Business Finance for the Poor in Bangladesh

ADDRESSING

MARKET DEMAND THROUGH AGENT BANKING: LESSONS LEARNT

POLICY REPORT

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Business Finance for the Poor in Bangladesh (BFP-B) is a GBP 25-million facility to create economic opportunities for small businesses by changing the behaviour of market actors in the financial sector. BFP-B has been improving the policy and regulatory environment for financial institutions, inducing private sector investment in expanding the frontiers of finance, and enhancing the credit-worthiness of small businesses. UKaid of the British government funds the BFP-B programme. The Bangladesh Bank and Microcredit Regulatory Authority (MRA) are the implementing agencies, and the Financial Institutions Division of the Ministry of Finance, Government of Bangladesh is the executing agency of this programme. Nathan Associates London Ltd, is the management agency for the programme.

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ADDRESSING MARKET DEMAND THROUGH AGENT BANKING: LESSONS LEARNT

POLICY REPORT

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EXECUTIVE SUMMARY

The study defines financial inclusion as a delivery of financial services at affordable costs to a group of disadvantaged and low-income people of the society. The goal is to bring them under the umbrella of formal financial services and entail access to credit, savings products, micro-insurance, and payments. Bangladesh has made great strides toward financial inclusion, especially through microfinance institutions (MFIs), mobile financial services (MFS) and more recently agent banking, But there is significant scope for further development and deepening.

To better understand the agent banking landscape in Bangladesh and to identify its barriers and prospects, a comprehensive study was conducted, carrying out a detailed review of existing literature available on agent banking and using a mixed-method research methodology for the primary research, that is, the use of qualitative and quantitative research.

The qualitative research comprised interviews and engagement of both supply- and demand-side actors, through focus group discussions (FGDs) and face-to-face, structured personal interviews (PIs). We conducted the primary field research in select geographies across the country utilising a multistage sampling approach to draw the sampling frame.

A Agent banking has grown appreciably in the last year

- Data shows, 19 banks have launched agent banking operations and hold 2.46 million agent banking accounts[1]. A growth spurt has been witnessed in the past one year, as evidenced by a 74% increase in agent numbers and a 67% increase in agent outlets as of December, 2018, compared to December, 2017[2]. The partnership of multiple banks with the government's Access to Information (a2i programme[3]) has contributed much of the growth. The initiative has led to the conversion of 2,000+ Union Digital Centre[4] agents into agent banking agents.

- Deposit collection through agent banking grew by 122%[5] from December 2017 to December 2018 and stood at BDT 31.12 billion as of December 2018, pointing to the growing acceptability of agent banking for deposit mobilisation. Credit disbursement from agent banking outlets is still underdeveloped, with only BDT 1.89 billion worth of credit extended through the agent banking channel. Thus, the deposit-advance ratio is around 16:1, which is not desirable in the long run.

- Three major players dominate the agent banking landscape. Bank Asia Limited leads in terms of agents, outlet numbers, and credit extended. Dutch Bangla Bank Limited leads in terms of accounts booked. Al Arafah Islami Bank leads in terms of the amount of deposits collected through the agent banking channel.

- Even though it has been a few years since the agent banking guidelines were released, only two major players have been dominating the market. As per December 2018 report[6] by Bangladesh Bank, DBBL had 48% share of accounts, whereas Bank Asia had 30% of the share of accounts booked through agent banking channel. In terms of agent numbers, Bank Asia had 55% of all the agents, with DBBL coming a distant second at 15%. In terms of percentage share of deposit, Al-Arafah Islami bank led the pack with 30% of all deposits booked through their outlets, with DBBL having 27% share and Bank Asia coming third with 22% share of total deposits. Although many other banks are operating in the market, they have yet to gain much traction in the market largely due to their cautious approach in investing much for expansion of agent banking and also due to lengthy process of agent search and acquisition.

[1] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

[2] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

[3] More info at: https://a2i.gov.bd/about/

[4] Access to Information https://a2i.gov.bd/publication/union-digital-centers-in-bangladesh-present-status-and-future-prospects/

[5] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

[6] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

B Regulations should facilitate the scale-up of agent banking in Bangladesh

- The regulatory landscape of the country may have an impact on the progress of financial service sector. It has the potential to influence the ability to grow and retain customer clientele, and build and sustain a high-quality agent network.

- The requirement of individual agent outlet approval from the regulator makes the end-to-end process of providing agent banking services time-consuming. The application of any agent, after due-diligence at the bank level, goes to Bangladesh Bank for approval. The long process demotivates the potential agent and this long gestation period creates an impediment to the process of agent on-boarding.

- The limits on the transaction frequency and amount for agent banking seem adequate at the moment, but the regulator could be flexible enough to amend the limits as per requirements to cater to the need of certain customer segments, such as small business owners. These business owners have varied needs concerning money transfer and cash withdrawals throughout the day. The strict limitations on cash withdrawals hamper their business activity and lead to limited uptake among the small business segments.

- The absence of any guidelines for commercial banks on spreading awareness acts as a limiting factor for the uptake of agent banking. The lack of awareness about agent banking among the rural population is an important factor and a challenge that leads to this limited uptake.

C The journey of agent banking – supply side perspectives

Agent acquisition and on-boarding

- The lengthy agent acquisition process is an impediment to the growth of agent banking. The current process entails that banks pre-select agents and agent locations, and then gathers all the required documents, before applying to Bangladesh Bank for the approval of the agent and the agent outlet.

- The current process leaves room for disorientation of prospective agents and leads to agent drop out. Currently it takes about 2-4 months from first contact with prospective agents to obtaining final approval of the agents for commencement of agent banking operations. Such timelines may not be conducive for the spread of agent banking in Bangladesh in the long run.

Liquidity management

- Strengthening liquidity management is a work in progress for both the provider and the agents. The primary survey results show that the average daily transaction value in agent outlets is approximately BDT 360,000 and agents maintained an average daily e-float that amounted to BDT 430,000.

- Agents usually balance cash and e-float with their nearest linked branch. In case of the absence of a linked branch of the provider, separate provisions have been made for agents to reach out to the nearest government bank for this purpose.

- Agents with other businesses or earning sources can transfer money from that business to plug liquidity gaps. Data shows that agents who faced liquidity problems in the past 1 month mostly used personal funds (80% of agents) or took short-term credit from their master agent (40% of agents)

- Union Digital Centre (UDC) agents were more open to liquidity management issues due to a low appetite to make sufficient investment in the business and dilution of efforts due to their involvement with service provision from UDC outlets.

Customer acquisition

- Customer acquisition is a joint effort of both- agents, and bank officials of the nearest linked branch. Some providers have adopted the mini-branch model7, where the agent banking provider also appoints temporary or permanent staff, stationed at the outlet, to assist the agent in customer acquisition and service delivery.

- The agents are responsible for conducting marketing communication activities on their own. However, many providers provide support in-kind through manpower engagement and also collateral and material support in case of large-scale events.

Revenue generation

- The high initial investments required to commence agent banking operations is a major impediment to the commencement of agent banking operations at an agent level. Data reveals that in a rural area, an agent may require BDT 500,000-800,000 to be invested, whereas in the urban areas, an agent may require BDT 800,000-1,000,000 investment upfront to commence operations in a sustainable manner.

- Industry intelligence reports indicate that approximately 50% of the non-UDC agents reached breakeven or will reach breakeven by the end of 2019. However, 80% of the UDC agents have yet to reach breakeven due to a lack of profitability that emanates from limited investment in the business.

- The social safety net disbursement scheme through agent banking has been proving to be a burden for the banks. They receive no commission on the total amount disbursed, which in itself is a massive endeavour and are unable to compensate the agents for it.

Agent banking's interaction with women and CMEs

- Data shows that 30% of the total customers of agent banking outlets are women. However, agent banking faces stiff competition with MFI providers when increasing their customer base of women.

