



# Impact of COVID-19 on banking agents in Bangladesh

May, 2020



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# Project brief: Impact of COVID on agent banking in Bangladesh

Launched in 2013 in Bangladesh, the purpose of agent banking is to provide a safe and secured alternative delivery channel of banking services to the under-privileged and under-served population, located in geographically remote locations and beyond the reach of the traditional banking network.

In the past three years, agent banking in Bangladesh has gained tremendous impetus to drive financial services and accelerate financial inclusion. The total accounts opened at agent outlets doubled from 2.43 million in 2018 to 5.26 million at the end of 2019 as banks expand their agent banking activities gradually.

On 11<sup>th</sup> March, 2020, WHO declared the outbreak of COVID as a global pandemic. Till 12<sup>th</sup> May, the number of reported COVID cases in Bangladesh stood at 16,660. The pandemic has disrupted every economy, and Bangladesh is no exception.

a2i remains pivotal to support the government's response to COVID. Given the nature and extent of the pandemic, a2i commissioned this study through MSC to help banks support their agents. The objective of the project was to understand the impact of COVID on the banking agents. MSC conducted the study over telephonic interviews with support from a2i and gathered information from the agent communities affected directly by the pandemic. Till March, 2020, the pandemic was expected to have an impact on 11,320 agents\* in Bangladesh.



\*Quarterly report, Agent Banking Activities in Bangladesh, FID, Bangladesh Bank, March'20

# Objective of the study

## Research objectives

The objective of the study is to :

- Understand the impact of COVID-19 on the family and businesses of a banking agent
- Assess the impact of agency business before, during, and possibly after COVID-19
- Explore options to minimize the threats, maximizing the business opportunities associated with the virus, and find a coping mechanism after the pandemic situation improves
- Gather ideas for additional support services and for recovery or rebuilding efforts after the crisis is over

## Key stakeholders

MSC carried out telephonic interviews of 17 banking agents in Dhaka, Chittagong, Sylhet, and Mymensingh from four different banks

- Bank Asia
- Modhumoti Bank
- NRBC Bank
- BRAC Bank

### Timeline\*

4<sup>th</sup> May to 15<sup>th</sup> May, 2020

\*The findings and insights are applicable for the period before lockdown till 10<sup>th</sup> May, 2020

# Findings on the income, liquidity, products, and safety of agents



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# The income of agents from the agency business has decreased by over 50%, while their primary businesses are facing closure



## UDC agents (majority)

- Agents are experiencing issues in liquidity due to shorter banking hours, large crowds at banks, lack of cash at ATMs, and lowered cash deposits by customers
- Agents are receiving infrequent rates of loan repayments\* from customers due to restrictions in movement and job losses, and are therefore receiving lower commissions
- Agents are experiencing delays in receiving commissions earned on Social Safety Net (SSN) program payments from banks by three months or more



## Non-UDC agents (majority)

- Agents are now experiencing nearly a 50% decrease in daily customer footfall
- Due to lowered deposits, some agents are skeptical of being able to provide cash withdrawal transactions to all customers
- Agents are experiencing psychological stress due to the fear of getting infected that would incur expenses, while their earnings have reduced over 30%, in some cases to 50%

50% of the agents said their household expenses increased by 20% due to the holy month of Ramadan and Eid-ul-Fitr

Some agents are paying nearly double rates in wages to an average of four employees to persuade them to continue working

\*The central bank issued a circular that informed all scheduled banks to not classify any loans till 30<sup>th</sup> June, 2020 even if a borrower fails to repay banks.

# The market is going through a crisis but we need to be ready with a new normal

## Pre - Covid 19

- **Customer footfall:** On an average 40 customers visited the agent point daily to avail various banking services
- **Remittance:** At least 50% of the daily customers visiting the agent point outlet, availed remittance disbursement
- **Acquisition:** Commission from new account opening was the main source of income for the micro-merchants who work as bank agents
- **Liquidity:** Most merchants have primary businesses as the sole proprietor and were able to transfer money from that business to plug liquidity gaps
- **Primary business:** Agents' primary business would contribute to more than 50% of their total monthly income, while agent banking proves to be the secondary source of income.



