HELIX
INSTITUTE OF DIGITAL FINANCE

Scaling Your Agent Network

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MicroSave
Market-led solutions for financial services

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Session Plan – Network Build-up Strategy

1. Key decisions in building and scaling up agency network
2. Support structures for agent networks
3. Agent management hierarchies
4. Agent roles

Call Out:

What Are The Key Decisions That ANMs Need To Make While / Before Developing An Agent Network?

The Sub Scale Trap

- DFS deployments have predominantly remained sub-scale, despite considerable efforts around the world and support from enormous body of knowledge.

Network effects: The value of a financial deployment to a customer is directly proportional to the people actively using the service. It can greatly accelerate momentum when critical-mass is reached but it can also inhibit early adopters when there are few users.

Chicken-and-egg trap: Attracting providers (resellers/retailers) and users concurrently to enable providers to experience enough market potential and for customers to have enough outlets/servicing points.

Reaching critical mass enables building trust through the experience of others and therefore helps draw more customers.

What can be done to address sub-scale trap?

Building and incentivizing the distribution channel to promote the service and support building customer trust

Channel Push

Market pull to create top-of-the-mind awareness about the services

Marketing Pull

Creating a compelling push for customers to try, get comfortable and use the service

Customer Value Proposition

Decisions That An ANM Needs To Make

- **Deployment models**: building own network vs. using existing retail network
- **Scaling**: rapid vs. staggered growth
- **Scaling:** spread-dense vs. spread thin
- **Hierarchies**: structures to grow and manage the network

Other Considerations – Agent Network Build Up Strategy

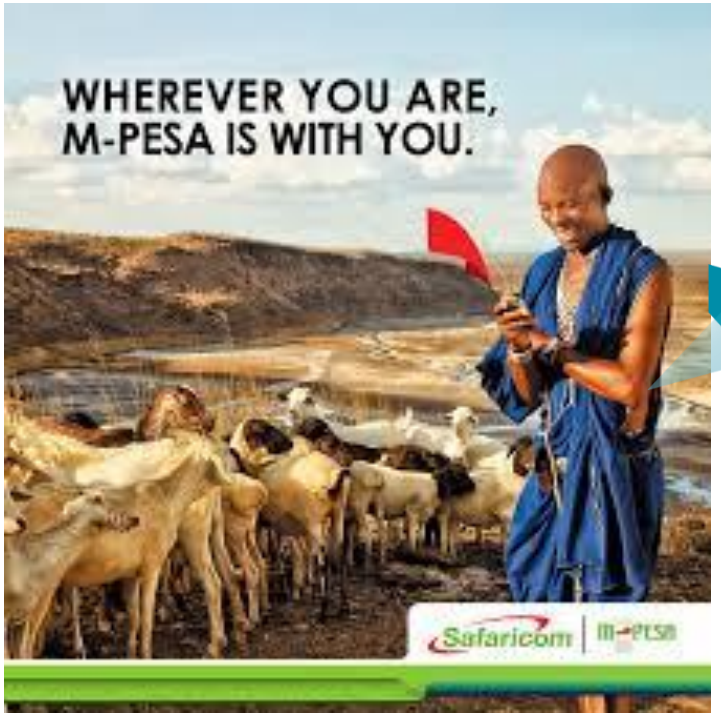
Market demographics	In urban areas, proliferation of agents will differ from rural areas due to density of the population and population characteristics…
DFS maturity of the market	In a mature market, customers are aware of the product features, and ANM is less dependent on the agent example –Kenya or Tanzania…
Resources	Financial muscle, human resources, technological limitations, etc.
Anchor product	For remittance product, specific corridor needs to have a fair presence of the agents
Competition	Competitive position in the market. Are you first to market or a '***Johnny-come-lately***'?

Remember The Customer Perspective!

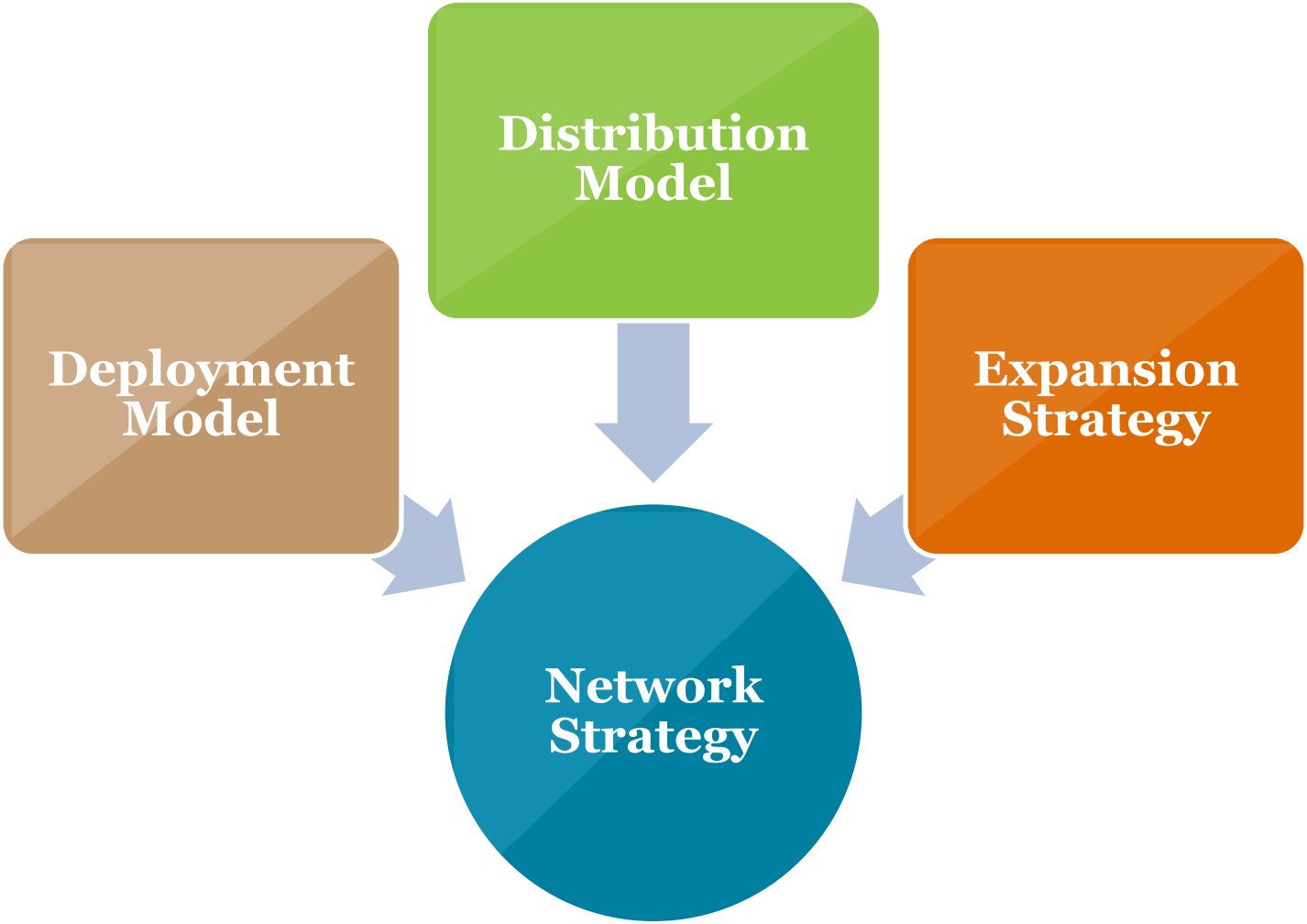
What do customers look for in an agent network ?