- Providers face difficulties in finding enough suitable women agents who can meet the application criteria for agent banking. Only 4-5% of the agents currently operating are women.

- Agent banking is yet to utilise the full potential of tapping into the Cottage & Micro Enterprise (CME) segment. Banks also lack the appetite to escalate their lending for CME development due to the lack of historical and viable financial records of the businesses as well as their inability to provide adequate collateral against credit.

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[7] Mcmillin, David, "Mini Bank Branch takes shape" April 2013, can be accessed at https://www.bankrate.com/financing/banking/mini-bank-branch-takes-shape/

D Understanding the demand-side needs of dynamics-unbanked customers

Holistic coverage of customer segments

- Optimising agent banking spread and presence successfully requires an understanding of customer demand in every market- rural and urban, and among every customer segment- women, individuals, and business owners.

- Only 18% of the users of agent banking have an agent outlet in the range of 1km from their homes, and 48% people have not heard about agent banking at all.

Low awareness about agent banking

- Financial literacy can be an enabler towards on-boarding financially excluded segments into the formal financial services sector. Limited available information on their financial behaviour has led to a supply-driven approach to financial literacy.

- Agent banking can tap the rural market by reaching out to customers through various marketing campaigns, such as camps for creating awareness, audio-visual channels, or van campaigns.

- Of agent banking users, 55% have found out about agent banking through their friends or relatives, and 50% have found out about it through agents. Meanwhile 36% of CMEs also mentioned that they have not availed agent banking services due to a lack of awareness.

Customisation of products and services on offer

- MFIs have a wider presence in Bangladesh but have product specific limitations. Agent banking can provide additional value-added services that MFIs cannot render, such as money transfer and bill collection, among others.

- The products and services offered at an agent outlet has the potential to lead to a higher uptake of agent banking services. Offerings, such as utility bill payments and P2P transfers have gained popularity across Bangladesh and are now available at a lower cost at agent banking outlets when compared to other alternative channels.

Fingerprint authentication providing security acts as a pull factor

- The safety and security of the transactions at an agent banking outlet has been a prominent pull factor for customers and for the shift from MFS to agent banking. Fraudulent transactions lead to banking services being positioned wrongly, especially if a customer is newly on-boarded. The required physical presence of the customer and authentication prerequisites have proved to be a success factor.

- Our study finds that 35% of respondents have started using agent banking only because of the security feature that it offers.

Gradual diversification of the pool of products and services at offer is the key to cover a larger population

- Customer acquisition, retention, and sustainability of agent banking depend on demand-side pulls. Agent banking has reached closer to addressing many of these needs that existed at the customer end. Taking cues from the alternative channels, such as MFIs and MFS, agent banking needs to address customer needs that remain unfulfilled. Among the users of MFS and agent banking, 90% prefer using agent banking over MFS.

- More than 90% of the users of agent banking avail of the facilities of cash deposits and withdrawals at agent outlets while 55% avail money transfer services. These services are the most used by users on the other platforms as well. However, due to the low cost for these transactions through agent banking, users now prefer the agent banking channel.
- As banks and their agents continue to build their agent networks, the most popular services, that is, cash deposits and withdrawals, utility bill payments, or person-to-person payments do not necessarily make access to formal savings, credit, and insurance possible for the financially excluded. However, they create a financial record for a previously unbanked person, which can translate to increased financial activity.

Inclusion of women and CMEs

- The regulatory environment needs to shift towards traditionally excluded segments, such as women. While the number of women agents on the ground is low, 95% of users, both male and female, have agreed that women agents will have no problem in rendering agent banking services efficiently. Women customers do not have any major qualms about visiting outlets run my men. Yet they would appreciate the presence of women as either agents or sub-agents.
- Hurdles, such as limits on the transactions that can be done at an agent outlet may be an underlying reason for the low uptake of agent banking among small business owners. Of CMEs, 40% do not use agent banking in their peak business cycles due to the transaction limits imposed.
- Awareness remains an overarching constraint, as 35% of the CMEs have not heard about agent banking. Apart from cash deposit and withdrawals, CMEs have slightly varied needs. Salary and wage payments are some of transactions CMEs would prefer to avail of at agent banking outlets.

E Competitive landscape for agent banking

Agent banking and microfinance -common grounds and possible areas of conflict of interest

- Agent banking providers and MFIs have been collaborating in the digitisation of various micro-credit transactions and repayment and savings deposit of MFI beneficiaries through the agent banking channel. However, the model of collaboration is not well structured with a lack of clarity in the division of roles, responsibilities, and profit sharing.
- Agent banking cannot match the development objectives that MFIs fulfil through engagement with beneficiaries. Agent banking will consequently, have to find other innovative methods for customer acquisition even though they may offer financial products at a lower cost.

Agent banking and MFS/FinTechs -common grounds and possible areas of conflict of interest

- The range of services provided by MFS is limited compared to the range of services offered by agent banking. The security aspects of agent banking are also more robust compared to the MFS platform. Moreover, the limits imposed by the regulator on MFS transactions reduce its functionality for many users. Agent banking has a much higher transaction limit, which enables effective usage for a range of customers.

- MFS or FinTechs cannot underwrite financial products but may tie up with banks to develop digital savings and credit products. This provides both a challenge and an opportunity for agent banking providers.

- Banks may utilise the technological acumen of FinTechs to revamp their credit appraisal mechanism by developing algorithm-based credit scoring to reduce turnaround time for credit delivery through agent banking.

Key Policy Recommendations

For agent banking to grow exponentially andfurther its reach among rural areas, certain enabling factors need to be introduced at a policy level. To realise the yet un-tapped potential of agent banking, we present the following key policy recommendations:

• Allow non-exclusivity of master agents to serve multiple banks, with each agent outlet representing one bank:

Clause 15.1 of the Prudential Guideline for Agent Banking 2017 stipulate that an agent cannot enter into a banking contract with more than one bank. While this may be appropriate for individual agents with limited capacity, it is restrictive for a master agent with large retail agent networks. Thus, master agents with large retailer networks may be allowed to serve multiple providers, that is, allow non-exclusivity of master agents to serve multiple banks with each agent outlet representing one bank. Thus, a possible way forward to address this issue will be by amending clause 15.1 of the Prudential Guideline 2017 and reverting to clause 6.1 of the PSD Circular no. 5 on Agent Banking 2013. This will ensure transparency for all entrants in the market and precipitate much faster expansion (around 30% faster) of agent banking countrywide, especially in rural areas. This initiative will precipitate much faster expansion (around 30% faster) of agent banking countrywide, especially in rural areas.

• Reduce the turnaround time (TAT) for approval of agents and rationalise documentation requirements:

At present, an individual has to furnish 20-22 documents for an agent application. The documentation requirement is a lengthy process and currently, it may take 2-4 months from the first contact with a prospective agent to obtaining the final approval for the agent to commence agent banking operations. Such lengthy turnaround time is not conducive to expansion of agent banking and may also lead to early drop out of prospective agents. Therefore, the study recommends rationalising the documentation requirements for agents, and also highlights the need for regulator and provider to expedite their internal screening and approval process. This will reduce early dropout rate of prospective agents by 25% and facilitate better business planning for the agent banking providers and reduced agent acquisition cost for them – it may be reduced by around 30%.

- ### Allocate a certain portion of existing refinancing funds for banks to lend through the agent banking channel to improve the deposit-to-credit ratio:

The deposit-to-credit ratio is unfavourable at 16:1 through agent banking operations compared to the optimal industry ratio for banks at 1:0.85. More than four-fifths of agent banking outlets are in rural areas but they predominantly collect deposits. This reflects the discomfort of banks towards lending to the rural sector – mainly Cottage & Micro Enterprises. This has resulted in an extremely unfavourable deposit-to-credit ratio at 16:1, which may be detrimental to the rural economy in the long run. To rationalise this unfavourable trend, regulators can encourage banks to utilise funds from various refinancing schemes available. It would be prudent to allocate a certain portion of the existing

refinancing program for banks to provide loans through the agent banking channel to improve the deposit-to-credit ratio. Through channelling of more credit through agent banking, if the deposit-to-credit ratio could be improved ratio to 10:1, it would result in additional loanable funds amounting to BDT 1.3 billion for 39% more rural clients. Furthermore, Rural populations and the low- and moderate-income segments will have greater access to low-cost funds from the banking channel.

