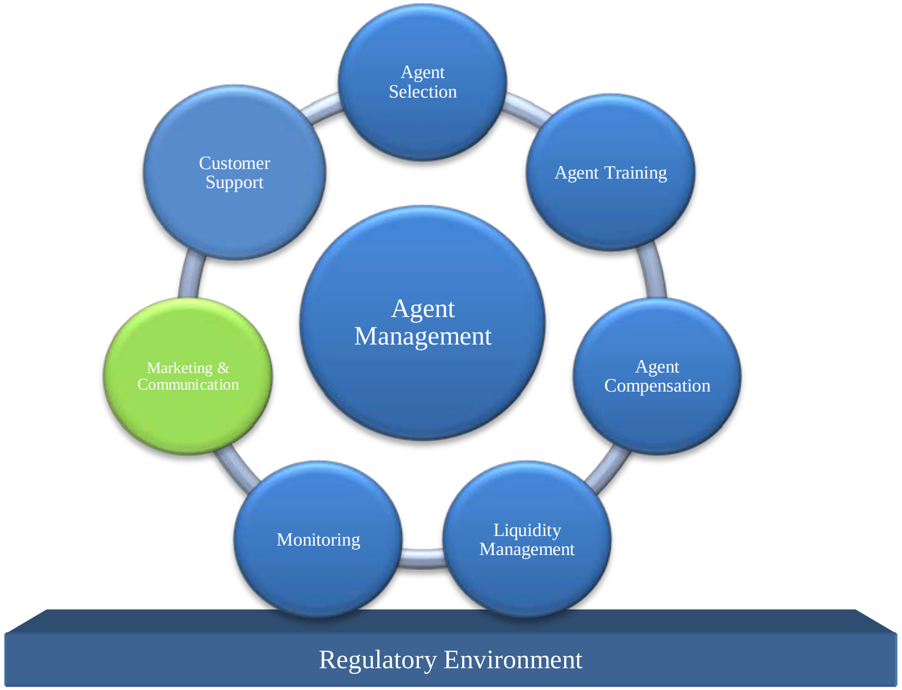
***Case Study 6: Monitoring at M-PESA[32]***

M-PESA hired a third party company – Top Image – to conduct regular monitoring visits (at least once every two weeks per agent location). Agents are rated on a variety of criteria:

- Visibility of branding and display of agent number and tariff poster;
- Availability of cash and M-PESA electronic value to meet customer transactions;
- Replacement SIM cards for new customers are available; and
- The quality of record-keeping and processes followed.

Agents are scored on each item either zero (deficient) or one (acceptable). No punitive measures are taken on the basis of these sheets; rather, the intent is to trigger appropriate conversations with the agent and to motivate (or train) them to make improvements.

[32] Source: **Flaming**, Mark., Claudia McKay, and Mark Pickens, Agent Management Toolkit: Building a viable network of branchless banking agents, CGAP, 2011




## Marketing and Communication

As with any product or service, the ANM also needs to communicate its offerings to its target audience. Communication needs to be oriented not only at encouraging acquisition, but also towards usage and educating the potential customers of the service in general since the target audience may be ill-informed or simply unaware of formal sector financial services.

### *Customer Requirements*

> "When I tell my friends about Eko they ask me for the proof of the bank account. Bank accounts are not opened on the roads."

Customers need to trust and understand financial services. This is because many experiences of losing money to dishonest service providers, such as ASCA[33]/ROSCA[34] operators. This is compounded by the fact that, in most localities, an e/m-banking service is something hitherto unheard of. Another cause of concern is that the customers typically have a limited understanding of technology and almost all e/m-banking services are technology driven. As a result, most e/m-banking solutions have the potential to be viewed with suspicion and mistrust.

The involvement of banks is generally positive, as they are typically well trusted by the urban and rural poor. In any communication with the target audience, the bank's name and brand should be prominently displayed to reassure the customers. However, these decisions should be taken based on the target market. For example, if the ANM is more recognised as compared to the bank, it may be beneficial to highlight the involvement of the ANM (or the MNO or other service partner – see text box). Customers should also be informed that the agent is merely a representative of the bank/MNO and that the bank/MNO has ultimate responsibility for all the transactions conducted through the agency channel.