Desired attributes include :

1) **Reach** and ubiquity
2) **Convenience** (opening and closing hours)
3) **Trust worthy** – agent to be from local area and a well known brand
4) **Liquid** – can conduct transactions
5) Reliable source of **information** and good customer service

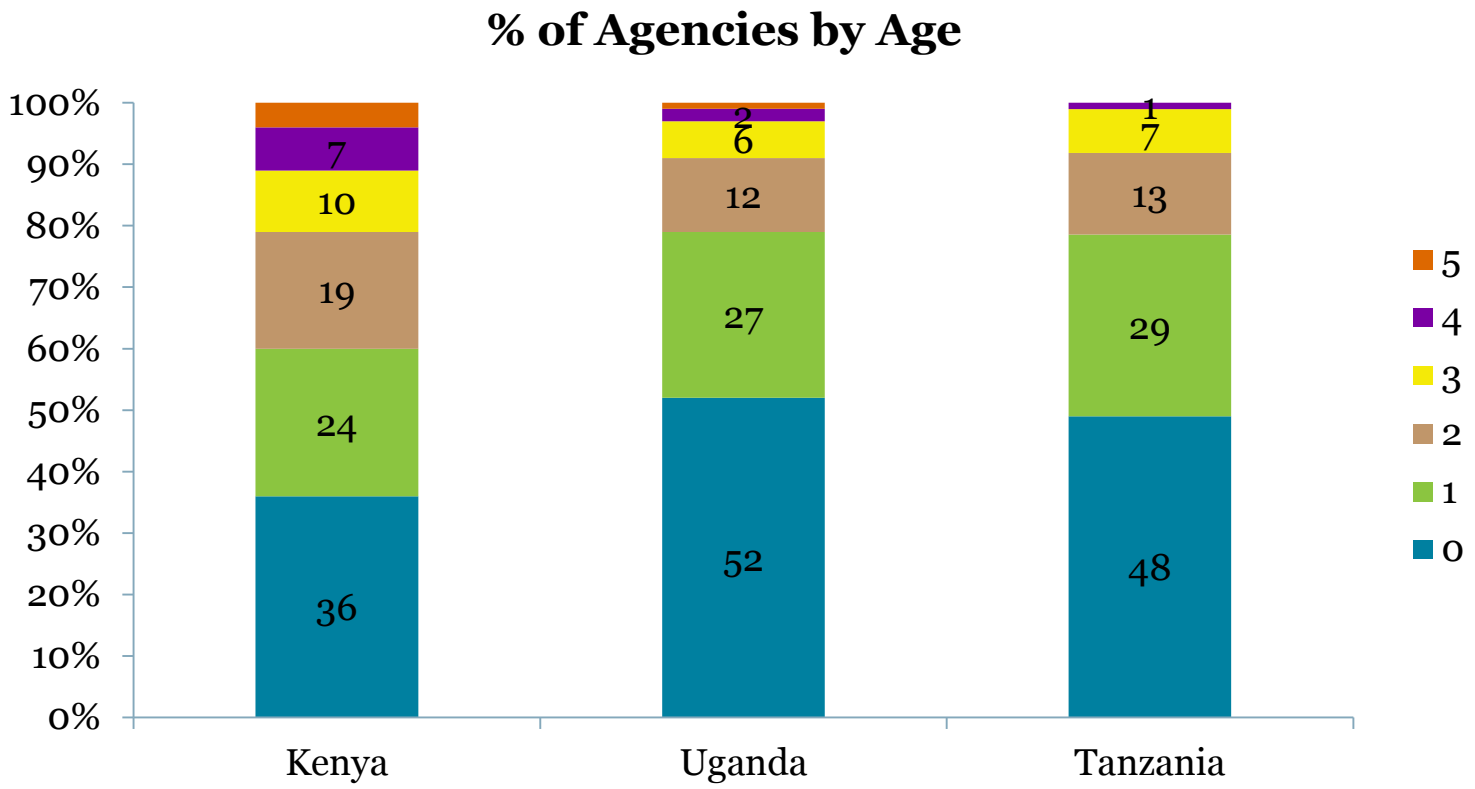


Network Strategy



Close To Half The Agencies Are Less Than One Year Old

EAST AFRICA

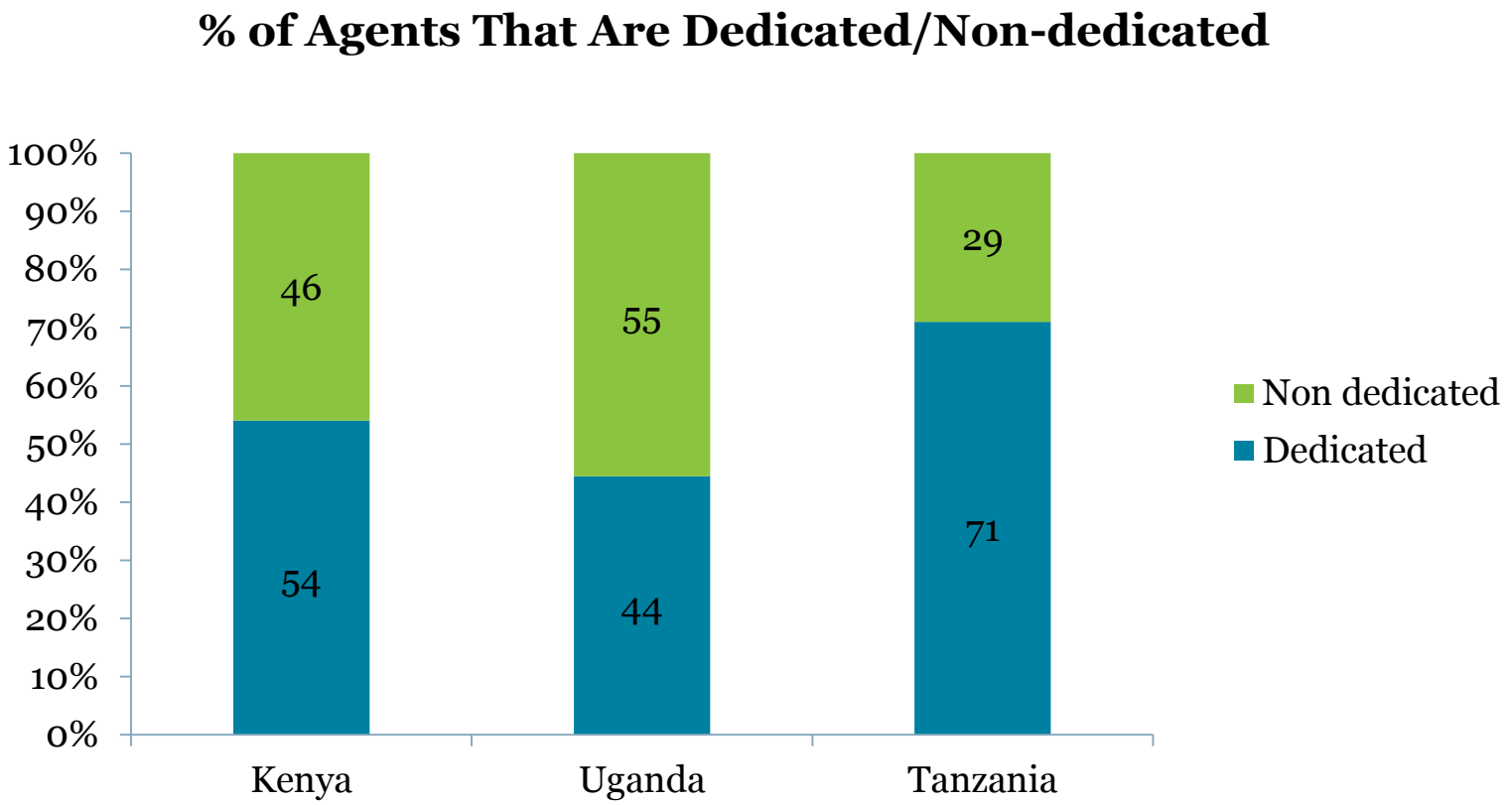


Notes:

- The largest growth in the last one year has been in Uganda. , Kenyan agencies have been in the business for longer periods.
- Overall agents are relatively young. Even in Kenya, 60% of the agents have existed for 1 year or less.

Type of Agent Non-Dedicated Lowest in Tanzania

EAST AFRICA

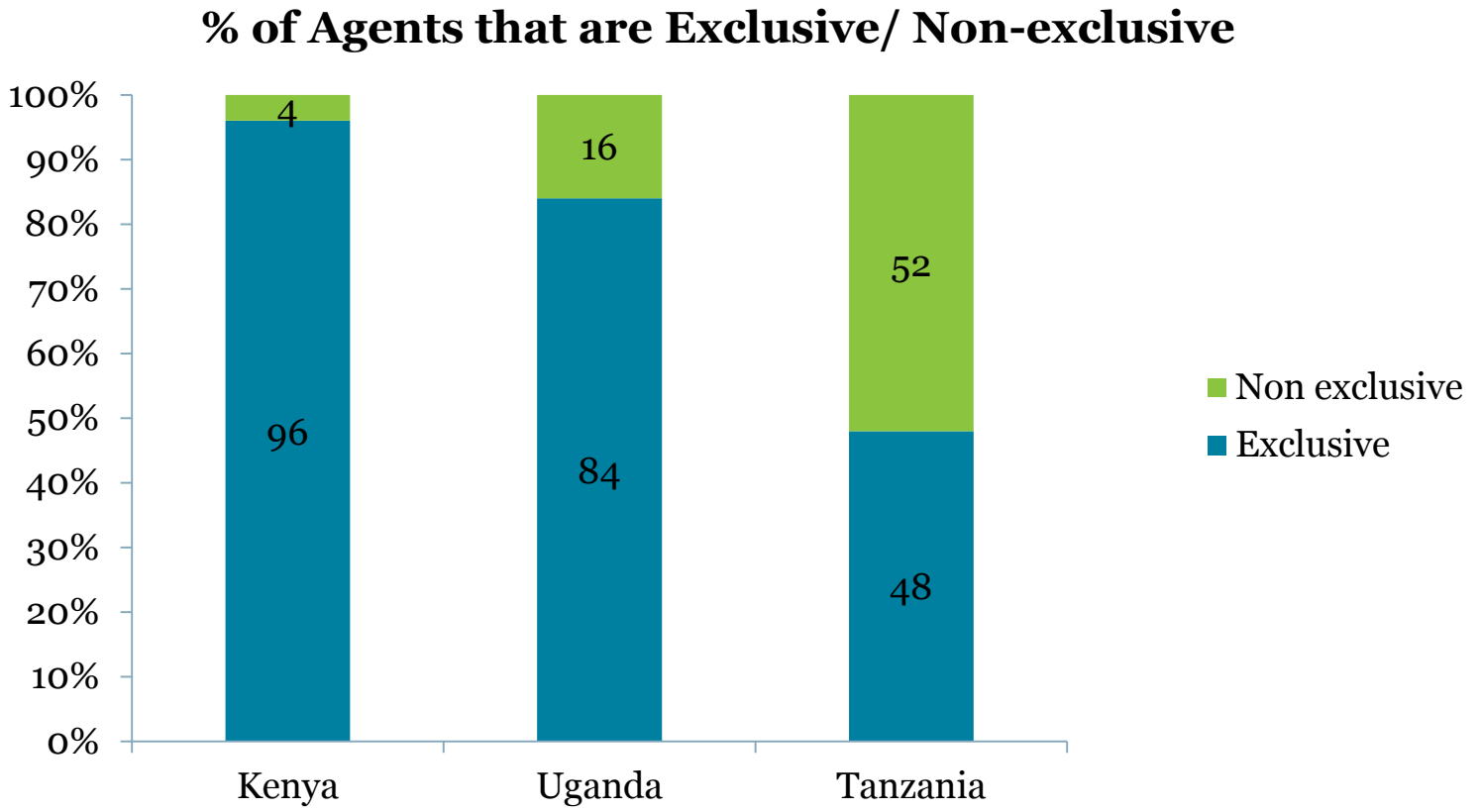


Notes:

- Tanzania is most largely skewed towards dedicated outlets at 71%, compared to Kenya and Uganda which are at 54% and 44% respectively.

EAST AFRICA

Type Of Agent: Exclusive-Non Exclusive, Kenya Has Minimal Non–Exclusive Agents



Notes:

