MicroSave Briefing Note 136

Structuring and Managing Agent Network - I

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The agent networks one of the most critical (and complex to manage) constituents of any system delivering electronic/mobile banking (e/m-banking) services. Appropriate structuring and management of agent networks has proved vital for all the e/m-banking systems that have had even a modicum of success. In contrast, inappropriate design and ineffective agent management has often been a root cause of failure. As institutions grow and scale, the challenges of agent network management are compounded. This Note, and the next in the series, examine the suitability of various agent structures and assess the strategies followed by organisations in different markets, together with the impact of their decisions.

An important dimension to classify and assess agent networks is by the entity directly managing them – bank or MNO. In an MNO-led model, MNOs are the prime service providers and airtime distribution networks are often their core strength. MNOs might also aggregate services from banks and their own stable, to deliver on the common rails of the network (for example M-KESHO[1] from Equity Bank and Safaricom in Kenya).

In a bank-led model, banks might directly manage their network (for example the individual business correspondent agents[2] of State Bank of India and of Bank of India; and Equity Bank's agent network); or leverage third party agent networks (for example MTN Banking for Standard Bank in South Africa, FINO for Union Bank of India and Eko for State Bank of India). These third party agent networks might include MNO networks (for example HDFC Bank-Vodafone and Axis Bank-Airtel in India).

Even in markets with a dominant MNO-led model, a bank might innovate to recruit, train and manage agents very differently. For example, Equity Bank in Kenya is implementing a system under which agents are recruited, managed and monitored from its branches - in stark contrast to Safaricom's largely outsourced model.

The second key dimension is whether existing agent networks are leveraged for e/m-banking, or new networks are established. Within new networks the ownership could rest with third parties or with the service provider (bank or MNO).

For comparison, seven cases, [3] as classified in the table below, are discussed in these two Notes.

Exhibit 1

Agent network managed by	Existing	New
Bank	Standard Bank (with MTN) State Bank of India (Oxigen)	State Bank of India (Eko) Equity Bank Union Bank of India (FINO)
MNO	Safaricom's M-PESA Vodafone's M-Paisa	GCash
	Agent network type	

Through these cases, their diverse structures and evolution as well as merits and demerits are analysed.

MNO As Manager Of Agent Network

For MNOs, the obvious channel choice for mobile money is their existing airtime distribution network. While there is certainly an upside to this, there are also several challenges. Not all MNOs have necessarily found airtime distributors to be a fitting channel. These are highlighted out through the approaches followed for M-PESA and GCash.

Safaricom's M-PESA

M-PESA has gone through three major phases of growth during which the agent network management has evolved according to market needs. In the first phase, Safaricom selected more than 1,200 of its large airtime sellers for M-PESA and managed them directly on aspects of selection, liquidity management and commission payment. No intermediaries were involved at this stage, except the marketing firm Top Image, with the role of: (a) ensuring consistency of brand and of customer experience and (b) agent training, monitoring and compliance. Subsequently it introduced stringent criteria for selecting the sub-agents (stores).

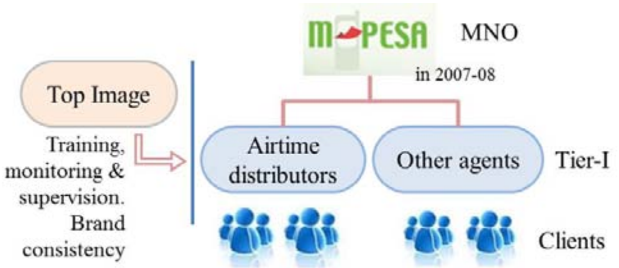
[1] *MicroSave* Briefing Note 93 and 94

[2] *MicroSave* India Focus Note 76 and 77: Individual or Institutional BCs: The Client's and The Banker's Perspective

[3] *MicroSave's* Agent Assessments and CGAP Agent Network Toolkit

In the second phase of growth, large sub-agents started acting as master agents by sub-contracting to third parties who themselves could not fulfil the criteria to become Safaricom's sub-agents directly. These master agents[4] or agent Head Offices (agent HOs) managed liquidity and distributed commissions. Super agents (essentially banks) were also introduced solely for liquidity management. Safaricom allowed this structure to evolve with a tacit approval and did not involve itself in management or monitoring of the sub-agents who signed up with the agent HOs. This strategy was designed to counter emerging competition from Zain's ZAP and to prevent agent churn.

Exhibit 2



As the store base grew to a five digit number, the direct management of sub-agents and agent HOs became too onerous for Safaricom. At this stage it introduced a new tier of actors called agent aggregators, each targeted to manage 2,000 to 4,000 sub-agents.[5] The agent aggregators were also given responsibilities around sub-agent training, supervision, monitoring and even elements of brand management and store consistency, in addition to liquidity management and commission disbursement.

Exhibit 3

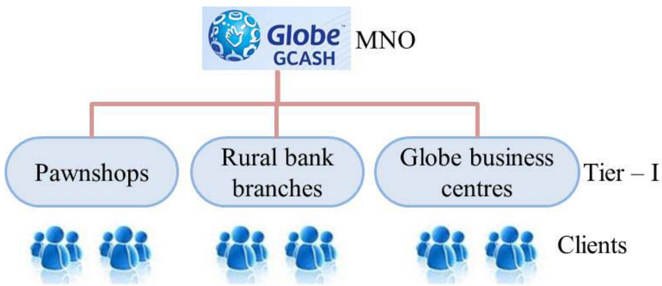
While M-PESA got most aspects of the business model right at the first attempt, agent network structure has continued to evolve to achieve the objectives of liquidity management, brand consistency, agent monitoring and supervision.

G-Xchange, Inc. (GXI)'s GCASH

Globe Telecom has, since the inception of GCASH in 2004, extensively leveraged: (a) pawnshops; (b) a network of rural branches of over 700 member banks of rural bankers association of Philippines (RBAP); and (c) Globe's business centres, as cash-in/cash-out (CICO) agents. It largely stayed away from using its airtime distribution network until 2010 when it got approval from Bangko Sentral ng Pilipinas (BSP, the central bank) to use Globe Telecom's sub distributors as GCASH outlets.

There were two main reasons for not using agents selling "load" (airtime). The first being a near fourfold differential in commissions (12% for load versus 3% for GCASH). The second being a regulatory requirement for one day AML/CFT training at a central location - both significant barriers dissuading agents. The latter was subsequently addressed with a training team administering the mandatory training at agent's premises.[6]

Exhibit 4



The coverage and volume of business extended by pawnshops, rural bank branches and Globe business centres still dominates compared to airtime resellers.

Despite essentially following a one tier direct distribution model, Globe has been able to manage the agents reasonably effectively due to the demographics of Philippines. Even with a small network of 6,000 agents, it has been possible to achieve coverage of 11 agents per 100,000 adults.[7]

Briefing Note 137 contrasts and analyses the agent networks managed by or on behalf of banks.

[4] PEP Intermedius is one of the relationships that started in 2007 and continues to be a key partner
[5] Mas, Ignacio et al (2010). "Three keys to M-PESA's success"
[6] Leishman, Paul (2010).Globe Announces Big Changes to GCASH Agent Network
[7] The Mobile Financial Services, WEF (2011), *MicroSave* analysis