> During a concept testing exercise conducted in South India, customers wanted the ANM's name (which was a subsidiary of a well known MFI) to be prominent as not many of them had heard of the bank involved, even though it was a public sector bank.

[33] Accumulating Savings & Credit Associations (ASCA) are time-limited, informal microfinance groups. Unlike ROSCAs which may continue infinitely, in ASCAs after a pre-agreed period (often 6–12 months) all the loans are called back and the fund, plus accumulated profit, is distributed to the members.
[34] A Rotating Savings and Credit Association or ROSCA is a group of individuals who agree to meet for a defined period of time in order to save and borrow together.

In the initial days, Safaricom invested significantly in above the line marketing on TV and radio to promote M-PESA. Safaricom also used road shows and tents that travelled around the country signing people up, explaining the product, and demonstrating how to use the service. As people became more familiar with the product this intense promotional strategy was discontinued and was replaced by the omnipresent M-PESA branding at all outlets, supported with a few large billboards. Newer ads feature a general emotional appeal with a wider range of services.

Another factor that should be considered is that the target customers for e/m-banking differ from that of conventional banks. These customers are usually illiterate with little exposure to formal banking services. They are more prone to becoming victims of fraud or misrepresentation. In this context, it is very important that the policies and procedures are communicated clearly and in a concise manner. The medium of communication needs to be appropriate to the geography and the target audience. The language and the medium used should be something to which the customers understand and relate. A common expectation from any financial service provider is the consistency in service delivery. This is quite important in the case of e/m-banking solutions as well. Customers require the same level of service and expect similar environments across different agents. M-PESA achieved this by standardising the look and feel of agent outlets by branding them in the now ubiquitous Safaricom green.

Marketing is covered in this paper because the main delivery points of marketing and communication to customers will continue to be agents for many years to come. This is because : 1) many customers do not have access to traditional marketing media, such as televisions, newspapers, etc.; 2) many e/m-banking interventions have very small marketing budgets, and below-the-line (BTL) types of marketing carried out at or near the agents location can be effective in this context; 3) m-banking is a very complicated business and may take several questions, demonstrations and visits to convince customers to actually adopt the new service; and 4) agents can become the first points for customer service and share their own experience with the service.

***Agent Requirements***

"When you go to the bank you see a queue like a snake that has curved six times, and you feel like fishing them out and bringing them to your agency. I think the bank is scared that agents will take customers away." – Agents stressing the need for local level support from the bank branch.

The agents are also a set of internal customers to which the solution needs to be marketed / explained to for acceptance and adoption. This becomes extremely important in e/m-banking models, as practiced in India, since the agents are also responsible for customer acquisition and convincing customers to use the accounts. The agents are also interested to understand the benefits of e/m-banking model provide them (such as incentives, etc).

***ANM Operational Requirements***

*Rollout Strategy*[35]*:* The pace of scale-up desired by the organisation will be a key determinant in the media used as well as the scope of marketing activities undertaken. If a rapid scale up is envisioned, there may be a stronger need to focus on mass media and heavy expenditures could be incurred on promotional activities. If the rollout is planned to be more

**The Chicken and Egg Trap:** One issue mobile money issuers often run into is what is termed as Mas and Radcliffe's *"Chicken and Egg Trap"*. Global experience states that mobile money deployments have to scale up rapidly in terms of client acquisition as well as agent recruitment. Lack of adequate agents hinders usability and hence adoption while lower pace of customer acquisition may mean that agents do not have enough business to be sustainable.

[35] For more on the chicken and egg trap, refer to Financial Inclusion Through E/M Banking, Puneet Chopra and Graham AN Wright, *MicroSave*, May 2011

gradual, marketing could be done in a more localised and customised manner so that unwanted expectations are not created.

*Target Market:* The promotional strategy needs to be customised for the target market. For instance, it could be different for rural and urban markets. For rural markets along with normal promotional tactics, meetings with social groups, such as village councils and SHGs[36] could be considered (perhaps jointly conducted with ANM staff, the agent and a bank branch person). These groups are a good entry point to closely knit village societies, and hiring an agent from this target market would make adoption even easier. It is important to involve village elders and opinion leaders in the early stages since they would normally be key influencers driving early adoption.