## During Covid 19

- **Customer footfall:** Restrictions on mobility and fear of pandemic reduced customer footfall to 25% per day
- **Remittance:** International remittances decelerated globally due to lockdowns. Hardly 10% of customers now visit agents for remittances
- **Acquisition:** No new client acquisition for last one month due to the lockdown
- **Liquidity:** Savers facing sudden income shortfalls and withdrawing their deposits, coupled with loss in primary business of agents is leading to a liquidity crunch
- **Primary business:** Agents who also work as UDC agents lost over 90% of their business due to the pandemic



## Post - Covid 19

- **Customer footfall:** The agents anticipate two months for customer footfall to normalize and their income to return to earlier levels
- **Remittance:** The flow of inward remittances to Bangladesh is projected to decline by 22% due to the pandemic-induced economic crisis, further adversely affecting the agents' commissions
- **Acquisition:** The frequency of account opening will reduce. It will take at least six months for business to become normal.
- **Liquidity:** Severe liquidity crisis is expected due to extension in moratorium period and high savings withdrawal
- **Primary business:** Agents expect their primary business to grow slowly, while agent banking might become their main source of income.



# A few agents have come up with workarounds to cope with the pandemic

“If I do not get footfalls, I will run a campaign to offer discount on my services to attract more customers to my outlet in the near future.”

An agent in Dhaka



Of the agents, 80% believe that they can sustain their business operations for another six months without any assistance from the bank or government. Beyond this, they will not be able to afford to pay their staff and will have to operate alone.

Agents are exploring new avenues to manage their income with the changing business environment. A few have started providing e-commerce services through sites like ekShop and chaldal.com, among others, while other agents have been exploring logistics and delivery services as another source of income.

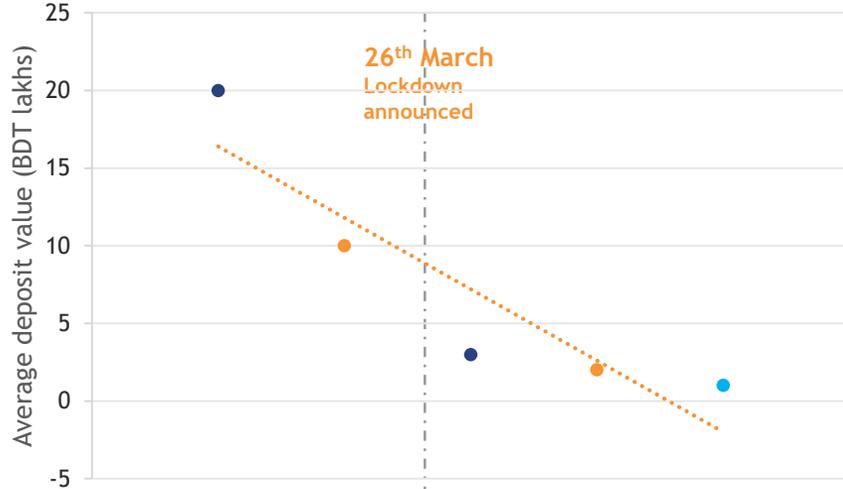
Therefore, they have to depend increasingly on their alternate businesses, such as livestock, warehousing, and farming

Agents are borrowing liquidity from other sources in their vicinity to manage their day-to-day operations. This is an additional cost. Alternate channels are becoming popular to manage liquidity as they do not need any physical interaction.

Agents and their employees are providing doorstep delivery of cash-out services to trusted customers who are too afraid to visit their center. This is a workaround deployed by agents to earn commission in this pandemic.

# The initial reaction to the pandemic shows a spike and volatility in daily cash-out transactions

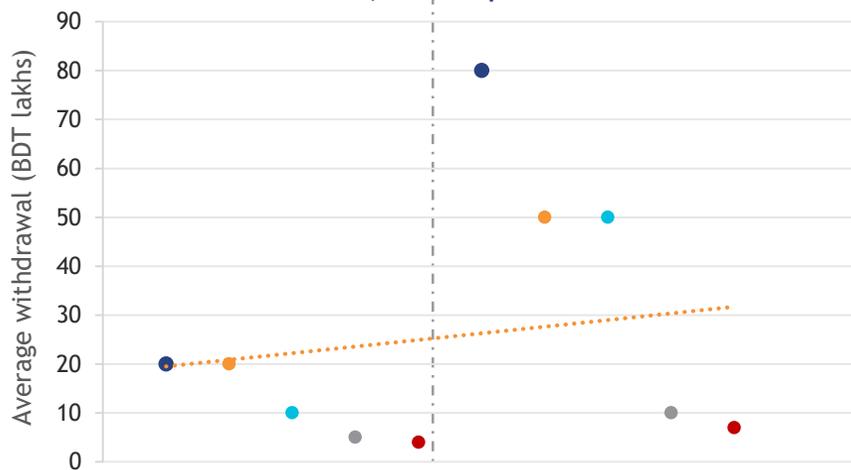
Cash-in, March-April 2020



## Cash-in (deposit)

- Deposit reduced to 75%
- Savings (DPS) payments are stalled
- Loss in commission
- At least eight out of 10 have discontinued the DPS payment

