MicroSave Briefing Note 137

Structuring and Managing Agent Network - II

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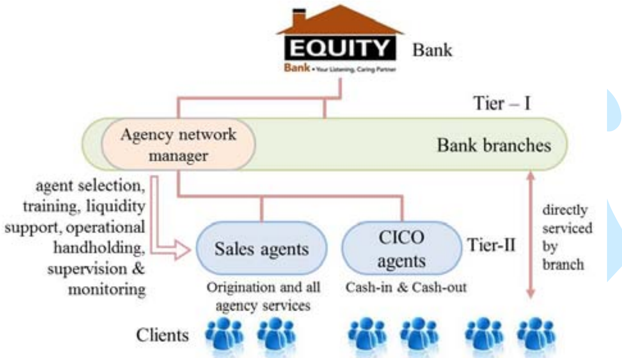
Briefing Note 136 examined agent networks managed by mobile network operators (MNOs). This Note analyses agent networks managed directly by banks or through their agent network managers (ANMs); and across markets that follow MNO-led approaches well as bank-led models.

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

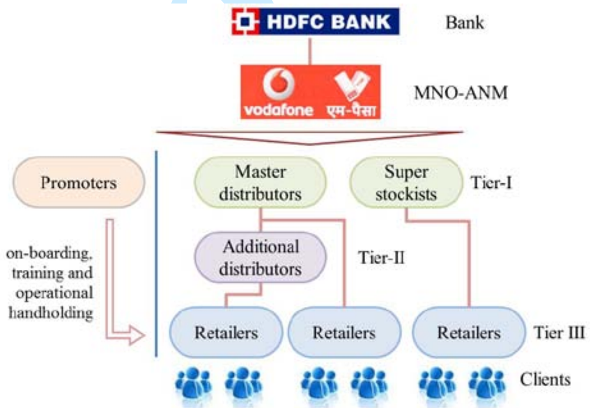


In a short span of less than 2 years, Equity Bank's network has grown to over 5,000 agents,[1] serving 3 million customers. The bank's vision is to expand the network further to serve 9 million customers by the end of 2013.[2]

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.

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

[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.

[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

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.

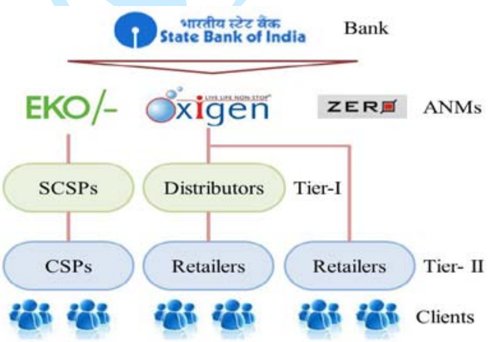
Airtel, another MNO that has launched Airtel Money across India, is encountering similar hurdles with its airtime distribution network.

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.

Exhibit 3



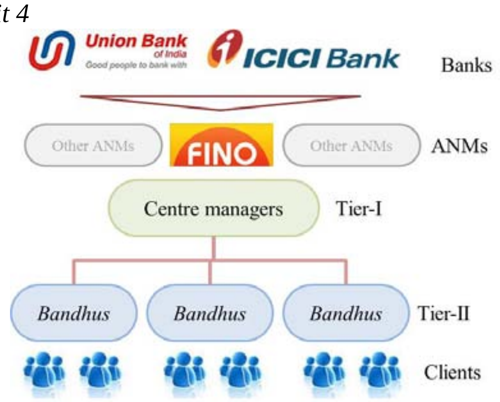
Oxigen

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*.

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.

[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

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

[9] *MicroSave* research paper: Designing and Implementing Agent Networks

[10] Also refer *MicroSave* reports: E/M Banking Systems and State of Business Correspondent Industry in India; and India Focus Notes 90 and 95