- ### Introduce e-KYC using digital signature, national ID, or mobile network operator (MNO) database for the account verification process:

The regular KYC process followed in agent banking outlets follows a manual process, which is time-consuming, and prone to errors in recording and input. On the other hand, e-KYC is a paperless account opening process that fulfils the KYC requirements for particular financial services and it can verify customer's credentials faster. The paper-based KYC process can take 5-10 days to be verified but the e-KYC process may take just 8-10 minutes to verify and issue. It is imperative to introduce e-KYC at the earliest to expedite the customer acquisition process and facilitate the uptake of agent banking among the unbanked population. Introduction of e-KYC would entail using a digital signature, National ID or the database of the mobile network operators for account verification. This has the potential to notably expedite the customer onboarding process. If the e-KYC process is introduced, the manual KYC, storage cost, and account opening time may be reduced by 50%. The ongoing effort for e-KYC needs to be expedited and piloting may be carried out to in select locations to test the feasibility of the same.

Other Policy Recommendations

- ### Ensure business case for providers with regards to Social Safety Net (SSN) disbursement:

The banks or agents do not receive any commission from the government for SSN disbursement, nor can it charge the customers during withdrawal of their funds. It is advisable to provide a percentage commission on the total amount of disbursement, which the provider and agent may share in a pre-arranged ratio. The lack of proper incentive and adequate compensation on this count can pose a challenge in agent banking being used as a meaningful partner in the social safety net disbursement scheme. Since the Ministry of Social Welfare is the coordinating agency for social safety net transfer, they may explore avenues and recommend/lobby for commission payments for SSN disbursement after engaging with other relevant government departments such as Ministry of Finance and government supported projects such as access to information (a2i).

- **Strengthen the sourcing of women agents through collaboration between banks and women-centric organisations:**

  Banks face difficulties in sourcing suitable women candidates to onboard as agents and currently only 2-3% of their agents are women. To facilitate the induction of more women as agents, the providers may reach out to development partners or NGOs working for the economic empowerment of women. Banks may request these entities to connect them to suitable women entrepreneurs who may be beneficiaries or partners of existing projects. NGOs can also contribute to the training and development of the women candidates through their skill development and business management programs. As a result of such initiatives, banks will have access to a pool of prospective women agents without a substantial search cost. Within the year 2020, women entrepreneurs may run around 8-10% of the total agent outlets. The share of accounts of women in agent banking may increase to 40% from 35% (of total accounts) within 2019.

- **Feasible business models between banks providing agent banking and MFIs to tap into the unbanked customer base:**

  Despite attempts at a collaboration of agent banking and MFIs, the potential to serve the unbanked population remains unfulfilled due to the lack of a viable business model of collaboration. MFIs are sceptical about this digitisation process as they feel that agent banking may cannibalise their own service offering in the long run. There is also little clarity on the return on investment of such endeavours for MFIs Therefore, the appetite to escalate the scope of the partnership remains low. However, there are certain benefits of such collaboration as both MFI and agent banking have their unique propositions to offer to the customers. However, there needs to be clear delineation of roles and scope of services that each provider can provide from a jointly supported outlet. There need not be a singular model of collaboration, but individual banks and MFIs can chalk out viable collaboration models based on geographical considerations, socio-cultural dynamics and infrastructural issues of the locality. As a result of such initiatives, around 0.5 million MFI customers can get access to a wide range of services in the next one year. These are services that MFIs do not have in their service provisions, such as remittance disbursement, bill payment, tax collection, home loan, and other ancillary services. Banks may be able to serve into 0.5 million additional customers in the next one year.

- **Ensure security of agents & customers, through stricter monitoring and facilitation:**

  Many agent outlets do not have a proper vault for storing cash and do not have surveillance devices such as closed-circuit cameras installed in their outlets. Furthermore, the location of outlets, especially in remote areas, makes them susceptible to burglary attempts. Agents also inadvertently put themselves at risk when carrying cash back and forth from their linked branch and the lack of insurance coverage makes them more vulnerable. Thus, regulator can ensure stricter monitoring of agent outlets and recommend stringent security measures to banks, as well as link local law enforcement agencies with banking agents in respective areas to ensure safer cash transportation.

- Conduct a financial literacy campaign to increase awareness about agent banking: As agent banking strives to serve unbanked populations with banking services, it is imperative that the customer segments are also willing and able to reciprocate in terms of uptake. It is imperative to sensitise rural populations about agent banking and benefits of integrating with the banking channel. Bangladesh Bank's relevant department can leverage their previous experience of conducting financial literacy campaigns and conduct similar campaigns to educate and sensitize the wider population about agent banking.

- Create an enabling regulatory environment for more women agents to enter the agent banking business. There are many potential women entrepreneurs who may become good agents but they lack the required documentation to apply for an agent license. Market insights show that very few women agents have actually taken up the agent banking business. Thus, the best way to mitigate the above problems would be to ease documentation requirements for women agents, ensuring access to low-cost capital for the women entrepreneurs and providing financial literacy and business management training to potential candidates.

- Ensure flexible transaction limits for current accounts: Regulatory norms restrict the amount that can be withdrawn in a day (four deposits, two withdrawals for a total amount of BDT 600,000 and BDT 500,000 respectively). These should be customised for different user segments according to their needs. There could be tiered transaction limits set, which are based on the nature of business, since some businesses may need to transact frequently, although ticket sizes may be small.

- Banks to Institute an integrated communication strategy to spread awareness about agent banking: A large segment of potential target customers who are willing to avail agent banking services are unaware of the channels available near their homes. Banks should devise focussed marketing and communication strategies to pitch agent banking to various target segments. Furthermore, banks conduct joint promotional activities with agents through cost sharing mechanism.

INTRODUCTION

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1.1 Background & rationale

Bangladesh has always been an ideal to test development theory due to its large population base, of which 64% reside in rural areas[8]. Bangladesh also has a history of product and service innovation emanating from the root level and the Bangladeshi people have always shown remarkable resilience in face of adversity. This makes it an engaging test case for exploring idea and service level innovations.

Bangladesh ranks at 95 and 89 out of 140 countries on availability and affordability of financial services[9], respectively. As per the World Bank's Global Findex Database[10], 41% of the adults in Bangladesh have accounts with financial institutions. While about 24% of the population have saved money in the past, only about 10% have saved at a formal financial institution (significantly down from about 17% in 2011). Only 6% of the adult population has a debit card, and only 1% have used it in the past. Bank branch penetration in Bangladesh is fairly low at 8.2/100,000 adults by global standards (13.4/100,000 adults). This highlights reliance on informal and unregulated financial sector throughout the economy.

In 2011, the Bangladesh Bank issued guidelines for Mobile Financial Services (MFS). The guidelines were a unique attempt to

[8] World Bank Data, 2017, accessed on Sep 19, 018,link:https://data.worldbank.org/indicator/SP.RUR TOTL.ZS?locations=BD

[9] http://reports.weforum.org/pdf/gci-2016-2017/WEF_GCI_2016_2017_Profile_BGD.pdf

[10] https://globalfindex.worldbank.org/, Accessed on July 12th, 2018

ensure access to financial services to the unbanked, given the rapid adoption of mobile phones in the country. Since then, the MFS sector in Bangladesh has experienced significant growth in terms of the number of registered and active users as well as the number of agents providing mobile money services.