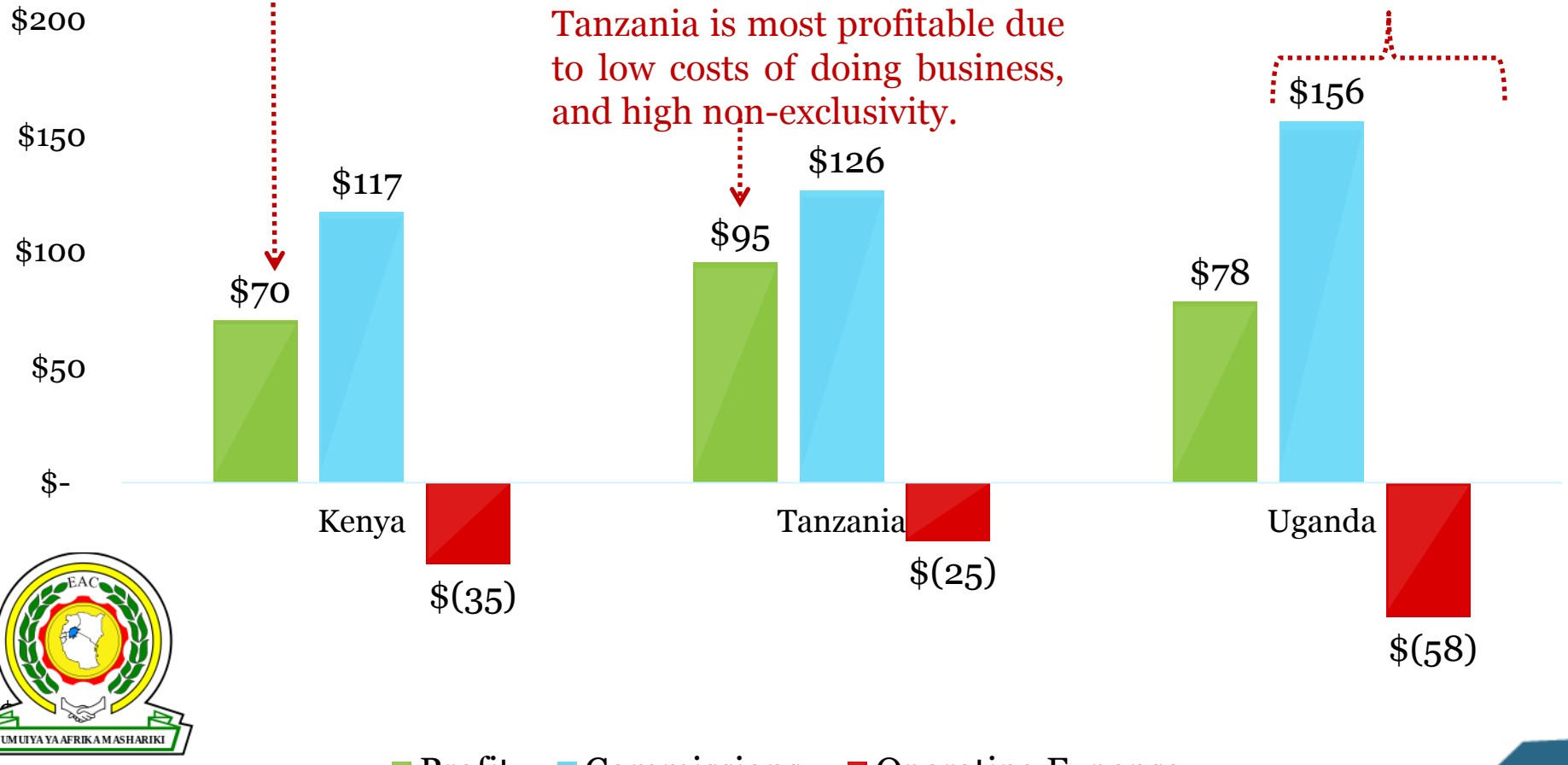
- Kenya has the lowest incidence of non-exclusive agents at less than 1%.
- The level of exclusivity is strongly correlated with the dominance of the main provider which is much higher in Kenya, less so in Uganda and is only weak dominance in Tanzania.

Profitability , Commissions And Operating Expenditure ($US)

Low revenues in Kenya lead to the surprising result of making it the least profitable in East Africa.

Tanzania is most profitable due to low costs of doing business, and high non-exclusivity.

Uganda has highest revenue and highest operating costs resulting in less net profit.



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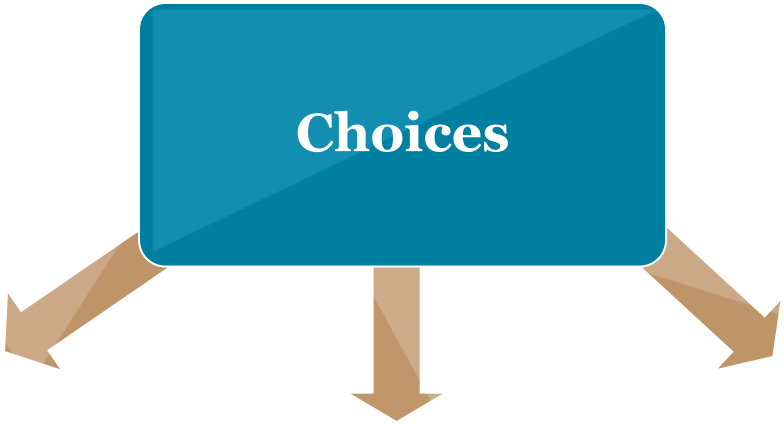
Deployment Models



Build own network

- Banks might prefer to use this model as this will allow them to keep a closer check on the quality of agents

Example : M-PESA and Equity Bank recruited agents from scratch.

Partnerships

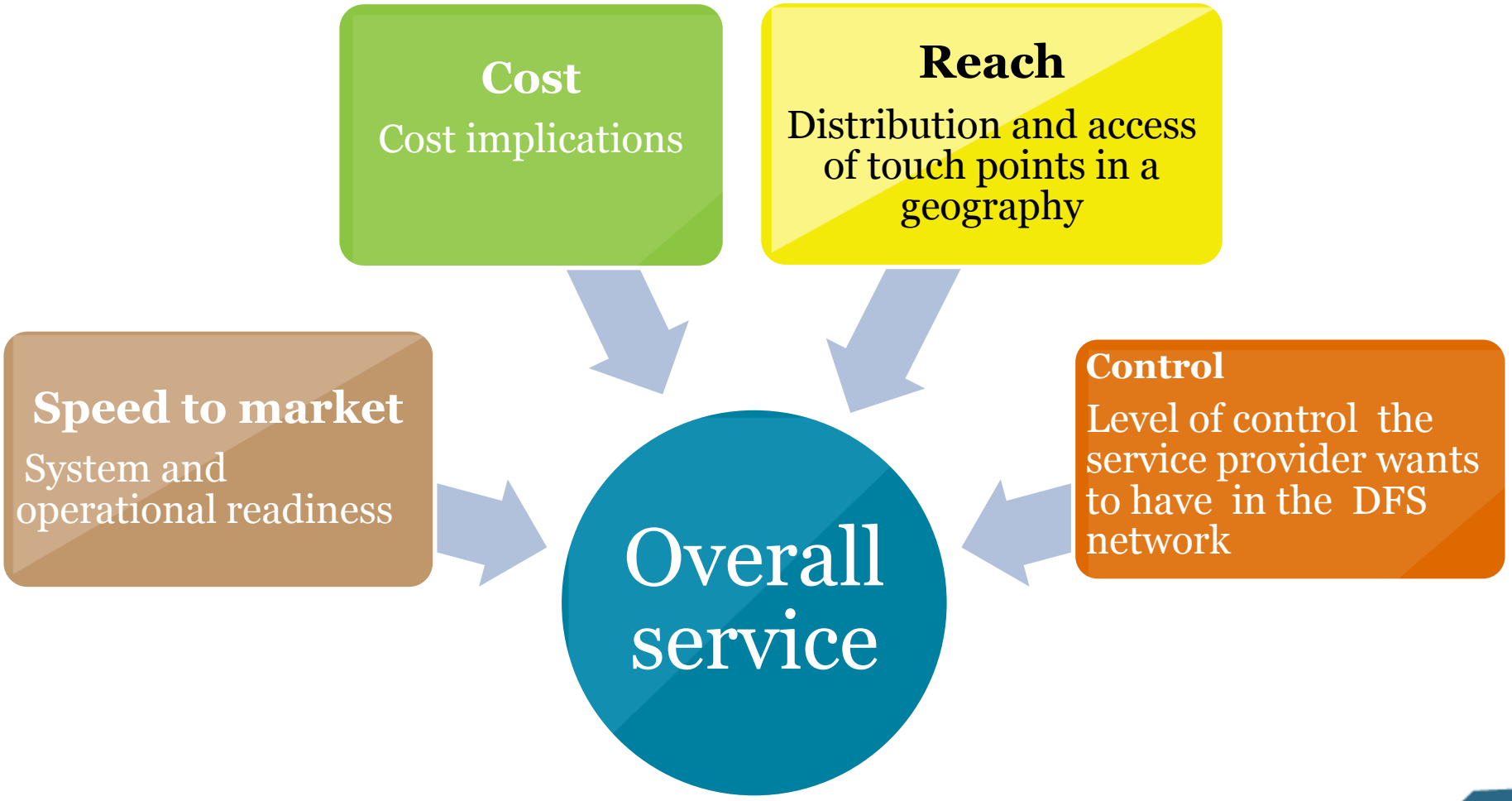
FMCG Distributors; Fuel station or pharmaceutical chains)

