Payment Banks:
What Can We Learn From International Experience

MicroSave

Market-led solutions for financial services

Introduction

The creation of Payment Banks by the Reserve Bank of India promises to offer a range of exciting opportunities, as well as some challenges, for the provisional licensees. Many of these are discussed in this collection of *MicroSave*'s Briefing Notes and blogs, which provide deep insights from across the globe into options around strategy, product development and agent network development/management. These short articles are based on years of on-the-ground research and technical assistance dedicated to developing sound business models and operations to underpin profitable approaches to serving the mass market, thus advancing financial inclusion.

What Does *MicroSave* Do?

MicroSave partners with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value.

We are an international financial inclusion consulting firm with nearly 20 years of experience, operating in nine offices across Asia and Africa.

Our mission is to strengthen the capacity of institutions to deliver market-led, scalable financial services to all people through guiding policy & facilitating partnerships to develop enabling eco-systems; comprehensive, customised strategic advice; and actionable, on-site operational assistance. We have worked to design and implement a variety of financial inclusion models.

The *MicroSave* Team

We are a team of over 175 professionals who have strategic and technical skills honed through years of working with companies across various sectors to identify, understand and respond to the needs of the mass market. In the words of our clients, *"We are the world's local expert in financial inclusion"*.

More insights from India and across the globe can be found on our **websites:** www.*MicroSave*.net and www.*Helix*-institute.com.

MicroSave
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Building Business Models for Mobile Money

Krishna U.M. Thacker
and Graham A.N. Wright

In the words of Victor Hugo, *'Nothing is more powerful than the idea whose time has come'*. At present, there are *5.2 billion mobile connections*[1] and growing as we write (and growing even more as you read) while only around *2.2 billion people have bank accounts*. We also have *robust mobile banking technology platforms* available that can provide real-time, seamless access between a mobile phone and a bank account and in most parts, there is an almost *ubiquitous network of airtime resellers*. Given these conditions, one cannot help but wonder why we cannot bring financial inclusion to match (or at least come closer) the mobile penetration figures? What is stopping us to achieve that? Why can we not put together all the pieces of puzzle to offer banking/financial services to the large unbanked segment that is on the mobile network?

1. **Customer Segments:** An Organisation serves one or several customer segments
2. **Value Propositions:** It seeks to solve customer problems and satisfy needs
3. **Channels:** Value propositions delivered to customers through communication, distribution and sales channels
4. **Customer Relationships:** Are established and maintained with each customer segments
5. **Revenue Streams:** Result from value prepositions successfully offered to clients
6. **Key Resources:** Assets required to offer and deliver the previously described elements
7. **Key Activities:** By performing a number of key activities
8. **Key Partnerships:** Some activities are outsourced and some
9. **Cost Structure:** The business model elements result in the cost structure

[1] Out of which there are 3.7 billion unique mobile users according to http://consultantvalueadded.com/2011/03/07/mobile-as-a-trillion-dollar-industry-check-this/

Many individuals and institutions alike seem to have asked that question. Some are already on their way *forging strategic multi-industry alliances* to offer financial services to the un/under-banked segment. *There are 113 live mobile money deployments and around 88 in pipeline for the next year*[2] trying to make the goal of financial inclusion a reality. Having said that, most of such deployments (from authors' personal experience with both failed and surviving deployments) seem to be in rush to get numbers and forging partnerships with an approach of "let's try/do something together and figure it out as we go along" instead of taking the pains to sharpen a *mutually aligned business model and developing synchronised strategies*. In what often turns out to be a 'speed to market' and 'number' game, it might just be a good idea to take a small pause: understand, develop, analyse and critique the business model. Since, business models, to a large extent determine 1) the costs we incur during the process of delivering the final product, and 2) the value we generate for the end user on a sustainable basis; with the difference between the two being surplus/deficit. This in turn determines whether the business will be sustainable or not i.e. the survival chances of the business and achieving the goal of financial inclusion through this promising channel. In essence, *"A business model describes the rationale of how an organisation creates, delivers and captures value"*.[3]

To understand and assess the business of mobile banking[4] more clearly and in more detail, we shall use a business model framework and some of the concepts co-created by an active and vibrant community of practitioners in an online community called the business model innovation hub. The business model revolves around *9 building blocks*, described by Osterwald et al.[3]

[2] http://www.wirelessintelligence.com/mobile-money
[3] Business Model Generation, A. Osterwalder, Yves Pigneur, Alan Smith, and 470 practitioners from 45 countries, self-published, 2010
[4] This is largely focused on bank-led models since more work around the globe has been done on MNO led models, the authors have tried to assess it more from a bank perspective and what unique values they can add to a mobile banking initiative and vice versa

We shall now use the 9 building blocksdescribed above and develop a fairly generic business model for a typical bank trying to target its unbanked segment.

Key Partners

Strategic alliances with the following players are at the heart of the model/offering

- Bank/Licensed Financial Institution
- Distribution Agency/ Agent Network Manager
- Technology Partner
- Mobile Network Operator

Key Activities

- Product Design and Implementation
- Marketing / Promotion
- Technology Management
- Channel Management

Key Resources

- Agent Network
- Brand
- Product
- Transaction Platform

Value Propositions

The value preposition revolves around making the financial services **accessible** (at near doorstep) and **convenient** (few queues and fast processing). This is done by offering bank's products through a distribution network of resellers (to de-congest existing branches). At the same time, maintaining a **secured transaction** enviroment through password-enabled transactions and real-time confirmation. Clients can use a range of financial services (cash-in/out, money transfers, top-up etc.) with **reduced effective** cost of transaction/ cash (saving on travelling to and from banks, standing in long queues and foregoing working hours to access banking services).

Customer Relationships

Personal Assistance through agents (facilitating purchase, cash-in, cash-out transactions and offering other assistance through call-centers)

Self-service or automated services (e.g. remote transactions from their handset)

Channels

Reseller network (managed by self or third party) critical for all phases of channel management right from awareness, helping clients evaluate the product by explaining the product features, offering them instant purchase, delivery and after sales service.

Mobile network (increasing awareness, allowing convenient usage/delivery through a client's handset)

Customer Segments

A multi-sided market/platform which needs a sufficient/large base of ***un/ under banked clients*** and a large base of resellers/ ***merchants*** acting as bank agents to deliver full value to end-users in a cost effective way. The model requires to a strong value proposition both for the end-users and the resellers/ merchants (agents) hence it is described as multi-sided market/ platform.

Cost Structure: A cost-driven model with opportunities for economies for scope once the channel is established. Some key costs involved are

- Variable usage costs
- High agent management costs
- Fixed technology costs

Revenue Streams

- **Subscription fees -** Account opening commissions
- **Usage fees -** Revenues from usage or maintenance

The Safaricom M-PESA Pilot Test

David Cracknell

There are many success factors for Safaricom's M-PESA, these include that Safaricom held a dominant position in the Kenya mobile market; that it was already a trusted household name; that the regulator enabled a mobile network operator model in Kenya to offer digital financial services; and that Kenya already had high levels of literacy, numeracy and mobile coverage.

Safaricom innovated around agency management mechanisms and quickly developed linkages with the banking sector to facilitate float management. Much more could and, indeed has been, written about the conditions for success enjoyed by Safaricom.[1] However, one of the least recognised success factors was the careful pilot testing of the M-PESA solution. This took place for an eighteen month period prior to the commercial launch of M-PESA in 2007.

Pilot testing within financial services means different things to different people, so in this chapter it is important to differentiate between pilot testing from a technical or systems perspective and an operational pilot test. A systems test is used to ensure that all systems are operational and perform as expected. A limited internal pilot test uses staff members to test the functionality of the solution at a low usage level. Under an operational pilot test for a limited period the solution is tested with actual customers, within a defined geographic area.

Contrary to some perceptions M-PESA was not the first mobile payment solution, others operating in the Philippines and in Zambia had already operated for years and were, at the time, considered successful. So Safaricom could simply have copied Celpay in Zambia, or Smart or G-Cash in the Philippines. It didn't. Instead it chose to develop a solution for operation within a microfinance institution, Faulu Kenya. The intention was to enable the microfinance institution to accept loan repayments through mobile payments. The pilot test took place in Mathare a slum in Nairobi and Thika a town 50km north of the city.

In developing its systems, Safaricom carried out internal tests with amongst staff to test systems, and technology, and then tests with small numbers of market traders in Nairobi to test the interface and usage patterns. However, a longer pilot test was established to carefully study operational issues, such as adoption - could the solution be used by those with relatively low levels of education and literacy - as was more common in Mathare? Under the pilot test Safaricom supplied low technology handsets to selected groups of Faulu Kenya customers; teams from Faulu Kenya, Safaricom and *MicroSave* taught group members how to use M-PESA and in many cases how to use their new phones. Work was slow but important. The pilot test revealed the importance of:

a) Simplicity: Users needed to have very simple menus on their phones. Menus were simplified and retested.
b) Materials: Faulu customers benefited from simplified pictorial explanations on use of the solution.
c) Handset: The solution needed to operate on the lowest level of available handset if the mass market was to be reached.

The test continued. The Safaricom team moved on to developing agents through whom customers in Mathare or in Thika could load value on their solution. A limited number of agents were selected. It was found that agents were very important in explaining the solution

[1] See for example: Why M-Pesa Outperforms Other Developing Country Mobile Money Schemes; Why M-Pesa Is Hugely Successful in Kenya and Less so Elsewhere and M-PESA: Mobile Money for the "Unbanked" Turning Cellphones into 24-Hour Tellers in Kenya

to customers, but that they also required assistance. A telephone helpline was created, and a list of frequently asked questions was developed, and tested, and so a further lesson was learned:

- **Agent Support**

Agents need careful training and support to be effective and they need to be encouraged to be part of the communication mechanism with existing and potential users.

Safaricom carefully studied data from the pilot test. Unusual transactions were observed and the pilot test team then followed up with individual customers to trace the reason for the transactions. It was soon observed that some customers coming from Thika to Nairobi were using M-PESA to keep money safe, other customers were transferring value between themselves, sometimes to facilitate loan repayments or to settle personal debts. *MicroSave* ran focus group discussions and what would now be called human centred design sessions to understand the "use cases" that the pilot-test customers had found.

- **Customer Value**

The value of M-PESA to Safaricom customers' could not be assumed. However, it could be observed, and once observed it could be communicated back to customers.

For Faulu Kenya, the M-PESA pilot test was also very important. It demonstrated that making mobile money work for loan repayments was not going to be easy. Faulu Kenya had manual record keeping, which had been working for them for many years. However, contrary to expectations, M-PESA did not reduce the level of record keeping required, it increased the work load for the group Chairman, Treasurer and Secretary. There were multiple reasons for this.

Firstly, not all customers would repay their loans through M-PESA, so two sets of records needed to be kept and reconciled. Secondly, during the pilot test customers replicated their existing practices of repaying their loans through others – in this case, through other group members M-PESA lines, thereby creating a need for additional back office entries. Thirdly, if mistakes were made by group members in making the transfer then suspense account entries would be created which would need to be cleared.

- **Customer Training**

Using mobile money for repayments involved developing training for customers and would involve re-examining and designing new procedures to support loan repayments.

As the pilot test progressed Safaricom became aware with the difficulties faced by Faulu Kenya that the business case for agents would be difficult to sustain through loan repayments alone; but that in the Kenyan context person to person remittances were very attractive. This was particularly the case for split families where sons and daughters lived and worked in urban locations and parents lived in rural areas. So Safaricom's launch messaging was born – 'Send Money Home'.

- **Customer Value Proposition**

A core customer value proposition needs to be developed and explained in terms which are relevant to the core customer market.

As the pilot test progressed further, Safaricom discovered that agents were facing a number of challenges the first was holding sufficient float for transactions to happen; the second was that despite training agents often required re-training when the person handling M-PESA transactions moved on. So the M-PESA team began to develop mechanisms to monitor agents, this included rule of thumb mechanisms for judging the liquidity that was required based on transaction volumes in the location. They learned that agents could manage float by sending money between themselves, so they developed a requirement for agents to apply as groups of agents.

- **Agent Monitoring**

It is extremely important to monitor agents and to develop mechanisms to help agents manage their float.

As can be seen from the lessons learned from it, the pilot test was vital to Safaricom in multiple respects. It enabled Safaricom to polish the customer value proposition and critically to communicate this proposition to potential customers in clear concise and client friendly language.

It highlighted the importance of agents in customer communications. It enabled Safaricom to develop and test the support mechanisms it required to scale up the solution. It flagged areas of difficulty with the SIM toolkit – for example the inability to select payee from address books on customers' phones which led to future redevelopment.

However, unfortunately, the value and importance of operational testing and active lesson learning outlined in this chapter was not fully and immediately recognised by those seeking to replicate M-PESA's success.

This was evident in the subsequent rollouts of M-PESA in other Vodafone countries, in Afghanistan for example, where the successful customer value proposition revolved around payment of remote salaries. The temptation was for Vodafone, and subsequently many others, to think that once 'the solution' had been discovered in Kenya, that this solution in its entirety was almost universally replicable in any market. This proved not to be the case. This lack of appreciation between the principles of mobile money and market specific practices continues to constrain the success of mobile money.

Furthermore, whilst exterior product features can be, and are copied easily, the management mechanisms underlying successful mobile money operation are only gradually being learned. The *Helix* Institute's Agent Network Accelerator project is designed to improve learning and documentation of these. Pilot testing remains as relevant to launching successful digital financial services today as it was for Safaricom in launching M-PESA.

Over The Counter Transactions – Liberation Or A Trap? – Part I

Graham A.N. Wright

The Cause For Concern

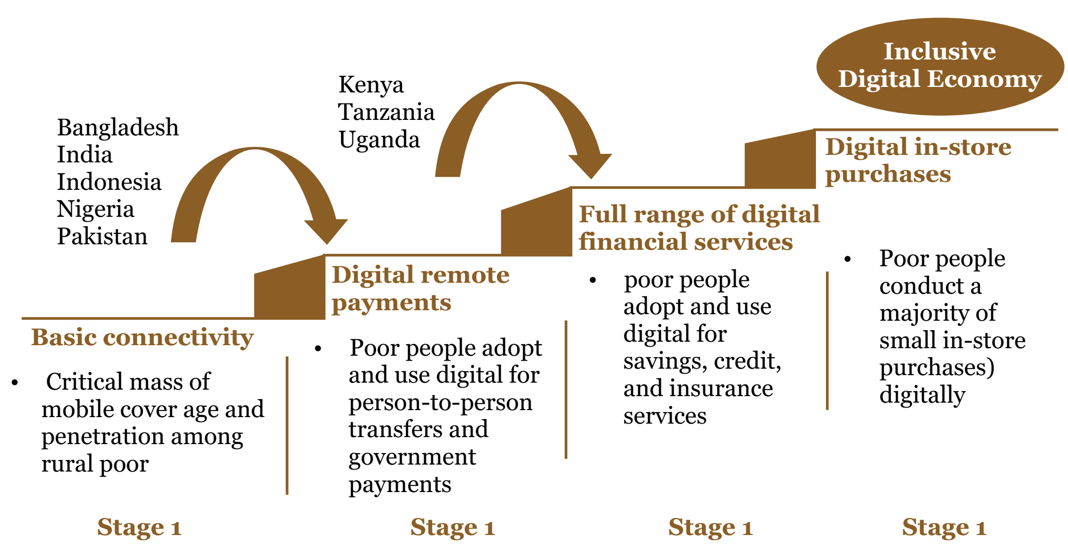
I am back obsessing about over the counter (OTC) transactions again. Before we dive in let's quickly define OTC transactions as they come in many forms in different markets – from the direct deposit by the agent into the end-user's wallet in Kenya to the transfer of money from one agent to another agent, with or without identification, in Pakistan and Bangladesh respectively. The common factor is that at least one end of the transaction is conducted without involving the wallet of the user - either the sender or the receiver.

There are clearly very good reasons for agents and customers, and even some go-to-market reasons that might entice providers to want an OTC service; but the long-term downsides for all, except agents, concern me greatly.

In their December 2012 paper "A Digital Pathway to Financial Inclusion", Dan Radcliffe and Rodger Voorhies of the Bill & Melinda Gates Foundation outlined how basic mobile connectivity and digital remote payments are the first two necessary steps towards an inclusive digital economy. I believe there is a very real risk that providers which leverage OTC transactions to reach massive scale will get caught in the OTC trap. They will find (and in many case have found) that:

- their services, and the customers using them, are entirely dependent on agents;
- very few users register and fewer use wallets; and as a result
- no eco system develops.

They, and their customers, will then be stuck in Stage 2, the payments only step of Radcliffe and Voorhies' stairway to an inclusive digital economy.



This is not the financial inclusion we are all seeking through digital financial services. Payment services are immensely valuable for the poor, no doubt – but access to payments does not result in what most people would define as "financial inclusion". And yet access to basic mobile money payments is already effectively being touted as "financial inclusion" (see box for one example of many). Once again, we are risking what a leading expert cited in Do the M-PESA Rails Contribute to Financial Inclusion? described as "low equilibrium financial inclusion". We have already seen how ineffectual it is to ask the poor to run the marathon out of poverty on one leg through the growing body of short-term RCT studies that suggest microcredit alone has limited impact. Countless studies, most notably The Portfolios of the Poor, have documented the poor's needs for a range of financial services encompassing savings, credit, payments and insurance. Offering the single leg of payments and asking the poor to run the marathon will have similarly limited results.

> **"According to Finscope Tanzania 2013 survey, a nationally representative study of consumers' perceptions on financial services and issues, the number of adults using financial services in the country has more than doubled from 27% to 57.4%, over the course of the last four years." – TanzaniaInvest**

The Root of the Problem?

Indeed it may be the lack of credible wallet-based product offerings that is driving the predominant use of OTC transactions in many countries. If providers are unable to build and rollout products that offer real value to customers, then registering a wallet may well be an unnecessary and time-consuming exercise, not just for the agent, but for the end user as well. The most obvious use of wallet-based services (for MNOs at least) after air time top-up is bill payment. So the limited use of these services by Kenyan adults (of whom 68% are registered users) according to Intermedia's Financial Inclusion Insights from September-October 2013, is surprising and alarming (see Table). The same survey noted that for all the publicity only 15% of active mobile money users had used M-Shwari. Clearly sign-up and use are very different things, as we had surmised when we wrote M-Shwari: Market Reactions and Potential Improvements.

Mobile Money - Specific Uses	Total
Send Money to Others	42%
Receive Money From Others	46%
Buy Airtime Top-Ups	48%
Pay School Fee	4.5%
Pay Medical Bill	1.0%
Pay Utility Bill	5.8%
Pay Government Bill (Tax, Fine, or Fee)	0.2

As Mike McCaffrey and Anastasia Mirzoyants concluded in their blog The Human Touch Required to Evolve Digital Finance, "After several years of development in the industry we do seem ready to make the leap to more sophisticated services, however, given the business models the telecoms have developed that encourage channel detachment, it might just be the banks – slow and steady – that invest correctly in the human touch that brings the needed trust."

Over The Counter Transactions – Liberation Or A Trap? Part II

Graham A.N. Wright

In the previous blog **Over The Counter Transactions – Liberation Or A Trap? (Part I)** I looked at why over the counter (OTC) transactions alone cannot deliver the digitally enabled financial inclusion many of us are working towards. A later blog in the series will examine the implications of OTC for providers and customers – many of which are negative. All of which begs the question ... why are OTC transactions so prevalent in so many markets?

The Growth of OTC

When M-PESA launched in Kenya, Safaricom made strenuous efforts to stamp out any form of OTC transactions. Agents found to be directly crediting the mobile money accounts of customers were penalised and even discontinued. M-PESA did this to protect its precious P2P revenue (which yields the lion's share of profit particularly at the start-up phase) and to maximise the use M-PESA wallets (which were the gateway to a growing range of additional payment services).

In Uganda and Tanzania MTN, Vodafone, Airtel and Tigo all sought to replicate Safaricom's approach and to eradicate, or at least minimise, OTC transactions. Despite this, the recent Agent Network Accelerator (ANA) surveys in these two countries suggest that OTC is growing – with 30% of agents in Uganda and 23% of agents in Tanzania admit to offering "money transfer" or OTC transactions. And a small sample survey of agents in peri-urban Kampala suggested that around 50% of their transactions were OTC.

In his excellent blog, "The Paradox of Calling Mobile Money 'Mobile' in Asia", Brad Jones highlights how the larger Asian deployments are all dependent to a greater or lesser extent on OTC transactions. Brad reports that 90% of WING's transactions in Cambodia, 70% of EasyPaisa's transactions in Pakistan and 50% of bKash's transactions in Bangladesh are OTC.

So What Is Driving This?

Providers: OTC transactions can kick-start providers' digital financial services (DFS), allowing them to achieve scale and transaction volume quickly, without the challenges and costs of incentivising agents to open wallets for customers. See Beware the OTC Trap.

Agents: In Bangladesh and Uganda agents charge customers an extra, unofficial amount for OTC transactions despite receiving commission from the providers. This means that the agent is earning twice (from the customer and the provider). In markets, such as urban India as well as Pakistan, where each agent is offering the services of many providers, the agents send the money using the provider that offers the best commission, rather than the provider preferred by the customer. Furthermore, OTC transactions are quick to perform, and agents do not have to spend their precious time registering wallets which may also eventually be used to dispense with their services to buy airtime and/or conduct transactions such as remittances and payments. OTC transactions are thus, in many cases, the lifeblood of agent networks – in the words of Brad Jones, *"Whilst all operators are keen to migrate customers to mobile wallets over time, the ability to reward their agent network with transaction volume and income from OTC transactions means that the agent network will continue to be far more important than the mobile channel in emerging markets in Asia for the next few years."*

Customers: The popularity of OTC transactions lies in the benefits they offer – particularly for the poorer segments of society. A recent study conducted by *MicroSave* in Bangladesh showed that 85% of the respondents who use mobile money had not registered their own accounts. The reasons for this were that people (42% of whom are illiterate in Bangladesh) find it difficult to navigate the transaction menu, which is either in formal Bengali or in English language, and thus prefer to take help from a trusted agent. The recent Bangladesh ANA study conducted by The *Helix*, highlights another important reason for OTC: people lack acceptable KYC documentation. OTC also offers some protection against inadvertently sending the money to the wrong number – the sender can call the receiver to confirm the money has been received before paying the agent. Some experts have suggested that customers prefer to remain unregistered and use OTC so that, in the absence of interoperable systems, they are not locked into using services from one provider.

Over The Counter Transactions – Liberation Or A Trap? Part III

Graham A.N. Wright

The first blog in this series **Over The Counter Transactions – Liberation Or A Trap? (Part I)** highlighted that over the counter (OTC) transactions alone cannot deliver the digitally enabled financial inclusion many of us are working towards. The second **Over The Counter Transactions – Liberation Or A Trap? (Part II)** noted that despite this OTC transactions have been growing rapidly and offer benefits for providers, customers and especially agents. This blog looks at the not inconsiderable draw backs of OTC-based operations for providers and customers … concluding that value proposition for agents means that they are unlikely to promote wallet-based alternatives, thus blocking perhaps the most important sales channel for these offerings.

So What's Not To Like About OTC?

Providers: While it is a short term expedient (see Beware the OTC Trap), OTC causes significant problems for providers. As highlighted in the customers' and agents' perspectives in Over The Counter Transactions – Liberation Or A Trap? (Part II), the freedom afforded by OTC-based systems means that there is no customer (or often times agent) loyalty. Indeed, in Pakistan, providers are now facing a situation where, in order to promote use of their system over those of their competitors, they are paying agents as much as 110% of the commission received from the customers making the transaction. Yes, you read that right, and I did not make one of my usual typos, *"110% of the commission received from the customers making the transaction"* … other providers find themselves having to offer incentive awards such as fridges, air conditioners and even trips to perform Haj to their high performing agents.

The lack of a wallet also limits options for providers to offer additional products and services. Absent wallets, providers are largely unable to develop the digital ecosystem, thus stranding them in a cash intense environment with the inevitable attendant liquidity management problems. Furthermore, OTC transactions reduce providers' income - *MicroSave* estimates that OTC transactions are cost the Ugandan providers around $220 million in lost revenue in 2013 (assuming that all transactions made OTC would have been made on a wallet-based P2P basis). And this amount is rising with the number of mobile money users. OTC transactions are also illegal under most central banks' regulations, and so providing the services remains a significant regulatory risk. And as providers in Pakistan and elsewhere have found out, once customers are used to OTC, it is very difficult to get them (or indeed agents) to register and use wallets.

> **"An OTC business can breakeven and yield modest margins, but it is vulnerable to getting stuck in a high-growth remittance phase, where it is difficult to improve overall profitability. In some cases, profitability may actually decrease with agent commission wars between different providers.**
>
> **Almazán Mireya and Nicolas Vonthron, "Mobile Money Profitability: A Digital Ecosystem to Drive Healthy Margins" , GSMA-Mobile Money for the Unbanked, November 2014.**

Agents: As highlighted above, agents benefit enormously from OTC transactions, which crown agents as the kings of "agent money" systems. There is little not to love about OTC for agents, with one important exception – they are more likely to fall victim to fraud when using their own phones to conduct transactions. See Survival of the Fittest: The Evolution of Frauds in Uganda's Mobile Money Market (Part-I) for a discussion of this.

Customers: OTC transactions are very often linked with agents charging customers additional fees above the "on the board" price. Furthermore OTC transactions raise more customer protection issues as they are more prone to fraud, and can be used to avoid KYC/AML requirements in environments where identification is not required. But, in many ways, the most dangerous aspect of the OTC trap is that it leaves customers only able to send remittances and to make basic payments. Trapped in a low equilibrium "financial inclusion" without access to the savings, credit or insurance services that you and I depend on, and take for granted.

So What To Do?

We should examine this in the context of two broad market segments – those that are functionally literate and those that are not. For those that are functionally literate, providers should apply Safaricom's approach and insist that all users register and use the wallets that will eventually allow them to access a much broader range of services (thus yielding higher revenues for the providers).

Regulators need to introduce tiered KYC requirements that allow poor people to register (and start to use) wallets easily and Governments need to route all G2P payments through digital channels – whether cards or mobile wallets.

For those that are illiterate, I suspect that we need to look much more carefully at two options immediately, and another in the long run. Right now we need to look again at whether USSD strings (of numbers of course) are in fact relatively easy (or at least feasible) for illiterate people to use. When *MicroSave* looked at this briefly in India in 2010, we concluded that this indeed the case with Eko's carefully simplified system. We also need to see if advances in voice recognition technology will allow the use of interactive voice recognition to allow illiterate people to navigate transaction menus. When this was tried in India 2-3 years ago it was not tremendously successful – the ambient noises in crowded housing or markets made it very frustrating and error-prone. In the future, as smart phones are rolled out and allow better graphic user interfaces, we need to look at using these to guide illiterate people to make transactions.

And, in the interim of course, we should not forget that in many cases trusted agents (or trusted relatives) can (and indeed do) help illiterate customers use their wallets to make transactions. The agent navigates the menu until the transaction is to be confirmed and the PIN is to be entered ... whereupon he hands the customer's phone back to allow the customer to confirm and complete the transaction.