> Wizzit in South Africa, through its WizzKids initiative, educates, trains and employs previously unemployed people provide mobile banking services. The WizzKids are responsible for generating new accounts by educating their peers. By using members of the community as its sourcing points, Wizzit obtains better outreach among low income communities, as compared to traditional bank branches.

*Available Resources:* Resources available with the ANM including monetary resources, as well as human resource strength, would be another factor influencing the method and efforts spent in promotion and marketing. Organisations with better resources can look at targeting the mass market while institutions with comparably limited resources would likely be better off partnering with organisations which have the capability to scale rapidly.

> FINO recruits its *'Bandhus'* from the local population. This means that the channel, agents, have existing relationships in the locality which can be used for information dissemination through word of mouth communication.

*Technology Used*: Technology opens up new channels for information dissemination. For instance, call centres can be leveraged for cold calling and SMS promotional messages can be sent to promote m-banking solutions to both end customers and agents.

***Implementing Marketing & Communication***

The major components in a marketing strategy are the message, sales strategy, media used, promotional material and timing of the campaign. The table below outlines these aspects and looks at the factors to be considered while implementing them.

[36] A self-help group (SHG) is a village-based financial intermediary located in India, usually composed of between 10-20 local women.

***Table 11: Implementing Marketing & Communication*** [37,38]

| | |
|---|---|
| **The Message** | • Should focus on customer benefits<br>• Should be tailored to requirements of target segments and the geography<br>• Focussed on simple communication of costs and terms<br>• Promote experiential learning by stressing ease and low cost of access for balance confirmations and checking fees incurred |
| **Sales Strategy/ Media Used** | • Needs to be linked to the rollout strategy and be relevant to the target market<br>• Tactics used need to vary based on the market. There is higher potential to rely on word of mouth and existing relationships in rural versus urban<br>• Tactics commonly used include below-the -line marketing activities, such as personal selling, acquisition campaigns, door to door selling, use of locally established community bodies like SHGs, targeting opinion leaders, outdoor media like wall paintings, street plays etc.<br>• In technology based solutions like m-banking, SMS and call centers can be used for marketing as well<br>• Needs to target relevant opinion leaders |
| **Promotional material** | • Should be in the local language<br>• Should be focused on the benefits and tailored to client needs<br>• Should embrace transparency by clearly mentioning terms and conditions, including the charge structure<br>• May include pamphlets, banners, posters etc.<br>• Store branding will serve to create an image of consistency in the minds of the customer |
| **Timing** | • In case savings are the primary objective, timing should be tailored to village seasonality, largest promotional efforts being directed during peak income periods or when clients traditionally save<br>• However, a constant level of messaging should be maintained throughout the year<br>• Special focus/support should be maintained when the solution or agent is newly introduced |

FINO usually conducts awareness camps in the areas where it plans to start enrolments. Door-to-door campaigns are also used on a case-by-case basis. FINO's agents are required to wear colour coordinated jackets and caps with FINO's logo printed on them and are also provided with specially designed bags bearing the FINO logo and colour scheme. All smart cards, product leaflets, and other communications also prominently contain FINO's logo and colour scheme.

At SEED, the field staff members along with the agents contacts the *sarpanch* and share details about SEED and disbursement of pension and social security benefits through bank accounts. Villagers are informed about electronic benefit transfer (EBT) account openings through announcements at mosques/temples, *panchayat* members, and if required, through *munadi* (village announcements). Details such as the day, the venue of account opening and the documents required are announced. The ANM might take the help of a village *chowkidar*, priest or other opinion leaders to spread the word and gather people's support.

[37] *Panchayat* is a local government body in India
[38] *Chowkidar* is a government official in villages of India – literally gatekeeper or watchman in English.


## Customer Support/Service

> "When one calls the customer care line, one is put on hold as they listen to advertisements, and then when someone comes through, they keep transferring you from one department to another." – A customer complaining about lack of customer support.