- Examples : Orange Money uses Equity Bank agents to offer Orange Money services

Outsourcing

This is the model Indian banks generally use, they appoint institutions to build and manage the agent networks on their behalf. Examples include FINO and EKO.

Factors To Consider



Exercise: Consequences Of Choices

In Buzz Groups fill in this matrix: High – Medium - Low
Time: 5 minutes

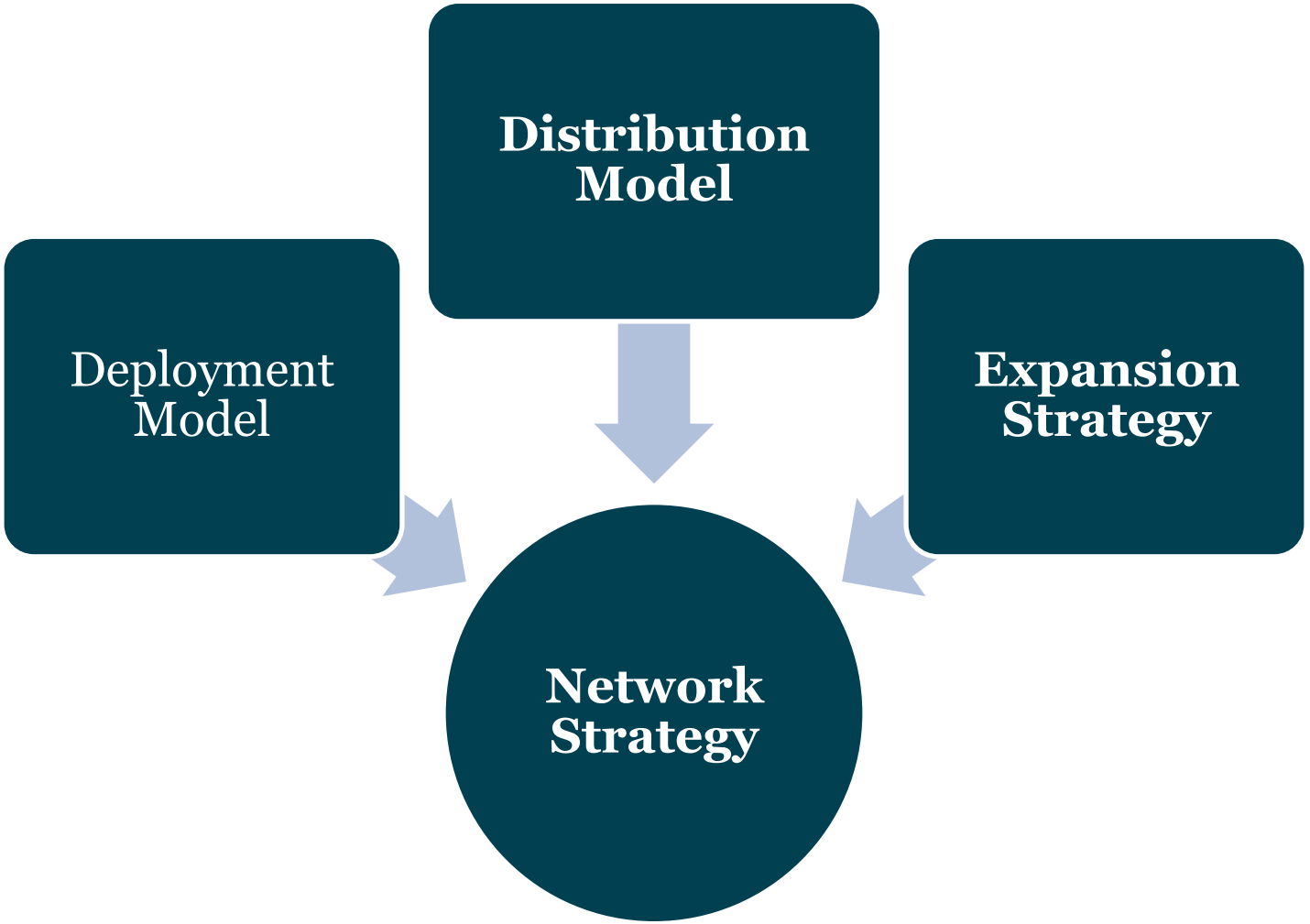
	Building own network	Partnering	Using third parties to build for you
Speed to market			
Cost			
Reach			
Control			

Consequences Of Choices

	Building own network	Partnering	Using third parties to build for you
Speed to market	Low	High	Medium
Cost	Medium	Low	High
Reach	Medium	High	High
Control	High	Low	Medium