Of course, all of this also requires providers to develop and rollout products that add real value to the end customers, thus pulling them to register and set up their own wallets. Without real customer value proposition, the lure of the OTC trap will continue.

Mobile Money - Questions That Your Clients Will Ask You

Akhand Tiwari and
Krishna U.M. Thacker

INTRODUCTION

MicroSave is currently involved with a large number of mobile money deployments across Africa, Asia and Asia-pacific. As a part of its involvement, *MicroSave* team regularly interacts with numerous customers and agents. A deep understanding of customers and their needs helps *MicroSave* to validate and support recommendations to its clients on both strategic and operational issues.

This note is a summary of some of the key questions that usually surface during customer interactions regarding the use of e- or m-banking platforms. The key objective of the note is to serve as a reference for institutions engaged in e/m-banking for their marketing plan design and promotion strategies. The questions are categorised based on features of product design. These questions, simple but important, can help institutions fine-tune their product, processes and, most importantly, their communication strategy.

Product

Where does the money go when I deposit it in the machine?

How does the money come out of the machine?

Where is the account?

While these are obvious questions, a proper response is necessary; else, there remains a doubt and ultimately affects uptake and use. A document that clearly describes the features of products, and the processes involved will be an essential reference for employees, clients and promoters. Promotion can include using opinion leaders, a mix of direct marketing like street plays etc., and agent incentives, supplemented by above the line marketing to help build awareness and trust.

Do I earn interest on this account?

The inferred thought is important: Customers are asking, Is this account same as a bank account where people earn interest?

Clients' understanding of the idea of electronic money is key, as physical appearance of cash being taken out or being deposited in a branch or ATM is the existing experience and/or mind-set.
Developing trust in the idea of operating an account using local shopkeepers as agents, and without the bank branch infrastructure visible is a tough challenge to address.

Product

Can one withdraw after a day of depositing money?

There will be concerns about the liquidity of the account and ability to withdraw at will in the same way as a typical bank account.

Does the card need replacement after few days? What if my card/mobile is stolen or lost?

Customers are often concerned about damaging or losing the card (be it SIM, magnetic strip or smart card)

Is there a minimum balance requirement?

Customers will compare this with the bank accounts they know. They will be asking: Does this offer the same benefits? What is added advantage of this kind of account?

Price

Is there a charge to access these services?

Any shortcoming in the clear and transparent communication of pricing may lead to a huge reputation loss and cause a slump in uptake and use. Agents should be trained to explain the reasons for charges.

Place

- Where the machine will be installed- market, shop, open space?
- Will I have to withdraw/ deposit money at the place where I opened the account?

Customers' current banking experience is limited to bank branches, defined physical structures. The concept of banking outside branch is new. The location of agent must be easy to reach, and the agent must offer a trustworthy, friendly, customer responsive and secure banking experience.

Process

- What happens to the savings when machine is lost?
- How will one access account if card is lost or broken; mobile PIN is forgotten
- Are my fingerprints same as my siblings? Are they same as of twin brother?
- Can one withdraw more than the balance in his accounts?
- What happens to my money if I die?

The new technology and channel must address the concerns over card damage, or loss, and/or loss or breakage of the mobile or POS device etc. Customers want to be assured that it is indeed backed by a bank. The issue arises because with traditional savings systems in case passbook is lost, it can be updated again using bank records.

At the same time, the solution has to ensure that there are zero (or minimal) chances for the client to lose money.

People

- How can I trust an agent?
- What happens when agent runs away with the money?
- How I would make sure agents' transactions are correct?

It is difficult to replace bank staff with next-door shopkeeper. A dominant factor is whether there is trust in the shopkeeper to perform banking transactions, especially savings ... and whether he/she is capable (well enough educated/trained) to do so. Customers also need to be confident in the security measures in place. Marketing and communications must address concerns on security and correct transactions.

Physical Evidence

- How do I know I have an account?
- How can I recognise an agent?
- How do I know my money has been credited to my account?

Credible evidence of the existence of the bank, the bank account, the agent and the transaction is essential. While this relates to trust, it forms the basis of future use of e- or m- banking as well. These set of questions are perhaps among the first five questions that arise. Facilities to check balances or receive mini statements help create trust.

PositIonIng

- How will I know more about the product, processes?
- Why should I open an account through this channel?

The product should be positioned as an easily accessible and yet secure, bank account or payment solution, using technological advances to offer unparalleled convenience.

The above, by no means, is an exhaustive list. The idea is to provide those involved in product design and communication related to e- and m-banking solutions with a starting point. Institutions should also consider developing a FAQ (for customers and employees as well) note to answer such questions clearly. This can be used:

1. During staff and agent training;
2. To help develop the communication strategy; and
3. As part of the marketing/ promotional material.

In Our Digital Financial Service We Trust?

Graham A.N. Wright

"We keep hearing mobile money users complain about unstable network, delayed service, missing money and many other negative comments about mobile money. Why then should we register for these services?"

After years of preoccupation with over-coming the core challenges of establishing large-scale, sustainable digital finance (largely mobile money) systems in developing countries, we are seeing growing attention to consumer protection. High time too. But actually many of the key consumer protection issues relate to basic customer service – and appear to be creating real problems for providers by undermining trust in their digital financial services (DFS) and thus reducing both uptake and usage.

Fraud: To be honest *MicroSave*'s initial motivation to push consumer protection for DFS was a fear that a high profile DFS provider would be subjected to widespread fraud at the agent, or even worse, customer level. And that a regulatory clamp down, similar to what we saw in Andhra Pradesh, would follow. To date this does not seem to have happened, although this is not for want of fraudsters trying, and remains still a distinct possibility. The only major DFS fraud that is in the public domain is the one committed by employees MTN-Uganda through which MTN lost $3.4 million in 2012 … but industry insiders speak of many more such "inside jobs" that have been swept under the carpet.

But when *MicroSave* conducted a review of consumer concerns and issues in Bangladesh, Philippines and Uganda for CGAP, fraud was not a major issue for DFS users in any of these markets; and only a relatively minor one in Uganda where it is so prevalent. Instead, DFS customers were above all concerned about service downtime, agent illiquidity, their fear of sending money to the wrong number and the charging of unauthorised fees by agents.

These concerns were have a significant negative impact on the customer experience, costing them money and, in some cases increasing their exposure to frauds by agents. They are also negatively impact customer registration and usage.

Service downtime: As with all systems, including those used to run ATMs across the globe, there are times when the service is down and unavailable for a while. This can be as a result of systems being down or (where several institutions are involved) when one system is unable to get access to another to complete a transaction. Irrespective of the source of the problem, as a result of what customers call "service downtime", there are delays in effecting cash-in/cash-out transactions, which denies them access to their own money, a serious problem for any financial service. Service downtime also leads to another important risk: where people trust the agent, they leave their money with him to conduct the transaction as and when the network improves. This leaves scope for the agent not to complete the transaction when the network is back up. In India, *MicroSave* has seen at least one instance where an agent took cash deposits for four days, explaining that the system was down and he would complete the transaction as soon as it was back up again … before fleeing with in excess of $2,500.

Agent illiquidity also has parallels in ATM systems – we have all stood, frustrated, in front of an ATM that has run out of cash to dispense. It is common for DFS customers to run into agents without sufficient liquidity. As a result, customers are either denied transactions and/or are required to visit two/three agents to send or receive money. While notably less common in Bangladesh, The *Helix* 2013 Uganda ANA report highlights that (on average) three transactions are denied each day per agent due to lack of float. This is equivalent to 10% average daily transactions being denied across the country. In the Philippines, the problem manifests in the form of a large number of dormant agents without any liquidity at all. This causes problems for customers, who have to search for another agent and face delays in transactions. It is reported that by 2013 there were a total of 24,000 registered agents; however, it is estimated that only 10,000 agents are active.

The f**ear of sending money to the wrong number** is prevalent amongst DFS customers in both Uganda and Bangladesh. There is a clear understanding that money sent to the wrong recipient as a result of putting in the wrong number is rarely recovered from the lucky beneficiary. Indeed it is clear that this is one of the (many) drivers of the extensive market for over the counter (OTC) transactions, with all the negative implications for the long term profitability of DFS and for financial inclusion. Agents are trusted to be able to effect the transactions accurately … and besides, the sender can call the recipient to confirm that they have received the money before handing their money to the agent.

Charging unauthorised fees by agents is common across both Uganda and Bangladesh – especially for OTC transactions. There is a growing, but no means universal, acceptance that agents will charge a bit extra to conduct the transaction for his/her clients. In the Philippines, under the regulations, different agents are permitted to charge between 1-5% depending on their agreement with the service providers. This means that different agents charge different fees – typically according to how remote the agent's location is. This gives rise to the relatively widespread perception that some agents are overcharging.

All these issues and concerns undermine customers' trust in DFS systems. While customers are not being defrauded of enormous amounts of money, the perceived unreliability of systems, the uncertainty about whether agents will have the liquidity to conduct transactions and the amount they will charge for doing so, as well as worries about whether money remitted might be lost, all reduce confidence.

Why it matters: Both Uganda and Bangladesh continue to see impressive growth in the number of mobile money users and transactions. But (according to the Intermedia surveys) only 29% of Ugandan and 3% of Bangladesh adults have a registered mobile money account – and not all of these are active. Driving registration, and then regular use, at scale remains one of the key challenges facing the rollout of digital financial services in Africa, Asia and Latin America. Trust is key to any the uptake of any financial system, and, because of its ground-breaking nature, this is particularly true for DFS. It is clear that there are immediate potential wins for DFS providers who address consumer protection issues.

> **"Poor quality of service from telecom operators appears to be holding back the mobile money sector. The most common transaction problem faced by active account holders has been for their agent's mobile network to be down." - DFS Respondent Intermedia's Financial Inclusion Insights Uganda Study: April 2014**

In a recent study on the customer journey for UNCDF's Mobile Money for the Poor (MM4P) in Uganda, *MicroSave* examined the barriers to non-users starting to use mobile money. Non-users in urban areas cited 1. unstable network; 2. high tariff charges and 3. unreliable customer care for issue resolution as their top 3 barriers. The rural non users ranked 1. unstable network; 2. unreliable customer care and 3. lack of documents for know your customer (KYC) as their top 3 barriers. It is important to note that these barriers are attributed by non-users as a result of word of mouth from users

However, addressing these issues is challenging for providers, as discussed in the next blog in this series (See **"Solving Customer Service Issues"**). Assessing the cost-benefits of doing so should be a priority for providers. But ultimately, it is essential that these issues are addressed before questions about accountability for, and ownership of, these risks become too persistent and pronounced, and regulators step in to enforce many of the existing laws, or add new ones.

Solving Customer Service Issues in Digital Finance – Can Do, Must Do

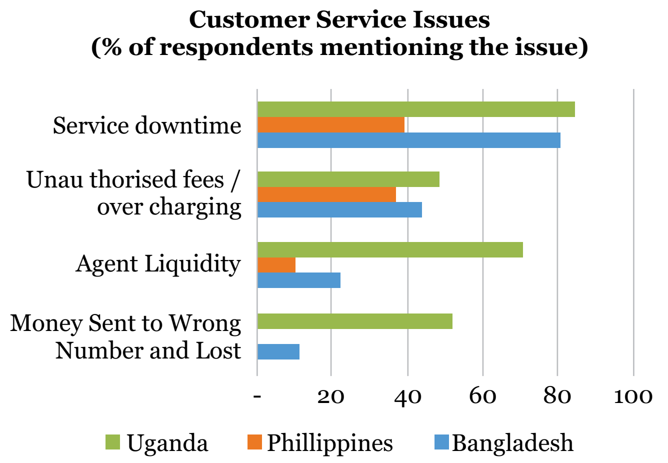
Graham A.N. Wright

There is a growing interest in, and appreciation of the importance of, customer service in digital financial services (DFS), for reasons explained highlighted in the previous blog in this series (See **"In Our Digital Financial Service We Trust?"**). GSMA recently released a code of conduct for mobile money service providers. CGAP is also playing a leadership role to understand and promote customer risk mitigation for DFS. As part of this, CGAP commissioned *MicroSave* to examine customer risk mitigation issues in three countries (Bangladesh, Philippines and Uganda). The key customer risk mitigation issues turned out to be core customer service issues that are affecting providers' business – see CGAP's report.

As can be seen from the graph below, three issues were common to all three countries, and another to just Bangladesh and the Uganda. And in these two markets also customers struggled to get their problems addressed through customer care.

These problems are clearly having negative impact on both uptake and usage. Non-users and users alike look at the customer experience and worry about how reliable and trust-worthy digital financial services really are. The problems are also well known to providers, and so in this blog we examine why they often struggle to address and resolve these challenges – even when they are so clearly negatively affecting their business.

Service downtime, or the inability to access the system, appears to be a purely technological problem that should be relatively easy for providers to address. However, there are several challenges that underlie this and make it a much more complex problem than it appears.



First, in many markets DFS require the systems of multiple institutions (mobile network operators [MNOs], banks and 3rd party agent managers) to talk to one another. In these markets it is often difficult to pin point where the bottlenecks are occurring, and with regulatory authorities taking an increasing interest in system availability, institutions are unlikely to admit when their systems are causing the downtime. Unsurprisingly, *MicroSave* has seen several markets where multiple players are blaming one another for service downtime.

Second, if one or more of the institutions in the value chain does not receive adequate compensation for providing the services, they are unlikely to invest additional bandwidth to resolve the problem. Indeed, in some cases, players in the value chain may simply ration bandwidth availability on their systems. In Bangladesh a typical cash out transaction has five to six stages. If the customer is not able to complete all five to six stages within the 90 second time limit allocated by MNOs, the USSD session lapses and the transaction does not go through. Customers perceive this as a service downtime, however, technically it happens because of the USSD session lapse.

Third, as Fionán McGrath & Susie Lonie noted in "Platforms for Successful Mobile Money Services", the first wave of providers, unsure of the likely returns from mobile money, underinvested in the systems to manage DFS. Providers not meeting their return on investment targets, or at least clearly on the way to doing so, are unlikely to sanction additional capital funds to upgrade their systems. But those that do should, if MTN-Uganda and Ericsson are to be believed, be able to make very significant improvements in the availability of their systems.

Finally, MNOs in Uganda note that agents without liquidity prefer to mollify their customers by telling them that "the system is down" rather than having to explain that they cannot conduct the transaction for want of float. This may be common in other markets too. Without regular and rigorous mystery shopping providers are likely to struggle to counter this problem.

Charging of unauthorised fees/over-charging is quite common but occurs for a wide variety of reasons. In the Philippines different agents charge different commission rates depending on the agreement they have reached with the provider. This is designed to allow rates to be competitively determined according market conditions – and thus permit those agents operating in hard-to-reach and thus service remote areas to charge more than those in urban areas. The different commission rates (which can theoretically range from 1-5%, but are typically in the 2-3% range) leave many consumers with the impression that some agents are over-charging. Providers wishing to address this would have to conduct an extensive above the line communications campaign with a complex core message.

In Bangladesh and Uganda, as in many markets *MicroSave* has observed, agents (again particularly those operating in remote rural areas where they have a quasi-monopoly) often charge additional unauthorised fees on top of the "on-the-board" rate (which is often not displayed anyway). This practice is especially common, and indeed accepted by many customers, for over the counter (OTC) transactions, where the agent is seen to provide a valuable service and to reduce risk by conducting the transaction. Addressing this, particularly in the context of agents' incentives to foster OTC transactions, is likely to be a real challenge for providers. Again mystery shoppers and regular monitoring of agents by providers' staff or third parties hired to do so, as well as a quality customer care call centre can address this challenge.

Agent liquidity is consistently the "hot topic" at The *Helix* trainings on agent network management – all types and sizes of agent network managers seem to struggle with this. As a result, the discussions and demonstrations of PEP's float management system and the field trips to see PEP's agents are extremely popular. Bangladeshi providers, led by bKash, have some of the most successful and sophisticated agent liquidity management systems that involve the delivery of liquidity to agents on a daily basis. These systems have been designed and implemented in the context of Bangladesh's very high agent and population density, but could potentially be replicated in urban areas of most countries. First Rand Bank's agent management system in Mumbai combines elements of these with credit for agents to allow them to hold higher levels of liquidity. For more rural areas, providers will need to look at new approaches to helping agents predict their liquidity needs better.

The fear, realised or not, of **losing money by sending it to the wrong number** is very real in both Uganda and Bangladesh. Indeed this fear is encouraging people to ask agents to conduct transactions for them – and thus an important driver of the growth of OTC transactions. For SMS-based systems this problem can be addressed relatively easily by linking the sender's address book to the mobile money system (implemented in Kenya by M-PESA), so that the recipient's name is displayed for each transaction. For USSD-based systems there at least three potential solutions, all of which present different challenges. The first (implemented in Uganda by Airtel) is to use the registered customer base to display the recipient's name once the phone number is entered. This, of course, requires a comprehensive and accurate database of all customers, and (where there is inter-operability) will not work for customers registered on other providers' systems. The second (implemented in Bangladesh by DBBL and GrameenPhone's MobiCash) is to implement a check-digit system under which every mobile number is assigned an additional digit based on an algorithm. As a result, if a wrong number is punched in, the transaction does not go through. The third, requiring the sender to enter the recipient's number twice, prolongs the transaction and thus both undermines the customer experience and would aggravate the impact of any limitation in the length of the USSD session allocated to each transaction (**see Service Downtime** above).

Finally, the study highlighted that providers' **customer recourse** – both through call centres and at offices – was viewed as difficult to access, poorly trained and often unable to resolve problems. Since agent illiquidity and the charging of additional unauthorised fees are increasingly accepted as the norm in these markets, customers with substantive problems most commonly call customer care when they have transferred money to the wrong number. DFS providers have consistently struggled with repudiation (see "Fraud in Mobile Financial Services" page 23), and have typically adopted a policy of "repudiation only with consent of both parties". As a result customer care typically can do little to help customers resolve this issue. However, clearly defined, and well communicated, policies on repudiation, as well as free calls to better trained customer care centres can do much to improve this.

It is clear that these customer service issues need to be high on the agenda of providers intent on achieving high levels of registered uptake and usage of DFS (See "In Our Digital Financial Service We Trust?" blog). It is also clear that responding to the most common challenges is no easy matter, even for the most committed provider. Improving customer service, and thus the customer experience, will require investment in systems, communication, monitoring of agents and in the call centres that support customer service. The CGAP Focus Note "Doing Digital Finance Right: The Case for Stronger Customer Risk Mitigation" has a range of examples of solutions implemented across the globe. The investment in customer service is necessary, to establish a credible platform for both enrolling significantly more customers (as has been done in Kenya for example) and to get DFS customers to access and use a wide range of products. In the long run basic payment services, particularly when delivered as OTC services, will limit the profitability of DFS for providers – see GSMA MMU's Mobile Money Profitability: A Digital EcoSystem To Drive Healthy Margins. So quite apart from the risk of the regulators turning their rhetoric (and, in many cases, existing regulations) into action, providers focused on the long-term profitability of their services need to address these core customer service issues sooner rather than later.

Making Digital Money More Relevant, More Often – Part 1

Ignacio Mas and
Vartika Shukla

Who are the Customers?

Adoption of digital financial services are growing year on year, across most developing country markets. GSMA, in its 2014 State of the Industry Report, states that mobile money is now present in 89 out of 135 markets, and in 16 countries the number of mobile money accounts exceeds the number of bank accounts.

However, the GSMA also reports that only a third of mobile money accounts are active. Most service providers accept that a vast proportion of accounts have zero or negligible balances. India's ambitious PMJDY programme, for instance, reports that approx. 40 per cent of the accounts opened under the programme have zero balances.

The question we often hear service providers ask is: *"How do I make customers use my product/service more?"*

The fundamental question that seems to be ignored is, *"How do we make mobile money more inclusive and relevant in the daily lives of people?"* Through this series of blogs, we attempt to answer this question.

Part 1 of the blog series explores the profile of the mass market customer (mainly low income group) as a necessary first step in answering this question.

The mass market has a few typical characteristics: a large percentage of people do not have a regular fixed income; most do not have a defined (predictable) income flow. Because of the uncertainty which comes along with a variable income, people employ various methods to manage and organise their money.

We can broadly classify people into the following three segments:

Three customer stages / segments

	SURVIVE	LIVE	COMFORT
Regularity of Income	**Unpredictable/ uneven income**	**Variable income**	**Regular Income**
What they seek	Meeting needs	Satisfying wants	More convenience
Key money concern	More stable **income**	Planned **expenditures**	Building **assets**
Time horizon	Today	Tomorrow	Next generation (legacy)
Key money activity	Searching for liquidity	Managing available liquidity	Managing wealth
Decision frequency	**Constant -** every time cash is in hand	**Monthly** budgeting cycles	**Occasional** Financial planning

People in the '*Survive*' category have unpredictable or uneven income. They are more concerned about meeting day-to-day needs. Their money matters usually have a very short time horizon since their objective is to ensure stability of income. They are constantly searching for liquidity and have to plan for what to do with money every time they receive it.

In the '*Live*' segment, people have moved beyond daily survival and are looking at satisfying wants. The focus of financial behaviour shifts from fulfilling necessities to meeting aspirations and planned expenses. Income, even though much less uncertain may still be variable. They need to manage their available liquidity in order to meet their aspirations and are planning for these using monthly budgets.

The '*Comfort*' segment consists largely of people with regular income. They seek to have more convenience in their lives and are building assets, particularly for their next generation. They do occasional financial planning to ensure that resources are directed to asset acquisition in order to keep their legacy secure.

Ideally, digital money should be useful for all the three segments. However, there may be less of a need to focus on the '*Comfort*' segment as they already have suitable solutions in the market targeted at them. The comfort segment can manage their finances with traditional financial products and services due to the predictability of their income. The mass market, however, largely consists of the '*Survive*' and '*Live*' segments where incomes are unpredictable or, at the very least, variable. Mobile money offerings ought to cater to the complex methods, which people in the '*Survive*' and '*Live*' segments employ to manage their finances.

Below, we profile a customer, who mobile money service providers should be able to target if they are to make mobile money relevant for the mass market.

An example of a potential customer profile:
Ram Mohan is a resident of suburban Noida, India. He is married (to Seema) and has three children. Ram Mohan attended secondary school after which he started working full time. His two younger children attend a local school while the eldest is involved in cloth embroidery work. His wife works as a household help to support the family. She also takes up some sewing jobs in the evening. Ram sells fruits and vegetables for a living. He also has a small farm back in his village. He visits his village once in 2-3 months to take care of the farming needs. None of the sources offer the household a steady income.

He is a part of an informal savings group (comprised of vendors from the locality where he runs his shop). Seema is a customer of a MFI operating in the area. She recieves small loans from the MFI.

Ram Mohan also owns 5 chickens and a goat. Seema often tries to save small amounts of money to buy gold jewellery. She believes that it is an excellent investment. Ram keeps a part of his daily earnings with a supplier of FMCG goods who is based near his house. This allows him to keep some of his money at a distance, thus helping him save up for a bigger amount which is needed from time to time for paying the school fees of his children.

Ram Mohan is a smartphone user and uses data services frequently. He is comfortable in using his smartphone and has an active data connection. His children access social media applications including Facebook and WhatsApp, and use the phone for gaming (Candy Crush Saga) and for offline entertainment purposes (music, movies, video clips) after getting downloads from a neighbourhood shop.

Ram and Seema often discuss the ways by which they can achieve some stability in their income and expenditure. For now, they think that they need to continue to patch together various income sources to enable this. The diverse income sources coupled with the safety net of friends and families can help the family sail through any financial shocks that they might be faced with.

Ram Mohan is a good representative of the mass-market customer. He employs a variety of mechanisms to meet his financial needs. He is also aspirational, and importantly, has access to a smartphone. If mobile money is to be relevant to Ram Mohan, it should enable him to shape his finances in a personalised way by representing the complex ways in which he manages his money at present, using tools that are easily available at his disposal.

In part 2 of the series, we will explore in more detail the money management mechanisms used by mass-market customers.

Making Digital Financial Services Relevant – Part 2

Denny George and
Ignacio Mas

How do People Manage their Money?

In part 1 of this blog series we looked at the customer profile for digital financial services. In this blog, we explore the mechanisms used by customers for managing money and the key drivers for adoption of these mechanisms. This blog post borrows quite heavily from Money Resolutions, A Sketch Book and other publications by Ignacio Mas. We encourage readers to go through Ignacio's website for a more detailed explanation of the ideas illustrated in this blog.

If we want to make digital financial services relevant to the mass market, there is a need to understand their (people's) behaviour and the motivations behind that behaviour.

With regard to money, there are three key issues that people are faced with, especially when they have low and irregular incomes.

- ***Where will my next $ come from?*** – People are often scrambling for newer sources of income, which creates a preference to find and work on multiple jobs / ventures.
- ***How can I keep on....?*** – Since income is irregular, there is a need for structuring available money in order to manage expenses.
- ***What if...?*** – People need mechanisms which help them tide over periods of adversity. For instance, family and social circles often act as a cushion when there is an urgent need for money, say, a family member's hospitalisation.

These translate into the gaps people are constantly trying to cover. Gaps are hard to manage when uncertainty with regard to income and expenditure is significant.

The constant demand for expenditure (not savings, as is normally believed) gives rise to a need for maintaining discipline with regard to the financial practices of this customer segment. However, discipline is **NOT** the only goal or concern. There is also a great need to retain flexibility to be able to buffer income shortfalls or to deal with unforeseen expenditures. People can't afford to segment their portfolio to meet the dual needs of discipline (e.g. time deposit, retirement plan) and flexibility (e.g. cash in the mattress, demand deposit). Every dollar would ideally deliver both: discipline when you don't really need the dollar, flexibility when you do. ***How can a dollar do both?***

In a monetary context, discipline needs to occur at two levels:

- *Discipline in:* the discipline that I need to set money aside – to save, repay a debt, or support someone else. This is reinforced with prods, such as reminders, prompts, and rules.
- *Discipline out:* the discipline that I need to stay the course once I have set money aside (i.e. to keep it saved). This is reinforced with locks, such as a waiting period, indivisibility, peer pressure, etc.
- *Flexibility to break:* If there is an urgent need, I need to be able to dip into the money I have saved up. This is enabled by mechanisms like money guards where people keep money with a trusted and respected member of the social circle, so that they can ask for the money back if there is an emergency, but not for routine or unnecessary spending.

In classical financial jargon, budgeting can at least theoretically help establish discipline. Budgeting sets priorities, and commits you to pre-defined routines. But budgeting may be a difficult task if you are poor and:

- Your income is unpredictable or volatile (what do you budget against?)
- You face risks that can easily overwhelm your means and assets (ill-health, bad income patch)
- You are under-educated and not very numerate (budgeting is an abstraction you cannot grasp, or cannot easily implement).