After the remarkable success of MFS, Bangladesh bank adopted agent banking, which has proven the success of catalysing the penetration of financial services in the unbanked geographies. Evidence from Asia, Africa and Latin America demonstrate the advantage of agent banking in extending formal financial services to the underserved and unserved population. Globally agent banking has gained popularity as an important distribution channel for financial inclusion. In 2013, Bangladesh Bank launched the master guideline for agent banking followed by the prudential guidelines in September 2017. Although Agent banking has been gaining popularity in Bangladesh, especially in rural areas, its penetration and impact are still meagre compared to MFS. Existing market insights have revealed some notable constraints such as lack of clear definition of agent, the time-intensive process for approval of products, lack of sufficient financial incentives for agents to dedicate all resources to banking operations and lack of financial literacy programme for the clients[11].

It is evident from the global best practices that usually it takes two years for the rapid growth of agent banking. A study of trends in Brazil, Peru and Colombia indicates a slow implementation of agent banking during the first two years followed by an increase in the third or fourth year[12].

However, the growth of agent banking in Bangladesh during the third and fourth, although notable, is not necessarily aligned with global trends. The growth of agent banking can be precipitated by lack of restrictive regulatory framework and open and flexible approach of the regulator. The Government of Bangladesh (GOB) had committed to the Alliance for Financial Inclusion (AFI) in 2016 to expand agent banking[13] through a more conducive regulatory environment. The 7th Five Year Plan of GOB has focused on financial inclusion through providing low-cost doorsteps banking services to the excluded people[14]. Thus, to better understand and agent banking landscape in Bangladesh and identify the barriers and its prospects, Business Finance for the Poor in Bangladesh (BFP-B) sanctioned a comprehensive study to be conducted to address the issue mentioned above. MicroSave Consulting (MSC) has been commissioned to undertake the study on agent banking titled ‘Addressing Market Demand through Agent Banking: Lessons Learnt’. It is an opportune moment to conduct a study on the agent banking landscape in Bangladesh since the market lacks a consolidated report that highlights the challenges and opportunities for agent banking in the country.

[11] The Financial Express, “Financial Inclusion: The Challenges a nd way Forward”, 28 October 2017

[12] Afande and Mbugua (2015), Role of Agent Banking Services in Promotion of Financial Inclusion in Nyeri Town, Kenya, Research Journal of Finance and Accounting, Vol.6, No.3, 2015.

[13] Alliance for Financial Inclusion 2016: Maya Declaration Progress Report, Celebrating Five Years of Advancing Global Financial Inclusion, August 2016.

[14] GOB (2015), Seventh Five Year Plan FY2016-FY2020: Accelerating Growth, Empowering Citizens, General Economic Division, Planning Commission, Government of Bangladesh (GOB)

1.2 Objectives

The specific objectives are:

Understand the responses of the banking industry to licenses and regulations issued by Bangladesh Bank to trigger agent banking expansion

Examine demand, supply, and regulatory issues in agent banking, and understand how these interact with other demand, supply, and regulatory issues in complementary markets such as mobile financial service (MFS) and microfinance services Explore customer's financial needs and perception of agent banking ranging from CMEs & individuals,

Understand the future market competition from other financial services providers and fintechs

Combine deep understanding and experience of the evolution of local markets with knowledge of global insights and best practices

Provide practical policy options that will assist regulator to further review of the agent banking policy to address the market demand

This study will try to answer some of the key research questions:

A. Market overview

- How can agent banking deepen financial inclusion in Bangladesh by serving the needs of excluded and underserved people (mainly women) and businesses?
- Whether agent banking is facing competition with other financial service providers such as MFS and microfinance services, and fintechs?

B. Demand-side considera-tions

- What kinds of financial services are demanded by the customers (men and women, and cottage and micro enterprises (CMEs))?
- Do current agent banking models meet the demand of the customers (men and women, and CMEs)?
- How banks are responding to the demand of the customers?

C. Supply-side perspectives

- What factors support agent banking penetration?
- How do male and female agents vary w.r.t number and type of customers, transactions, client satisfaction etc.?
- What are the factors that hinder agent banking penetration (including gender perspective)?

D. Regulatory environment

- Is the current regulation sufficient for agent banking penetration in Bangladesh?
- What could be the policy options and guidelines for the regulators for increasing agent banking penetration?
- What are the global regulatory and operational practices on agent banking?
- When compared to other countries which have done agent banking successfully, what are the learnings for Bangladesh and what is the possible roadmap for Bangladesh?

PROJECT APPROACH AND METHODOLOGY

1.3 Project framework

Phase	Phase 1: Project planning and inception report development	Phase 2: Primary research	Phase 3: Data consolidation and analysis	Phase 4: Report synthesis	Phase 5: Report finalization	Phase 6: Report launch and dissemination
Key activities	• Literature review on agent banking • Develop project framework, project approach & methodology • Develop inception report • Develop research plan, tools and guides • Submit inception report to BFP B for review • Finalise list of key stakeholders to be interviewed	• Project kick off and inception meeting with key stakeholders • Conduct in depth interviews with key informants • Conduct demand side quantitative research conduct demand and supply side qualitative research • Monitor quantitative research • Documents field notes for interviews and qualitative research	• Consolidation of data from primary research (qualitative and quantitative) • Data cleaning • Analysis of Primary data collected	• Prepare the draft version of study report • Prepare the draft version of policy brief • Prepare the draft version of presentation deck	• Incorporate review comments from BFP-B • Submit the final study report • Submit the final policy brief • Translate and submit the policy brief in Bangla • Submit the final presentation deck to BFP-B • Draft and submit the synthesis report to BFP-B • Draft and submit the summary sheet of key findings	• Presentation during dissemination seminar • Address the comments received during the dissemination seminar
Key outputs	• Inception report (with research guides and tools)	• Field notes and quantitative data (internal deliverable)	• Analysed field notes and quantitative data (internal deliverable)	• Inception report (with research guides and tools	• Field notes and quantitative data (internal deliverable)	• Analysed field notes and quantitative data (internal deliverable)

Figure 1: list our six-phased approach to the project. Each phase – which has key activities, deliverables and timelines – has been detailed out comprehensively below.

1.4 Project planning

Phase I started with the preparation of an inception report, which included the project framework and approach to the study along with the methodology and proposed work-plan in terms of deliverables. It also included the guides and data collection instruments which were used to conduct the primary research. This includes focused discussion group (FDG) guides, personal interview guides, key informant interview (KII) guides and quantitative survey questionnaires.

A. Literature review

The study team started the project with a detailed secondary research. Some of the key elements which were covered under this secondary research included:

- Analysis of the financial inclusion landscape in Bangladesh with a focus on agent banking
- Understanding the agent banking policies and regulations in Bangladesh, and comparing them with other countries having successful agent banking models
- Review of agent banking regulations pertaining to CMEs including women and individual customers
- Analysis of distribution of CMEs across different divisions in Bangladesh, data on the economic activities in each division
- Understanding the present status of financial access, payments channels available, the frequency of transactions per economic activity, and preferences towards financial services in each sector/region.
- Review of the competition scenario from MFS, microfinance institutions (MFIs) and fintechs. This will help us to understand – Who are the main competitors? What are the agent banking products and services offered? What are the major challenges in using agent banking products? What has been the experience of using agent banking for CMEs, women enterprises and individual customers?

For conducting this secondary research, the study used the publications available in the public domain by the World Bank, UNDP, Bangladesh Bank, BIBM, BFP-B, Findex report, relevant newspaper articles and MSC and InterMedia studies etc.

We also looked into the agent banking guidelines of various countries such as Kenya, Mexico, Brazil and India among other countries. Furthermore, we conducted a detailed review of the reports on agent banking by various organisations, such as CGAP, AFI, IFC, Centre for Financial Inclusion (Accion), etc. These reports proved useful to understand the innovations relevant to agent banking and gather the best practices for Bangladesh.

