Operational Challenges of Agent Banking Systems

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Financial services can only be delivered to a majority of poor households if the service providers—banks and telcos—use retail distribution channels to get closer to where the poor live and at a fraction of the cost of traditional banking. These retail agents who convert cash to electronic money (e-money) or convert e-money to cash are the human face of all agent banking systems. Therefore, when building, incentivizing, and managing a network of retail agents, providers must address the operational challenges in a way that fosters a positive and consistent customer experience that will create and maintain trust in the system.

Building the Network

An effective agent is well trained; trusted by customers; strategically and conveniently located; and properly incentivized to follow procedures, keep sufficient float on hand, and serve customers. Banks typically select established retail outlets, while mobile networks are more inclined to use smaller "mom and pop" shops or kiosks.[1] Some providers choose to outsource agent recruiting and training. Either way, the size and growth of the network has to be carefully planned to ensure there are enough agents to serve the customers and that there are enough customers to keep the agents interested in providing the service.

Safaricom, the single most successful mobile money deployment, invested heavily in developing the M-PESA agent network with a focus on a consistent customer experience. Each one of its 20,000 agents provides the same services (i.e., signing up new customers and facilitating cash-in/cash-out transactions), follows the same procedures, and has the same branding on the shop. Other providers have chosen to assign different roles to different agents, which has resulted in difficult tradeoffs. For example, MTN Uganda separated the "field-based" account opening function from the "static" cash-in/cash-out function in order to speed up client acquisition, but this created a situation in which customers signed up even though they didn't need the service or couldn't find an agent to start transacting.[2]

When an agent can both open accounts and facilitate transactions, it not only offers greater incentive for the agent to provide the service to customers, but it encourages customers to use the service as well. If customers cannot transact immediately upon opening an account, they lose the "instant gratification" of being able to use the account. This situation is well illustrated by the Orange Money deployment in West Africa, which has a registration process that takes up to a week. As a result of this long wait time, only 6,000 of its first 120,000 customers, or 5 percent, actively used the account.[3]

Managing Liquidity

When agents provide a range of services (e.g., account opening, deposits, withdrawals, bill payments, etc.) they are able to generate transaction volume and balance liquidity. An agent must maintain adequate cash and e-money float balances to meet customer cash-in/cash-out requests. If too much cash is taken in, the agent may run out of e-float and not be able to accept more deposits. If there are too many withdrawals, the agent will accumulate e-float but run out of cash. In either case, customers will get discouraged if the agent cannot provide the services they need when they need them. In addition, a secure mechanism needs to be in place to transport cash needs to and from an agent.

An agent is essentially an aggregator for the cash requirements of a community. It is a cash-storing and transfer business that absorbs the risk of cash handling. Providers have developed a variety of mechanisms to ensure agent liquidity and assist the agent in cash handling. The options available depend to a great extent on the banking infrastructure in the markets where the agents operate and the willingness of the banks to take charge of secure cash transport.

Vodacom Tanzania tested multiple strategies and settled on using "aggregators" to both recruit agents and manage their floats, transporting cash for the agent if necessary. The aggregator receives a flat fee for each new agent and a percentage of the agent commissions. This provides an incentive to sign up high-quality agents who will actively transact.[4]

Banco de Credito del Peru (BCP) found outsourcing management of its 2,300 agents to be less efficient, so chose to use in-house agent executives to identify, prepare, and manage each retail outlet. In densely populated areas, BCP agents have a sufficient mix of transactions to balance cash-in/cash-out, but in more remote areas, the agents themselves need to travel to the bank branches more frequently. BCP is finding it harder to train and manage rural agents, a challenge that will require added incentives for the agents and adjustments to the agent management model.[5]

Cash Management at the Core of Agent Banking Viability

While in the abstract building networks, managing liquidity, and managing the channel may seem equally important, managing liquidity stands out as the critical piece in ensuring system viability. Regardless of how providers and agents share the burden of cash management, a burden too heavy will compromise the sustainability of the entire system or price the transactions beyond the poor's ability to pay.

Emerging data from the Bansefi-Diconsa correspondent banking pilot program in Mexico indicates that handling cash may amount to anywhere between 35 percent and 61 percent of total system costs. A majority of cash handling costs are actual outlays for secure transport services and insurance premium, and about one-tenth being opportunity costs (of holding cash) and reserves for theft. Other available data are unfortunately partial accounts, since they convey either the bank (provider) view or only the retail agent perspective.

The central factor influencing cash handling costs is clearly the ability to minimize the amount of cash needed to be moved between the bank and the retail agents—the ideal agent being one that is fully "cash neutral" at the end of every day. Since cash handling costs are typically proportional to the cash volume in transit (secure transport firms charge close to 1 percent of cash volume in Mexico, for example), the notion that a large number of transactions per agent ensures system viability comes into question. If that transaction volume involves large amounts of cash being transported to the retail payout point, then the net effect on system viability is uncertain. Large social payment programs (G2P) present a special challenge in this respect.

Managing the Channel

Agents will not provide quality service to customers without ongoing, on-site supervision and in-store training to ensure the agents are liquid, consistently branded, and following the prescribed business processes. Providers need to decide how to divide the varied management functions and whether to keep those functions in house or outsource to an independent service provider. As the networks grow, it is increasingly difficult for the provider to cover the "last mile" of the distribution chain, so most use third parties for part or all of the channel management functions.

Providers need a system of regular agent site visits to ensure that agents are in compliance with the business processes and maintain proper branding and merchandising. Again, there is a choice of models:

- *Use existing airline sales and marketing staff in the field for telco-led models.* Zain in Tanzania used this method for budgetary reasons but found its marketing teams unwilling to focus on agent training and management. Even if a proper incentive structure were developed, it is unclear that a sales representative has the skills to manage and train agents.
- *Build a new team of dedicated staff solely focused on monitoring and training agents*. MTN Uganda created a new in-house team with the sole responsibility for agent training and monitoring. It works well, but requires a major increase in payroll.
- *Outsource the monitoring function to a third party.* Safaricom uses a third party, Top Image, to keep direct and centralized control over key elements of the customer experience, including store selection and agent training and supervision.

Many bank-led deployments choose to outsource agent management. There are service companies that provide a range of services, from only a technology platform to a full package that includes agent selection and contracting, agent installations and training, marketing support, and even handling legal disputes if something goes wrong. In Brazil, network managers also assume part of the risk stemming from agents' actions and are paid a commission per transaction plus a bonus for increasing the transaction volume at the agents.[6]

Outstanding Issues to Be Resolved

- We have yet to see the success of M-PESA replicated in another country context. Thus, we don't know which of the key factors that led to success in Kenya transfer to another environment or whether there are other factors that haven't yet been considered.
- While M-PESA has a successful model for managing a telco-led channel, it isn't clear what the optimal channel management model is for a bank-led deployment, especially in the critical area of liquidity management.

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[1] Ignacio Mas and Hannah Siedek, "Banking through Networks of Retail Agents," CGAP Focus Note No. 47 (May 2008). http://www.cgap.org/p/site/c/template.rc/1.9.3922.
[2] Neil Davidson and Paul Leishman, "Building, Incentivizing and Managing a Network of Mobile Money Agents: A Handbook for Mobile Network Operators," GSMA (2010).
[3] FSP Internal documents (PPR)
[4] Davidson and Leishman.
[5] FSP Internal documents (Clara Veniard trip report)
[6] Mas and Siedek.