Budgeting works for people with predictable incomes. ***But, how can you budget when you cannot be sure of what you are budgeting against?***

People often need a more flexible system that allows them to balance their need for flexibility with the desire for self-discipline. They need different tools that help them be more deliberate in how they go about building self-discipline and flexibility. They organise their money matters in a way that helps them make small, daily decisions easily. There are two intertwined approaches:

Hierarchies: establishing a pecking order, which acts as a decision tree	**Routines:** establishing a set of defaults, which act as a benchmark of behaviours
• What kind of expenditures to prioritise? • Which income sources are more important? • Which savings can be more easily raided if a need or want comes up? • Which assets are more easily pawn-able or sellable in case of need? • Which debts are to be repaid first? • Which relationships should be asked for help first in case of need? • Which relationships are to be helped first, if they ask for it?	• Spending routines, e.g. on how much to spend on food, how often to have a family day out, target spend on the electricity bill. • "Shaping" income to coincide more with spending routines, e.g. by buying a cow that produces daily milk, if you are a seasonal income earner; or turning small daily income into a monthly lump sum or windfall, if you are a day labourer. • Recurrent savings behaviours, e.g. participating in a Beesi or Chit (ROSCAs[1]). • Buying bigger assets on credit, which forces you to commit to a certain repayment pattern. • Engaging in regular social activities, which build up your social reputation

To a certain extent, some of these hierarchies and routines are established through mechanisms which help automate these decisions. This is often done by applying purely psychological prods and locks on money. By thinking of money in particular ways, people reinforce or refrain from engaging in certain behaviours in a way that maintains discipline. And yet those thoughts can allow for certain outs that justify an alternative behaviour (such as dis-saving or spending money) under some circumstances. How those thoughts play out in people's mind, i.e. the

[1] A group of individuals that fill the role of an informal financial institution through repeated contributions and withdrawals to and from a common fund. Members pool their money into a common fund, generally structured around monthly contributions, and money is withdrawn from it as a lump sum by a single member at the beginning of each cycle. This occurs for as long as the group exists.

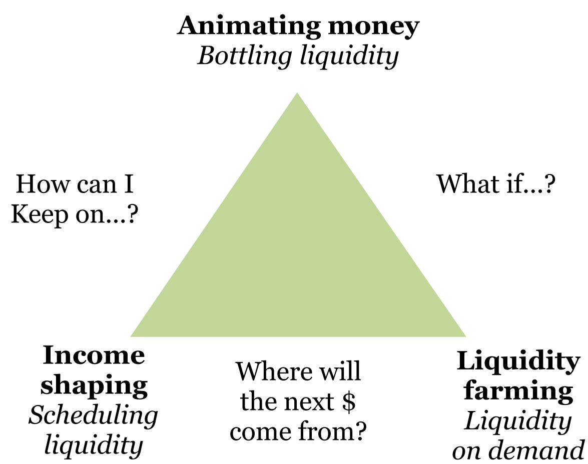
story that they assign to that money, is what allows them to think of it as discipline money and flexibility money – both at the same time.

These mental prods and locks are often reinforced by placing the money in an instrument that imposes additional prods and locks – like placing it in a box under a (literal) key or buying a recurring deposit. These instruments then in turn reinforce people's ideas of what that money is about.

This idea of money having a story that incorporates prods and locks is not restricted to amounts that people have (i.e. savings, assets). It also applies to amounts that they owe (i.e. debts), or potential money (e.g. relationships that they have and could ask for money from).

People employ coping mechanisms for creating these routines and hierarchies. These include animating money, income shaping, and liquidity farming.

Coping Mechanisms used for Managing Money Affairs



The figure outlines three primary coping strategies people adopt to deal with their money related worries and inherent contradictions involved in thinking about money.

Animating money is the idea of separating money based on a hierarchy of money classes. There might be a goal or a gap these classes of money are trying to address. However, it is very important to understand that many of the tasks defined by people might be fuzzy. For example, there might be a jar of money I've kept aside to buy a cow, but if the child is sick, I'll dip into that jar to meet the more urgent or immediate need. These classes are not constant - they vary significantly across people and even the same person may change his/her categorization over time.

Liquidity farming expresses the social role of money. People depend on friends and family to smoothen their finances. They give and receive gifts and loans from them very frequently. This relationship makes upholding social reputation very important. While banks have their methods of scoring, people have their own scoring methods and parameters. These methods take into account the reputation of the person, likelihood of them being of help in time of a financial crisis, size of their network, etc. Financial commitments across the social network can take different forms - they can vouch for each other, guarantee for each other, or give loans to each other.

People want to build their social capital by fulfilling their social responsibilities. The built up social capital is an asset for people since it acts as a safety net during times of need. Social responsibilities can expand or contract based on their level of financial success. The figure provides an example for the circles of responsibility that a migrant might have. The circles expand and contract based on financial position of the person. The extent of responsibility for the person will expand beyond his/her immediate circle as a certain level of perceived financial success is reached.

This can continue into multiple outer circles of responsibility. At the same time, these circles may contract when the financial capability of the person goes down. The net result is that even during periods of surplus, due to the expanded social circles, people often do not have '*excess*' money. People contribute to their social circles when opportunities arise. The social circle of the person, in turn, offers a safety net for financial needs. This constant movement of money from and to the social circles of a person is liquidity farming, where the person is creating and nourishing his social relationships with a view to leverage them for any perceived future need.

Income shaping strives to ensure that people have access to money when they need it. People often prefer a more predictable and stable income to larger income, often going to the extent of engaging in multiple jobs to do so. People care about the size, time profile and predictability of income. It is important that money should be there when there is a need for money. In an ideal world, for them, income and expenditure should match and success is about establishing regularity in expenses. Introducing stability in this aspect is often equated to financial success.

Digital financial service providers often make the mistake of assuming that the solutions they offer exist in a vacuum. The reality is that any solution intended for the mass market will be co-opted or adapted to reflect the current behaviour and motivations for that behaviour.

Service providers need to ensure that their solutions enable an extension of people's physical world – the mechanisms they use and the drivers which lead to the use of these mechanisms – into a digital format.

The final part of the blog series will examine how providers can potentially tap into these factors to ensure that their offerings are relevant and useful for the mass market.

Making Digital Financial Services Relevant – Part 3

Anil Gupta, Ignacio Mas and Anupam Varghese

Some Design Ideas and Principles to Make Digital Financial Services Relevant

Across the globe, there is an exponential growth in the adoption of technology and digital tools. Technology enabled advancements including smartphones, social media adoption and data usage are increasingly penetrating the mass market, in India as elsewhere. This is further accentuated by the ever-declining costs of smartphones and data prices. Given the limited bank infrastructure available in developing countries, embracing digital provides a huge opportunity to improve financial access for the mass market.

We believe that **increase in smartphone penetration** will be a significant game changer in the financial inclusion landscape. Smartphones offer flexible, user-friendly interfaces with graphical icons, touch screens and soft keys which facilitate intuitive usage; provide extensibility through NFC/Bluetooth to link up smartphones to scanners, printers, card readers, POS etc.; and offer low incremental communication cost through data plans. For service providers, it offers an opportunity to be independent of telecom organizations and enable more efficient ways of data capture, providing for richer, more frequent customer interactions.

There are lessons from the digital world and the explosion of broader Internet trends which we think largely apply to the financial services industry as well.

- Digital market places and match-making applications are increasingly substituting intermediaries (e.g.: Uber). For example, financial institutions can think beyond promoting the institution's own products and services to evolving into digital marketplaces where products and services from a variety of service providers are available and peer-to peer-transactions are facilitated.
- Social networks are increasingly digitized and service providers are beginning to tap into these digital networks to promote adoption and usage of their products and services. For instance, social networks could be used to understand a person's financial capabilities and to enable social guarantees for access to credit.
- User-generated content is increasing the interactivity of people with products and services they use (e.g.: liking). People need products and services that can be customised to their needs by themselves to suit their context.

While there seems to be a sizeable opportunity to leverage these new developments to further the goal of increasing financial access, not many service providers have started exploring this yet. Most service providers have focussed on developing solutions catering to the low hanging fruit (e.g.: domestic remittances, bill payments, online purchases) which largely focus on the higher-middle income customers. Service providers have focussed on specific anchor products like domestic remittances or airtime top-ups which are not necessarily central to, or sufficiently transformative to the daily financial lives of people.

None of the current wallet issuers have yet developed solutions which appeal to the mass market. A good example is mobile money accounts in India. Intermedia, in its report on financial inclusion in India dated July 2015, estimates that only 0.2% of Indians use a mobile money account. This is despite heavy marketing and promotion efforts by service providers.

Key Principles to Follow While Catering to the Mass Market

People think about money in an instinctive, story-based manner and transact in the physical world primarily using informal systems. Financial inclusion is normally believed to imply a double shift: towards a more deliberate and quantifiable way of thinking about money as well as to the execution of transactions through digital channels using formal mechanisms.

Too often, the approach is to seek to move people on both fronts at the same time – to seek to adjust their mental models that guide how they think about money and to influence the tools they use by providing direct access to digital channels and formal systems. Often, providers seek to nudge changes in behaviour first through financial education campaigns, with the hope that this will then drive adoption of formal services and digital channels. However, teaching people to do something new, especially when they are not well educated and are hard to reach, is not always feasible or ideal. A better approach might be to support current behaviour and practices and let the new tool take them to new behaviours and practices.

An interesting alternative approach is to let people continue with their behaviour and practices in essence and let them apply their mental models digitally. Various aspects on this have been covered in Part 1 and Part 2 of our earlier blogs in this series. The focus is not on customer education. Intuition and customer perspective will be stepping stones in enabling financial inclusion.

Key shifts are needed in the way we think about financial access.

- ***Intuitive, not simple:*** Providers should not be setting out to do simple things. The aim should be to do things that are intuitive and cater to ways in which people already think about money.
- ***No moral stances:*** There should be no moral positions on whether people should save or not save or on how much they should save. The objective is not to help people save, but to help people to be more deliberate about how they go about preparing for future payments and purchases. Savings, in the minds of poor people, often stands for money which is not spoken of and therefore is vulnerable to being spent. Helping them with future purchases or payments resonates much better with their thought process than helping them save.
- ***Managing money gaps, not money:*** The objective should not be about helping people manage money which they already have. The objective should be about helping them manage income gaps.
- ***Organising money, not budgeting:*** Budgets and goals do not resonate well for the low income groups since a budget presupposes a regularity of income, which does not exist in the mass market. The classifications need to be fuzzier for people to be able to relate.
- ***Supporting full transaction cycles:*** More than facilitating instant action and views, the objective should be to be able to support full transaction cycles. For example, the priority should be to offer a person tools that can help him accumulate balances to pay school fees, not just the action of paying the school fee. The focus is not on e-payments (for e.g.: remittances, bill payments) but on e-money and providing people the means to manage it.
- ***Marketing tools, not products:*** The objective is not to provide digital products. The aim is to help provide poor people tools which they can use themselves to better manage their money. The tools should have a minimum number of functionalities and they should help facilitate the largest number of use cases. The focus is on co-creation of use cases.

- ***A continuum between informal and formal financial services:*** The tools should act as a bridge between informal practices which they already employ and formal financial services. The objective should be about enhancing the experience of current practices and not dropping what people already do.

Service providers should try to support the ways in which people deal with money in their daily lives in order to facilitate management of money through digital channels and technology. They should consider developing tools which will help people organise their money in their own way, which may not be numerical, concrete or complete. However, a person using these tools should be able to replicate his own ways of thinking about money on a digital platform. Tools should give a sense of control to the users – of empowerment, even if using them doesn't give better financial outcomes.

Digitising information as well as money should be a key goal. The objective is to constructively use the available information on social behaviour and transaction behaviour to optimise the financial status of people. People ought to feel that they can make decisions on their own or by utilising their social relationships, instead of highly structured products and services. They should be able to assign attributes and characteristics on their own to their financial transactions.

Tools should consider ways in which people separate money, recognise that people worry as much about income as expenditures, and incorporate social aspects of regular money management. Tools should be relevant for more people. The desired result should be to get more people to do more things, more often through digital channels.

Building Relevance of the Stored Value Functionality

While nearly all Digital Financial Services (DFS) deployments (except for OTC services) have a default stored value function in their wallets, the usage of these as stored value instruments are minimal, the evidence for which is the negligibly low value of balances maintained in them.

The stored value functionality should be rehabilitated for 'financial inclusion' to be truly achieved. It is also a vital component to ensure business viability for financial inclusion. A well-functioning stored value functionality would encourage more savings and wallets being used for short term financial management by customers. These, in turn will drive more insights for expanding the value proposition as well as credit scoring and help drive merchant payments. Usage of digital value for merchant payments will also reduce the need for an intensive presence of cash-in/cash-out agent networks. Utilising customer insights for expanding value propositions, credit scoring, merchant payments, and better operational efficiency entailed by reducing the dependence on cash-in/cash-out networks will in turn drive the business case for service providers. Stored value functionality will be the critical gear to enable bigger payments being driven through digital money, besides facilitating credit through digital channels by generating enough history on which various algorithms can be built.

For the stored value functionality to make sense for the mass market, it is essential to revisit the concept of discipline discussed in part-2 of the blog series. It needs to facilitate discipline-in, discipline-out, as well as flexibility – all at the same time.

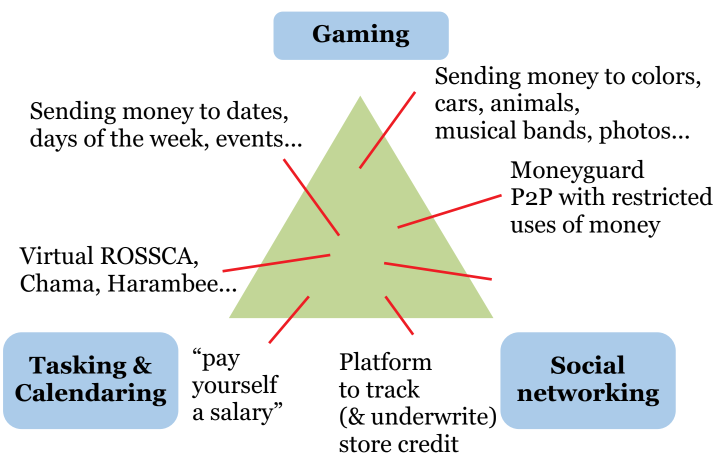
In a digital environment, discipline-in can be enabled by prods like reminders, prompts, and rules. These can be applied at several points, for example, at the time of receipt of income, or when there is idle money. Pre-defined rules can also facilitate assignment of money to specific buckets defined by the customers themselves.

Discipline-out can be reinforced with locks such as a waiting period, indivisibility, peer pressure, etc. Another way to ensure discipline-out is through labelling, based on parameters such as origin of the money, purpose, etc. Labels can be applied on several dimensions, including time, social relationships and networks, location, or the task/purpose of money.

Along with discipline-in/out, there also needs to be flexibility to break discipline, or provide outs, if there is an emergency requirement. One of the ways this can be achieved is by replicating mechanisms like money guards where customers can keep money with a trusted and respected member of their social circle, so that they can ask the member for the money in case of an emergency, but not for routine or unnecessary spending.

The stored value functionality needs to provide tools which are intuitively suggestive of purpose, even if the purpose is fuzzy or changing. The terms of use also need to be intuitively clear to the user; i.e. how do the prods, locks and outs work.

Catering to People's Coping Mechanisms



For digital solutions to be useful for the mass market, they should be a digital extension of the real life coping mechanisms that people use. In effect, this would entail creation of a hyper reality using digital tools.

Animating money can be replicated through gaming dynamics, liquidity farming can be replicated by leveraging social networks, and income shaping can be facilitated by tasking and calendaring. The figure provides some ideas on what digitising some of these coping mechanisms might look like.

The attempt should be to provide access to tools which help people implement these coping mechanisms on their own terms. This can be enabled through purpose buckets, time locks or indivisibility (limiting the ability to move a part of the money assigned to a particular money class) locks. Meaning can be attached to money through a variety of audio-visual cues, class of money (based on the purpose and/or the source of income), and through liquidity restrictions.

Concluding Thoughts

The ideas presented here are indicative, not prescriptive. We need to be cognizant of the fact that money organisation in people's minds is not always explicit in their mind, it is fuzzy, abstract and changing. People organise their money matters in a way that helps them make small, daily decisions easily.

We feel that the key organising parameters in the visual expression of the solution relate directly with the basic Internet functionalities; they are:

- Gaps (Tasks)
- Geography (Maps)
- Time (Calendar)
- Relationships (Contacts, Social networking)

But maybe they shouldn't exist in such an explicitly structured way. May be a scrapbook approach, where one has to find particular pockets of money, may work better. This may make it easier for people to maintain fuzziness, when they are not ready to concretise their goal.

It might be nice to help the visualisation with basic smartphone capabilities like, motions, music, image, colours, etc.

Before we wind up, let us reiterate that in designing a solution, you may not want to jump directly to the products (RD, FD, Instant loans, etc.). Think first of the coping mechanisms (Animate Money, Liquidity Farming, and Income Shaping) that your customers will apply mentally, and then think of the tools through which they will act on those coping mechanisms to devise their own suite of products.

Process Mapping for Mobile Banking Initiatives

Krishna U.M. Thacker
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Introduction

MicroSave Briefing Note # 29 "Process Mapping" detailed the steps involved in process mapping. This Note focuses on the intricacies involved in conducting a process mapping exercise for mobile banking initiatives.

Pre Process Mapping Phase

Finalise Partnerships

The four key functions that define the success of any m-banking deployment are technology platform, agent networks, connectivity and IT systems. As a precursor to mapping processes, it is critical to ensure that business partners i.e. the technology platform vendor, agent network manager and mobile network operator have been identified and agreements have been signed. The agreements should clearly define scope of work of the concerned partners, which should be aligned with the business requirements as part of bank's branchless banking strategy. Uncertainties around roles and responsibilities of partners will lead to uncertainties and confusions around mapping processes, and any processes thus designed are likely to be redundant or not implementable.

Involve Business Partners

Staff from partner entities should be part of process mapping team to help define the boundaries within which a particular process can be designed. For example the internal team may come up with a customer enrolment process that the technology platform is not able to support, or that the agent network manager cannot deliver on because of the organisation's limited staff capacities.

***Avoid the "Technology Driven Business"* Trap**

At the first meeting with the technology provider (usually the business development managers) often yields promises that nothing is impossible and the provider has the world's best and most advanced mobile banking technology ready to deliver and roll out. Of course, the reality is far more complex. Unless the financial institution is conscious, clear and practical about its business (and the clients') needs, it will find the technology driving some important product features and processes instead. This may result in products/processes that fail to meet business requirements and associated costs that go beyond the budget. To avoid such situations, management and partner entities (the core banking solution vendor, agent network manager and mobile network operator) should assess the technology platform together. To do this effectively, the individual entities in a consortium must have a shared understanding of the overall business strategy, based on which a checklist of relevant technology related questions can be prepared. This list should be discussed with technology vendor to understand „standard applications' and „customisations' that would be required, along with associated cost and timelines for such customisation and implementation.

Understand the External Environment and Potential Clients

A sound understanding of the external environment and target clientele is essential for the design of processes for mobile money. This will require secondary research on literacy levels, tele-density, mobile network coverage, the market share of MNOs, prevalence of identity cards etc. The secondary research can further be elaborated through market research with potential customers.

The market research should assess the perceptions, needs and aspirations of the potential customer base. These should then largely drive the products offered and the processes used to deliver them.[1]

Training Internal Staff on „Process Mapping’ and „M-Banking’

As explained in *MicroSave*’s Process Mapping toolkit, assembling a cross-functional team is key to any process mapping exercise. The team should be trained on „process mapping’ in order to ensure a common understanding of methodology and conventions amongst team members. In addition to training on process mapping, the team may require education on m-banking and the institutions’ strategy. The latter sessions are particularly important in cases where the service provider is pioneering m-banking services in the country. In a country like Kenya, where there are multiple mobile money services with reasonable penetration levels, such exposure might not be required.

Creating a Process Mapping Architecture

Before starting the mapping exercise, the team should brainstorm the process to derive a clear plan covering:

1. A list of processes along with start and end points,
2. Process owners
3. Key result areas
4. Scheduled timelines for completing each process
5. Team involved in designing a particular process
6. Process reviewers

This plan document serves a useful reference point for tracking the progress of the mapping exercise and leads to better coordination amongst team members. It develops a common understanding of the overall process mapping exercise. Also, scheduling processes logically helps to avoid redundancies and each process serves as a logical starting point for subsequent one.

Process Mapping Phase

While individual institutions need to assess what could work best within their context and environment, they should consider the questions below:

Customer Enrolment	Who can enrol customers? (All agents, specific agents or only bank branch staff)
	Same or different process for existing bank customers and new customers?
	Will KYC requirements be different for different levels of use?
	How will be KYC data captured?
	How will the data be transferred to the validation center and who will validate the authenticity of data captured?
	What will be the status of accounts whose KYC data has not been validated?
	How will accounts be activated?
	What details/documents will be in the account opening kit?
	Monitoring and follow-up (Who will monitor, at what frequency and what all needs to be checked)?

[1] See *MicroSave*’s Briefing Note 101 “Mobile Money - Questions That Your Clients Will Ask You”

Transfers	Will transfers be allowed only within network (existing client base) or outside network as well (other network wallet holders, non-wallet holders)?
	What is the transaction process? Who will initiate and who will confirm?
	How will 3rd party deposits be treated?
	What is the process, if any, for erroneously recovering remittances to unintended recipients?
Cash – In/Out	What details customer/agent needs to enter to authenticate transactions?
	Who will initiate the transaction? (Agent or client and its implications)
	Will the agents maintain any registers?
Commissions, Settlements and Reconciliation	What are the commissions for account opening and transactions and how will these be credited to them?
	How will any client/agent level disputes be handled during the transactions?
	Who will settle with whom?
	What is frequency of such settlements?
	What are the guidelines/regulations? Is any professional body required to mediate?
	What will be the accounting entries in the institution's books of accounts for settled and unsettled amounts?
	Who will be responsible to reconcile and follow up on settlements?

Post Process Mapping Phase

Be ready and prepared for changes and adaptions during the first few months: the institution should have their teams and systems prepared and designed to identify, incorporate and implement changes. The following steps will help institutions to do this:

Assign a Team

The institution should assign an internal process team responsible for updating the maps based on identified changes. Processes related performance / tasks should be in the KRAs of the team members.

Determine the Frequency of Updating Processes

MicroSave recommends monthly for the first few months until completion of the pilot phase, and quarterly for the first few quarters of the roll out. However, this will also depend on the institution size and context.

Conclusion

Adopting a systematic approach to design processes in a mobile banking initiative is crucial to avoid redundancies and to create processes that are robust. Alignment of interest between business partners goes a long way in securing the success of any such initiative.

PRODUCTS

M-Shwari: Market Reactions and Potential Improvements

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Introduction

While Kenya remains the bastion of innovation for financial services offered over mobile phones, the evolution from popular transfer systems like M-PESA to a widely used mobile banking system still remains elusive. The innovation table is littered with cutting edge products, launched with much excitement, yet met with more tepid market receptions. The latest contender to join IkoPesa, M-Kesho and Kopaa Chapa is a joint venture from Safaricom and Commercial Bank of Africa (CBA) called M-Shwari. Launched in November 2012, it is already receiving much attention for its mobile phone based credit scoring system, and robust growth rate.

The product is notable for the partnership model driving it. On the one hand it is a perfect match, as CBA gains low-cost access to a new mass retail customer base beyond its traditional corporate target market. Further, Safaricom can now offer more value to its customers, effectively branding banking services and competing directly with retail banks. However, this also means that CBA has little interest in serving these customers itself, as evidenced by point 3.6 in the Terms & Conditions, and also the fact that it has an out of date set of Terms & Conditions on its website, noting different interest rates among other things. This leaves Safaricom to champion the sales and service of banking products, which customers are reporting is not yet adequate.

Two and a half months after launch, Safaricom reported M-Shwari having 1.6 million customers (it took M-PESA eight months to break the million mark), and other providers around the region are already envisioning strategic responses. *MicroSave*, with the support of the GrameenAppLab, decided to gather perceptions from the market to gauge how warm the initial reception to this partnership and product has been, with the goal of providing general guidance on the successful development of mobile banking services.

Description of M-Shwari

M-PESA subscribers (now over 15 million) just need to update their menus, and then they canenrol instantly through the dropdown menu on the phone. Transfers can be made seamlessly from M-PESA to M-Shwari, earning an interest rate of 2-5% per annum and funds can be withdrawn through M-PESA's network of agents.

However, the feature that has most people buzzing is the ability to immediately apply for an emergency loan. There are no fees and no paperwork, clients simply dial *234*6#, and receive a message advising them of their credit limit (maximum possible loan value).

To qualify for an M-Shwari loan, you must be an M-PESA subscriber for at least six months, and then an algorithm based on previous behaviour is used to determine the eligible amount, reportedly including:

- Usage of Safaricom services (M-PESA, Bonga Points, voice and data)
- Levels of "regular savings" with M-Shwari
- Repayment history of M-Shwari loans

A SMS with the resulting figure is then returned to the inquiring customer, and if accepted, the loan is then issued through M-PESA. Loan repayments are also made through M-PESA.

Loans can be taken for between KES 100 (US$ 1.15) and KES 20,000(US$ 229.88),[1] have a term of 30 days, carry an interest rate of 7.5%, and failure to pay triggers the loan to roll-over, meaning if a customer pays the loan early or late, the effective rate is much higher.

Further, while a customer has a loan outstanding, any deposits in their M-Shwari account (however interestingly not in their M-PESA account) are frozen up to the value outstanding. This creates a scenario where savers then actually borrow some of their own money, and then cannot use it to pay back the loan they borrowed from themselves. Therefore, in many cases customers are unable to use M-Shwari as both a loan facility and a demand deposit account in concert.

Target Markets & Actual Usage

Safaricom's branding and marketing strategies have been replicated globally, and recognized as a lynchpin for M-PESA's success. It has marketed M-Shwari heavily through mass media, effectively building awareness. However, most respondents interviewed by *MicroSave* only had a surface-level understanding of the service, perceiving it to be designed for low income clients, based on the ability to make small deposits and the low loan ceiling. M-Shwari's nebulous tagline "*Lanisha Maisha*" or "Making Life Easier" makes its intended market unclear.

The product itself seems to offer partial benefits to different market segments, while not offering a complete solution to any specific demographic. The deposit feature appeals to business people who can now circumvent the e-float limits of the M-PESA KES 100,000 (US$ 1,149), and are also able to accumulate enough funds to make the deposit rates meaningful. While these features do not benefit to the low-income market, the loan facility does; but conversely is too small to create interest among entrepreneurs.

The Infographic released at the end of 2012,[2] notes that 75% of subscribers are between 18 and 35 years of age, indicating the early adopters seem to be the younger generation. Sarfaricom CEO, Bob Collymore, has indicated that this was always intended to be primarily a savings service,[3] noting that around KES 2.8 billion (US$ 32.2 million) had been deposited by February 7th 2013; compared to only KES 378 million (US$ 4.3 million) in loans given out since inception.