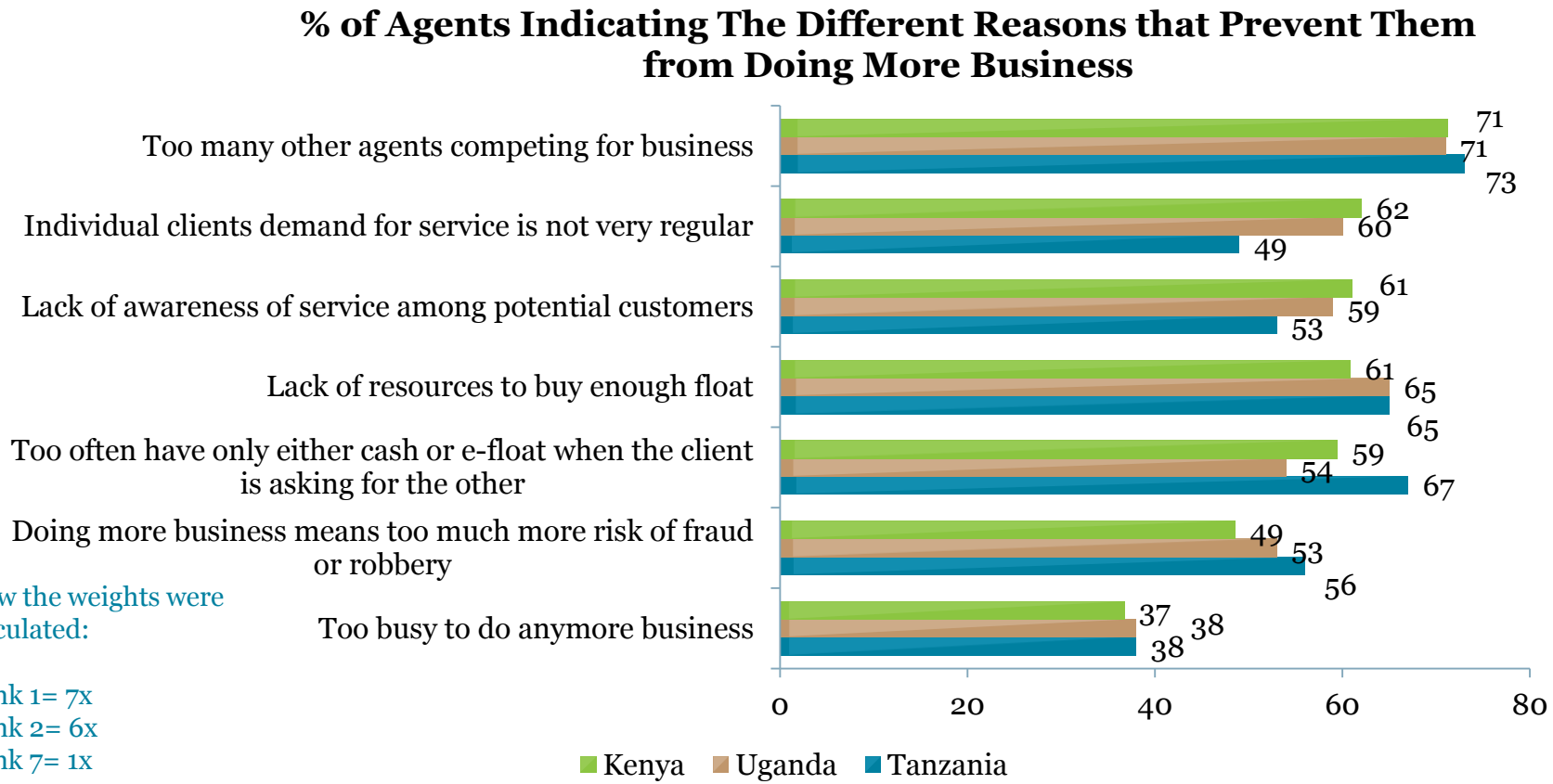
Every choice has different pattern of advantages, but none is ideal!

Network Strategy



EAST AFRICA

Agent Proliferation Ranked 1st As Hindrance To More Business



How the weights were calculated:

Rank 1= 7x
Rank 2= 6x
Rank 7= 1x

Notes: In these evolved markets, many areas seem to be saturated with agents, vying for business, liquidity management remains an issue in these places, as does unpredictable customer demand.

Exercise: Existing Distribution Networks

1. In three groups
2. Each group will present two of the distribution network options:
3. Discuss the advantages and disadvantages of each type of network

Banks

MFIs

Petrol stations

Pharmacies

Telecom retailers

FMCG retailers

Time: 20 minutes

Existing Distribution Networks Analysis (1/3)

Banks

- Branches–mostly urban, some rural
- Too few, too far apart in rural areas
- No/low expansion planned
- ATMs (urban, very few in rural areas)
- Internet (unreliable in rural areas)
- M-banking applications
- Highest trust
- Helpful for liquidity management

MFIs

- Present in underserved communities
- Have systems of control/audit in place
- Use to managing liquidity
- Can provide a large network of trusted individual agents (e.g. group leaders)
- Often looking for additional services to provide

Existing Distribution Networks Analysis (2/3)

Fuel Stations

- Great locations and visibility
- Strong liquidity management / cash position
- Medium to low level of trust – Owners often have strong political connections
- Usually limited outlets, so rapid scale up is not possible
- Not frequented by many low income people

Pharmacies

- Strong brand and relatively higher level of trust in the community
- Medium to strong liquidity management
- Medium to high level of literacy required to maintain records and financial transactions
- Owners used to taking time to explain
- Limited scale up potential

Existing Distribution Networks Analysis (3/3)