E/m-banking initiatives are still in a nascent stage in most geographies, and the agents, as well as the end customers, are not very conversant with the technology and the processes. Consequently, providing customer support to facilitate effective use of the service is imperative for an ANM. Despite the availability of technology and strong mobile network coverage for call centres, the frontline for customer service is the agents. Agents see the customers each day, help them fill-out account opening forms, make calls to the call centre on the customers' behalf, and teach the customers on how to use the service. Customer service is vital in e/m-banking as well because profitable operations cannot stop with acquisition alone; usage of the accounts and services must follow. Usually only the agents can influence customers to actually try the service after obtaining an account.

***Customer Requirements***

> WING (Cambodia), M-PESA and Eko have a toll-free number that customers can call and seek answers for their queries and register complaints.

Most of the early adopters of mobile banking services in urban areas are those who have had some exposure to banking services, and many may already have a savings account in a bank. However, they also chose mobile banking for four major reasons: convenience, trust in the nearby agent and bank, ease of use and relaxed KYC norms/ easy documentation.[39] Since many customers are illiterate and not exposed to formal financial services, they will need more support than regular banking customers. An example of this was observed in a major service provider in Kenya, where a major issue was with regard to reversal of transactions made in error. Many customers sent money to the wrong number by mistake and then had to call up the call centre to rectify the transactions.[40]

The *MicroSave* study on agent networks suggests that customers of e/m-banking want the agents to be educated and polite or "well behaved" when serving them. [41] They believe that an educated agent will be able to understand their needs better. Also, if the agent is not well behaved then customers would not be

[39] See *MicroSave* India Focus Note 37, "Listening to Clients of Mobile Banking in India"
[40] See *MicroSave* Briefing Note # 94, "Riding the M-PESA Rails: Advantages & Disadvantages"
[41] Based on *MicroSave* research study on "Optimising Agent Networks", December, 2010

inclined to use their service. Thus the agent should be well informed about the products and service; be polite, patient and understanding; and be supported by an efficient customer service system. It should be noted that incentives and performance appraisals in general for agents should include the quality of customer service and not be solely focused on quantitative objectives.

***Agent Requirements***

As mentioned earlier, agents in the field should be treated as internal customers, and thus be seen as important as the end customer. One of the expectations of mobile banking agents is that they should receive adequate technical and operational support from the ANM, particularly in the initial period, when the concept is new in the market.[42] The support required is in the form of induction and refresher trainings, a dedicated 24-hour call centre or a line to handle their queries and field visits to provide on-the-spot support.

"We are told that the officer will visit our place often and help us with issues. Nobody visits us. When we call them, they keep us waiting" – An agent ruing the lack of customer support at an ANM

Very often agents face difficulties with the technology they use and hence seek technical support for troubleshooting. This need may be amplified when the profile of agents across the network varies, and includes mobile shops, grocery stores, medical stores, financial service agents, etc. The comfort level with technology as well as the financial transactions varies across these agent profiles. A mobile airtime retailer would probably be more comfortable with technology compared to a grocery retailer or a medical shop owner.

***ANM Operational Requirements***

"If I have a problem, I email M-PESA, and it is sorted. It is the best ever [communication]." – M-PESA Agent

*Nature of the Network:* If the ANM is managed by a large retail distributor who acts as a super agent, then the customer support would primarily be provided by the various intermediaries in the distribution channel. The agent location would then have various communication materials to support and educate the customers. However, if the ANM's agents are comprised mainly of '*bare-feet*' agents who are often proxy staff of the ANM, such as in the case of FINO, then the agents themselves would play a pivotal role in providing customer service to customers. If this is the case, the agent should have time to spend with the customer. Also, the nature of the core business activity will determine the kind of service provided by the agent. For example, a financial service agent who typically spends more time with the customers can provide more personalised customer support compared to a mobile airtime retailer who spends very little time with the customer.