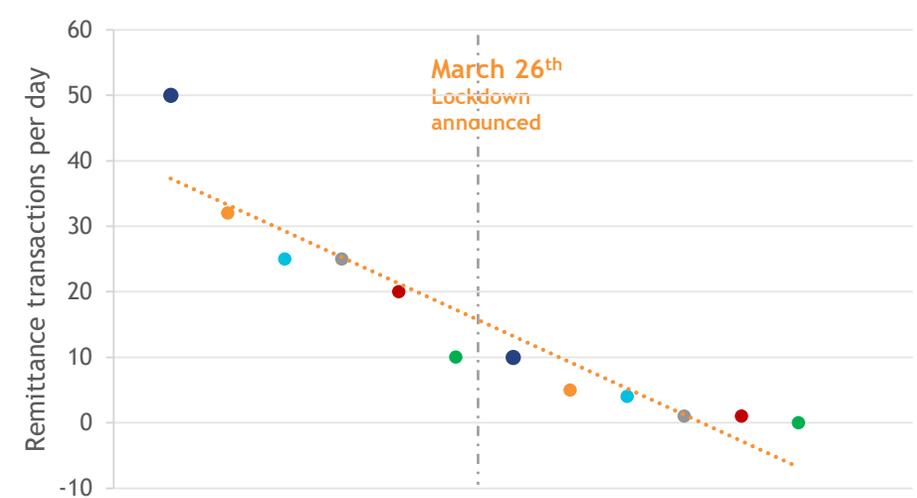
Cash-out, March-April 2020



## Cash-out (withdrawal)

- Withdrawals have increased by 50%
- Run-on deposits by savers faces income shortfall and panic
- Withdraw of SSN payment also a reason for the spike
- Delays in commission payment for SSN - Dec '19 cycle paid in March '20

Remittance, March-April 2020



## Inward remittance

- A steady 87% reduction in remittance; the global impact of COVID is clearly visible
- People from UK and the Gulf have reduced the remittance, essentially people engaged in business or non-essential employment
- In some cases, agents saw very few inward remittances

I have never given BDT 1,500 as remittance. The lowest used to be BDT 15,000. Even *probashi* (non-resident) Bangladeshis are facing crunch these tough times. I hope there are no job losses.

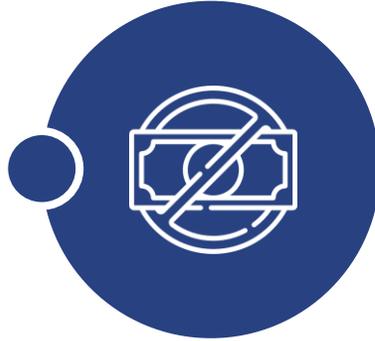
- Agent in Sylhet

Source: MSC data based on interactions with multiple agents (n=17)

# Agents are facing issues both on reduced business and a risk to their lives while providing the services

## Liquidity shortage

- Increased number of withdrawal from savings and lack of new savings
- Soaring non-performing loans due to the pandemic and extension in loan repayment till 30<sup>th</sup> June, 2020 by the government
- Slowdown in primary businesses of the agents, which results in liquidity gap.



