MicroSave Briefing Note # 109

Incentivising E/M-Banking Agents

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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.
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.

[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"

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.