B. Synthesise the project framework

The information gathered from the literature review were synthesised into refining the project framework which acted as the cornerstone for the entire project. The framework guided us to evaluate the supply-side, demand-side and regulatory perspective during the course of the project. The study will entail analysing all the four components which have led to the sluggish growth of agent banking despite guidelinesissued by Bangladesh Bank in 2013[15].

[15] PSD Circular No-5, 'Guidelines on Agent Banking for the Banks', December, 2013; Bangladesh Bank.

The study framework is composed of components as under:

- ## Demand-side analysis

The focus will be to understand the perspective of users and non-users of agent banking – individual male and female customers and CMEs (including women-owned enterprises). The project will focus on the types of financial products and services, which the targeted customer segments currently use, and how agent banking as a channel can help them access these better.

- ## Supply-side analysis

Here, the focus will be to understand the perspective of banks offering agent banking. We have also covered the banks, which have the licence but are yet to launch the agent banking operations. We also interacted with banking agents. and these helped us to gauge the intent and expectations of the supply-side stakeholders of agent banking. The interviews with key informants provided us with a feedback on the current regulatory environment and compliance requirements and the agent-related challenges.

- ## Regulatory and policy analysis

The focus was to understand the regulator's perspective, the experience of managing supply-side players, views on system stability, the evolution of agent banking, feedback from key stakeholders like banks on the state of the agent banking, gaps, and areas of improvement. Furthermore, the focus was to review the existing policies and guidelines and recommended practical, actionable policy changes. The analysis will reflect on learning from other countries doing agent banking.

- ## Analysis of market landscape

This section will focus on competition faced by agent banking from other market players like MFS players. This focus area will also include the best practices and lessons from other countries where the agent banking model has been successful.

The intersection denoted by “?”

An understanding developed by studying the above-mentioned components will lead us to unfold the intersection denoted by a Question Mark (?). The intersection represents a section where supply meets the demand. This study is intended to answer the demand-supply gap.

4. Market landscape analysis

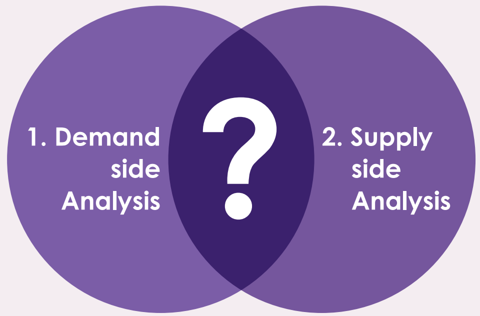
The overall market consist of players providing formal financial services to the poor in a digital or non-digital manner. The study will focus on the following on analysing the current market landscape in the following terms

- Type and number of players present
- Competitive analysis for MFIs and MFS providers
- Respective focus areas, along with the revenue structure and reasons for popularity among masses
- Untapped market and its future potential

1. Demand side Analysis

The study will help us to understand the challenges faced by the customers faced by the customers while using agent banking channel. It will further help us understand their needs and expectations and the factors that will make them use the agent banking channel. It will be done by studying the below mentioned areas.

- Customer profiles
- Financial needs of users
- Behavioural characteristics of users
- Current methods to access funds (formal v/s informal and their meens)
- Perspective on agent banking (issues recommendations)



3. Regulatory and policy analysis

Analysing the policy and regulatory policy is as important as analyzing the demand and supply perspective. The study will focus on

- Current policy environment and future outlook
- Gap analysis between the Bangaldesh model and global gractices
- Recommendations to crate an enabling environemtn
- Global best practices related to agent banking

2. Supply side analysis

The study will focus on the supply-side perspective to understand the factors which have led to a sluggish growth of agent banking in Bangladesh. It will cover the banks which have launched agent banking and banks which have received the license but are yet to launch their operations. It will mainly assess current landscape of agent banking in Bangladesh and will focus on areas like

- Market share
- Focus area for future growth (CMSE, women enterprises individual users and non users)
- Constraints (to sustain business and to i ncrease business
- Revenue structure (current structure and desired changes)
- Gender specific dynamics (gender specific preference, client satisfaction)
- Bank’s perspective (on regulations and future expansion increase penetration for FL)

C. Develop an inception report

This inception report consisted of our understanding of the agent banking landscape in Bangladesh. It detailed out the project framework and rationale of using it to guide the research. It also elaborated on how will the framework which was used in the study.

D. Develop research methodology and tools

This inception report also included a detailed research methodology and research tools. The methodology guided the process of the study and informed the research team on the key processes that will have to be followed in the collection and analysis of data. The methodology included:

- Statement of research tasks: research questions
- Study population and sampling: description of study areas, populations and the procedures for their selection
- Data collection: description of the tools and methods used to collect information, and identification of variables
- Data analysis: description of data processing and analyzing procedures
- The specific tools that will be used to study each research objective
- The final outputs which will be derived from the study, in this case, the policy brief, presentation deck, synthesis report, summary sheet and study report.

1.5 Details of primary research

Primary research phase consisted of the following activities:

Key informant interviews – by MSC personnel

Quantitative research – by Nielsen team with monitoring and oversight by MSC

Supply-side: Surveys with banking agents (male and female).

Demand-side: Surveys with CMEs (users and non-users), agent banking individual (users and non-users)

Qualitative research – by Nielsen team with monitoring and oversight by MSC

1.5.1 Key informant interview

An important component of the study was in-depth interviews with key stakeholders. These interviews helped to gather high-level inputs on what is going on in the agent banking space in Bangladesh. It gave us insights on what can be improved and what can be the possible steps of improving the status of agent banking in the country. We also tried to understand the regulatory angle which will impact the key policy decisions on the uptake of agent banking services among CMEs and individuals. The inputs from industry stakeholders and senior bankers helped us to come up with recommendations to improve the uptake of agent banking. During the course of the study around 20 representatives from the regulator, agent banking providers, MFS player, FinTechs, think-tanks and educational institutions, bankers association were interviewed for their valuable insights. Detailed list of respondents can be found in Annex B.

1.5.2 Quantitative research

This section details out the methodology adopted to conduct the quantitative research. In addition, we have mentioned the sample type and sample size of various respondents. We have covered banking agents (male and female), CMEs (users and non-users) and individual customers of agent banking (users and non-users).

1.5.2.1 Research design

The quantitative research was formulated be a cross-sectional design with a multi-stage sampling approach. The cross-sectional design helped us to understand the current scale and scope of agent banking at both agent- and customer-level. At the agent level, we studied the current state of services offered, transactions volumes and values, and the type of customers served. At the customer level (current and potential) we looked at gender dis-aggregated analysis of products and services demanded vis-à-vis actually received, gaps in services and unmet needs. The sampling ensured representation of men and women respondents for both users and non-users of agent banking services.

1.5.2.2 Sampling methodology

The required sample size on the demand side of agent banking (users and non-users) is calculated based on 95% confidence level, 5% precision and 50% prevalence proportion. The total sample size derived was then divided according to the various strata considered for this research. In total, we interacted with 193 users and 192 non-users of agent banking for the qualitative research.

A. Agent sampling strategy

We interacted with 67 agents in total. To ensure representation of the demand-side sample in terms of districts covered, urban-rural coverage and different poverty levels, a multi-stage sampling approach has been adopted. We detail out the approach below.

Step 1: Sampling at the division level (using agent penetration and geographic spread)

We selected the four divisions - Dhaka, Chittagong, Khulna, and Rangpur for this research (in consensus with Nathan). These four divisions have been selected based on two important criteria:

A. High concentration of agents: Unlike MFS agents, there are a limited number of banking agents in Bangladesh. As a result, it is important to consider the divisions where the agent presence is higher. As per the division-wise data available, 56% of the total agents operate in these four divisions.

