MicroSave Briefing Note 73

Managing Agent Networks to Optimise E- and M-Banking Systems (1/2)

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> "*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-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].

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

[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.

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, 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 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.

[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

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