However, the deposits figure does not indicate the amount currently held in accounts, because it also includes money deposited and subsequently withdrawn. Therefore it is probably not a good indication of how much the system is being used for savings. Interviews with clients further revealed that the majority had enrolled to access instant loans, and while the second most common reason for joining was savings related the impetus for the savings was gaining access to loans (see graph below).

Further, clients reported testing the system frequently, to figure out how to increase their credit limits. This involved depositing and withdrawing different amounts of money frequently to gauge its effect. This suggests that many observers may be overestimating the use of the M-Shwari deposit services.

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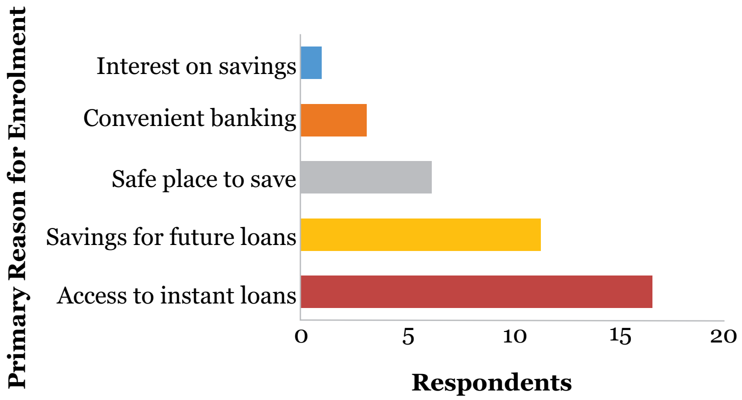
[1] An exchange rate of US $1:87 Kenyan Shillings provided in the CBK website on February 20th 2013 is used for this paper.
[2] Safaricom Website. Accessed Feb, 20th 2013.
[3] Daily Nation. (Wednesday February 20th, 2013). Savings Outpace Loans as M-Shwari Deals cross KES 3bn.

Low Understanding of Loans

The published figures also seem to underestimate the demand for credit. Of all the clients interviewed, only one had been approved for a loan larger than KES 2,500 (US$ 28.74), while all wanted larger amounts, and Safaricom reports the average loan size at around KES 1,000 (US$ 11.49). Clients expressed confusion around specific issues with this lending system.



- Clients intuitively think that depositing more money into M-Shwari or taking a small loan and paying it back will increase their credit limit, but when many did so, their credit limits did not increase, and some were even denied further loans.
- Clients try to repay loans through M-Shwari only to get the funds frozen in the system, and then have to scramble to find other funds for repayment.
- Low-income clients specifically perceive the interest rate as lower than market rates because it is quoted on a monthly basis. This seems a kin to microfinance organisations quoting flat rates to decrease the perceived cost of the loan.

Customer Feedback for Future Innovation

The growth rates in customer acquisition clearly show that M-Shwari has potential, and client feedback focuses on the following benefits:

- Access to instant credit
- Convenience (no bank queues or paperwork)
- Ability to saving very small amounts
- Privacy offered for borrowing "A person does not announce their personal problems to other people."

However, customers also had a lot of valuable feedback for what more they would like to see improved, specifically:

- More transparent credit appraisal and approval process. Real time feedback via SMS would be helpful here.
- Larger loan sizes and longer terms for micro entrepreneurs as the current amounts are "peanuts".
- Fixed term savings. People want to accumulate value, but are finding it too easy to withdraw their money, thwarting their own plans.
- An end to freezing deposits in M-Shwari when there is a loan outstanding.
- Easy access to an informed customer service.

Conclusion

M-Shwari's enrolment and transaction rates have caught the industry's attention and we will no doubt see copycat products on the market soon. However, it is still very unclear what the future holds, especially once the initial hype around it dies down. For now it seems the savings feature is used by a more upmarket demographic, while the small loan facility is accessed by lower income customers. This makes sense, especially since the system is designed so that customers' savings are frozen if they borrow; and thus they are (in part at least) borrowing their own savings.

Two More Revolutions Underway in Kenya

Graham A.N. Wright

It is first quarter results and investors briefing season in Kenya, providing a chance to see how the market is evolving. And for the country's leading financial services players, that evolution has been a profitable one. But behind the celebration of M-PESA's remarkable payments revolution, and the continued growth of M-Shwari's mobile banking services, there are two other important developments in the Kenyan market.

First, the new Kenya Commerical Bank (KCB) M-PESA account, offered through a partnership with Safaricom, seems to be taking off rapidly. Chief Executive Officer Joshua Oigara said that over 50,000 people are now registering for the account every day, and that 1.5 million customers had registered by early May, 2015 – just two months after launch. With KCB's extensive branch and ATM infrastructure, more people are likely to entrust their savings to KCB than they have to Commercial Bank of Africa (CBA) – the bank that partners with Safaricom to offer M-Shwari. (For a nice comparison of the offerings, see FSD-K's M-Shwari vs KCB M-PESA: convergence or divergence?)

> **"We see the partnership with Safaricom as a game-changer in the financial services sector. For us, such partnerships are meant to make financial services more accessible to the general population." - Joshua Oigara**

Furthermore, the KCB account also offers fixed deposit and targeted saving options with interest rates ranging from 3-6 percent. However, only $1.2 million (a measly average of $0.77 per account) was deposited in these accounts in the first two months, suggesting that many of the 1.5 million who have registered to use the accounts have not yet done so. KCB however, claims that 75 percent of those registered are active users (ie: they've used the account in the past 30 days). So one wonders how many of those active users are just testing the system, how many are struggling to use it – and how many are considered "active" simply because they opened the account in the last month. KCB, sadly, have not told us the net deposits remaining in the accounts.

The KCB M-PESA account also offers a more flexible range of loans (from one to six months in duration) that are much more reasonably priced than CBA's M-Shwari loans. Interest rates range from 2-4 percent per month – a significant improvement on M-Shwari's single offering of a loan for a month at 7.5 percent interest. Two months after launch, KCB has already issued $11.6 million in loans, with an average loan size of $40 – suggesting that they have issued some 290,000 loans and thus, that the product is very credit-led at present. This appears to be reflected in the bank's recent press release, which scarcely mentions savings and focuses on the ease with which registered users can access credit.

"KCB-M-PESA account holders are required to dial the USSD code *844# to see how much they can borrow and follow the prompts to secure the loan which will be sent to their KCB M-PESA accounts instantly. The loan amount is determined by the amount of savings that the customer has made, M-PESA balance, and their savings on both Safaricom and KCB platforms and usage of their suite of products." – KCB May 6, 2015 Press Brief

The second important development is, almost inevitably, Equity Bank, which is beginning to deploy a Bank 3.0 approach, offering 24/7 "contextual engagement" services. Under Bank 3.0, banking is no longer something customers do or somewhere they go. It is an experience they completely control - in whatever place or "context" they are. This strategy will only really come of age when smart phone penetration is significantly deeper in Kenya (say in three to five years) and so for now it still depends largely on agents. Equity Bank's agent network grew by 60 percent to 19,336 in the year to March 31, 2015 and now handles 45 percent of the bank's transactions (compared to 8 percent in 2011).

Meanwhile, the bank has launched Equitel, its mobile virtual network operator (MVNO), even while the "thin SIM" card technology that would let M-PESA users access this network on their current phones remains mired in a high court case. By the end of March it had activated 665,661 "normal" (i.e. not thin) Equitel SIMs, of which 81 percent (539,185) had activated the m-banking facility. These m-banking customers had conducted 4 million transactions worth $52 million by the end of March 2015. In addition, the bank has started issuing loans on the Equitel system. Progress is modest to date – 34,501 loans totalling $1.1 million – at an average of $32 per loan. This average loan size is already markedly higher than M-Shwari's loans (still only averaging $10 outstanding balance according to the data in the excellent CGAP/FSD-K analysis). That said, of course, the loan book is terribly small compared to M-Shwari's 1.8 million loans outstanding at the end of December 2014. Indeed, to put it all in perspective, M-PESA has 13.9 million monthly users (a 14 percent increase over 2014) and M-Shwari issues 50,000 loans a day!

So what does all this tell us?

1. Kenya is showing the ***beginnings of mobile enabled financial inclusion*** through two different models – one through a bank-MNO partnership, the other through a bank running an MVNO. This is extremely important since, for all the assertions that mobile money is driving the rapid growth in financial inclusion, most mobile money systems remain payment systems and little else. Banks are all too rarely involved, and even when

they are, they have often struggled to overcome the prevalence of over the counter (OTC) payments as the predominant transaction.

2. There is a ***growing focus on small-scale, consumer loans***, not only from banks, but also from non-bank finance companies such as afb, many of which have their roots in payroll lending. But as more ambitious lenders with higher risk tolerance come into the market, it is fair to anticipate that it will be easy for people to get multiple larger loans via their mobile money accounts ... and the results could be disastrous. The default based credit reference bureaus in Kenya are *post hoc*, and really just create blacklists of people with poor credit history. So they don't provide much help with curbing creeping over-indebtedness until it has engulfed and overwhelmed the borrower. (And I still worry about blacklisting someone for non-repayment of a $5-20 M-Shwari loan). Further, as India has discovered, even comprehensive credit reference bureaus do not pick up the underlying informal sector borrowing that is so prevalent in many countries.

> **"Finserve is a mobile channel that seamlessly integrates and converges bank accounts and other financial products and services while providing value-add telecoms products and services and is among the technologies adopted to help the company move forward as it transitions to Equity 3.0." – AllAfrica October 2014**

3. ***1. Savings are still very much an after thought.*** Relatively few people save on M-Shwari - the average balance, according to Cook and McKay was USD $5.56 for all accounts, and $10.06 for those active in the past 90 days. Intermedia's FII survey found that the single biggest reason customers deposit into M-Shwari is to increase their loan limit. The very initial signs are that the same may apply to KCB's M-PESA account, which would be disappointing. Equity Bank has already developed a range of savings products – many of which are aimed at bringing young customers into the bank – and all of which are designed and ready for delivery on their Eazzy24/7 and Equitel systems. Equitel's SIMs also provide a beautifully elegant system of "pockets," based on Ignacio Mas' ideas of characterising money for goals. So Equity may yet focus more on offering a full suite of financial management services, including user-friendly savings products, as part of Equity 3.0. Let's hope so!

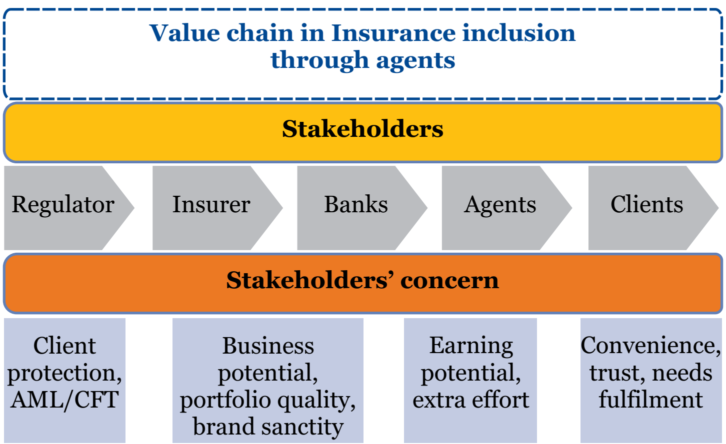
(This blog first appeared on NextBillion)

Agent Banking and Insurance: Is There A Value Alignment?

Jitendra Balani and
Premasis Mukherjee

Introduction

Agent banking,[1] is emerging as the preferred conduit to promote financial inclusion globally. However, an agent banking network can sustain only if there is a value alignment for all the stakeholders in the digital eco-system. The banking correspondent model in India has demonstrated the need for a shift from the single product regime to create such value for banks, agents and clients. Since insurance and pension products cover a large span of clients' life-cycle and needs, the prospect of insurance inclusion through agent banking is being widely recognised by regulators and practitioners alike. Pilot programmes testing insurance servicing through agents are also increasingly becoming common and visible.



In this note, we discuss the potential value for stakeholders in a situation where insurance products are offered through agent banking channel. We also highlight the challenges that might arise when implementing insurance products on agent banking channels.

Regulators' confidence in bank-led channels for financial inclusion is high

Agency banking is largely bank-led in most countries. The principal bank is responsible for AML/KYC[2] compliance; consumer protection; risk management; and liquidity management at the agents. Therefore, banks' agents are more trusted by regulatory and political authorities than the more loosely regulated microfinance entities or individual insurance agents. Moreover, the probability of regulatory arbitrage is also lower in agent banking since banking regulation is stronger than insurance regulation in most countries. Hence, regulators find it preferable to promote insurance through agent banking channels.

For insurance companies, banking agent means inexpensive and voluminous point of sales

For insurance companies, business economics depends on the highest possible number of sales outlets acquired and managed at the least possible cost. Banking agents, therefore, are the best alternative channel available for mass market insurance products. Since the agents are acquired and managed by the banks, the insurer does not incur high on-boarding or management cost beyond the variable costs which depend on the business sourced.

Moreover, in this channel, the insurer gets access to the existing clientele of the principal (i.e. the bank), a reason enough for insurers to prefer agent banking as a channel.

For banks, this means extended reach and cross-selling to the base of the pyramid segment

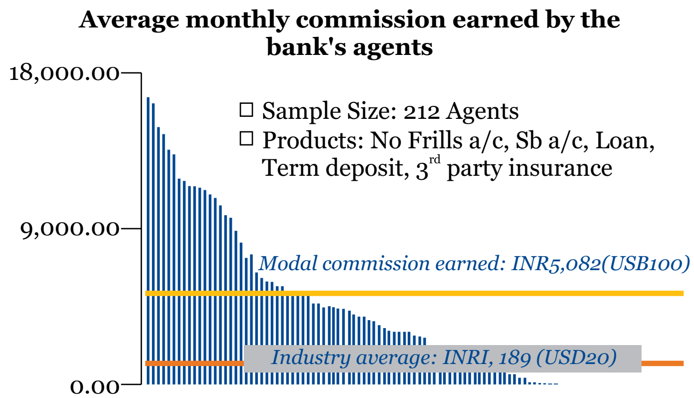
Banks consider bancassurance to be a prospective business due to the opportunities for cross-selling; competitive advantage; increased stickiness of clients; enhanced staff productivity;

[1] Offering of financial services through bank agents often using technology such as point of sale devices and mobile phones
[2] Anti Money Laundering/Know Your Customer

and fee income potential. However, bank employees are costly resources, and hence banks can only afford to sell high premium products through their bank branches. Though many banks have garnered a substantial pool of low income clientele, deputing branch staff to cross-sell insurance to these clients does not make any economic sense for the banks. A low-cost mass-market channel like agent banking opens prospects for extending the reach of insurance for banks.

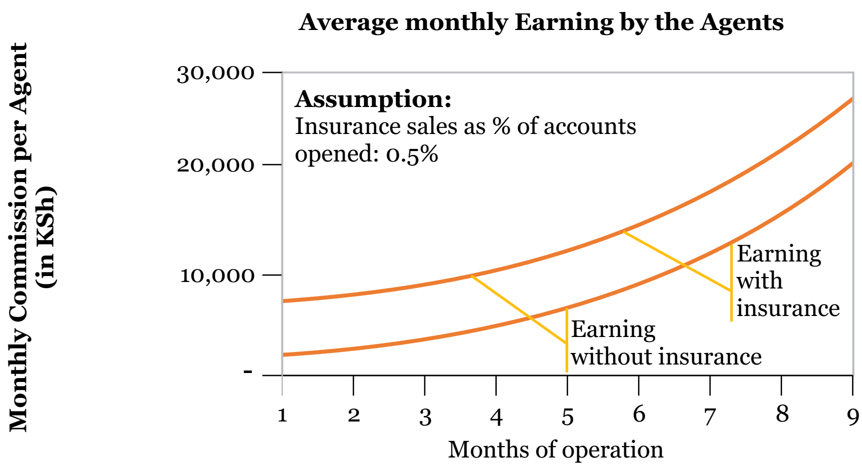
Insurance sales reinforces business case for the bank agent

MicroSave's agent assessments of over 20 agent networks in India have identified a strong need for an improved business case for the bank agents.[3] Basic account opening ceases to make any significant impact on agent economics beyond a year of operation. Remittance and account transactions need time to pick-up, and in between, the agent needs to sustain his business. This can best be achieved by offering a range of products.[4]



In a recent study with a large public sector bank of India, we saw that multiple products do enhance agent's income substantially (see graph below).

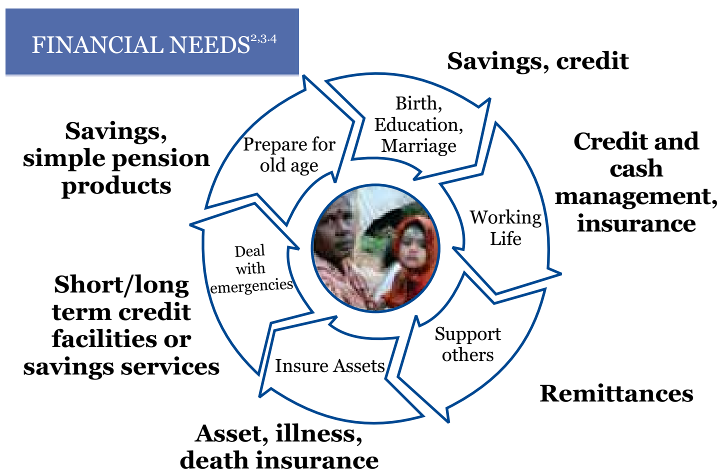
In an African Bank, it is projected that insurance sales and servicing of insurance products (premium collection and benefit redemption) can enhance the earning potential of agents by an average 37%.



For clients, agent should be a one-stop financial solution

Low-income clients need a range of financial products in their life-cycle. Insurance and pension products help them cope with multiple shocks and old age security, which are often perceived as important needs. Demand and willingness to pay studies have also proven substantial

[3] See *MicroSave* Policy Brief 2: The State of Business Correspondence - Agent Networks in India
[4] See *MicroSave* India Focus Note 65 "Successful Banking Correspondents Need a Compelling Product Mix"



need for insurance products in the low income segment and the clients' willingness to pay for the premium. Many clients perceive endowment life insurance as an attractive instrument for long-term savings. Moreover, there are certain insurance policies which are mandated by the government (e.g. motor insurance) and only require simple documentation. Bank agents can be a preferred channel for clients to access such insurance.

Though some value alignments are evident, there are also several concerns about insurance inclusion through bank agents.

Quality of business would be a concern for insurers

Insurance is a specialised financial product and requires expert solicitation and sales. Most countries also mandate a minimum qualification for insurance sales professionals. Bank agents are mostly mom and pop store owners who lack both qualifications and insurance expertise. This can hamper both the quality of business, as well as the potential sales an agent could achieve. Moreover, as a distant client interface (unlike tied agents of insurers), the bank agent channel would be highly susceptible to mis-selling and adverse selection. All these factors could affect both the brand sanctity and the business quality of the insurer. Hence, any insurer will be cautious in allowing its insurance products through this channel.

For bank, the challenge is in managing portfolio

Unlike European banks, where multiple bancassurance channels exist, insurance is mostly pushed through the branch staff channel in developing country banks offering agent banking. Managing the insurance business through the commission-based agent channel would require the banks to re-work their supervision, audit, performance management and incentive design in their bancassurance divisions. Managing third party products would also require the banks to assess the potential for cannibalisation (of other products by insurance or vice versa); brand exclusivity issues; and the cost benefit for each product pushed to the agent channel.

For agents, cost (benefit) must justify the effort

Insurance selling is more effort- and time-intensive for an agent as compared to account opening or mere cash-in/out transactions. The willingness of bank agents to devote time to the insurance business will be a function of the incentive structure for the insurance activities. Unless the policy acquisition is front-loaded with high commissions, agents are unlikely put effort into selling insurance through their outlets. An alternative approach could be to use agents only to sell mandatory insurance (e.g. motor insurance), which has a ready demand and requires little solicitation and underwriting.

Intangibility of agent technology might put clients off

Mobile or card based technologies have become common in most agent banking implementations. One issue with these platforms is their intangibility. Insurance is anyway an intangible product (where the value or benefit for the customer is virtual and future-oriented). This intangibility is further magnified in mobile/card based channels. This factor might dissuade customers from transacting through the agents. Moreover, the low-income clientele often prefer to diversify their financial portfolio across several different providers, because they struggle to trust any one. Hence, the extent of cross-selling potential might be less than expected in the low income category, especially through agents.

Conclusion

Despite the stakeholder value alignment, it is evident that insurance inclusion through agents requires careful planning at both insurer as well as the implementing bank level. The success of insurance sales through agent banking, would ultimately depend on:

- Product planning: decision on which kind of product could be sold through the agents;
- Channel planning: defining the roles, processes, and incentives for the bank agents and how these fit into the overall bancassurance strategy of the insurer, as well as the banks; and
- Marketing planning: to maintain brand identity and ensure that clients come to buy insurance over the counter at agent locations.

Agent Network Management

Structuring and Managing Agent Network - I

Puneet Chopra with inputs from Graham A.N. Wright and Shivshankar V.

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 note.

[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

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.

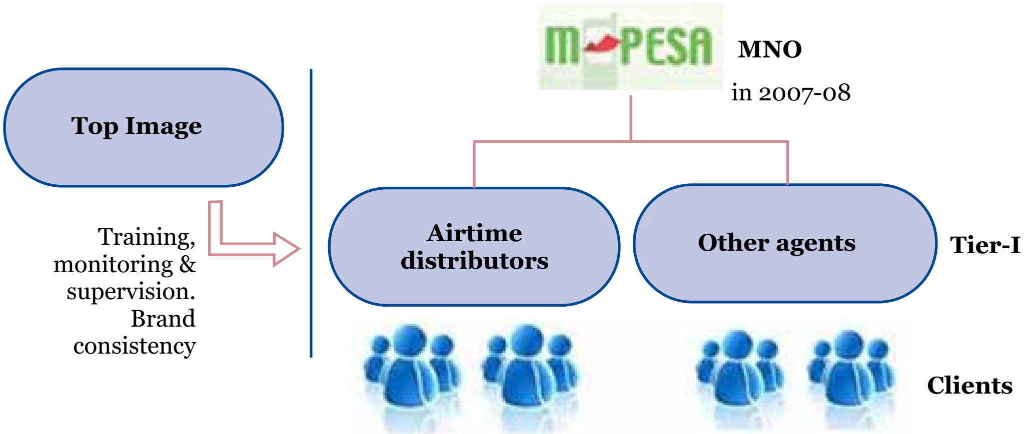
Safaricom's M-PESA

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).

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.

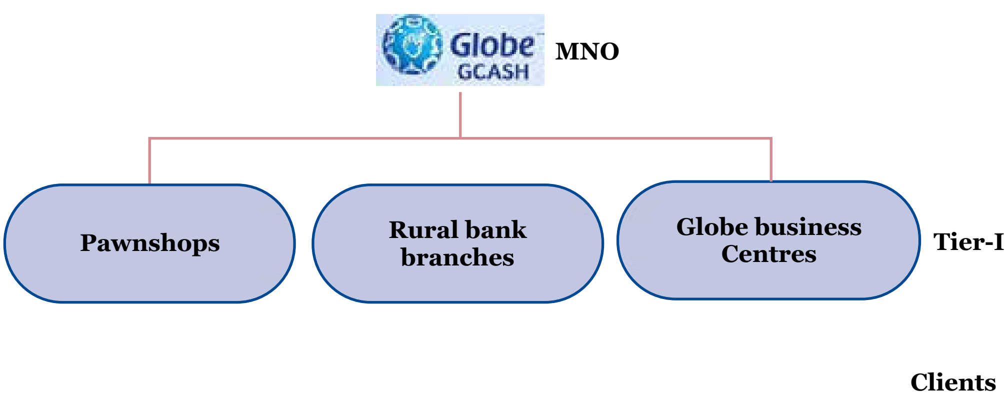
[4] PEP Intermedius is one of the relationships that started in 2007 and continues to be a key partner

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

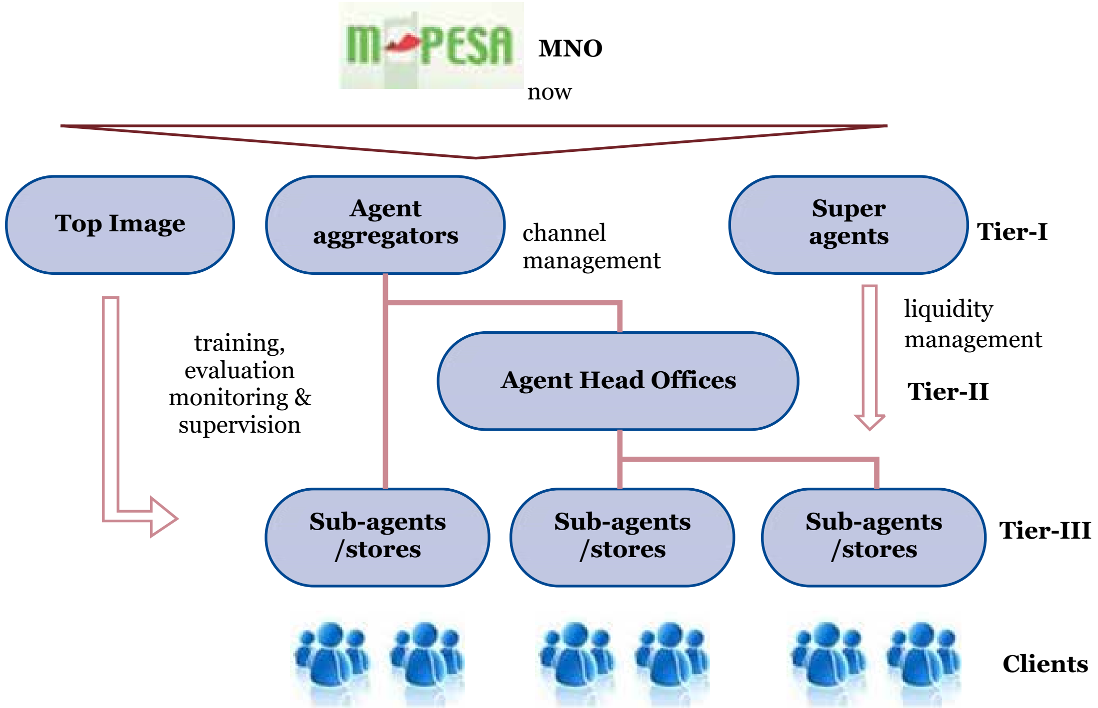
Globe Telecom has, since the inception of GCASH in 2004, extensively leveraged: (a) pawnshops; (b) a network of rural branches of over 700 member banks of rural bankers association of Philippines (RBAP); and (c) Globe's business centres, as cash-in/cash-out (CICO) agents. It largely stayed away from using its airtime distribution network until 2010

[5] Mas, Ignacio et al (2010). "Three keys to M-PESA's success"

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]

The next chapter contrasts and analyses the agent networks managed by or on behalf of banks.