*Ownership of the Customer:* The number of players (bank, ANM, technology service provider-TSP) involved in providing e/m-banking services make customer support a complex issue. The key consideration is who owns the overall customer relationship and will take responsibility for customer service, particularly when there are separate owners of different components of the m-banking system and the processes within it. For example, only the bank could likely answer queries about a balance not showing up correctly, and only the TSP could address software issues on mobile devices. For queries relating to the transfer of money from one account to another, both the bank and the TSP may be involved.

[42] See *MicroSave* India Focus Note 38, "Listening to Agents of Mobile Banking in India"

*Product Offering:* The level of customer support would also depend upon the volume as well as nature of financial products offered by the ANM. For example, a customer depositing money in a bank account may not require much help from the agent, but if the same customer is purchasing an insurance policy, he or she may require more support from the agent. The agent themselves may need more support considering the diversity of businesses they handle. For example, a grocery retailer may not have enough knowledge to effectively handle an insurance product.

*Available Resources:* The ANM would also have to consider its resources: technological, financial and human before designing a customer support system for its customers. An ANM with a fairly large number of retailers scattered across a wide geography may need to use a call centre to handle queries, while a network with a fairly concentrated geographic area could depend more on field staff to educate and support the customers. Also, setting up a dedicated call centre requires investment, which may be prohibitive for a small ANM (but could be outsourced).

*Maturity of E/M-Banking Operations:* If the service is new, then agents would focus on teaching customers on the product features and the various terms and conditions for availing such a service. If the e/m-banking solution has been in existence for some time and as the customers would have become accustomed to using the service, the queries would largely likely be related to troubleshooting and adding on new features and services. Thus, the ANM would have to train its staff to handle such queries effectively.

*Location of Outlet:* If the agent outlet is located in an urban or semi-urban area, the agent would likely not have to invest significant time in personally educating customers on banking as they typically have more exposure. The usage of printed materials in urban areas would likely be sufficient. However, if the agent location is rural, then the agents will have to invest considerable time in educating customers and providing support.

While it is true that almost all aspects in an e/m-banking scenario require adequate customer support, some of them require more attention than others. The table detailed below looks at various areas that require focussed customer support.

***Table 10 - Implementing Customer Support Mechanisms***

| Areas | Inputs for Implementation |
|---|---|
| **Troubleshooting, especially technical** | • Agent training regarding general/most common troubleshooting techniques and on soft skills.<br>• Preparation and circulation of manual regarding the technology usage and common troubleshooting techniques.<br>• Dedicated team in the call centre to handle the technical problems instantly.<br>• TSP representative available to service software and hardware issues (preferably at least one per region). |
| **Account opening, processing and tracking** | • Customer support required to reinforce customer confidence.<br>• Should cover the clarifications required by customers on the process and documentation.<br>• Customers need to be capable of checking the status of account opening either directly or through an agent. |
| **Confirmation of transactions** | • SMS/receipt confirming every transaction should be provided to customers.<br>• If the customers ask the agents to confirm the processing of transactions, they should also be trained to do so with the help of a transaction log.<br>• Call centres should also be equipped in handling such queries. |

| Areas | Inputs for Implementation |
|---|---|
| | • ANM to decide how important physical receipts are to customers in initial phase, and if it can be phased out over time as customers become comfortable with the service. |
| **Information about failed transactions** | • Instant alert about failed transaction through SMS.<br>• System to flag and verify every repeat transaction. |
| **Server downtime** | • Supervisors to inform agents about the server downtime in advance, if it is to be done intentionally.<br>• If there are problems with the network server, the agent should be informed as to why and when the server will likely be operational again.<br>• Call centre to respond to queries of agents regarding issues with the network server.<br>• Provide SMS alerts to all customers. |
| **KYC[43]/AML[44] norms** | • Training about KYC/AML norms and documentation (including checking the documents for authenticity).<br>• Intimation through circulars if there is any change in such norms.<br>• Call centre executives to be thorough with these norms so that they can handle queries effectively.<br>• Manual containing detailed information about these norms to be provided to agents. |
| **Procedural/Process requirements** | • Induction and refresher trainings to make agents comfortable with the procedural requirements.<br>• Printed process manual to be provided to agents, using visual aids such as videos, pictures and process maps.<br>• Call centre to provide round the clock assistance.<br>• Posters displaying pictures of procedures can be used at agent locations to educate customers about procedural requirements. |
| **Product features including charges** | • Induction and refresher trainings to educate the agents about the product offerings of the ANM.<br>• Printed handbook, similar to a product catalogue containing detailed information about the products to be provided to agents.<br>• Call centre executives can also be trained on products (and on the financial inclusion project in general, as they may be generalist call centre executives, covering other products, services and clients). They can also be given a FAQs type handbook with standardised responses.<br>• Product leaflet to be printed in local language and kept with agents to be kept for reference and to hand out to customers.<br>• Posters printed in local language displaying the charges for the various services at the agent location.<br>• Some products that are complicated or regulation heavy, e.g. life insurance or pension products, may need to be sold by actual staff members of the service provider who are certified to do so, such as call centre staff or specialists who visit the customer. |
| **Balance enquiry** | • Account balance update through SMS.<br>• Design an IVR system for balance enquiries to reduce call burden on call centre executives (depending on organisation's resources).<br>• Balance enquiry to be primarily automated with minimal human interaction. |