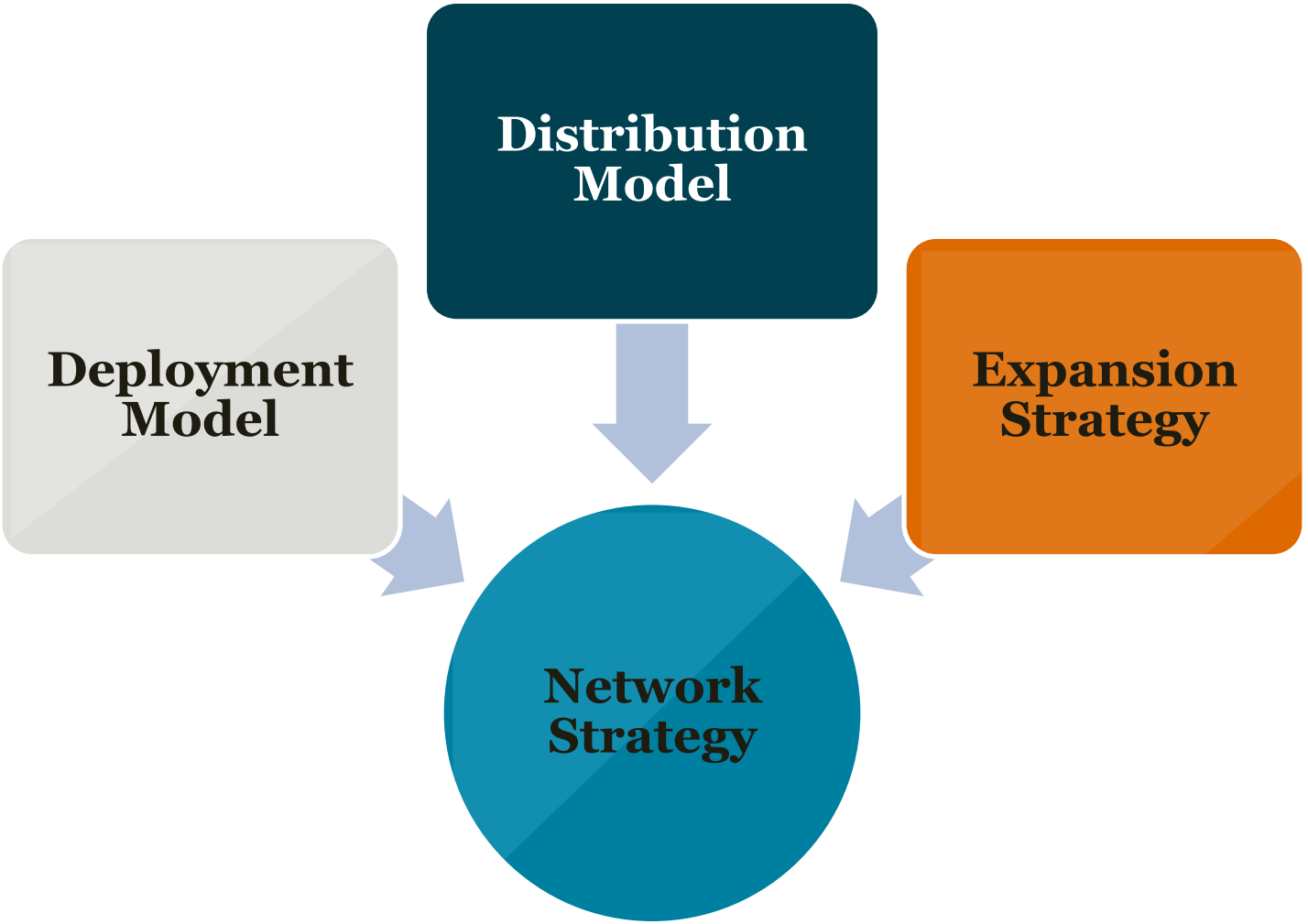
Telecom Network

- Strong and widespread presence providing a fertile ground for rapid scale up
- Diverse profile of agents making trainings and management difficult
- Low to medium liquidity management
- Low span of attention and a fast working environment
- Varied levels of trust in the community
- Conflict of interest with airtime sales

FMCG

- Strong and widespread presence to support rapid scale up
- Varied levels of literacy, capability and trust
- High level of support infrastructure required
- Medium to strong liquidity management

Network Strategy



Scaling An Agent Network

Scaling of the agent network is a three phased approach

Agent growth

1. Recruit enough agents in the initial phase to support product launch

Customer growth

2. Once acquisition phase has provided enough customers, then redirect resources from agent to customer acquisition

Parallel growth

3. After equilibrium is achieved between number of agents and number of customers, grow them in parallel

Agent Acquirers / Third Party Acquirers

- In this model, the agent acquirers act as an intermediary between the provider and the agent. They are tasked with the challenge of recruiting the agents, monitoring the agent network and performing trade activations.
- These acquirers usually enter into exclusive contracts with the providers and usually do not perform any agent operations.
- This model is appropriate for the larger, more developed markets where scalability of the agent network is considered a competitive advantage
- For example M-PESA (Kenya)

Impulse Promotions Ltd

T P image
Injecting Life Into Brands

Fine Media

Call Out:

Scaling Up Choices – What Will You Choose?

Rapid Growth Vs. Staggered Growth

1. Share your experience
2. Advantages and disadvantages in your context

5 mins.

Spread Dense Vs. Spread Thin

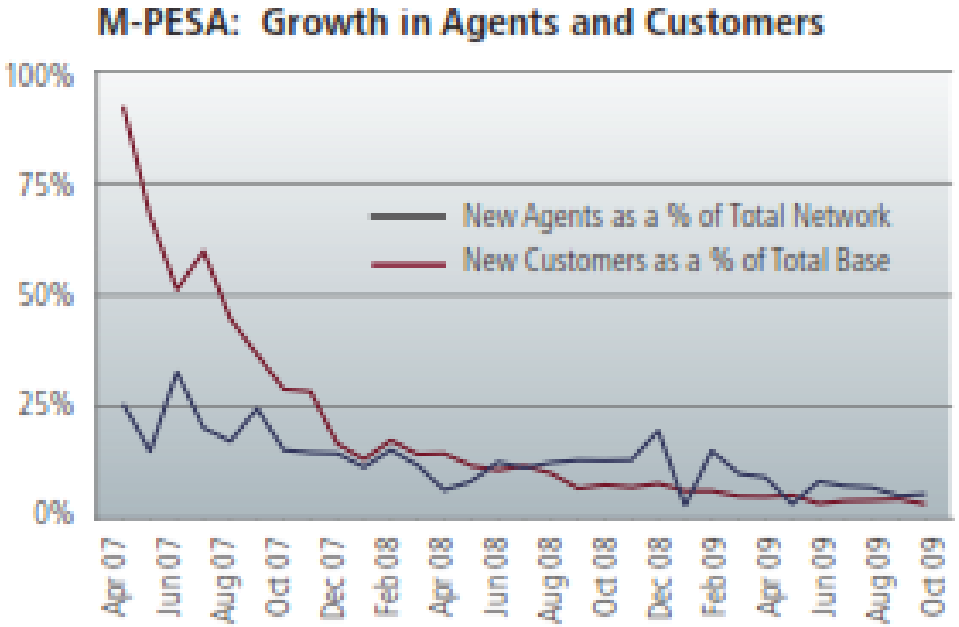
1. Share your experience
2. Advantages and disadvantages in your context

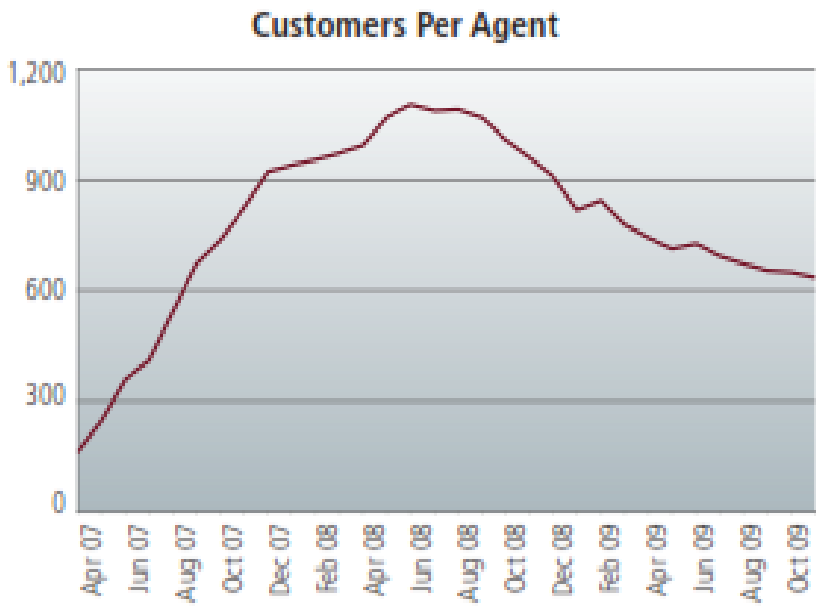
5 mins.