B. The geographic spread of agents: We have also ensured that the four divisions cover different regions of Bangladesh. This is important to capture the variation in agent banking operations with respect to geography.

The overall sample of 67 agents has been distributed proportional to their population size (PPS) among the four divisions, as depicted in the table below:

Selected Divisions	Total Number of Agent outlets	Proportion (%)	Sample to achieve (agents)	Rural agents	Urban agents
Chittagong	857	31	22	20	02
Dhaka	937	34	22	20	02
Khulna	418	15	10	09	01
Rangpur	526	19	13	12	01
Total	2738		67	61	06

Figure 2: Shows the division-wise break of agent sample. As per the quarterly report published by Bangladesh Bank[16], 92% of the agents are located in rural areas. The agent sample has been divided accordingly between urban and rural geographies.

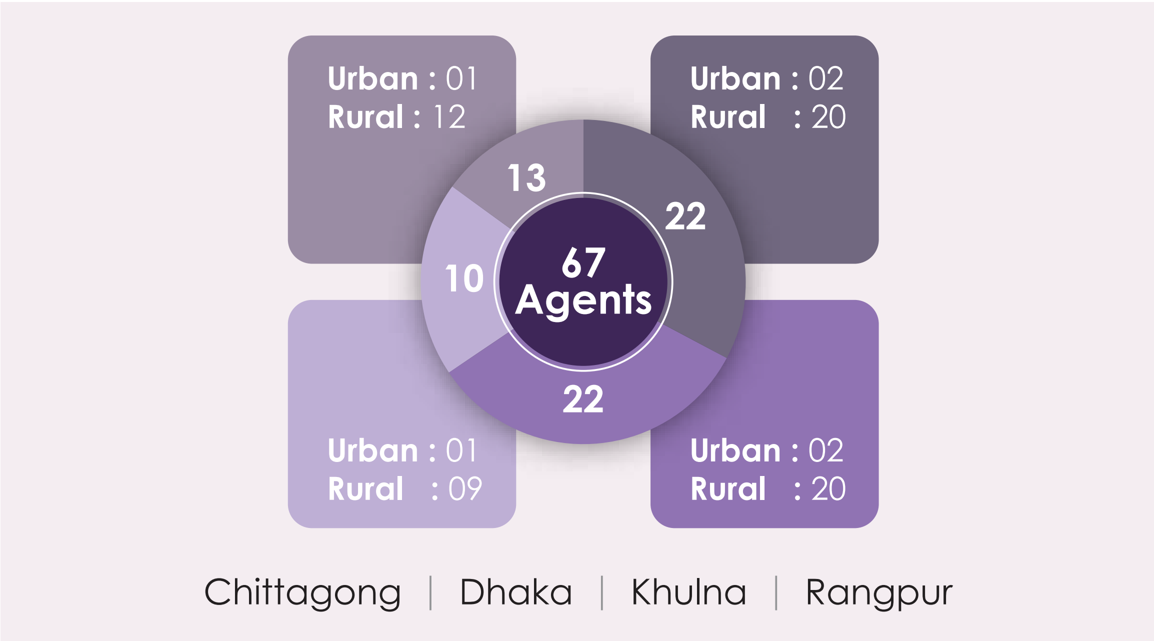


Figure 3: District and locality wise break up of agent sample

Step 2: Sampling at the district level (using poverty data)

The districts of Bangladesh were divided into three strata based on the Poverty Headcount Ratio developed by the World Bank Group[17].

- **Strata 1** – Poverty Headcount Ratio of **> 40 %**
- **Strata 2** - Poverty Headcount Ratio of **> 27 % and ≤ 40 %**

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[16] Source: Agent Banking Activities, January-March, 2018; Bangladesh Bank, https://www.bb.org.bd/openpdf.php

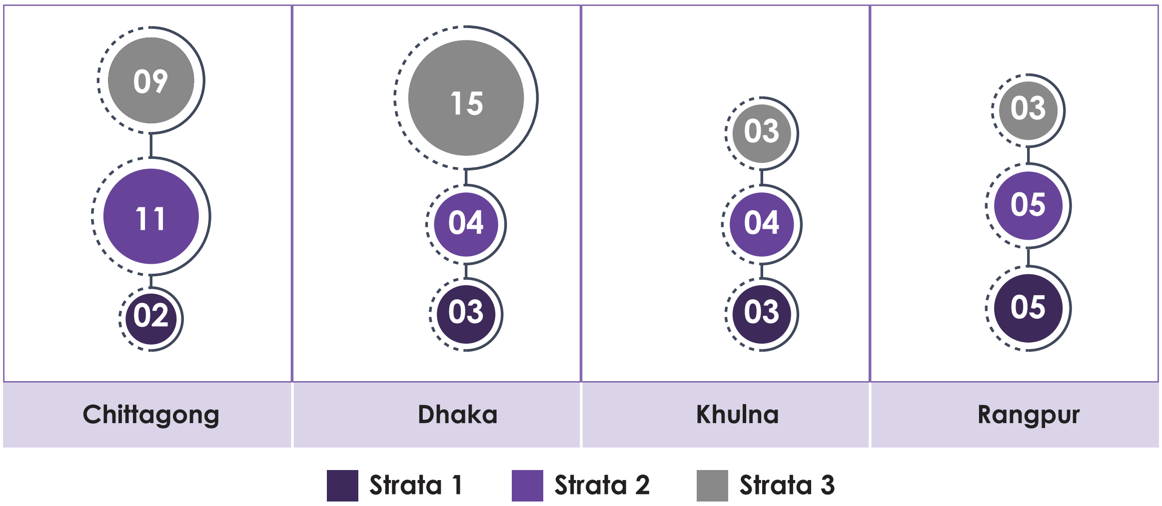
[17] http://www.worldbank.org/en/data/interactive/2016/11/10/bangladesh-poverty-maps

• **Strata 2** - Poverty Headcount Ratio of ≤ **27 %**

From each division, we have selected three districts randomly, one belonging to each stratum

Division	Strata 1	Strata 2	Strata 3
Chittagong	Chandpur	Comilla	Chittagong
Dhaka	Shariatpur	Tangail	Dhaka
Khulna	Bagerhat	Jessore	Kushtia
Rangpur	Rangpur	Dinajpur	Thakurgaon

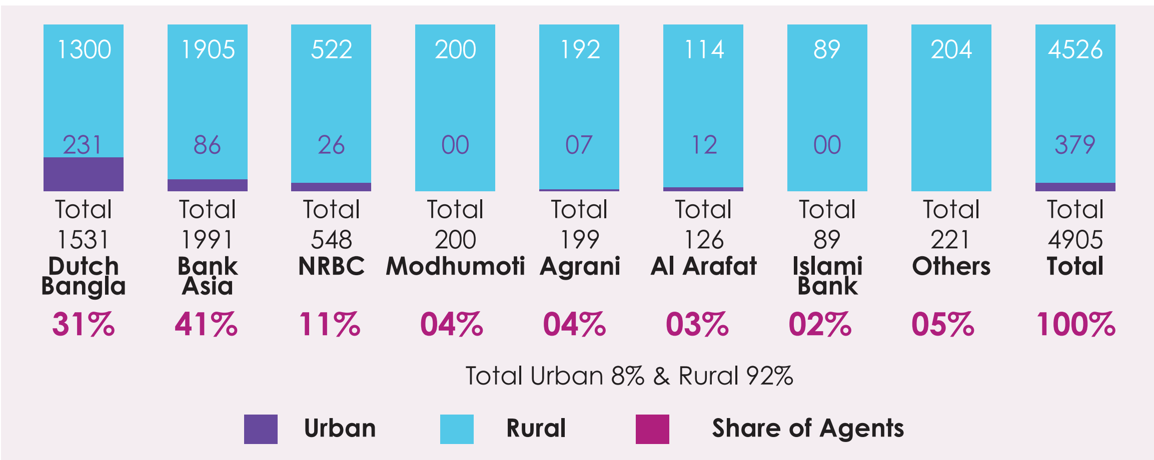
(so a total of 12 districts in four divisions). These randomly selected districts as per their division and strata are:



Again, at this stage, we used PPS to arrive at the number of agents to be sampled in each district. This has been presented below:

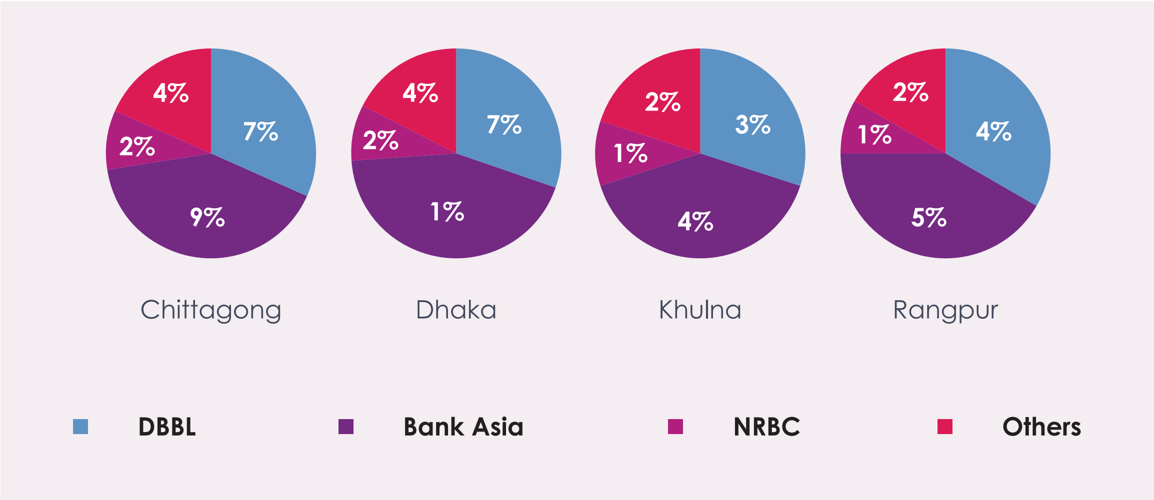
Step 3: Bank-wise distribution of sample (using bank-wise agent penetration)

The below table presents the latest available status on the number of agent outlets[18]. This helps to estimate the share of outlets for each bank.



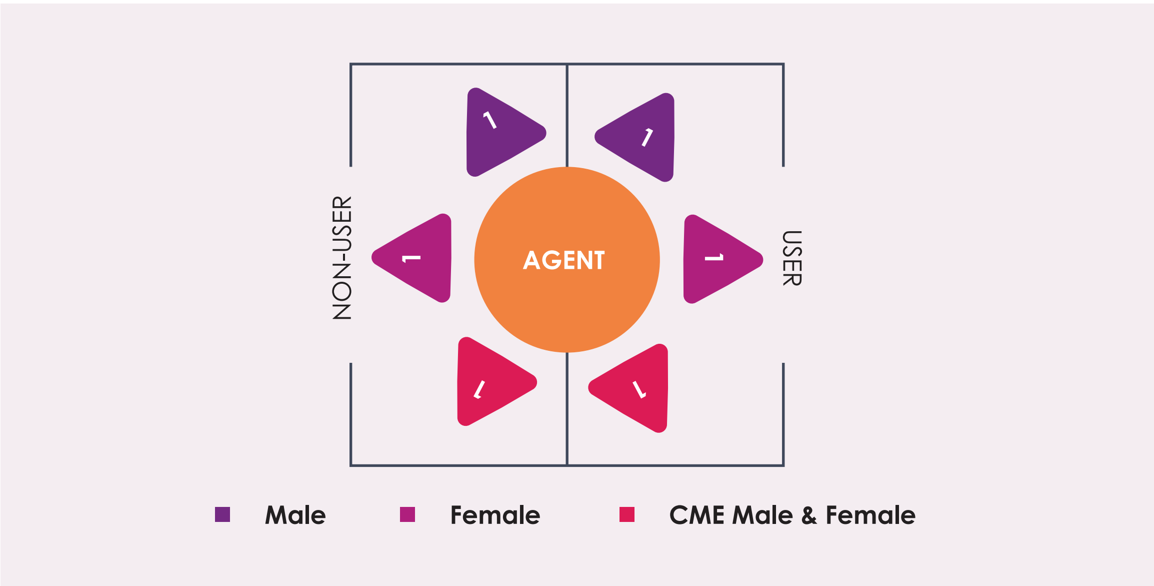
[18] Source: Agent Banking Activities, January-March, 2018; Bangladesh Bank, https://www.bb.org.bd/openpdf.php

In line with the above table, we have distributed the sample of 67 agents among these banks (31% DBBL agents, 41% Bank Asia agents, 11% NRBC agents and other banks 17%) using PPS. This is presented in figure 5.



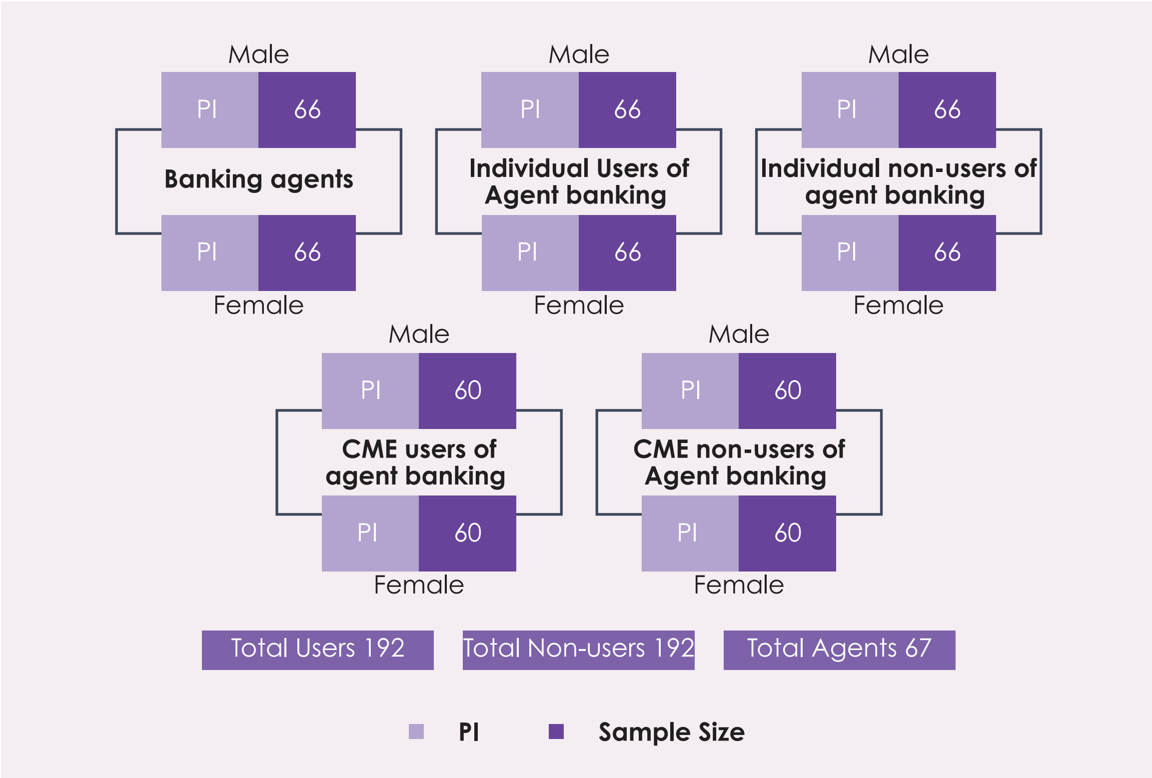
b. Customer sampling strategy

Customers were sampled in the defined catchment area of the agent. From each agent location, six samples were selected on the demand side. figure 6 indicated the type of respondents who were sampled at every agent point.