[43] Know Your Customer Norms – used to identify a customer uniquely
[44] Anti Money Laundering Norms – used to prevent money laundering

| Areas | Inputs for Implementation |
|---|---|
| **Agent locations** | • Posters printed in local language carrying the list of agents to be posted in bank branches.<br>• Call centre executives should be able to provide the list of agents.<br>• The list of agents in the location and contact details can be displayed at all agents' locations.<br>• Example: As it is worried about agent turnover and confusing customers on where to go, a large bank in South Africa actually has a simple SMS-based agent location service for its e/m-banking customers based on the tower nearest to where the customer is located. |


## Impact of Regulations on Agent Network Management

As with conventionally delivered financial services, consumers using e/m-banking services face risks and challenges along with the benefits. E/m-banking heightens the consumer-related concerns of regulators and supervisors due to involvement of third party agents, use of technology-enabled devices, less educated and inexperienced customers, a rapid pace/evolution of the model and anti-money laundering concerns. A robust regulatory environment helps to build a solid reputation of the e/m-banking system and improves public confidence thereby facilitating public adoption. While regulations essentially exist to protect the community, they often can be too restrictive and therefore limit customers' choice or even restrict complete access (see Point 2 in Annexure 1). The most common areas covered by regulation for e/m-banking include:

*Agent Selection:* The regulator may directly prescribe the eligible agent profiles. In other cases, the regulator may prescribe norms which indirectly limit the pool of eligible agents or may even inhibit expansion. For example, in India, it is still a requirement that an agent in rural areas must be within 30 kilometres of the nearest bank branch. While well intentioned, this stipulation excludes many small, remote villages that are not covered by the branch network.

*Services Provided Through Agency Channels:* Quite often the regulator prescribes what transactions can and cannot be delivered through agency channels. These regulations have the intention of protecting the customers from fraud by agents, but they also have the effect of limiting the services available to customers dependent on agency channels. For instance, in most countries, agents are prevented from providing financial advice due to the risk of improperly selling unneeded products to a vulnerable client category.

*Licensing / Certification Process:* The regulation may require banks to provide explicit approvals and certifications, either for the ANM or for individual agents. This could impact the processes involved in enrolling agents as well as affect the speed of rollout of the channel.

*Responsibility for All Transactions-:* In bank-led channels, the regulation usually explicitly mandates that the bank is ultimately responsible to the customer For instance, even if an agent commits fraud, it is the bank which is ultimately responsible. In non-bank led models, it is the e-money issuer who is generally held responsible.

*Ensuring Compliance:* The regulator may prescribe monitoring norms, and insist on liquidity management and data security standards. The primary objective of regulation in this respect is to ensure that there is no mismanagement of customer funds or fraud committed.

*Customer Education:* Regulators often guide banks/ANMs to develop and implement financial literacy campaigns before undertaking e/m-banking. This is because the target customers are often financially excluded, they by definition have very little awareness of and exposure to formal financial services.

*Pricing:* In some cases, a regulator may provide guidelines/cap the charges that can be levied on e/m-banking customers. It may also prescribe an interest rate to be offered to customers. In both cases, it affects the margin for banks, and thereby may affect the remuneration to be paid to agents.