## International remittance

- Huge impact on remittance collection during COVID-19
- Only 10% clients visit the agent point to receive international remittance
- Estimate of USD 43 billion reduction in remittance by World Bank, may further aggravate the existing liquidity crisis



## Limited banking hours

- Limited banking hours (till 1 pm) results in long queues for re-balancing
- Long queues at ATM booths due to limited banking hours
- Low cash withdrawal limit with cash-out charges on every withdrawal (BDT15)
- Few bank branches are over 50 km from the agent point, resulting in opportunity cost



## Agent protection

- Agents risk getting infected while transacting at ATM and bank branches on regular basis
- They will not only infect themselves but will pass on the risk to their own families, staffs, bank officials, and customers as well



# Agents are key frontline service providers—and at significant risk



## Agents

- Agents lack direction to manage crowd or maintain social distance and personal hygiene at agent points\*
- Shortage of Personal Protective Equipment (PPE) makes the agents more vulnerable to the virus. UNO (union nirbahi officer) officials have provided PPE to some agents but not all
- Agent outlet often lacks space, which makes it difficult to maintain three feet social distancing even if the agent is well-aware of the consequences
- Agents often lack a transaction counter to maintain safer means of transaction.
- The virus may spread through different systems, such as biometric, PoS machines, thus posing a high risk for the agents



## Customers

- Most of the agent banking customers are from rural areas and are therefore reluctant to follow safety rules and regulations to stay safe from the virus
- Customers are often left dissatisfied about the slow transaction process due to social distancing measures taken by the agents
- Some clients often make unnecessary visits to the outlets, which increases the risk of getting infected
- Customers lack knowledge regarding infection through currency notes used in everyday transactions
- Customers lack education about social responsibility during the COVID pandemic

\*MSC has created some customized comic book for CICO and MFI staffs, agents and customers.



# Recommendations



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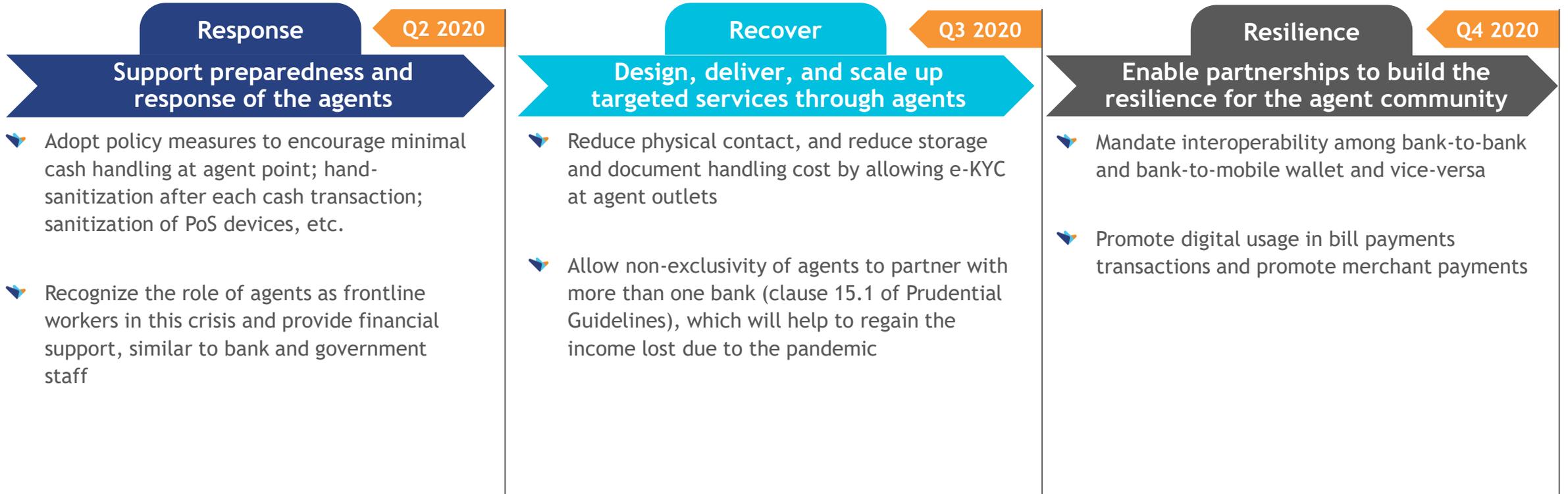


# Banks need to walk the extra mile to provide support to their agents and plan for their recovery and beyond



<p><b>Global response</b></p>	<p><b>India:</b> Banks allocated incentive and health cover for banking agents providing essential services to their customers including DBT as relief toward the pandemic.</p>	<p><b>China:</b> Multiple online financial service aggregators recorded an empirical rise in insurance and investment products to the tune of over 1,000%.</p>	<p><b>Kenya:</b> KCB bank and Safaricom set aside funds for digital credit for the SME sector during the pandemic.</p>
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# The Central Bank and the government's support is the need of the hour



## Global response

Kenya issued a directive on **zero-rate** for bank-to-bank transfers and introduced a wallet for rebalancing float; India allowed withdraws from any bank ATM **free of charges** for three months.