[6] Leishman, Paul (2010).Globe Announces Big Changes to GCASH Agent Network
[7] The Mobile Financial Services, WEF (2011), *MicroSave* analysis

Structuring and Managing Agent Network - II

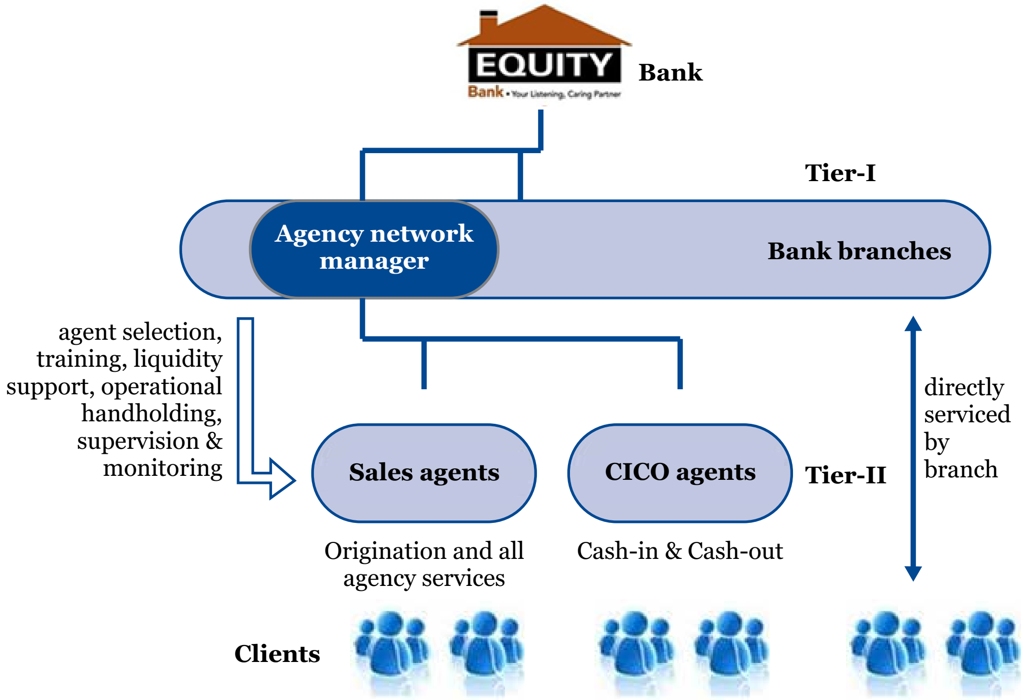
Jitendra Balani and
Premasis Mukherjee

The previous chapter examined agent networks managed by mobile network operators (MNOs). This note analyses agent networks managed directly by banks or through their agent network managers (ANMs); and across markets that follow MNO-led approaches well as bank-led models.

Equity Bank in Kenya

Equity Bank is an example of a bank successfully building and managing its own agency network. Agents of Equity Bank are meticulously selected based on empirical guidelines, and then extensively trained. They are usually individual entrepreneurs running existing stores meeting the bank's selection criteria. Agents are mapped to branches and receive liquidity management, operational and other support through a dedicated agency manager at the branch. The agency manager liaises and coordinates with relevant branch staff for the effective functioning of the agency channel.

Exhibit 1



In a short span of less than 2 years, Equity Bank's network has grown to over 5,000 agents,[1] serving 3 million customers. The bank's vision is to expand the network further to serve 9 million customers by the end of 2013.[2]

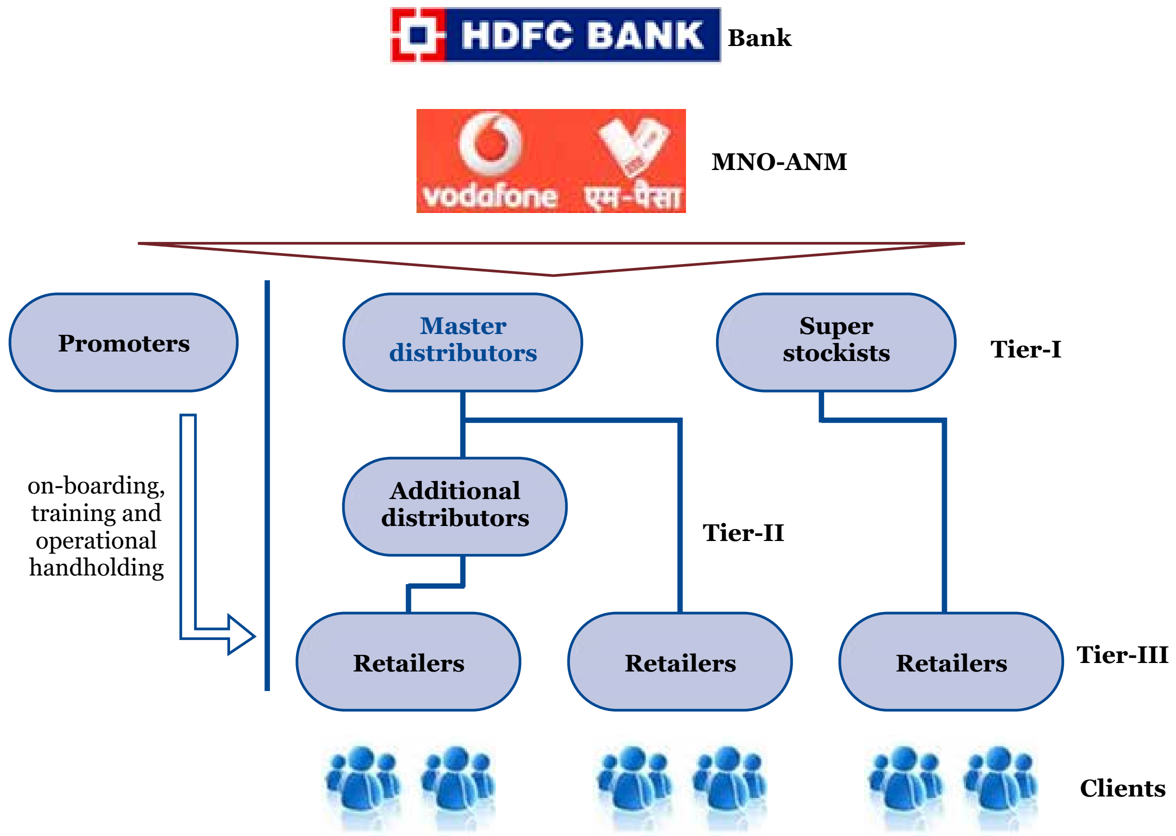
[1] Managing 1.8 million or 26.5% of the bank's transactions, in August 2012.

[2] *MicroSave* is delighted to be a part of this on-going journey with Equity Bank and is providing a large programme of technical assistance and training to support it.

Vodafone's M-Paisa

Vodafone launched M-Paisa services in the state of Rajasthan in 2011, as a business correspondent (ANM) to HDFC Bank.[3] It is fully leveraging its existing airtime distribution network with a two and a three tier model. The high performing distributors and retailers have been signed-up for M-Paisa. Vodafone sells or buys e-float (or cash) to/from master distributors and super-stockists, who in-turn service over 2,500 retailers[4] (directly or through additional distributors) and carry out channel management. Retailer selection, on-boarding and liquidity management are their key roles. Know-your-customer (KYC) documentation processing is managed only by master or additional distributors, who receive an extra commission for this. Marketing, promotions, retailer training and monitoring is managed by Vodafone with support from the distributors and promoters (third party staff for consumer awareness and operational handholding).

Exhibit 2



As can be seen, the structure adopted by Vodafone for M-Paisa in India is very different from that of Safaricom's M-PESA during its start-up phase. It more resembles what M-PESA followed during the third phase of its growth, when it was well rooted and widely accepted.

[3] Indian regulations do not allow cash-out unless a bank is involved in providing the service. MNOs on their own can only offer licensed semi-closed wallets.
[4] As of May 2012

While the vast population and the wide Indian geography require a multi-tier structure for coverage, Vodafone has faced several challenges with the existing airtime network. Firstly, Vodafone has little direct influence over (or communication with) retailers, except through distributors and sales teams. This has resulted in wide variations in retailers' understanding of the product, the consumer value proposition for sales pitch, processes to be followed and challenges with timely resolution of operational issues. Vodafone's leadership in airtime distribution has not helped M-Paisa. Secondly, majority of airtime retailers find the differential in commissions (1.0% at launch, subsequently reduced to 0.8%, versus 2.25% for airtime) unacceptable. This coupled with low initial volumes has resulted in M-Paisa being a non-starter.

Airtel, another MNO that has launched Airtel Money across India, is encountering similar hurdles with its airtime distribution network.

Eko

Eko is an ANM for State Bank of India (SBI), the largest Indian bank. It initially partnered with Airtel to leverage the MNO's airtime distribution network. Subsequently, after parting ways with Airtel, it has co-created a new network by partnering with aggregators called super customer service points (SCSPs). The choice of agents (CSPs) has largely been stores selling airtime. The SCSPs have a key role in sales operations, liquidity management and support (such as KYC). Their role in training, compliance and monitoring is limited, as this is largely Eko's responsibility.

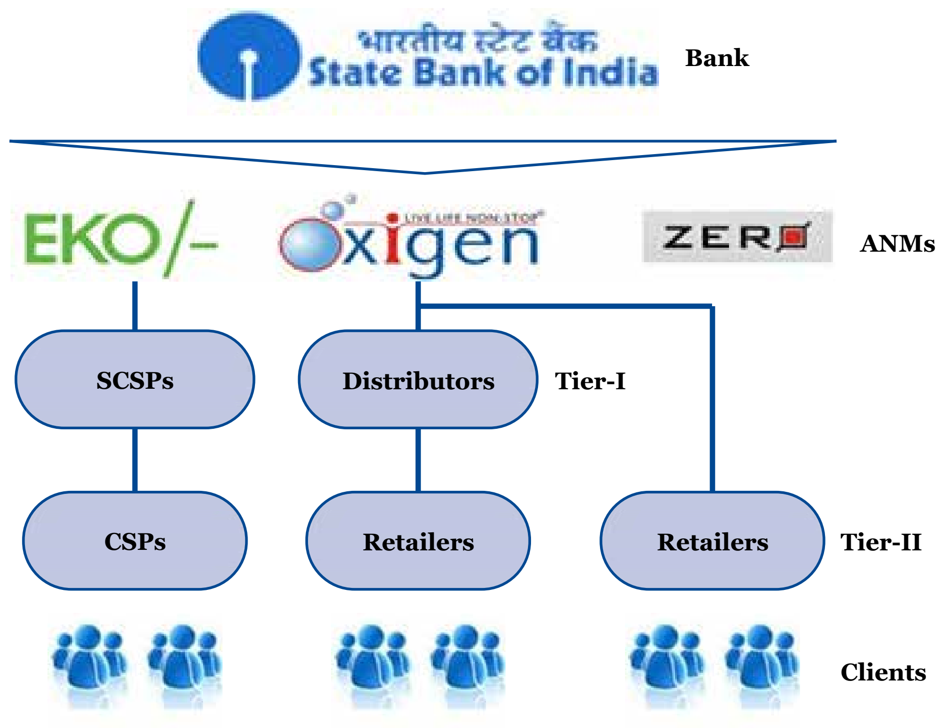
This agent network has worked well for Eko due to a variety of factors. First, a very gradual ramp-up allowed Eko to understand and tackle the problems as the network scaled. Second, a small network of 300 agents, mainly concentrated in the NCR region, has allowed Eko to undertake direct[5] supervision and control over both tiers of its network. Third, as the only product from Eko, the channel did not have a benchmark (unlike airtime) to compare commissions.[6] Fourth, but quite importantly, SBI's innovative product *tatkal*[7], allowing instant money transfer through a front end interface (mobile or internet), was a killer product, which met a huge, unmet demand for remittance by migrants. This was further enabled by SBI's vast urban and rural branch network; and its very strong and trusted brand. *Tatkal* therefore, found ready consumer demand as well as acceptance and push from the channel.

[5] *MicroSave* has collaborated with Eko to provide external support and at times additional capacity

[6] Eko's commissions are lower than those offered by MNOs, however agents are motivated due to the large volumes

[7] *MicroSave* India Focus Notes 68 and 79

Exhibit 3



Oxigen

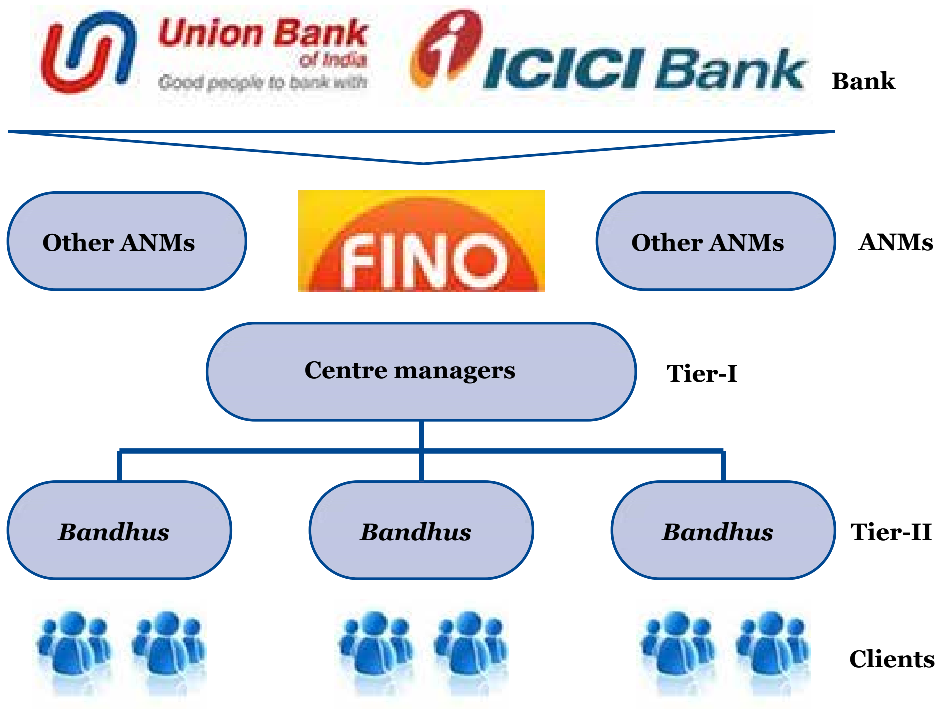
Oxigen[8] too started with an agent management structure similar to Eko and MNOs in India. However it increasingly realised the need to direct manage certain large agents who expected greater agility in operations and superior support. These agents preferred to work directly with the company and were willing to share the responsibility of liquidity management. This was a win-win as these large agents sourced substantial business and, in turn, could receive an additional commission for the role of aggregation. As they were few in number, they could be managed directly. Oxigen has therefore evolved into managing large agents directly and smaller ones through distributors.

FINO

The previous (largely urban) examples followed a contractual outsourced model for agents. FINO Fintech Foundation (FFF) has adopted a structure for rural consumers, wherein agents, called *Bandhus*, are on its rolls. There are no aggregators, and the centre managers based out of FFF branches manage a team of *Bandhus*.

[8] Oxigen is an ANM for State Bank of India(amongst other banks)

Exhibit 4



CONCLUSION

Structuring and managing agent networks[9] well is core to running successful[10] e/m-banking operations. There is no 'one size fits all' to optimally establish and manage large agent networks. It needs adequate and persistent institutional focus, attention and re-invention. Institutions need to be cognisant that the structure and roles of agents and aggregators are not static and need to change and constantly evolve to stay relevant.

[9] *MicroSave* research paper: Designing and Implementing Agent Networks
[10] Also refer *MicroSave* reports: E/M Banking in India and State of Business Correspondent Industry in India; and India Focus Notes 90 and 95

Incentivising E/M-Banking Agents

Nitin Garg and
Shivshankar V.

Introduction

Agents are the primary customer interface[1] for any e/m-banking implementation.

- If they do not add customers, the business volume for the operator will not grow;
- If they do not maintain float, customers will not be able to transact; and
- If agents do not wholly endorse the proposition, customers will not take it.

For agents to wholly endorse the e/m-banking proposition, to motivate them to mobilise customers, and to maintain float and perform transactions – sufficiently incentivising agents is extremely important. This Note discusses the basics of incentivising e/m-banking agents.[2] It also discusses the different types of incentives and experience across different e/m-banking deployments.

What Are Agents Paid For?

Agents are generally paid to facilitate the following transactions/activities: customer enrollment; cash–in (deposit); and cash–out (withdrawal). In principle, agents should be paid for all the transactions that they facilitate (even if the operator does not charge the clients) so as to offer all services to customers without any bias. For example, M-PESA offers free deposits for its customers, but it remunerates its agents for accepting deposits.

Client Enrolment: Agents are generally paid a flat fee for every customer enrolled.This helps to keep the agents motivated by ensuring remuneration until the time customers start using m-banking services. However, it is common to see agents enrolling customers who do not have a real need for m-banking services just to maximise their returns and earn commissions. To mitigate this risk, some operators pay their agents only after the enrolled customer completes a certain number of transactions. For example Zain's Zap in Tanzania pays one third of the commission after the customer completes the first transaction and the rest after he/she completes five transactions within 6 months from the time of enrolment.

Cash-In and Cash-Out: In most of the ongoing e/m-banking implementations, agents are paid for cash-in and cash-out type of transactions on the basis of a tiered commission structure.This ensures that agents are adequately compensated for facilitating even small-value transactions. In some deployments, commission for cash-outs is set higher than cash-ins. This is because agents who perform mostly cash-in are most likely to be located in urban areas – at the sender's end of remittance corridors. Firstly, they do not need to maintain a higher float and secondly conversion of cash to e-money can be performed without much effort – particularly in urban areas where the bank branches/aggregators necessary for balancing cash to e-money are close-by. Whereas agents who perform primarily cash-out are located in rural areas – at the receiver's end of remittance corridors. Firstly, they need to maintain a float and secondly conversion from e-money to cash is time consuming as the bank branch/ aggregator where they can buy e-load is often far from their agency outlet.

Basis of Commission

In *MicroSave*'s work across Africa, Asia and Latin America, we have seen three types of commissions:[3]

1) Flat – Agents are paid a flat commission irrespective of the value of transactions.
2) Percentage – Agents are paid a percentage commission based on the value of transactions.

[1] See India Focus Note 38 "Listening to Agents of M-banking in India"
[2] See India Focus Note 72 "Sustainability of BC Network Managers (BCNM): Review of Commission Structures in India"
[3] See Briefing Note#107 "Pricing for E/M- Banking"

3) Tiered – Agents are paid on the basis of transaction value, but it changes based on the range/tiers into which it falls. These tiers are designed based on the desired transaction behavior.

The table below looks at the strengths and weaknesses of each of the basis of commission discussed above:

Commission Method	Strengths	Weaknesses
Flat	Very easy to understand and communicate	Some agents may not be motivated to accept large deposits as they earn same amount for doing both small and large-value transactions. Agents may encourage clients to split transactions to increase commission.
Percentage	Easy to understand and communicate	Agents may tend to ignore/discourage small-value transactions as they earn very low commissions on these.
Tiered	Agents are motivated to do both small and high value transactions	Agents may encourage clients to spilt transactions into smaller amounts to increase commission.

Should Agents Decide Their Own Incentive?

Few of the mobile money deployments (G-Cash and Smart Money in Philippines and ZAP in East Africa) recommend (or used to recommend – see below) a price range, but allow the agents to decide the final price to be charged to the customers. This helps the agent to decide his compensation taking his business case, as well as the demand and supply situation, into consideration. On the flip side, because of information asymmetry, the market forces may not set the right price. Also, this can, and often does, lead to customer dissatisfaction as they need to negotiate with the agent every time they want to carry out a transaction.

Heterogeneous Commission Structures

In most of the m-banking deployments, agents are paid uniformly. However, there are a few exceptions to this where some agents are being paid differently. For example, Standard Bank in South Africa has an agent network of different types consisting of small shops, retail chains, bill payment counters etc. and not all of them are allowed to offer a complete set of services. All these agents perform cash-in and out, but the tariffs are different and commissions are paid differently for different types of agents within the network.

Also, at one stage, the State Bank of India experimented with higher commissions for rural agents on the premise that they reached out to underserved areas and were likely to conduct fewer transactions and incur higher costs in rebalancing cash and e-money because they were operating in more remote areas.

How Are Agents Paid (Directly Or Through Aggregators, Mode And Frequency Of Payment)?

Directly or Through Aggregators

Agents are paid either directly or through aggregators (or super agents, as they are called in some of the deployments).

Paying through aggregators allows the implementing banks/agent network managers (ANMs) to maintain close control on agents and take advantage of existing relationships between aggregator/super agents and agents. However, at times, this system leads to delay in agents receiving commissions. For example, M-PESA agents earlier used to get their commission through the aggregators, and agents used to always complain about not receiving the commissions on time. Safaricom has now started paying directly to agents once a month, and this has resolved the issue.

Mode of Payment – Cash, Bank Transfer or Electronic Value

Payment of commission in cash generally happens when the agent is allowed to charge his commission directly to the customer. For example, although this type of system has been used and then phased out by G-Cash in the Philippines and ZAP in Tanzania, ZAP in Uganda still requires its clients to pay the agents commission in cash directly to the agents.

Payment of commission through a bank account generally happens when the agent is paid on a periodic basis. For example, MTN in Uganda transfers the commission amount payable to the agent at the end of the month directly to his/her bank account.

Where commission is paid in e-value, it is mostly transferred immediately as soon as the agent completes a transaction. E-value equivalent of commission is credited into agent's account. The advantage of paying in e-money is that it encourages the agent to restock his electronic value with the commission earned. For example, True Money in Thailand and Eko in India pay commissions in electronic value as soon as the transaction is completed.

Payment Frequency (Real Time or Accrual Basis)

It is very important to pay agent commissions in time as they reinvest in value usually on the basis of commissions received. So if they are not paid on time, they will start denying transactions to customers on account of insufficient e-value or cash. Also, many agents find it difficult to keep a track of the commissions earned and this becomes very complex if the commissions are paid after long intervals. For example, Eko in India used to pay commissions for transactions on a periodic basis, and it was a common complaint of agents that they could not reconcile the commissions received with actual transactions that they had done. Eko changed to real time commission transfer to agents to address this issue, and agents are now satisfied.

MTN in Uganda allow agents to choose between the option of real time (e-value transfer) and accrual based (month-end bank transfer) commission transfer. Agents can choose the payment option based on their preference.

Conclusion

As discussed above, agents are the primary customer interface for the implementing banks/ ANMs. The success of the ANM is largely dependent on the performance of the agent. Hence it becomes extremely important to sufficiently incentivise the agents. Apart from devising the right incentive model, it is also important to choose the right channel and frequency for the payment of commission that keeps the agents motivated to remain in the business and facilitate client transactions.

Managing Agent Networks to Optimise E- and M-Banking Systems Part-1

Graham A.N. Wright
and Veena Yamini A.

"M-PESA's managers understood from the beginning that the success of the system centered less on the optimal management of mobile network resources than on marshalling retail agents. Customers needed to have a good experience at the cash-in/ cash-out points, where the bulk of transactions took place. This meant establishing a sufficient physical retail presence, reminding customers that they were transacting with Safaricom at all times, ensuring that the retail agents had enough cash to meet customers' transaction requests, and, above all, motivating agents to promote the service".[1]

Background

There is growing recognition that effectively managing agents is key to the success of e-banking and indeed m-banking systems. CGAP Focus Note #38 on "Use Of Agents In Branchless Banking For The Poor: Rewards, Risks, And Regulation", October 2006, provides an excellent overview of different bank-led and non-bank-led agent systems and the risks associated with conducting financial transactions with an often illiterate clientele through agents. There is growing literature on the functioning of agent networks and strategies to get the best out of them. This note examines some of the international experience using the "8Ps of marketing" as a framework.

Product

The design of the products offered by agents is critical, as has already been discussed in *MicroSave*'s Briefing Note 47 "Mobile Phone-Based E-Banking: The Customer Value Proposition". In India, clients are already expressing disappointment that the basic "No Frills" savings account offered by banks is not linked to their ATM networks, a cheque book, passbooks etc. – thus offering the potential for add-on services that might further add value to the client, and revenue for the bank and its agents.

However, simply rolling out existing products and expecting the low income market to take them is unlikely to be successful. In India, one bank offered what was an account for the urban market through rural outlets with all the account promotion and opening forms, as well as quarterly statements, in English. Few potential clients opened accounts, and those that did, soon besieged the agents with questions on the fees and deductions made by the bank.

In Kenya, for example, M-PESA has linked with PesaPoint to allow clients to withdraw money from ATMs with single-use authorisation codes that are sent to the client's mobile phone. However, in many cases, the costs linked to ATM networks and cheque facilities prevent banks from offering these to customers in remote areas. In addition to the capital investment in the machines, ATMs must be replenished with cash and an agency must be paid for doing this. Cheque book printing and couriering to locations where the bank has no branch (which is why an agent is appointed) are again costly propositions.

Similarly in Cambodia WING also offers diversified services, initially focusing on providing a remittance product for garment workers in Phnom Penh, but soon moving to person-to-

[1] Mas Ignacio and Olga Morawczynski, "Designing Mobile Money Services: Lessons from M-PESA", Innovations, Spring 2009.

person (P2P) payments and airtime top-up for students and others in the urban centres. It then added an integrated web-based payroll management service to attract even more companies to use the platform. WING is also collaborating with VisionFund, an MFI, to develop services for the rural communities. VisionFund branches serve as "Cash X-press" cash-in/cash-out points, and loans are being repaid weekly using the WING platform, so that groups only meet monthly.

Diversifying services to drive volumes through the infrastructure will be crucial for client satisfaction and increasing agent remuneration – particularly in India where fee structures are regulated.

Price

Enrolment Commission: Approaches to agent remuneration also vary significantly across the globe and even within countries. Everywhere, however, there is a fixed premium paid for enrolling customers and completing the necessary KYC/AML requirements. This has caused problems in many countries, with agents not completing the detailed paperwork adequately, or focusing solely on enrolment. Safaricom has responded to this challenge by deferring the payment of half of the commission for enrolment until the customer makes his/her first deposit.

Variable Commission on Transactions/Balances: In India, where much of the focus is on savings, some banks offer 0.3-0.5% of the value of transactions, while others pay around 2% of savings balances held. This income is marginal for most agents since they usually run retail outlets, where they sell other goods and services such as airtime, daily needs goods (e.g. soap, rice, flour etc.) or, in the case of kiosk-based systems like Drishtee, computer education and services. Despite this, the income derived from acting as a Banking Correspondent currently remains very limited and often inadequate to cover costs[2].

Fixed Commission per Transaction: In Brazil, Caixa Economica and Banco do Brasil both pay a fixed commission of around 9 US cents for each transaction, most of which are bill payments. In Kenya, M-PESA offers fixed commissions of around 13 US cents for each deposit, and 20 US cents on each withdrawal transaction. There have been reports of some agents forcing clients to break a large transaction into a series of smaller ones to increase their commission – though part of this may also be explained by the challenges of managing liquidity.