Scale-Up – Key Strategic Choices

	Rapid Growth	Vs.	Staggered Growth
Advantages	Easy to reach critical mass and profitability Area specific risks can be easily managed		Easier to manage and control Easy to adapt and change based on area specific differences
Disadvantages	Tough to manage and ensure standardisation Higher reputation and resource risk		Might take too much time to reach scale and may never take off
	Spread Dense	**Vs.**	**Spread Thin**
Advantages	Greater visibility in concentrated areas Easier to manage routine operations		Less affected by area specific risks / issues Better for specific / target products such as remittances
Disadvantages	Too much competition may lead to fraud and lower revenues Not ideal for remittance		Expensive and difficult to manage routine operations Lesser brand recognition over a mass segment

M-PESA Story





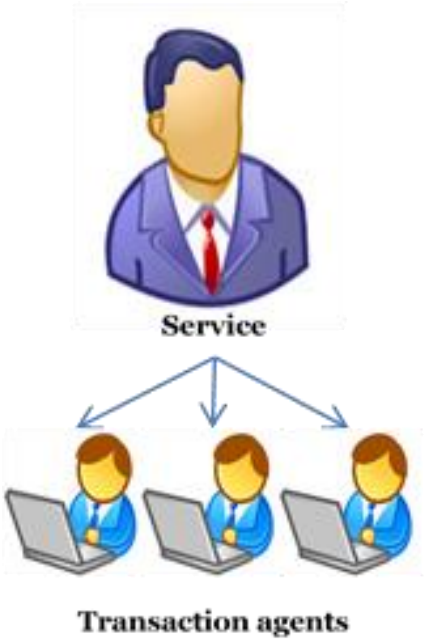
- M-PESA started with 600 agents. Then acquired customers explosively : quadrupled in a quarter
- A year after start of operation, customers per agent reached 1000. Then M-PESA refocused on agent acquisition : an equilibrium level of 600 customers per agent.

Support Structures For Agent Networks

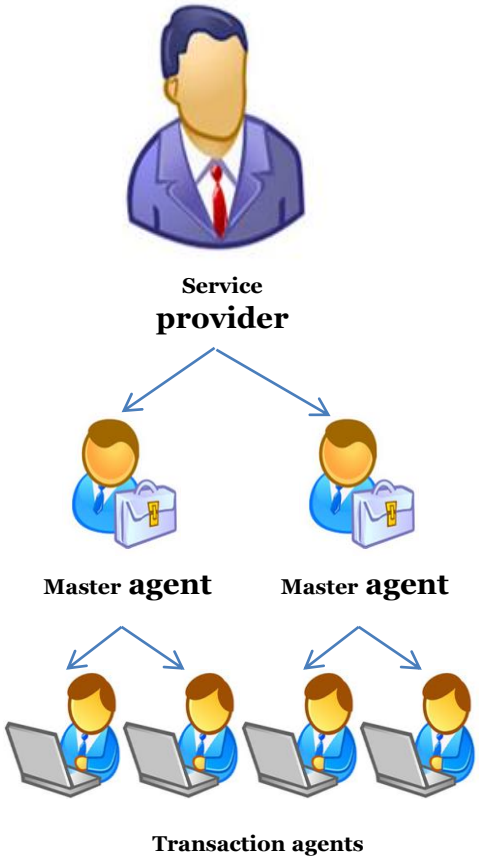
- What are the agent network management **hierarchies?**
- Who **owns** the agents?
- Who **recruits** the Master Agents and agents (selection, on-boarding, training, agent closure)?
- Who **manages** the agents (liquidity management, commission settlement, technical support, marketing support, supervision and monitoring)?
- Who **owns** the **customer?**
- Who **acquires** the **customer** (registration, transactions)?

Agent Management Models

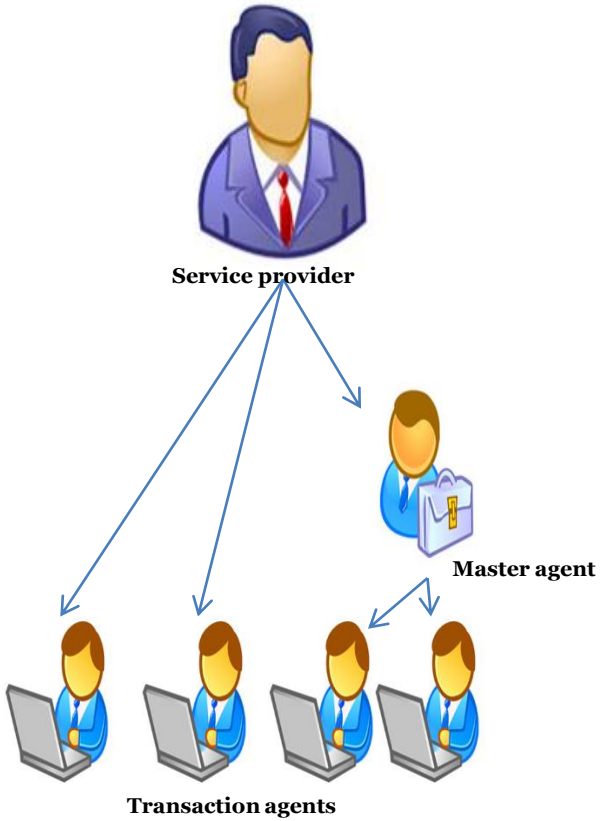
The Direct Agent Hierarchy Model



The Master Agent Hierarchy Model



The Matrix Hierarchy Model



For more information read: Choosing An Agent Management Model:
http://www.helix-institute.com/blog/choosing-agent-management-model

Hierarchies Matrix – Choices On Agent Network Management Processes / Activities

Master Agent/Agent related roles	Provider (Bank/MNO/ 3rd party)	Agency Supervisors/ Field Officers/ Sales Manager	3rd Party ANM	Aggregators /Master Agent
Master-Agent Selection			✓	
Master-agent On-boarding			✓	
Agent Selection				✓
Agent On-boarding				✓
Agent training	✓			
Commission settlement				✓
Liquidity support				✓
Technical support	✓			
Customer/agent support	✓			
Supervision			✓	
Monitoring	✓			

Exercise: Debate

Two Teams:

One for, one against

One motion: ***"Recruiting many agents (spread/dense) is the best strategy/tool of effectively managing liquidity"***

Time:

Preparation (including selecting the 2 presenters): 10 minutes

Team 1: Propose the motion (5 minutes)

Team 2: Oppose the motion (5 minutes)

Team 1 : Respond (1 minute)

Team 2: Respond (1 minute)

Resources

Papers and Briefs

Mas, Ignacio and Siedek, Hannah, Banking Through Networks of Retail Agents, Focus Note May 2008
Mas, Ignacio and Ng'weno, Amolo, Three Keys to M-PESA's Success
MicroSave BN#69 Incentivising 3rd Party Agents for M-Banking
MicroSave BN# 71 Creating a Tipping Point for M-Banking
MicroSave BN#73 Managing Agent Networks to Optimise E-M-Banking Systems (1 of 2)
MicroSave BN#74 Managing Agent Networks to Optimise E-M-Banking Systems (2 of 2)
MicroSave IFN 66 What Do Clients Want in E/M-Banking Agents?
MicroSave IFN 76 Individual or Institutional BCs: The Client's Perspective
MicroSave IFN 77 Individual or Institutional BCs: The Banker's Perspective
MicroSave IFN 101The Case for a Bank Managed Agent Network in the Business Correspondent Model
MicroSave IFN 102 Bank Managed Agent Networks – The Challenges
MicroSave BN #136 Structuring and Managing Agent Network-I
MicroSave BN #137 Structuring and Managing Agent Network-II
MicroSave BN#140 Success Factors of Equity Bank's Agency Banking

Videos

Dan Radcliffe Mobile Banking: Speed to Scale – I, Mobile Banking: Speed to Scale – II
MicroSave /MMT Video Role of Agent Network Manager and Newer Partnerships

Thank You

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