Zambia's central bank directive to allow the use of interest earned from trust accounts to support agents in COVID-19

**Multiple countries:** Regulators in the West African Monetary Union, Ghana, Egypt, Jordan, and Pakistan have relaxed KYC for new customer and self-registration

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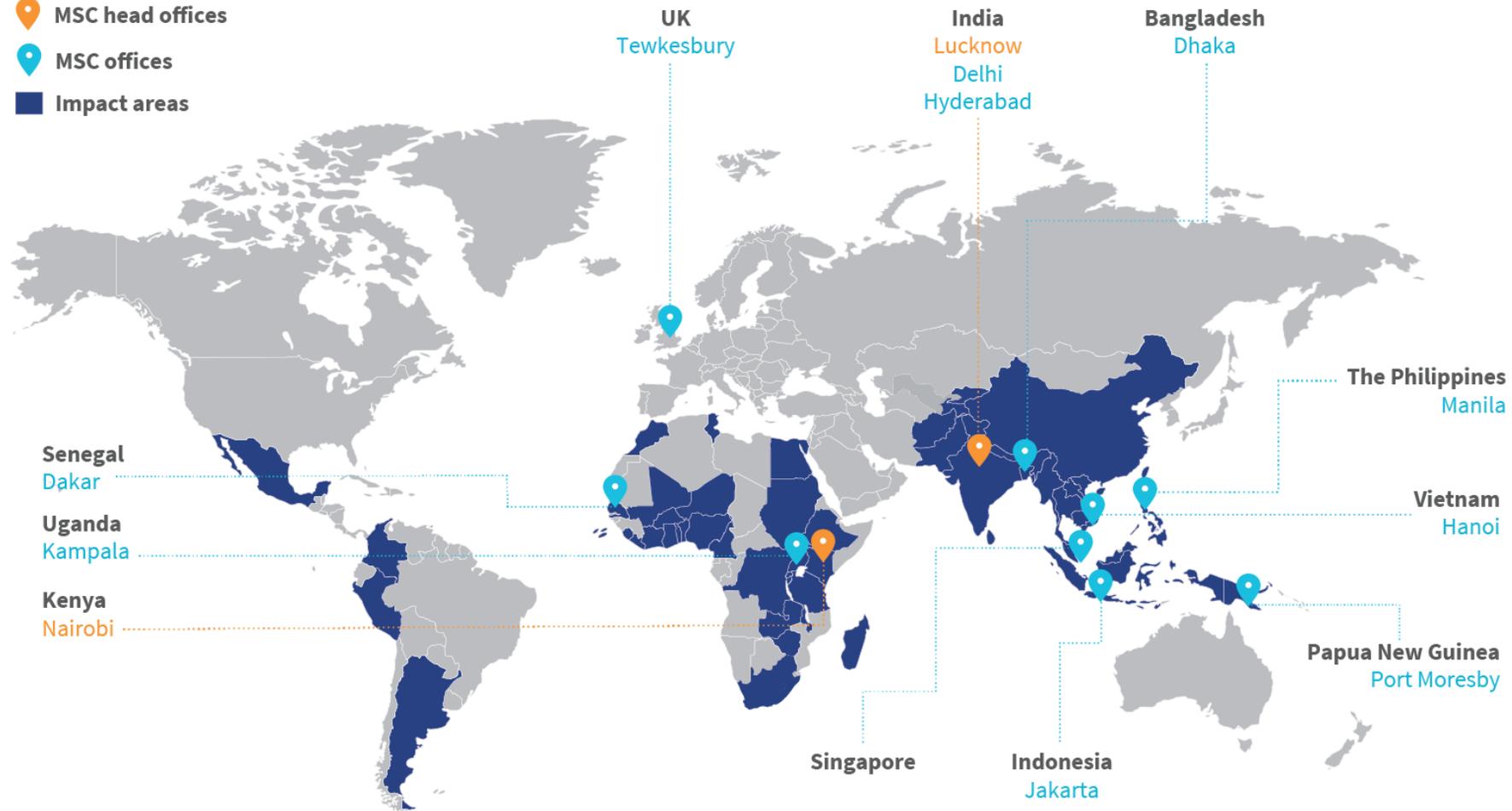
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