Liquidity Costs: Agent illiquidity can have significant impact on the quality of customer service, and ultimately trust in and adoption of e-/m-banking systems. In many countries, particularly (but not exclusively) in rural areas, agents struggle to manage liquidity which often requires frequent trips to the bank. This, together with the security deposit to create e-money required by most schemes, adds significantly to the cost to agents offering m-banking services.

Also in Zambia, Mobile Transactions has a team of District Sales Managers (DSMs) empowered to manage an e-cash float. These DSMs can extend e-cash to agents in their territory instantly,

[2] See *MicroSave*'s India Focus Note 18 "MFIs as Business Correspondents – To Be or Not to Be?" and India Focus Note 24 "Making Business Correspondence Work in India" on www.*MicroSave*.net for a more detailed discussion of this.

but have full responsibility for collecting the cash. In this sense, DSMs are accountable for the cash-in liquidity of agents in their territory.

Safaricom relies on super agents (most are Safaricom's own airtime resellers, but others include Group 4 Securicor, some larger supermarket chains and branches of a variety of banks including: Equity; Family; K-Rep and PostBank) to facilitate liquidity management. Retail agents are attached to, and managed by, some 300 super agents. Super agents buy and sell M-PESA e-money from and to their retail agents on a day-to-day basis. This is usually done through the banking system as the super agents set up accounts in banks that have presence near their retail agents. Retail agents typically visit the nearest bank branch daily to either deposit or withdraw cash from their account.

Managing Commissions: Agents typically compare the higher commissions they get on sales of mobile phone airtime with their commissions for providing m-banking services – only once "critical mass" of transactions is achieved does the return on the security deposit begin to look attractive by comparison to airtime sales (or indeed investing in stock for the retail outlet)[3].

Above all agents want prompt payment and to know exactly how much they are earning and to have easy access to up-to-date information such as:

- How many accounts they have opened;
- How many transactions they have done;
- What are commissions due;
- How much they have received; etc.

CelPay in Zambia has a web-based system to track this as well as the liquidity of agents, who are notified when their e-cash balance falls below the minimum. Given the importance of making payments to agents as rapidly as possible, and the effect this has on incentives to perform, Zain's Zap-Tanzania's agents to collect commission in cash as the transaction is completed. The commission payable is negotiated with the customer before the transaction occurs. WIZZIT's WIZZkid agents in South Africa receive commission both on accounts opened and based on the transaction level of account holders. This is designed to motivate them to train customers to use their accounts.

Process

A surprising number of systems reviewed and process mapped by *MicroSave* can be re-engineered to improve efficiency and reduce risk of fraud. Card-based Banking Correspondent systems in India, in particular, often entail customers waiting for 2-3 months between application and receiving the card … small wonder so many suffer from wide-spread dormancy. The simplicity and efficiency (or complexity and inefficiency) of the systems affect the amount of time that the agent spends processing enrolments and transactions, and thus the customer experience and the agents' revenue stream.

The controls built into the processes are, of course, key to managing the agency and associated fraud risks. M-PESA's agents are required to manually log transactions, and have the customer sign for each and every transaction thus providing hard copy evidence and discouraging fraud. Even this has not eradicated fraud. "A Safaricom employee and several other people

[3] These, and related issues, are discussed in detail in *MicroSave*'s Briefing Note # 69 "Incentivising 3rd Party Agents to Service Bank Customers" by Ben Davis and John Owens

have been arrested in connection with the fraudulent loss of money through the M-PESA money transfer service. Safaricom CEO Michael Joseph ... acknowledged that there have been numerous complaints from the public in relation to fraudulent loss of funds through the M-PESA service[4]."

One key control is an alert consumer, aware of his or her rights. It is essential that agents (supported by advertising and collaterals) are incentivised, and then assessed on their ability, to explain to customers not to reveal their PINs - even to agents.

> **E-/m-banking still involves substantial amounts of cash and illiterate people handling technology that they often do not fully understand, and is thus particularly vulnerable to fraud.**

Conclusion

Agents are clearly emerging as the key challenge for e-/m-banking systems. Whereas this Briefing Note looked at Product, Price and Process, Briefing Note # 74 looks at 5 more Ps of marketing: Place, Physical Evidence, Promotion, Positioning and People.

[4] The Nation, Nairobi, October 10th, 2009

Managing Agent Networks to Optimise E- and M-Banking Systems Part-2

Graham A.N. Wright
and Veena Yamini A.

Briefing Note 73 analysed the agents of e-banking and m-banking systems in the context of product, price and processes. This note extends the analysis into an additional 5Ps of marketing.

Place
Convenience is usually the unique selling proposition of e-/m-banking systems, and so the location where the service is provided is very important. Clients responding to *MicroSave* research often note that the location of agents - usually a close-by local shop - is the main advantage of the product as it provides convenience and safety.

But the convenience of proximity needs to be rationed if the agents' value proposition is to be maintained. Too many agents in one locality will mean inadequate transactions for all. Typically the agents in the bank-led models prevalent in Brazil and South Africa conduct an average of 50-60 transactions per day. By comparison M-PESA agents conduct an average of 80-90 transactions per day, on the basis of an average agent-client ratio of 666 customers per retail outlet.

At the same time, of course, if remittances and other P2P transactions are to be a central part of the business model (and these are what have driven M-PESA's success), then the m-banking system needs a large number of agents. These agents need to be spread across both ends of the remittance transaction – for remitters to deposit and receivers to withdraw. Safaricom has entered into collaborative agreements with a large number of partner banks (including Equity, K-Rep and Family banks as well as PostBank) to act as M-PESA super agents. This provides even more access than the PesaPoint ATM network.

Physical Evidence
The nature of the agents' outlets also plays an important role – both in terms of trust and of customer service. For customers a larger outlet not only makes the agent appear more permanent and reliable, but also offers them confidentiality inside an outlet (as opposed to leaning over a counter facing the street) and the perception of increased security.

However, initially at least, small outlets are more likely to agree to becoming agents for e-/m-banking systems as their business volumes are low and they are looking for some extra income. If the e-/m-banking systems ask their agents' outlets to standardise appearance, layout and/or size to a minimum prescribed standard, there are cost implications – either for the agent or for the bank ... or for both. Nonetheless, as discussed below under "Position", the appearance of the outlet, the branding etc. is tremendously important for the customers' trust in the system.

The proof of transaction is also essential for building trust and to reduce fraud. Most e-/m-banking systems do not provide proof of transaction in physical hard copy. Even when they do, it is usually using thermal paper printouts, the print on which fades rapidly. And, of course, SMS confirmations can be stored on a mobile handset only to the limit of the SIM's memory capacity.

Position
Trust is essential for the provision of financial services, and doubly so for e-/m-banking systems. Clients have to believe the agents are operating a reputable system and that the thermal paper print out or SMS confirmation is enough to rely on. This is why remittances are

such a powerful entry point for m-banking systems – the receipt of e-money, and its conversion into cash, can be confirmed almost instantaneously. For the same reason, savings-focused systems typically experience that balance enquiries represent over 70% of their transactions at start-up as clients check, re-check, and check again if their balance is still as expected.

Of course, trust is significantly enhanced by large-scale branding of the large corporations associated with the e- or m-banking system. So the role of the reputation of Globe, Safaricom, Smart or the State Bank of India cannot be underestimated – indeed agents, recognising this, often demand that additional brand collaterals be deployed in their outlets.

While the bank and e-/m-banking system provider, perhaps together with the agent, can attempt to influence the service's "market position", it is the customer that ultimately decides it. What matters is how the clients perceive the service being offered, both in terms of the core product, and in terms of the delivery of that product. Different e-/m-banking systems are seen variously in terms of their products: as a money transfer service; as a savings account provider; as a bill payment system; or as something else. At the same time they are assessed by clients in terms of security, trust, accessibility and other key aspects of delivery.

Agents have a key role to play in determining the market position on an e-/m-banking system: how they communicate the products; the appearance and layout of their outlet; how they serve the customers; whether they have the liquidity to respond to requests for withdrawals etc.

Promotion

In addition to branding, agents seek above the line promotions of the e-/m-banking products to support their below the line person to person selling of the products. Agents in India demand promotional campaigns like account opening camps and TV/radio spots, as well as brochures and related collaterals to deploy at their outlets in order to support their efforts. However, India is yet to see targeted/contextual promotion campaigns to support e-/m-banking primarily because of the regulation-enforced, wafer-thin margins.

M-PESA was backed with a hugely successful multi-media campaign with a very powerful image of a stream of cash flowing between two mobile phones. Furthermore, M-PESA has benefited enormously from collateral advertising since the M-PESA logo, appears in every Safaricom advertisement (even those that have nothing to do with M-PESA and the service it provides). This provides the product with massive promotion at marginal cost.

WIZZIT's "WIZZkids" and WING's "Pilots" are young people who often work in teams as direct sales agents to support the rollout of their systems. WIZZkids are usually young, low-income individuals residing in the areas where they enrol their customers. Their job is to educate potential customers about the service, open accounts and train the customer on how to make transactions on the WIZZIT platform.

Part of promotion is likely to need to focus on security issues – to encourage customers not to reveal their PINs. Much of this may need to be an above the line effort to help (and also reduce reliance on) agents to communicate this important information.

People
Agents are the face of the e-/m-banking system – and the front-line interface that can make or break it. Indeed, for all the big brands backing the systems, many clients will only transact with one specific agent that they feel they know and trust. This is why most e-/m-banking systems seek reputed agents such as chemists, airtime/mobile phone retailers, MFIs; and super agents such as banks that also conduct larger transactions for which they provide a formal receipt.

Agent selection, training, management and retention remain a focal point for all successful e-/m-banking systems. Inappropriate agent selection can lead to widespread client – and ultimately agent – dissatisfaction. Most e-/m-banking systems have developed checklists to identify the most suitable agents. These checklists typically assess the prospective agent on the basis of: age, education and personality of the agent; how long they have been in business; their cash handling ability their ability to maintain a float; footfall at the outlet; layout of the outlet; and the community's perception of the agent.

Successful e-/m-banking systems pay great attention to the training of their agents, but a wide variety of approaches are used. Safaricom manages the agent development programme itself, but an outsourcing company conducts the training. Drishtee provides on-site, one-on-one training, whereas Eko trains its agents in batches. All successful systems place great emphasis on customer service and maintaining liquidity to meet demand for withdrawals.

In addition to high quality induction training, agents need back-up to help resolve queries and issues that they, and their customers, have. M-PESA agents are backed up by a huge customer support team at the Safaricom customer service centre. While call centres can provide some of this agent support (and represent a significant proportion of the expenses of running an m-banking system), as is being quickly learnt in India, there is no substitute for visits and reviews by staff from the organisation running the e-/m-banking system.

Celpay's team managing their agent network conducts regular audits to ensure that agents are adhering to brand guidelines, have a functional POS terminal, and deliver a good customer experience. Safaricom territory managers monitor super agents and retail agents on a monthly basis with on-site visits. M-PESA agents are assessed and rated on the basis of:
1. Visibility of branding, agent number and tariff poster;
2. Quality of record-keeping and processes followed;
3. Availability of cash and M-PESA electronic value to meet customer transactions; and
4. Availability of replacement SIM cards for new customers.

No sanctions are applied on the basis of the assessment: the intention is to allow discussions with the agent and to motivate them to improve the service provided. In India, *MicroSave* conducts regular reviews of agents' service and premises, including mystery shopping. The reports are then used to further enhance support for agents and to identify opportunities for, or challenges to, customer delight.

Many e-/m-banking systems use a system of super agents or master agents – derived from, or riding on, telcos' agent networks. These super agents play an extremely important role in managing agents locally since it is difficult to oversee and assist a large network of agents directly from head office. Super agents can assist with customer service; perform quality reviews; provide important internal control functions; help with the management of liquidity challenges; and make larger transactions, where necessary.

Agent retention is also tremendously important for continuity of service and to maintain trust. But agent retention remains a problem. For example, of Banco Do Brasil's 1,200 correspondents, as many as 20% are inactive and ten leave the network each month.

Conclusion

Agents are emerging as the key challenge for e-/m-banking systems: they are the human interface with the clients, and providing support to them, as well as regular assessment of their performance, is essential.

Managing Channel Satisfaction in Agent Banking

Minakshi Ramji,
Ritesh Dhawan and
Sachin Bansal

Introduction

M-banking is at a nascent, yet still promising, stage. On-going pilots demonstrate that while clients are quick to open accounts, most of these accounts tend to remain largely inactive. Further, many agent network managers (ANMs) report the difficulty of selecting, training and retaining a cadre of agents who provide the front-end for m-banking customers. ANMs seeking to increase the volume of business for their companies need regular feedback from the frontline regarding the preferences and satisfaction of their clients and their channels. This is because of the critical role that these two stakeholders play in the uptake of services and products.

ANMs should conduct this type of market scanning on a continuous basis as a core business process, but particularly while refining a prototype, expanding to a new area or targeting a new clientele. Since m-banking is still new globally, it would be worthwhile to undertake such an exercise with a small client and agent sample on a regular basis, e.g. quarterly for start-up, or monthly for larger agent networks.

In order to assess client and agent feedback on areas such as product, marketing, processes, agent and customer service, *MicroSave* devised a tool called the Customer and Channel Satisfaction Measurement and Management (CSM).[1] It makes use of tailored market research, ServQual and qualitative participatory research appraisal (PRA) tools.[2] These techniques make use of a qualitative and conversational approach rather than a quantitative approach. The qualitative approach allows us to attain rich and detailed information on client and agent attitudes and preferences. In the context of a CSM, a quantitative approach would be able to provide numbers, but would be unable to explain the numbers and the human financial behaviour underlying them satisfactorily. This Briefing Note focuses on the Channel Satisfaction Measurement and Management, particularly examining the areas where an agent's perspective is critical. The next Note in this series talks about the issues of importance from the client's viewpoint.

Rationale for CSM with Agents

Many ANMs have had trouble with building and maintaining an effective agent network. Essentially, agents are often a forgotten customer when it comes to m-banking. Agents have opportunity costs of running their existing business or taking on the m-banking business. If the ANM does not provide these agents with adequate support and present a real business opportunity, then they will either quickly move onto other business opportunities or simply lose interest.

CSM: A Three-Step Process

- **First Step:** The service provider must clarify the goals of the CSM, including the reason for the CSM and how the information will be used.
- **Second Step:** Design CSM discussion guide for the agent and client.
- **Third Step:** The service provider can use the results to make "quick win" adjustments and also strategise about more significant areas of improvement.

[1] See *MicroSave*'s IFN 38: Listening to Agents of M-Banking in India
[2] See *MicroSave*'s Market Research toolkit

Thus, CSMs are essential to understand and retain agents. A CSM exercise with agents can also help the ANM understand client take-up and problems since they interact with customers on a daily basis. Furthermore, CSMs are essential to complement any existing agent support systems including call centres, ANM staff visits and others. Call centre agent support systems in particular, whether reactive (in response to call first by agents) or proactive (calling agents regularly) are inadequate to gain a detailed and nuanced understanding of agents' and customers' perceptions. A CSM provides invaluable qualitative information on both channel health and customer satisfaction to the ANM management.

The central idea of CSM is to understand the ground reality within which the product has been rolled out, and help ANMs modify their business strategy, as needed. As one report puts it, "Measuring satisfaction is one thing; managing satisfaction is another - and this should be the aim."[3] Prior to a CSM exercise, the ANM must consider the rationale for the exercise, ensuring a focused exercise yielding results that will be of greater use to the ANM. Using *MicroSave*'s experience, below we highlight some areas where understanding agents' perspective is critical. Consequently, these areas must be included while designing any CSM tool.

Product: Attractiveness of Key Product Features

Since the agent sells the product to the client and is the primary interface between the client and the product, it is important to understand his perspective on the product and delivery method. The CSM with agents broadly touches upon the following:

- How would he characterise demand for the product?
- What challenges does he face in selling the product?
- What features do clients like/dislike?
- How appropriate are the charges?

Commissions: Adequacy and Appropriateness

For obvious reasons, commissions are the primary driver for agents to conduct business. Thus, the agent's view on the following should be explored:

- Does he understand commission calculations?
- Does the agent consider the commission to be appropriate and enough to motivate him?
- Does he receive commissions in a timely manner?
- Does the agent have access to information regarding the current status of his commissions?

Process: Maximising Efficiency and Minimising Risk

Often, agents have the responsibility of explaining not only the product, but also the process, to the clients. At the outset of product rollout, agents sometimes actually conduct the transactions on behalf of customers. Furthermore, feedback on cash management, an important function, needs to be gathered. Thus, the agent's feedback is critical on the following:

- How easy or difficult is account opening?
- What is the time taken to process account opening?
- How does the agent maintain operational records?
- Has he had to deny service due to lack of cash?

[3] Thijs & Staes (2008). "Customer Satisfaction Management" European Institute of Public Administration.

Training: Effectiveness and Relevance
Agents undergo training to be able to offer the m-banking product adequately. Understanding training needs is critical and the CSM must touch upon:
- How comprehensive was the product training?
- Agent suggestions to make the training more relevant and effective.
- Are there any specific areas not touched upon which you would like to be trained on?

Operational Support: Care and Attention
Agents, especially new ones, need intense operational support from the ANM. This could be related to hand-holding for new agents, helping agents handle client grievances or providing technological support. A CSM can help the ANM understand the levels and kind of support required and agents' assessment of the support currently provided by asking questions on:
- How adequate is the agent care or support available via phone, face-to-face and otherwise?
- Does the ANM support all or most of the agent's queries?
- Do ANM staff members visit agents regularly?,

Marketing: Campaign and Material Effectiveness
Marketing efforts in m-banking need to be focused to ensure effectiveness and to increase customer acquisitions. The CSM must ask agents about the extent to which marketing is achieving its goal such as:
- How do the clients find out about this product?
- How helpful do you find promotional events?
- How are marketing materials such as posters, banners displayed? How does the customer react?

Pawan Gupta is an agent for an ANM in Bihar, India. He believes that at this initial stage of his agent business, marketing of the product is the most important investment. He has even taken the initiative to print posters and create small boards to market the savings bank account by spending about Rs.1,000 of his own money. He believes that due to these efforts at least five new people inquired about the product, but most potential customers still lack knowledge of the product, preventing them from signing up. He wishes there was better marketing support from the ANM and bank, especially explaining the relationship between the bank and the ANM.

- What kind of „below the line' or face-to-face marketing efforts are undertaken? To what extent have they helped in customer acquisition, etc.?

Communication: Timeliness and Accuracy

Clear and transparent communication between the agent and the ANM assists in building the agent's confidence in the product and the organisation. Agents should be able to communicate their issues and concerns to the management easily, while simultaneously receiving information from the organisation. The agent's views should be gathered on the following topics:

- How do agents and the ANM communicate?
- Is communication timely, accurate and understandable?

Ability to Service Clients

It is also important to understand the kind of service the agent is able to provide. This can answer two dimensions. Firstly, it is useful as a self-assessment. Secondly, it helps the ANM understand the volume and level of service s/he can provide the client given the product features. This section can cover questions on:

- About how many new accounts are there weekly?
- What is the average volume of withdrawals/deposits that the agent services on a daily basis?
- Do you face any problems in servicing requests?

Conclusion

CSM is a qualitative tool to collect information from two of the most important stakeholders in m-banking—agents and clients. Without adequate support, agents will quickly become disinterested. A CSM exercise is a great tool to understand the agent's perspectives on products and client take-up and thus, optimise the on-the-ground reality. This Note covered the major areas where an agent's input would be valuable to ANMs, the next Note deals with collecting information from the customers. See *MicroSave* India Focus Notes 81 and 82 for examples of how the CSM was used in practice.

Managing Customer Satisfaction in Agent Banking

Minakshi Ramji,
Ritesh Dhawan and
Sachin Bansal

INTRODUCTION

This Briefing Note is part of a two-part series on obtaining inputs from agents and customers on the mobile banking experience to improve field operations and overall strategy. The previous Note dealt with areas where an agent's input is invaluable; this note deals with customers' views.

Using *MicroSave*'s experience, the following areas necessitate understanding the customer's perspective to improve m-banking solutions.

Product: Easy To Use and In Demand

As was described in the previous note, it is important to ensure that the m-banking service being offered meets the needs of customers and to understand their views on the existing product(s). For example, while the No Frills Account (NFA) in India tries to help the financially excluded clients to access formal financial services, low awareness levels and poor design have led to very low take-up. This example underscores the need for understanding the customers' perspective on the m-banking product on an on-going basis. The Customer and Channel Satisfaction Measurement and Management (CSM) with the customer should focus on:

- How useful do you find the product?
- Are the transaction limits adequate?
- Why did you sign up for the product?
- Does the product meet your expectations?
- Are there any other products you would like?

Process: Simplicity in Operating Procedures

It is essential that the procedures for using m-banking be simple and user friendly. Un-banked customers are already unfamiliar with formal banking, and m-banking adds another layer of complexity, as it is a technology that is also new to most of the target clientele. One of the major barriers to banking has been the procedures involved in accessing an account (mobile or not). Thus, in order to learn how comfortable customers are with processes, the CSM should probe customers on issues such as:

- How easy or difficult is it to open accounts? Why?
- How easy or difficult is it to deposit and withdraw cash at the agent's location? Why?
- How easy or difficult is it to deposit and withdraw cash using mobile phone? Why?

Customer CSM Interview (January 2010)
Name: Sushil Sharma
Profession: Businessman
Place: Sheohar, Bihar, India

Sushil Sharma is an automotive parts dealer in Sheohar. He has opened three Eko SBI accounts for his family. He was fascinated by the idea of an SBI account on his mobile phone, as he was in need of such a convenient account to meet his business needs.

Uses of Eko SBI account

- Making payments to his suppliers who have Eko accounts. *"Yahan baithe baithe sabko paisa transfer kar sakte hain"* (I can send money to my suppliers without moving an inch.)
- Receiving payments from his customers in another town. This saves money and time for Sushil, who earlier had to travel long distances on his bike in order to make collections.
- Small savings for the household.

Problems faced:
(The White highlight indicates the problem was subsequently solved by Eko/ SBI)

- **Process:** He wished that he was able to transfer money to all his merchants directly without any need to visit Eko's agents or customer service points (CSPs).
- **Product:** He wants enhanced limits on transaction amount limits. On some days, when he has to transfer large amounts, the limit poses a problem for him, so the only solution now is for him to open additional accounts in other family members' names.
- **Service:** As he uses a non-Airtel number, there was always delay in receiving confirmation message for transactions. He was neither able to check his balance, nor call customer care.
- **Service:** For higher withdrawals, he has to visit 2-3 CSPs, as a single CSP is not able to meet his needs due to their lack of liquidity. On the other hand, he also says that now there is competition between CSPs, with CSPs aggressively requesting him to visit their counter.

Service: Care and Attention Provided By Agent[1]

The agent is the primary interface between the ANM and the customers. His/her ability to sell the product influences customer acquisition, and his/her ability to explain critical features and procedures ensures usage. At the outset, s/he explains the product to customers and sometimes even physically shows them how to conduct transactions. Thus, the customer's experience is largely determined by the agent. Accordingly, the CSM must try to understand the following:

- Is the customer able to trust the agent?
- How easy or difficult is it to locate and approach the agent?
- Does s/he provide timely, professional and courteous service?
- Is the agent knowledgeable on all the m-banking services and products?

Tangibles: Appearance of Physical Facilities, Equipment, Forms, etc.

An important part of the customers' experience is ensuring that they are comfortable in the location in which they conduct the transaction and that they are provided clear and transparent documentation. This ensures that the customers come back for repeat transactions, which increases their comfort level with the channel. The CSM should ask questions related to:

- Does the counter at the agent's location have enough space (and privacy) for the customer to complete transactions?
- To what extent does the instruction manual help to clarify doubts?
- Does the customer receive a receipt for the transaction or receive an SMS confirming the transaction? Is this easy to understand?

[1] This Briefing Note focuses on agent enabled m-banking as practiced in developing countries.

Costs/Charges

The cost of the service will play a part in determining the extent to which customers will use it. In addition, there may be additional services that customers may want to pay for, such as cheque deposits or account statements, or there may be existing services for which customers are not willing to pay. Thus, the CSM should probe around the following issues:

- Does the customer understand all the charges related to this product?
- Does the customer feel the charges are reasonable?
- How do customers find out about the revisions made to charges from time to time?

Marketing and Communication: Effectiveness of Promotional Efforts

Most marketing efforts in the mobile banking world rely more on face-to-face communication and other „below the line' marketing efforts. Given that ANMs tend to be careful about resource allocation for marketing, they benefit from understanding how customers find out about their product and which of their marketing efforts have been most successful. In order to understand, the CSM must include questions such as:

- How did the customer find out about this product?
- How easily comprehensible/attractive did the customer find the communication about the product, its features and pricing?

But CSMs look so hard and expensive.
Not necessarily!

MicroSave has been able to carry out CSMs for partners in a very simple and relatively inexpensive manner, requiring the following resources, on average:

- 4 staff
- 2 weeks for collecting and analysing the data
- 20 agents and 40 customers

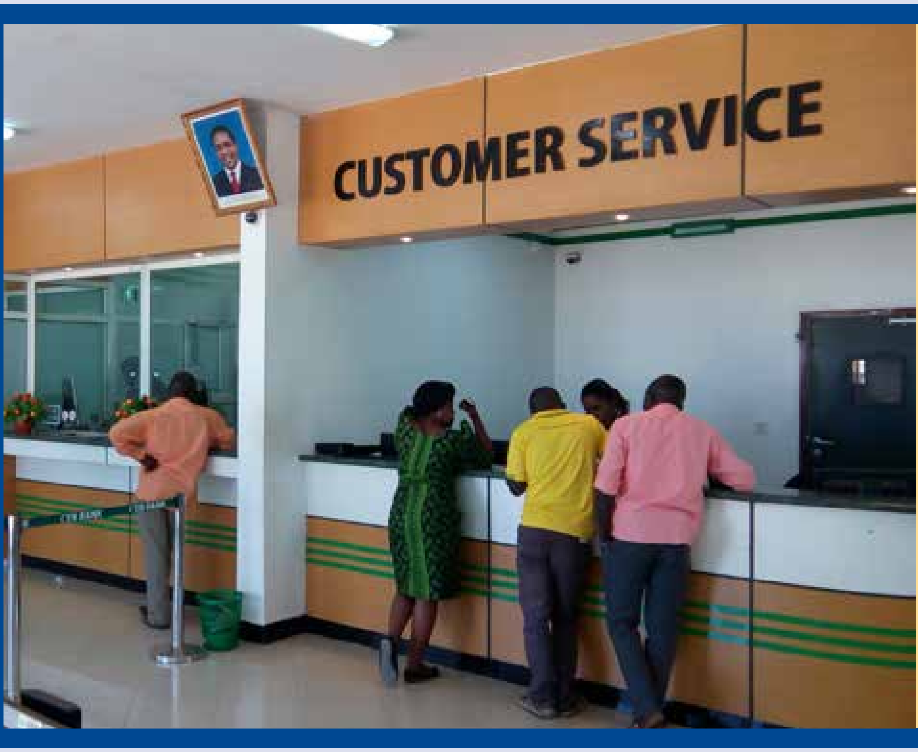
See India Focus Notes 81 and 82 for examples of how the CSM was used in practice.