In short, regulation often is another piece of the puzzle which determines the design and implementation of agent networks. It impacts different aspects of agent network management by prescribing what can and cannot be done. The table in Annexure 1 provides an illustration from India of regulatory norms and their potential impact.

## Annexure 1
## Illustration of Regulatory Restrictions - India[45,46,47]

| S. L. No. | Regulatory Norm | Area of Impact | Probable Impact |
|---|---|---|---|
| **1** | The following entities are eligible to be appointed as Business Correspondents (BCs):<br>▪ Individuals like retired bank employees, retired teachers, retired government employees and ex-servicemen, individual owners of kirana / medical /Fair Price shops, individual Public Call Office (PCO) operators, agents of Small Savings schemes of Government of India/Insurance Companies, individuals who own Petrol Pumps, authorized functionaries of well run Self Help Groups (SHGs) which are linked to banks, any other individual including those operating Common Service Centres (CSCs);<br>▪ NGOs/MFIs set up under Societies/ Trust Acts and Section 25 Companies;<br>▪ Cooperative Societies registered under Mutually Aided Cooperative Societies Acts/Cooperative Societies Acts of States/Multi State Cooperative Societies Act;<br>▪ Post Offices;<br>▪ Companies registered under the Indian Companies Act, 1956 excluding Non Banking Financial Companies (NBFCs). | Agent selection | • Limits the pool of available agents |

45 Financial Inclusion by Extension of banking Services – Use of Business Correspondents, Reserve Bank of India
46 Financial Inclusion by Extension of Banking Services – Use of Business Facilitators(BFs) and Business Correspondents (BCs)
47 Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks, Reserve Bank of India

| ***S. L. No.*** | ***Regulatory Norm*** | ***Area of Impact*** | ***Probable Impact*** |
|---|---|---|---|
| **2** | If BC nework managers (BCNMs) of banks want to appoint sub-agents at the grass-root level, banks must ensure that:<br>▪ The sub-agents of BCNMs fulfil all relevant criteria stipulated for BCNMs.<br>▪ The BCNM carries out proper due diligence in respect of the sub-agent to safeguard the bank's reputation and other risks involved.<br>▪ The distance criterion of 30 km, as applicable, from the base branch should invariably be fulfilled in the case of all sub-agents.<br>▪ The agent should be a permanent resident of the area where he/she is providing agent banking services. | Agent selection<br><br>Agent monitoring | • This limits the pool of available agents.<br>• This puts the responsibility on the banks and respective BCNM to ensure that these norms are adhered to.<br>• Domicile of the agent is also an attribute prefered by the customers and may indeed act as a blessing in disguise to help customers trust the system. |
| **3** | The retail outlet/sub-agent of the BCNM should be personally introduced to the members of public by the bank officials in the presence of village elders and government functionaries in a public meeting so that there is no misrepresentation/impersonation. | Agent selection<br><br>Marketing and communication | • This mandatory requirement may slow down the expansion since bank staff would have to be available for appointing each agent.<br>• This measure helps to provide trust in the service from the onset.<br>• This step is mandatory as per RBI guidelines and will result in the involvement of the bank from the early stages. This can be leveraged by the BCNM to provide tailored communication designed to encourage adoption and usage. |
| **4** | While a BCNM can be a BCNM for more than one bank, at the point of customer interface, a retail outlet or a sub-agent of a BCNM shall represent and provide banking services of only one bank. | Agent selection | • This condition would restrict the pool of available agents to any BCNM.<br>• This may stifle competition in the sector.<br>• This condition has the potential for limiting the viability for the agent thereby impacting agent willingness to be part of the channel. |
| **5** | As per the directive issued in November 2009, RBI has asked banks to develop a suitable training curriculum in local languages so as to provide attitudinal orientation and skill to the BCNM to optimise customer service. | Agent training | Directive mandates that two aspects be covered in training. First, "attitudinal orientation" for ensuring appropriate behaviour towards customers and to be an agent of a reputed financial institution. Second, skill development on cash management, technology, operations etc.<br>• RBI has refrained from micro managing and left the curriculum |