Conclusion

This Note discusses the design and implementation of a CSM exercise which seeks feedback from m-banking customers on important areas that influence take up and on-going use of services. These areas should include (but not be limited to) the product, cost/charges, marketing, process and service provided by the agent. While there are many ongoing m-banking pilots, few have shown capacity to be taken to scale. The CSM is a good way to understand the extent to which the product is satisfying customer concerns and make amendments accordingly. When conducted in conjunction with a channel or agent CSM,[2] which obtains feedback from agents, the resulting data can prove to be a powerful tool to enhance the value proposition of the m-banking product.

[2] Described in the previous Briefing Note # 110

Customer Support for E/M-Banking Users



Swati Mehta

Customer delight is no longer a 'nice-to-have' strategy, but increasingly recognised as integral to any sound business-model. Given the high cost of customer acquisition and wafer-thin margins, the longevity of customer relationships is quite fundamental to the very survival for providers servicing the poor. A delighted customer not only drives the usage to a higher level, but becomes an advocate, and a tremendous catalyst for marketing efforts through word-of-mouth promotion.

While customer service and support is important for any product, it is vital for financial services that deal with people's money. It is even more significant in the context of the illiterate/semi-literate poor, having their very first experience with financial services delivered through non-traditional channels, outside bank branches through retailers or business correspondent agents. This Note examines various dimensions around enhancing customer experience.

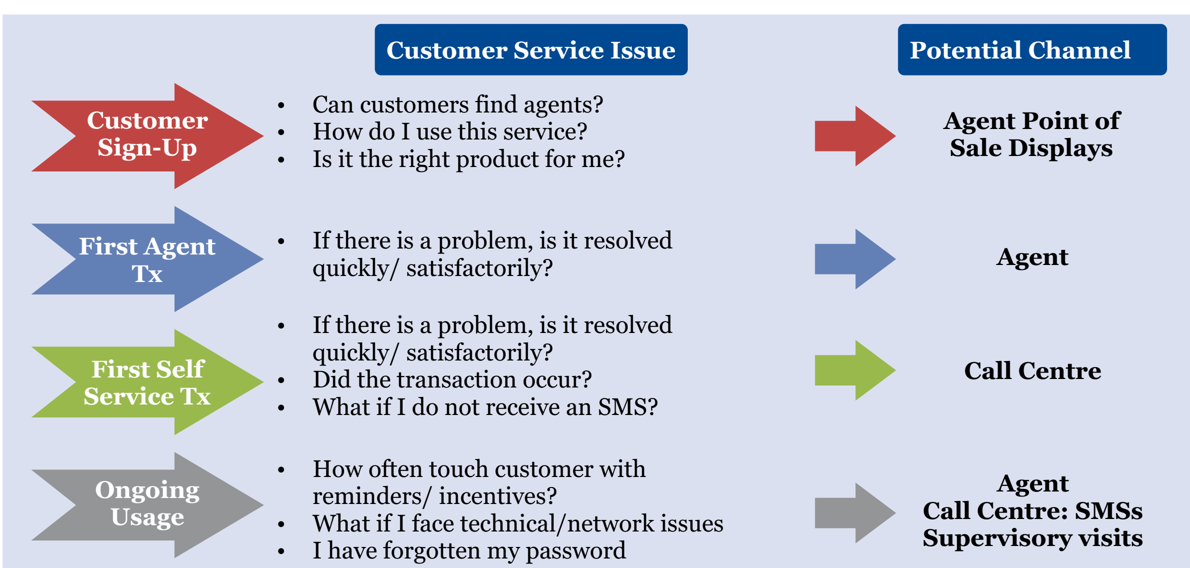
Consumer Usage Lifecycle and Service Issues

Customer needs for support in the context of e/m-banking vary at different lifecycle stages and should to be addressed accordingly (see exhibit in next column):[1]

1. ***Customer sign-up:*** To be able to find the agent location; understand the product features and their benefits; and understand how to sign up for the product, make enquiries about status in case of delay in service activation / card issuance.
2. ***First agent transaction:*** To understand how to load and access the service or the application, if required; understand the process of making a transaction; and troubleshoot in case of a problem.
3. ***First self-service transaction:*** To receive support when conducting self-service transactions in terms of network/connectivity support, transaction confirmation, troubleshooting, delays and so on.
4. ***Ongoing usage:*** To receive regular updates and reminders; troubleshooting; new product enrolment and other support.

Channels for Customer Support

The relevance and utility of methods for providing customer service and support varies during



[1] Adapted from the CGAP Framework for Active Customers

the usage lifecycle. The most widely used channels are – (a) front-end agents; (b) call centres; (c) monitoring visits and interactions by supervisors/managers during visits to agent/ customer locations; (e) information through point of sale displays; and (f) SMS interactions.

Front-end Agents

Agents are the first and the most critical point of contact for customers. Thus, their importance and role in ensuring high quality customer support is clear. This can be achieved through a three-pronged approach.

a. ***Agent selection:***[2] It is important to ensure that the agent recognises his/her vital role in providing customer support and is capable of delivery. Though subjective, the agent selection process should seek to assess agent's ability and willingness to offer customer support services.
b. ***Training and information material:*** Next the agents must be armed with appropriate training and adequate information material such as process manuals, product information and frequently asked information guides. The training should lay adequate emphasis on the basics as well as critical aspects of customer service for which agents are responsible.
c. ***Incentivisation:*** Agent incentives are normally on a fixed-fee basis or linked to the number of accounts opened and the value or the volume of transactions conducted. In order to drive customer delight, these need to be altered to include incentives on customer longevity and satisfaction. Some metrics that can be adopted are: average quarterly balance maintained by the customers; percent of active customers that are more than 6 month/ 1 year/ 2 years old; consumer complaints as a percentage of total enrolled/active base; inactive customer base; feedback surveys and so on. This can greatly motivate the agents to acquire the right customers, attend to their issues and ensure their satisfaction.

Call Centre for Customers

ANMs and banks often provide remote support for frontline agents. There is however an equally compelling and acute need for a direct helpline for the customers. This becomes an essential fall-back option when agents are unavailable or unable to address consumer queries or grievances. Customers get an opportunity to provide feedback on agents or lodge complaints in case of unsatisfactory service or to simply call to inquire about products or agent locations. If this can be made reliable and efficient, it has the potential to boost customers' trust many fold as they would have a 12x7 or 24x7 accessible recourse mechanism.

In order to ensure call centres are reliable and efficient, certain measures need to be put in place: pre-defined turnaround times; well trained and suitably informed call centre executives; tracking open cases; and escalation for unresolved / delayed cases. At Eko, an ANM in India, every service denial complaint is tagged to the particular agent.[3]

Call centres can also provide valuable insights to ANMs and can be effectively used as a channel to communicate with customers, or as a resource to enhance marketing efforts and quality of operations. For instance, if there are too many queries on a particular product, it suggests that some promotional/marketing efforts might be needed. Outbound calls can be made to increase sales, disseminate product information, introduce special offers, conduct research for new products, and obtain feedback for existing products. Equity Bank in Kenya recently conducted a huge marketing campaign to launch its m-banking product. Their call

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[2] See *MicroSave* Briefing Note # 81 "M-Banking Agent Selection" and India Focus Note 66 "What Do Clients Want in E/M-Banking Agents?"
[3] See *MicroSave* Briefing Note #130 "Customer Service Through Call Centres"

centre played an important role to measure the effectiveness of various media channels used and provide inputs for future marketing strategy.

Call centres can be in-house or outsourced, with toll or toll-free access, depending on the strategy, scale and cost-benefits for an ANM. Often providers commence with a toll-free service and subsequently introduce charges once the customers are accustomed to the m-banking service.

Monitoring and Supervision

Periodic visits to agent locations are necessary to monitor agent activity, identify and mitigate risks and to receive customer feedback. These visits should include assessment of consumer related issues and could include monitoring customer service levels, point of sale displays (particularly pricing), instances of mis-selling or overcharging customers and so on. These visits should be made by both bank and ANM staff. Appropriate mechanisms such as mystery shopping and test transactions at the agent location, can be institutionalised to enforce monitoring discipline. Suitable rewards and penalties need to be imposed for non-compliance. In Mexico, regulations empower the supervisor to shut down an agent's operations partially or totally for inappropriate customer service.[4]

Some ANMs/banks also outsource the monitoring function. M-PESA uses the services of Top Image for monitoring front-end agent activity. Banks/ANMs can couple these visits with customer interviews to assess customer satisfaction levels, wherein the staff can use a questionnaire to gather feedback.[5]

Information at Point of Sale (POS) Displays

In many countries, regulations require agents to display important information - such as certificate of appointment, grievance redressal process, product pricing - prominently. In Colombia, agents are required to display notices informing clients that withdrawals depend on availability of cash at the agent. In Brazil, Colombia, and Mexico, marketing material and transaction receipts must disclose that the agents are associated with a licensed financial institution.[6]

POS displays also aid branding the outlets so that customers can identify them. ZMF [7] in India displays bank's sub-brand "SBI Tiny" to enable customers to identify their outlets easily and to build trust. They can also be used to communicate with the customers about new products and promotions.

Who is Responsible for Customer Support?

In certain countries like Brazil, Mexico and Peru, regulations provide for strict guidelines to ensure customer protection and support in terms of disclosures, supervisory requirements, cash management, data privacy norms and so on. However ANMs need to increasingly recognise that superior customer experience and delight is no more an option or a matter of compliance, but needs to be integrated into institutional strategy and functioning at all levels. E/m-banking systems depend on above all on clients' trust. Customer service is key to building and maintaining that trust.

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[4] See Page 16, CGAP Bank Agents: Risk Management, Mitigation, and Supervision

[5] See *MicroSave* Briefing Note # 110 Managing Channel Satisfaction in Agent Banking 1/2
and # 111 Managing Channel Satisfaction in Agent Banking 2/2 for more details on managing customer satisfaction

[6] See CGAP Protecting Branchless Banking Consumers: Policy Objectives and Regulatory Options

[7] ZMF or Zero Mass Foundation is a business correspondent for State Bank of India (SBI)

Success Factors of Equity Bank's Agency Banking

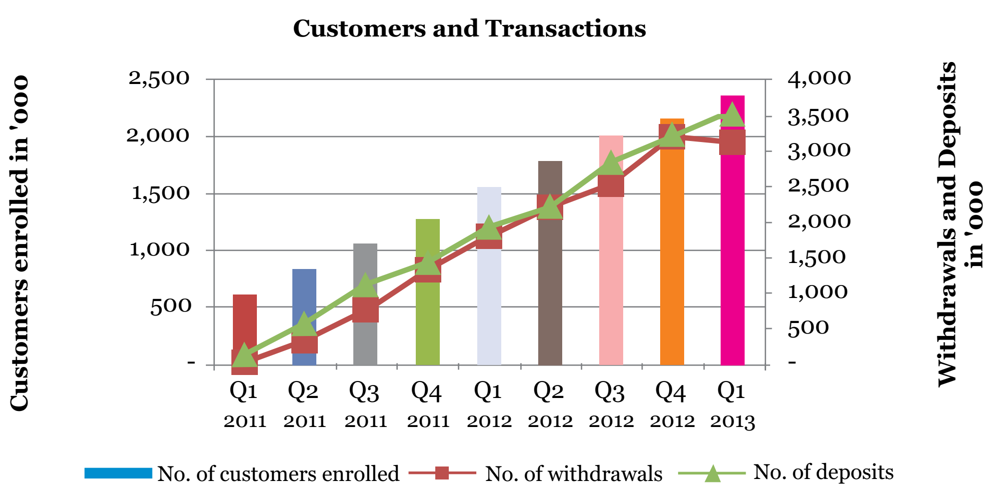
Venkata N. A. and
Priyank Mishra

Equity Bank has grown to be one of the largest banks in East Africa. Though the bank continues to invest in rolling out brick and mortar bank branches, access to formal financial services remains a big impediment to financial inclusion for many Kenyans. People need to travel to long distances to get to bank branches, which involves the cost of travel, as well as time spent for travel and waiting in the queues.[1]

To address these challenges, in 2010, Equity Bank started its agency banking business model using mobile phone and point-of-sale (POS) technology. An "Equity Agent" is a commercial entity that has been contracted by Equity Bank to offer specific products and services on behalf of the bank at his/her outlet, and must be duly approved by the Central Bank of Kenya. This entity is then equipped with the skills necessary to provide basic banking services according to standards set by the bank.

Currently, Equity Bank offers basic savings services through agency banking and in future it plans to offer a wide range of products and services to customers without their having to visit a branch. This will enable the customers to access fast, convenient and affordable banking.

By the end of March 2013, over 2.3 million customers had registered for agency banking. Around 80,000 transactions are made each day at 6,892agent outlets. These numbers are purely savings related transactions – deposits and withdrawals. Few implementations across the globe have achieved these numbers in 2.5 years, and indeed most are still trying to survive. So what are the "key success factors" for achieving these numbers?
Many people might say the key factor is Equity Bank's location in "M-PESA land" where people are habituated to using agents and their mobile phones for financial transactions. However, then the obvious question is, "Why Equity Bank is the only bank in Kenya to achieve such a high number of customers and transactions?"



[1] See *MicroSave* India Focus Note # 67 "Clients' Willingness to Pay "Reasonable Fee" for BC Services"

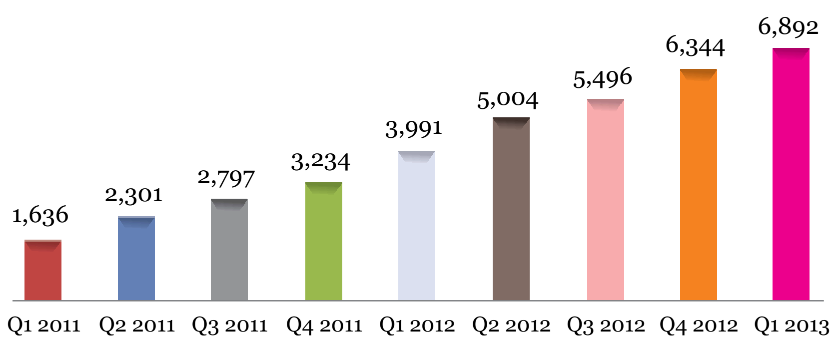
Strategy for Running Agency Business

One key determinant, according to Equity Bank, has been the bank's strategy to rollout and manage agents through its branches instead of using a third party agent network management company. Thus, every activity necessary for agent management: recruitment; training; branding: marketing: liquidity management; operations support and monitoring is run through the bank's branches with high level support from the head office and a centralised contact centre.[2]

Also, in recognition of the challenge of rolling out an agent-based model, to reach millions of people across the country, the bank has created a separate agency banking department which reports directly to Director of Operations. At the head office, the agency banking team is divided into six pillars - business development; distribution; operations; training; customer experience; and quality assurance.

At the branch level, a dedicated Agency Supervisor (AS) is recruited specifically to take care of the agency business. The AS reports to the Branch Manager as well as to the agency banking team at head office. The AS is the prime owner of agents, and hence bank has been working hard to optimise the supervisor-agents ratio to not more than 1:40 per branch. If there are more than 40 agents under a branch, the bank recruits additional supervisors to take better care of the agents.

Growth of Agents



The Business Model

A big advantage of the bank's business model is that every customer account opened by an agent is on its core banking system. This enables the customer to operate the account at its branches and also at ATMs. Similarly, a customer who opened his/her account in one of its branches can use the agency channel by subscribing to the Eazzy 247 service. This provides a complete banking experience to all of its customers.

[2] See *MicroSave* Briefing Note # 137 "Structuring and Managing Agent Network – II"

Account opening can take place at all agent (but not cash merchant) locations and turn-around time for activation is a maximum of two days. This makes the model attractive for customers who do not have to go to the distant and/or crowded branches.

The account opening process is simple and very effective. The customer needs to fill out an account opening form and submit it to the agent. The agents are equipped with GPRS enabled mobile phones with a basic camera. Agents use these phones to input customer details using an online application form, and to take and send a photograph of the customer and his/her "know your customer" (KYC) documents. On submission of the form online, the request for account opening goes to a centralised back office team. The team checks the details and quality of the images of KYC documents. On positive verification, the application is processed and the account is opened. The customer is informed about his account number and MPIN through two different SMSs on his/her mobile phone. Upon funding the account for the first time, the customer can opt for a debit card as well. The customers find the transaction process simple, quick and it runs on USSD interface.

Aggressive Branding and Marketing

Since the launch of this service, the bank has paid special attention to its branding and marketing. In fact, the formal launch was a big bang event with major marketing initiatives like road shows, TV and radio talk shows and advertisements, campaigning in market areas through banners, posters and fliers. This campaign created a "buzz" in Kenya that Equity's agent-based services had been launched in order to empower people to manage their savings accounts and pay utility and other bills through their mobile phones.

The majority of the agent outlets are painted in Equity's livery and are well endowed with marketing collaterals.

Listening to Customers

The tagline of Equity Bank is "your listening and caring partner". Equity Bank puts great emphasis on listening to, and caring for, its customers. A core business practice of the bank is to always go back to its customers and seek their feedback on the services being offered, as well as ones that they might want to avail using the agency channel. This approach has been used for product development; refining the agency model to differentiate between cash merchants and sales agents responsible for selling the bank's products; pricing of services; branding, marketing and communication strategy development; as well as user interface and other IT related issues. Throughout the development of its agent-based business bank has been always attentive to the voices of both its customers and its agents to improve the service offering.

Equity Bank also has a dedicated contact centre, for its agents as well as customers, to reach out to the bank for any query or issue resolution. It also conducts a quarterly "Customer and Channel Satisfaction Measurement and Management" survey among its customers and agents to take their feedback (complaints, grievances, appreciation, improvement areas). Where possible and appropriate, these are incorporated in the channel strategy and operations.

Technology

Unlike many banks in South Asia where the data used to be housed on parallel "financial inclusion" servers (maintained and managed by agent network managers) in order to reduce costs, Equity Bank maintains all customer data on its core banking solution. All the customers can get debit cards. Agents can conduct transactions through mobile phones or POS devices, which reduce problems with weak mobile network connectivity. The POS devices also address the needs of some customers for proof of transaction.

After a long period of experimentation, Equity Bank has developed a robust platform and its servers are able to handle a high number of transactions on day-to-day basis.

Charges/ Commissions

Unlike most of Asia and elsewhere in the world, African customers are used to banks charging for withdrawals over the counter and at ATMs. This has increased customer willingness to pay for withdrawals and other services at agent outlets as well. Although the bank charges a bit higher than the ATM withdrawal charge (Ksh.30 flat) for transactions above Ksh.2,500 at agent outlets (Ksh.45 up to Ksh.5,000), many customers seem willing to pay for the easy and convenient access and personal touch that agents offer. Equity Bank pays good commissions to agents for withdrawals and deposits. As is common practice, while customers are not charged for deposit transactions, the bank still pays the agents for deposits to motivate them to enable these transactions.[3]

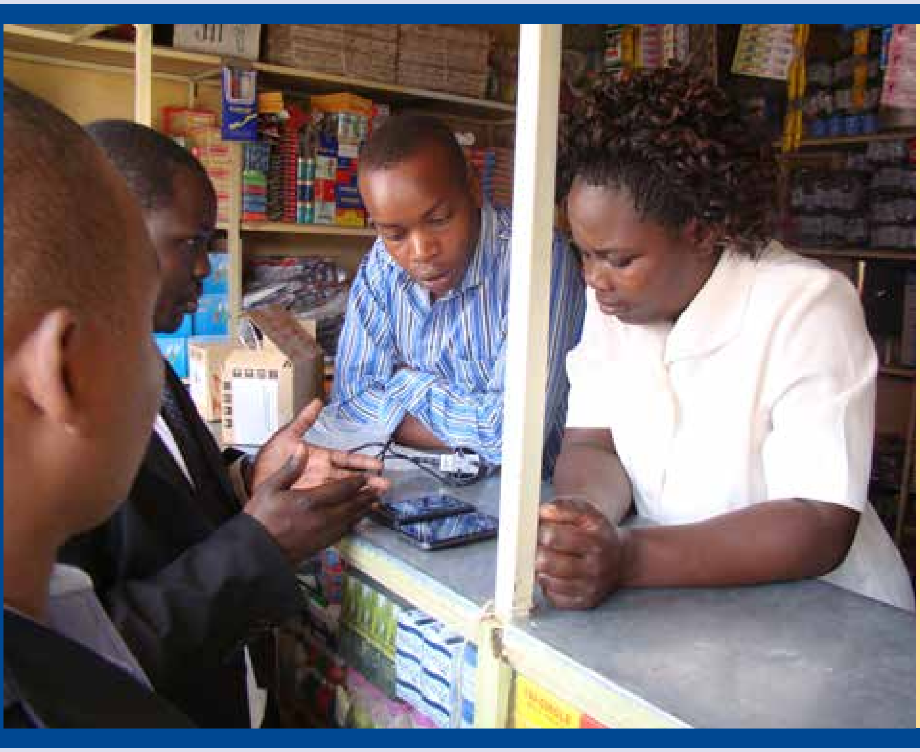
Conclusion

Equity Bank is currently refining its agency business model to open more outlets by allowing its agents to sub-contract cash-in and cash-out services to cash merchants. The new model will significantly extend the number and reach of the bank, offering customers access to cash merchants wherever they go. The bank is planning to reach out to more of the unbanked and under-banked population and also to expand the agency network to serve 80%, from 28%, of the total bank customers through the agency channel by end of 2013.

> **"In the next few years, banking services will continue to be required, but bank branches will not. Banking will be done from home, in traffic, in the office and on the go."**
>
> **- Andrew Wakahiu, GM-Agency Banking, Equity Bank**

[3] See *MicroSave* India Focus Note # 72 "Sustainability of BC Network Managers (BCNMs): Review of Commission Structures"

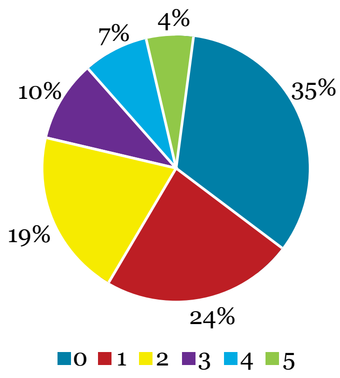
What Is Driving Agent Churn In The Mature East African Markets?



Graham A.N. Wright

One of the most striking findings from The *Helix's* Agent Network Accelerator (ANA) surveys has been the high levels of agents that have been in business for less than one year. In Tanzania only 18%, and in Uganda 21%, of all agents had been in business for two years of more. In Kenya 40% of agents had been in business for 2 years or more. In part the large number of novice agents (in Uganda 52%, and in Tanzania 45%, of agents have been in business for less than one year) may be ascribed to the rapid expansion of agent networks in these countries.

Years Of Operation As As Agency: Kenya

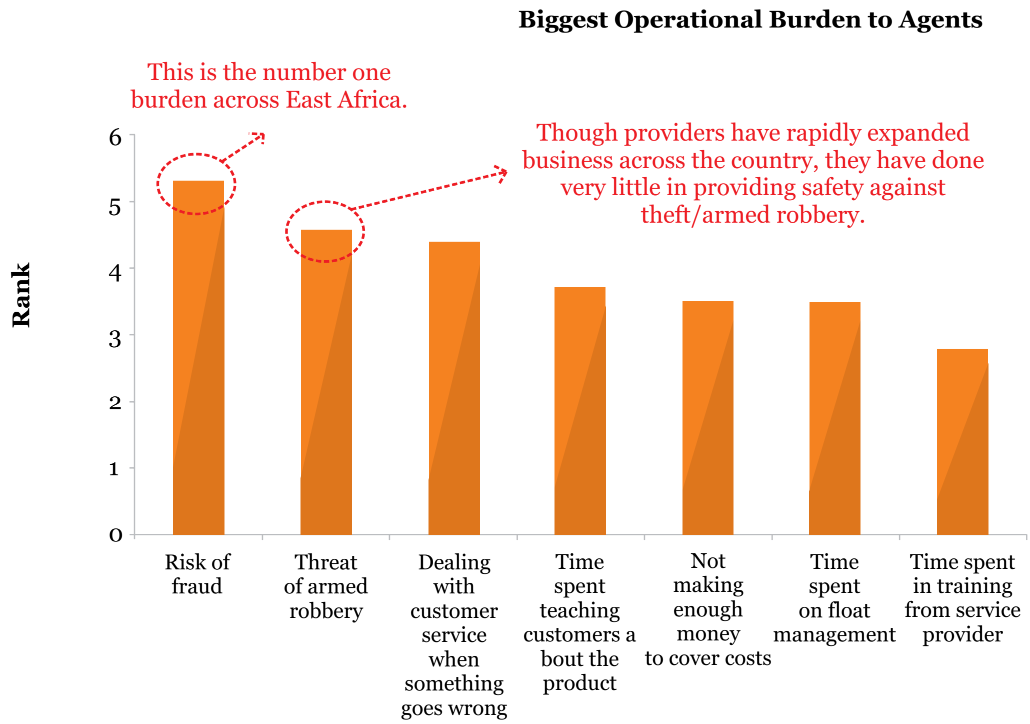


We know, for example, that in 2013 Kenya Safaricom tried to persuade M-PESA agents to hold more liquidity by increasing commission rates on higher value transactions. When this had little/no impact on agents' liquidity holdings, Safaricom returned to their original approach of saturating the market with agents. This allows customers seeking to conduct larger transactions to either go to the larger agents that hold bigger liquidity pools (for example those of PEP Intermedius) or split the transaction across several of the larger number of smaller, less liquid, agents. *MicroSave*'s qualitative research indicates that this is now essentially accepted market practice in Kenya. But rapid agent network growth is unlikely to be the full story.

In Uganda 78%, and in Tanzania 70%, of agents expected to be in the agency business in a year's time. This implies a latent churn rate of 22-30%, which is somewhat alarming, given the requirements to locate, on-board and train new agents. (Although the ANA data suggests that most providers, with the notable exceptions of Safaricom and Equity Bank, still provide limited training, monitoring and support services. This is sad, given that so many of agents' operational problems, particularly round fraud management, could be mitigated by these basic maintenance activities).

But the projected churn figures in Uganda and Tanzania are positively reassuring compared to Kenya, where only 58% of agents said they thought they would be an agent in one year's time.

Risk Of Fraud Most Burdensome To Agents' Business*

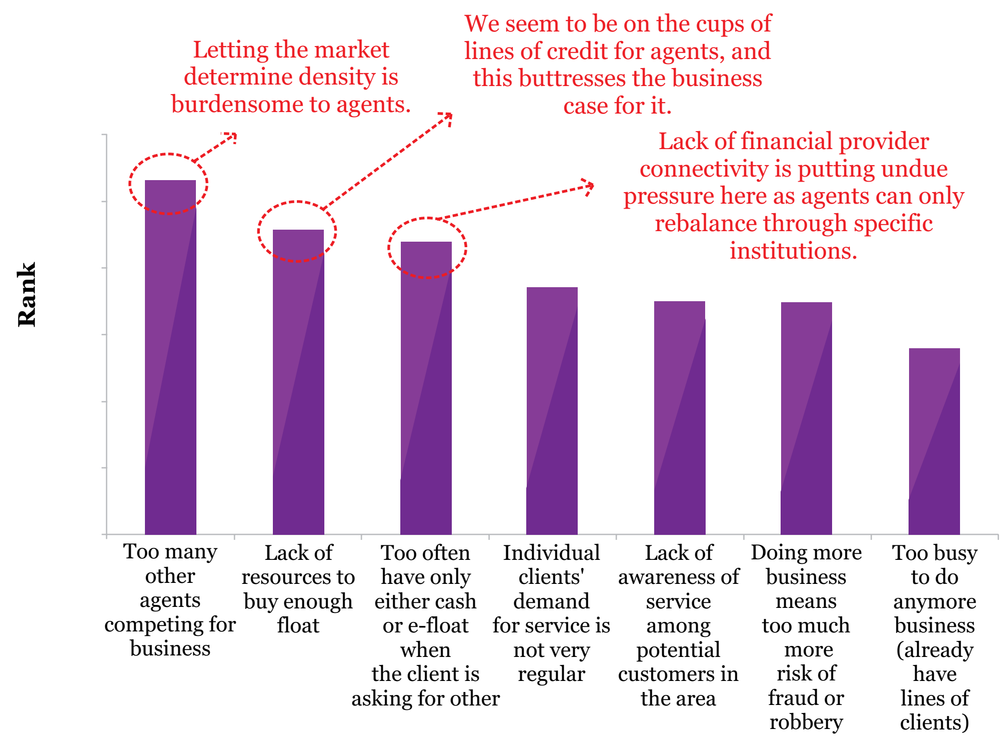


*These scores are weighed averages of rankings, so that higher scores represent dimensions receiving a higher ranking.

So if agent churn is indeed so high, what might be driving it?

We began to unpack this in the blog Challenges to Agency Business – Evidence from Tanzania and Uganda. And, as can be seen from the graph, the findings in these two countries were reflected again in the most recent Agent Network Accelerator data from Kenya, where once again the risk of fraud and armed robbery topped the list; closely followed by the challenges of dealing with customer service when transactions go awry or the system is down.

Largest Stated Barriers to Daily Transactions*



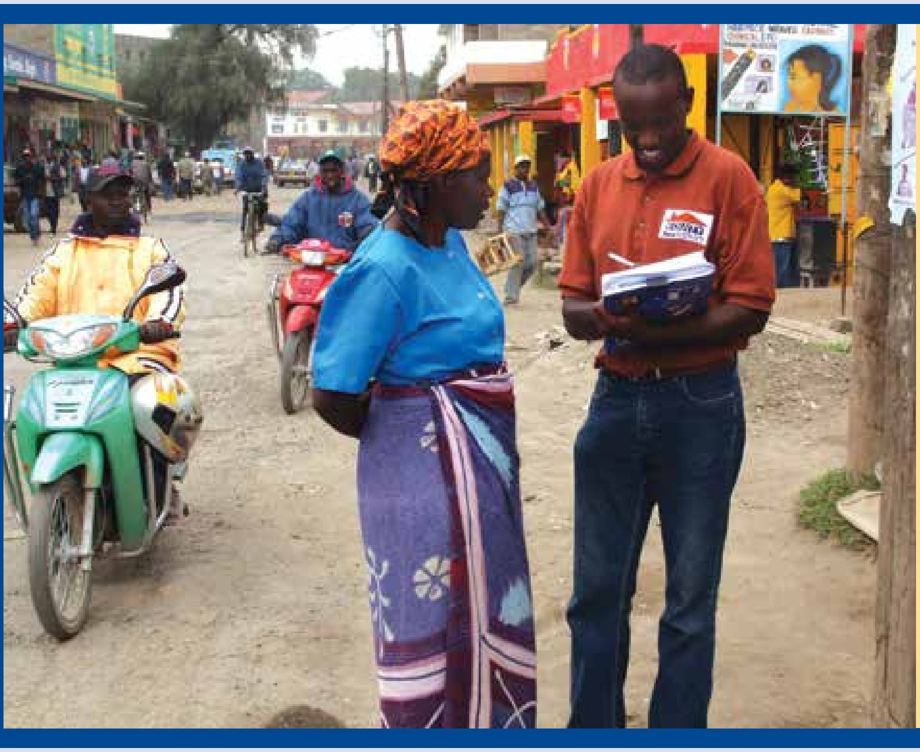
*These scores are weighed averages of rankings, so that higher scores represent dimensions receiving a higher ranking.

But a growing number of agents in Kenya are also complaining that they are simply not making enough money from the business. We have seen that overall agents in Kenya make a median monthly profit of $70 - compared to $78 in Uganda and $95 in Tanzania. However, disaggregating this to look at the rural agents, we can see that Kenyan rural agents only make a median profit of $53, compared to $86 in Uganda and $95 in Tanzania.

Agents primarily ascribe this to, “Too many other agents competing for business” as well as (to a lesser extent) challenges around float management.

Should we conclude that “saturating the market” has limitations and draw-backs as a strategy?

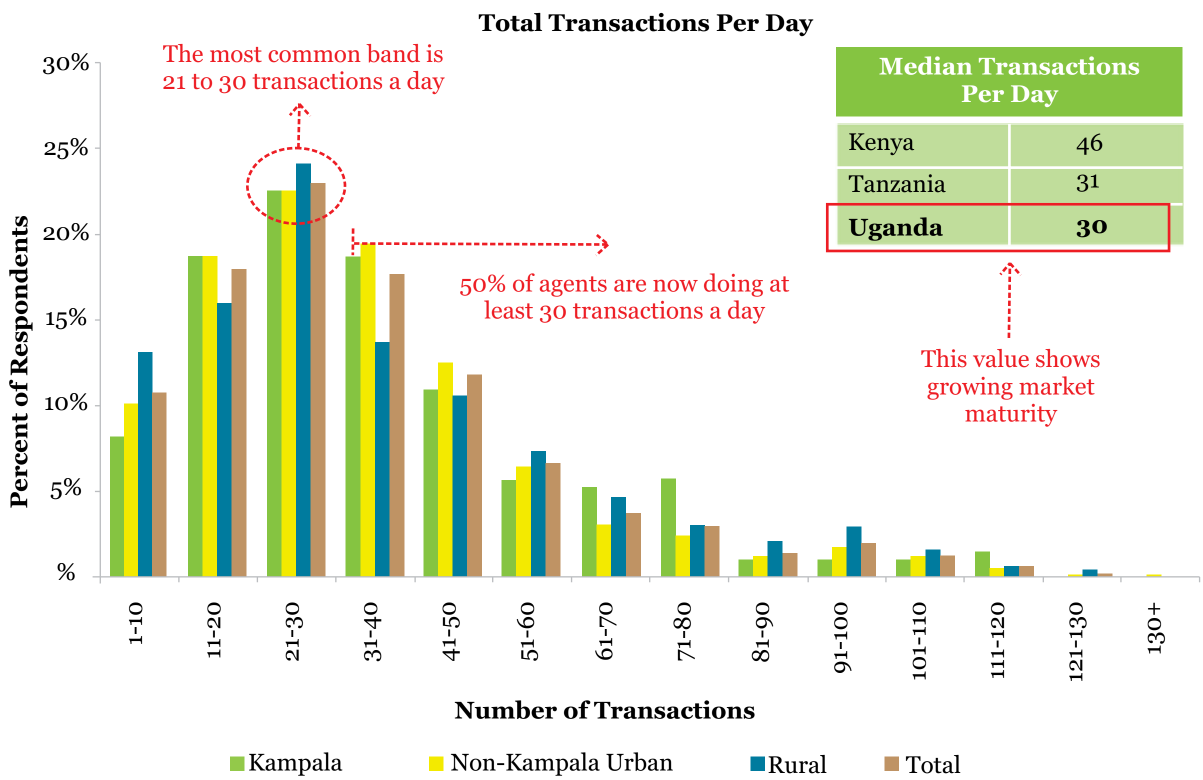
Bending the Rules for Better Customer Service is probably a Good Thing



Doreen Ahimbisibwe

Recently, a team of qualitative researchers interviewed sixty mobile money agents and users in Kenya and Uganda to understand the drivers of important behaviours like non-compliance. The findings were intriguing since it was clear that the driver of agents breaking some rules and regulations was their ambition to provide excellent customer service and thus increase the likelihood of repeat business, and therefore the reputation of the provider's brand they represent. From this perspective it is quite ironic that they might receive heavy penalties from the providers or regulators themselves for this.

Daily Transaction Levels* Show Healthy Business For Agents



Median Transactions Per Day	
Kenya	46
Tanzania	31
Uganda	**30**

*Numbers represent transactions per day by selected provider, not overall volumes for the agency.

The ANA Uganda country report shows significant variations in transaction levels between agents, across urban and rural settings. There are various factors that affect number of transactions at the agent point, the quality of customer service being amongst the most paramount. Good agents consistently strive to offer a trustworthy and convenient service and with competing agents usually located all around them, they have to be clever about using all the tools and relationships they have available. This enables them to grow a loyal customer base and guarantees demand for their services, however, as can been seen from the three examples below sometime they prefer to work outside the system to do so.

Customers transacting without identification: Most of the agents interviewed do not enforce the regulation that requires customers to show their identity cards before a transaction can occur. Whilst one could argue that display of identity card is actually to the benefit of the agent as chances of being conned or defrauded are decreased, some of the agents said that many of the customers come to transact without identity cards and insisting on it will likely lead to loss of customers since there are plenty of agents willing to serve them without their identity cards. *Helix* Institute research in Uganda in 2013 further revealed that agents reported recognizing a median of 50% of customers they served as repeat customers. At some point it is just embarrassing to ask people you know to prove who they are, and agents seem to favour serving customers more informally to encourage their return business.

Direct Deposits: In this case, the agent receives instructions from the customer on what amount to send and to where, and the agent goes ahead and sends it directly from his phone to the recipient. Mary, a customer in Uganda, requests her agent to send money to an intended recipient on her behalf, and she later pays him when she gets cash. The convenience of being able to send money on credit, and with some customers, even being able to call their agent to have it sent and then go in and pay later is incredibly convenient.

Such cases are not just common in Uganda. An M-PESA customer in Kenya mentioned that her agent allows her to conduct transactions even when she is not physically present at the outlet. Most telecoms try to discourage this behaviour as it means they have to pay the agent a commission on the deposit, yet do not earn revenue on the P2P transfer, as it is circumvented by having the agent make the transfer themselves. Telecoms might think about how to price these activities into the system as opposed to banning the increased levels of customer service their agents are offering.

Customers not signing the record book: When customers make a transaction, the agent is supposed to record it manually in a logbook and the customer is supposed to sign to acknowledge the details of the transaction, however, not all agents follow this practice. Agents say some of the customers are reluctant to do this as they are always in a hurry to leave and do not want to be bothered while others cannot write (almost 30% of Ugandan adults are illiterate). Again, the agents argue that insisting that the clients sign in the record book, makes them less competitive relative to the multitude of competitors in the market who are not strictly enforcing this regulation.

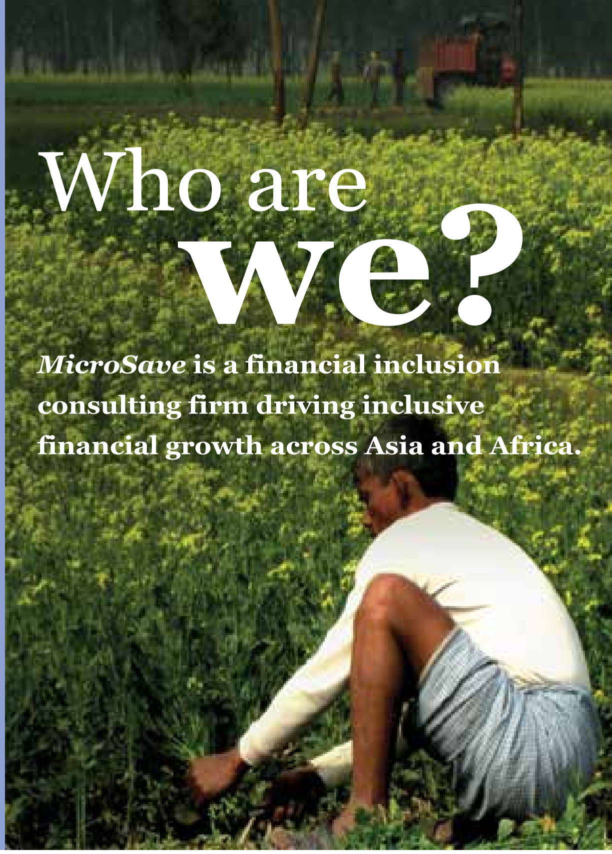
Why are these insights important?
Since better customer service, and thus increased usage, is in the interest of providers, agents and customers, it is time to be creative and examine ways that the customer needs that are driving these behaviours can be met within the bounds of mobile money system. Providers and regulators need to also understand that as the market matures, it becomes more congested with agents and different providers selling their services, and these types of behaviours will become both more common and also harder to control.

It seems time for a rethink in the name of customer service in advanced markets like Kenya and Uganda. IDs are not required at the ATM, can just a PIN be good enough at an agent as well? Or can agent interfaces be updated so that when they input a customer's number their ID pops-up in the screen for verification (tablets or smartphones would be needed)? Can the profile then be saved, so the customer can then be "fast-tracked" at that outlet in the future? Can a system be developed in general that allows agents to treat their preferred customers as such? The *Helix* Institute research in 2013 in Kenya and Uganda showed that 35% and 52% of agents respectively in each country had been operating for a year or less. This means there is only more competition to come, and providers who focus on these issues, and give their good agents an edge with customer service, will certainly see results in their bottom-lines.

Market-led solutions for financial services

Corporate Brochure

MicroSave



Who are **we?**

***MicroSave* is a financial inclusion consulting firm driving inclusive financial growth across Asia and Africa.**

Who do we **work** with?

Influencers and decision-makers amongst financial service providers - banks, microfinance institutions (MFIs), mobile network operators (MNOs), cooperatives and governments, donor organisations (foundations, multilaterals, bilaterals) and other groups including regulators, industry networks, etc. who in some way or the other contribute to financial inclusion.

Where do we **work?**

We have implemented projects across **Africa, Asia and Latin America** including: Afghanistan, Argentina, Bangladesh, Cambodia, Cameroon, Cape Verde, China, Colombia, Democratic Republic of Congo, Egypt, Ethiopia, Fiji, Ghana, Haiti, India, Indonesia, Kenya, Lao PDR, Liberia, Malawi, Mexico, Morocco, Mozambique, Myanmar, Nepal, Nigeria, Pakistan, Papua New Guinea, Peru, Rwanda, Samoa, Sierra Leone, Solomon Islands, South Africa, South Sudan, Sri Lanka, Tanzania, Thailand, The Philippines, Timor-Leste, Tunisia, Uganda, Vietnam, Zambia and Zimbabwe.

What do **we** offer?

MicroSave offers consulting services in the areas of Inclusive Finance & Banking, Digital Financial Services; Micro, Small and Medium Enterprises and Private Sector Development.

Areas of Expertise

1 Inclusive Finance and Banking

We provide consulting services to banks and MFIs to develop strategies, build innovative products and services, and design delivery systems to cater to the unbanked and underbanked segments. We give technical assistance to help clients focus on impact and value creation supporting the double bottom line.

2 Digital Financial Services

We offer consulting services to financial institutions, agent network managers, technology service providers, mobile network operators and government/government bodies to help them achieve financial inclusion. We also help clients design new business model architecture, implement solutions and improve systems to deliver financial products and services using digital platforms.

3 Micro, Small and Medium Enterprises

We expand access to finance for MSMEs, by supporting investors, financial institutions and enterprises. We build strategy, design business models, develop new products, manage risk, strengthen capacities, and optimise processes and systems.

4 Private Sector Development

We engage with donors, multilateral agencies, governments, non-government organisations, banks, MFIs and community-based organisations for agriculture value chain development, water, sanitation and hygiene (WASH), energy and housing. We assist these institutions to assess markets; formulate strategies, develop, test and deliver financial and non-financial products and enhance staff capacity.

Clients speak:

"MicroSave has made important contributions in the field of financial inclusion by successfully partnering with diverse stakeholders such as financial institutions, investors, donors, corporates and regulators for providing, what its corporate tagline claims, 'Market-led solutions for financial services'.

Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the Stakeholders' Workshop on Financial Literacy organized jointly by the UNDP, NABARD and *MicroSave* at Mumbai on February 4, 2013

"I got a lot of knowledge from this DFS course as well as more content to implement in our country. I would definitely recommend this course to others. If anyone wants to establish this business, they must take this course."

Sadab Tabani, Senior Executive, Distribution & Retail Sales - Grameenphone (Bangladesh), alumni, *The Helix Institute of Digital Finance*

What can we do for our clients?

Product and Channel Innovation

We innovate products and delivery channels to increase sales, optimise costs, and improve efficiencies. We reduce risks associated with new product design and channel augmentation, using our flagship Market Insights for Innovations and Design (MI4ID) approach.

Strategy Development and Governance

We formulate strategies and business models, develop financial and tactical plans, facilitate development and establishment of institutional branding and strategic marketing. Advise clients on institutionalising best practices in governance.

Research

We conduct market research (informed by behavioural economics), undertake sectoral analysis, feasibility studies, competitor analysis and industry assessments. We also conduct in-depth research on customer needs, behaviour and perceptions to support policy reviews, innovation and the design of financial services.

Organisational Strengthening and Risk Management

We deliver solutions designed to strengthen products, processes, systems and policies. We support delivery optimisation and development of risk mitigation frameworks. We also help institutions setup HR structures, supported by staff incentives.

Dissemination

We are a financial inclusion knowledge-hub and an inspiration source globally. We have decades of hands-on experience in designing and developing financial services. Our knowledge and insights are packaged in the form of research publications, technical notes, blogs and videos.

Training and Workshops

We design, develop and deliver training courses and workshops on subjects including market research, digital financial services, banking, process analysis, management of microfinance institutions, MSME financing, water & sanitation product development, savings mobilisation, strategic marketing, entrepreneurship development, financial education and youth microfinance.

Investment and Donor Services

We support investors and donors to assess financial institutions and service providers by conducting thorough institutional and portfolio assessments and due-diligence. We deliver capital advisory services-valuation of institutions and capital structuring. We conduct impact studies, monitoring and evaluation for donors and investors to assess the impact of grants/investments.

We forge Long term associations that transform & build clients

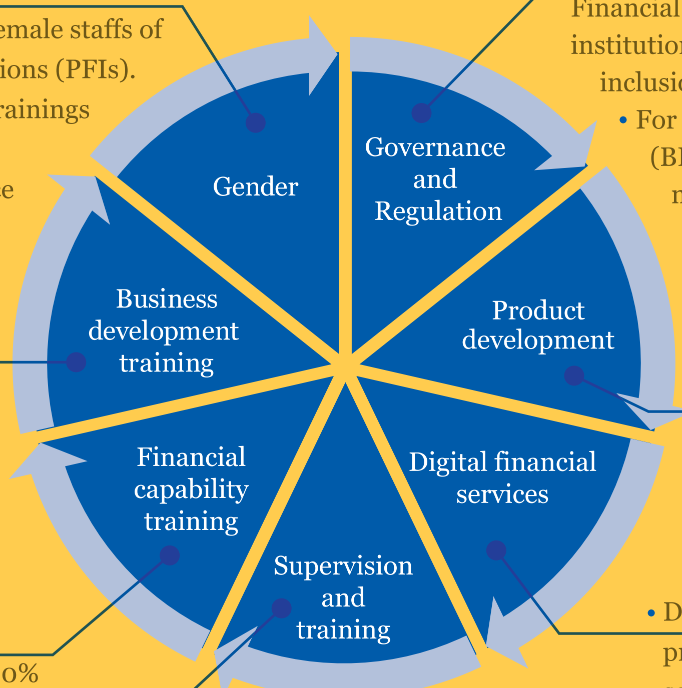
In 2001 Equity Building Society in Kenya approached *MicroSave* to understand the reasons for low uptake of their credit products. The resulting research and re-structuring of the products put Equity on the path to transformation into a bank and subsequent listing on the Nairobi Stock Exchange. *MicroSave* walked every step of the way with Equity, supporting its product innovation, costing & pricing, business process re-engineering, risk management, strategic and product marketing, staff incentives, etc. Recently, we have worked with Equity Bank to implement its digital finance strategy, drawing up the blue-print for its agency channel, optimising agent network management, developing products, digitising value chains and strengthening customer service. Over these fourteen years of close collaboration, the bank's customer base has grown from 109,000 to more than 10 million in six countries and it remains the most respected and celebrated mass market bank in Africa.

We change financial landscape in countries where we work – Papua New Guinea (PNG) Example

Since 2011, we have been working on a long term project in PNG, with support from Asian Development Bank (ADB), AusAid, and Government of Papua New Guinea (GoPNG) to increase access to finance. Additionally, we have worked on several short term projects with multiple partners.

- Financial literacy training to 34,276 females.
- 1,220 person days training to female staffs of Participating Financial Institutions (PFIs).
- 147 participants attended the trainings and workshops conducted by regulation team of Microfinance Expansion Project (MEP).

- Established Centre for Excellence in Financial Inclusion (CEFI), an apex national institution to coordinate all financial inclusion activities in PNG.
- For Bank of Papua New Guinea (BPNG), drafted regulations for microfinance services and guidelines for mobile banking.



- Target to train 22,000 entrepreneurs in business development strategy by 2017.

- 27 new financial product concepts developed. 16 products are in pilot testing stage.

- Trained 72,224 PNGians to enhance financial capability. 30% of participants have opened bank accounts post training.

- Designed processes and pilot tested products for the digital financial services product of a leading bank in the country.

- Enhanced customer centric market research capacities of 1,558 MFI staff, trained BPNG staff on supervision of MFIs and 'Saving and Loan societies' units.

We improve G2P programme designs and execution

We helped the Mahatma Gandhi National Rural Employment Gurantee Act (MGNREGA) payments become efficient and user friendly. Our work with Ministry of Rural Development, Government of Jharkhand, **saw an 87% decrease in the time taken (from 15 days to 2 days) to pay a MGNREGA beneficiary.** We assisted the Ministry to design processes and monitoring protocols. We mapped and documented the processes and trained front line staff to use alternate practices. **Our intervention has the potential to benefit about 2 million MGNREGA wage recipients who receive payments through Post Office in Jharkhand - and our methods will be expanded across India.**

We inform DFS providers in agent networks through cutting-edge research, knowledge based on global data

We co-founded* *The Helix Institute of Digital Finance*, in November 2013, to provide world-class training based on ANA data and knowledge to digital financial service providers. The training courses are designed explicitly for mobile network operators, banks, financial institutions and third party providers to enable them to increase the efficiency and profits of their digital finance business – thus facilitating more client-centric and sustainable delivery of financial services. **We have run nearly 20 training courses and trained over 300 participants from more than 115 digital finance roll-outs by institutions serving over 650 million customers in more than 30 developing countries.**

*The institute was established by *MicroSave*, with the Bill & Melinda Gates Foundation, the International Finance Corporation (IFC), and the UN Capital Development Fund (UNCDF).

We help providers offer responsible financial services

We help institutions achieve improved social performance ratings and client protection certifications**.** More importantly, we enable them to remain client- focussed and deliberate in putting their mission into practice. This creates a firm foundation for client loyalty and business growth. Our achievements: Trained > **150 people from 36 MFIs** in client service & protection, conducted social performance audits for **23 institutions,** and conducted client protection assessments for **9 MFIs.**

***MicroSave* partners with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value.**

MicroSave
Market-led solutions for financial services

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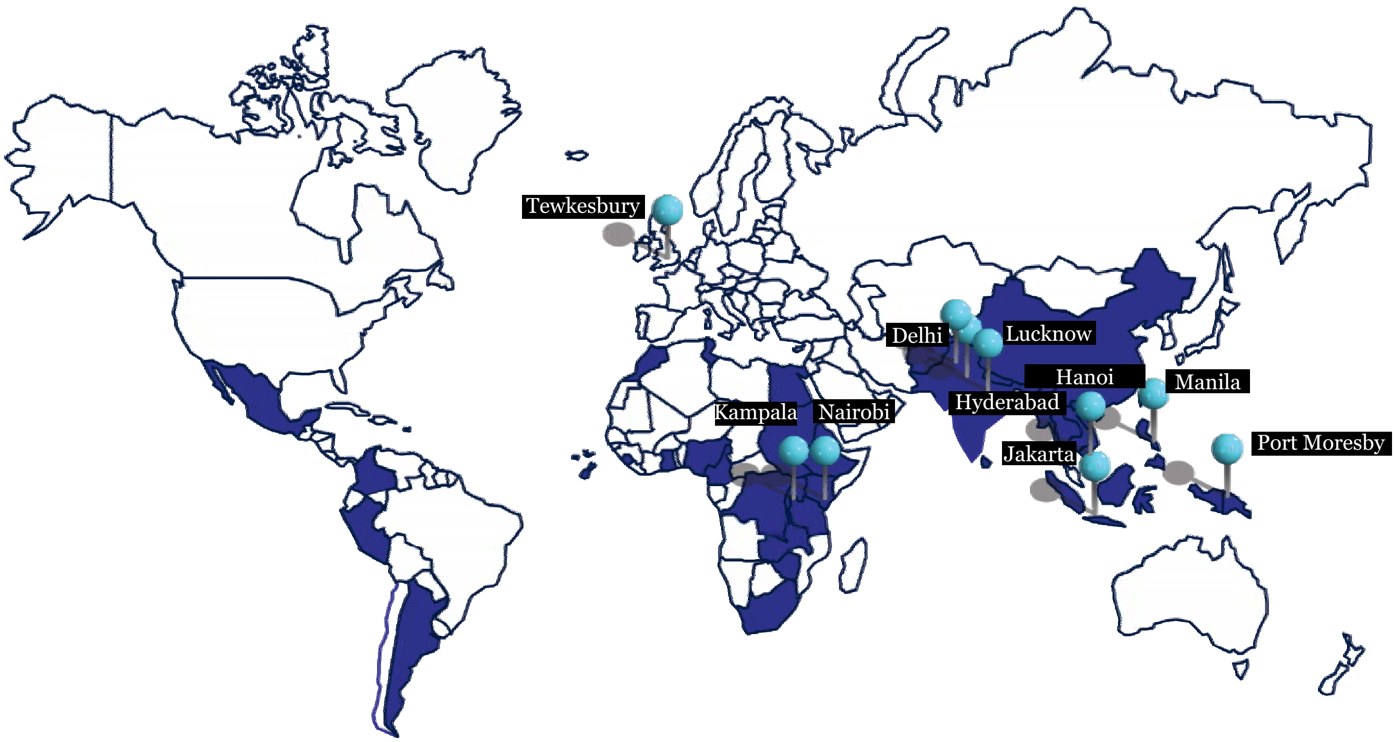

MicroSave

Market-led solutions for financial services

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