| ***S. L. No.*** | ***Regulatory Norm*** | ***Area of Impact*** | ***Probable Impact*** |
|---|---|---|---|
| | | | to be decided by the banks. This gives the bank/BCNM freedom to develop training based on its operational requirements and carry out the changes as per the needs assessed while ensuring that the spirit of the directive is complied with. |
| **6** | RBI in its directive issued on November 30, 2009 allowed banks to collect a service charge from the customer for the banking services provided through the BC model, but the charge should be transparent and easy to understand. It also sends a word of caution mentioning that considering the target customer for the services of BCNMs, banks should ensure that the prices charged are "fair and reasonable" and also perceived to be so by customers. RBI would consider any complaint received on charges being unfair very seriously and any wrong practice of a bank in this regard would be considered very serious. | Agent compensation<br><br>Agent monitoring<br><br>Liquidity management | • RBI has provided a free hand to levy the charges. This means the costing could be done by bank and be ANM specific. This can enable the banks to appropriately charge customers so as to provide for adequate compensation to the agent and the BCNM.This step will aid in making the business model more viable with an added stream of revenue.<br>• The word of caution regarding the price would also keep the banks and ANM alert regarding their pricing. Also it would ensure that the monitoring systems are robust enough to assess any incidence of unfair pricing at agent level as well.<br>• The possibility of higher returns may prove to be attractive enough to entice agents to maintain adequate float.<br>• However, this modification is purposfully vague and could be too risky to charge the required, profitabe amount. |
| **7** | RBI also directs that a BCNM/agent cannot directly charge a customer for the banking services provided by him. | Agent compensation<br><br>Agent monitoring | • This showcases the intention of the regulator to safeguard vulnerable customers who are quite new to banking. This means that banks will ultimately decide the price, and the BCNM shall charge it accordingly. This would restrain the BCNM/agent from charging variable pricing directly from customers, thereby reducing possibility for abuse.<br>• This directive limits the variety of incentive structures that could be adopted by the BCNM.<br>• This will also bring additional monitoring responsibility on the BCNM's shoulders to ensure the agents are not charging customers extra fees in addition to the official bank fee. |
| **8** | All agreements/contracts with the customer shall clearly specify that the bank is responsible to the customer for acts of omission and commission of the business facilitator/correspondent (agent). | Agent monitoring<br>Marketing & communication | • This necessitates strict monitoring measures and places the onus of monitoring on the bank.<br>• The bank has to communicate that the agent is just an extension of its own service delivery, and this in turn can be a message |

| ***S. L. No.*** | ***Regulatory Norm*** | ***Area of Impact*** | ***Probable Impact*** |
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| | | | powerful enough to raise trust in the target audience. |
| **9** | The charges for offering various services should be indicated in a brochure and be made available at the retail outlets/with the sub-agents. | Marketing and communication | • This step again is useful in encouraging transparency. |
| **10** | Banks should constitute grievance redressal machinery within the bank for redressing complaints about services rendered by BC agents. | Customer support<br><br>Agent Monitoring | • This would protect the interest of not only the customers but also that of the agents by encouraging banks to institute appropriate customer support mechanisms. |
| **11** | The transactions should be accounted for and reflected in the bank's books by the end of day. | Liquidity management<br><br>Agent monitoring | • The restriction that there needs to be an end of the day settlement makes it mandatory to have daily cash collection routes, daily visits by agents to bank branches or to maintain a e-float (be it by the agent, super agent or the ANM).<br>• Allows off-line transactions where settlement cannot be real time. |
| **12** | Compliance of KYC will continue to be the responsibility of the bank. However, KYC norms have been relaxed by RBI to facilitate the coverage of un-banked population. | Agent monitoring<br><br>Agent Training | • This would require specific monitoring to ensure that KYC is ensured.<br>• But this does lower the level of scrutiny required as opposed to using normal KYC.<br>• BCNMs have to ensure that the agents know about the documents that can be accepted for account opening so that genuine customers are not denied an account for lack of proper documents. |

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## Additional Resources


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