The distribution of sample among different segments on the demand-side is as follows:

During the survey, we utilized the agent to get the information of a user group (male and female). For sampling non-users (male and female), enumerators sought information from the users about a non-user in their neighbourhood. This ensured that the non-user is socially-economically similar to user and access to the agent is the same for the two groups. A similar strategy was adopted to sample the CMEs. The quantitative survey was carried out by Nielsen's survey team with supervisory support from the MSC team.

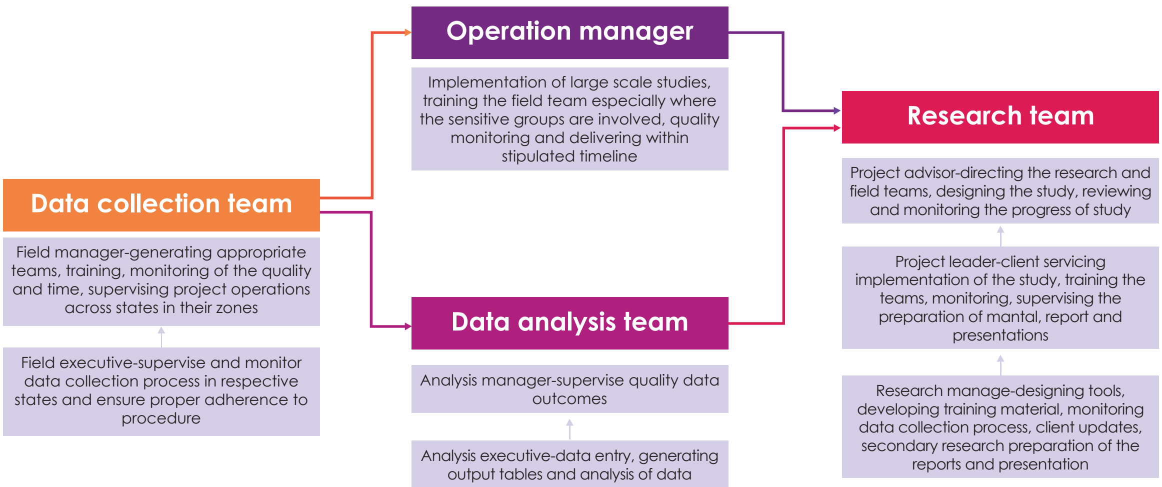


1.5.2.3 Research tools

For the quantitative research, we used well-tested quant surveys. The tools had objective question guides with multiple choices or binary responses. The tools that were used for quantitative research can be referred to in the annexure.

1.5.2.4 Quality control plan for conducting field research

The quality control plan envisages quality check mechanisms at the data collection level. The field team comprised of five levels of staff of Nielsen who were involved in the data collection and monitoring of the data collection process. The roles and responsibilities of each of the levels of staff and stepwise monitoring checks are presented below:



At the ground level, the field investigator was responsible for the collection of the data using a mobile phone, tablet, or netbook. Each team of investigators was led by a supervisor who supervised the fieldwork for his/her team.

The supervisor also carried out 100% scrutiny, 5% accompaniments, 20% back checks and 5% spot checks, to ensure data quality. There was one supervisor per team and their work was monitored by the Field Executive (FE) or Field Coordinator (FC). The FE was primarily responsible for the quality of data collected and was the focal point of coordination between with the Research Executive and the Supervisors, Additionally, Nielsen deployed a separate quality control (QC) team to ensure fieldwork quality.

The QC teams conducted surprise visit in the field during fieldwork and identified any anomalies found during conduction of field work. The study team took adequate steps to verify the integrity of the quantitative data that was collected by Nielsen. The data collected from the Nielsen was tagged with GPS coordinates of the location of the survey. Further the team analysed the raw data submitted by Nielsen, including the GPS location data.

1.5.3 Qualitative research

The qualitative research was carried out in the same four divisions of Dhaka, Khulna, Chittagong and Rangpur. Qualitative research experts from Nielsen conducted this research with complete oversight and monitoring of the MSC team. We conducted in-depth Interviews with banking agents (male and female), agent banking individual (users and non-users), CMEs (users and non-users) and FDGs with CMEs (users and non-users).

MSC believes that clients' needs and preferences can be truly understood through qualitative research methods that help answer the key underlying drivers of preference: 'why?'; 'where?', 'what?' etc. MSC and Nielsen used Participatory Rapid Appraisal (PRA) techniques to extract the behavioural preferences in the usage of agent banking. MSC's Market Insights for Innovations and Design (MI4ID) approach was also referred heavily for this research. The MI4ID toolkit combines MSC's 18 years of experience in conducting participatory qualitative research in the domain of financial inclusion with behavioural research and user-centric design techniques.

The MI4ID approach helped in triangulating the responses in the quantitative survey. Qualitative information was gathered to understand the aspects which play a significant role in shaping and influencing overall customer experience of using agent banking services.

MSCs Market Insights for Innovation and Design (MI4ID) Approach

MSC is a pioneer in exploring low-income markets and deriving strategic insights therefrom. These insights have helped many financial service providers in product development & channel innovations, marketing & communications, customer service, risk analysis, process optimization, social performance management and impact evaluation. We conduct causal, descriptive, and exploratory market researches to inform service providers' business strategy, product design, operations. We take up impact evaluations using experimental, quasi-experimental, and post-facto research designs.

Our mantra "market-led solutions for financial services" based on the need for "market insights" and "innovative designs" inspires us to find and deliver solutions to clients and service end-users.

MSC, with its decade long experience of conducting participatory qualitative research in the domain of financial inclusion has assimilated the behavioural economic research and user-centric design research techniques in its MI4ID approach. The research skills and tools in MI4ID rely on fundamental behavioural diagnosis and employ a host of PRA, BE and user centric design tools. We have used MI4ID approach for a wide variety of activities that are critical for any financial institution.

1.5.3.1 Research tools

a. In-depth interviews

Along with the FDGs, in-depth interviews provide a great source of information. We conducted 35 in-depth qualitative interviews. The details of the banking agents were found out from the database supplied by the banks. It is also important to get the perspective of the female agents who interact with both the genders of customers. Hence, we have included a small sample of female agents as well as female users and non-users. Their perspective provided insights into their understanding of agent banking and more importantly, women behaviour while using agent banking services.

b. Focus discussion group (FDG)

We conducted four FDGs (One FDG each with a group of individual male users, individual female users, individual male non-users and individual female non-users). We will try to have both rural and urban representation. Each FDG had around 8-10 respondents. All the research tools were qualitative guides with core and supplementary probe questions.

1.5.3.2 Sample for qualitative research

The table below depicts the sample taken from qualitative research:

Sl. No.	Respondent type	PI/FDG	Sample size
1.	Banking Agents	PI	7
2.	Key Information Interviews of Stakeholders	PI	24
3.	Individual Users of agent banking		
	Male	FDG	1
		PI	6
	Female	FDG	1
		PI	2
4.	Individual no-users of agent banking		
	Male	FDG	1
		PI	4
	Female	FDG	1
		PI	2
5.	CME users of agent banking		
	Male	PI	6
	Female	PI	2
6.	CME non-users of agent banking		
	Male	PI	4
	Female	PI	2

1.5.4 Data consolidation and analysis

This phase consisted of the consolidation of all data and information collected from the primary research i.e, the quantitative field survey, the FDGs and PIs and in-depth interviews with key stakeholders. The study team analysed all field notes and draw insights to draft the various outputs. This was done in a three-phased way.

- Data cleaning and consolidation from the quantitative field survey: The data cleaning exercise involved detection and removal (or correction) of errors and inconsistencies in the data set received from the field survey. Any incomplete, inaccurate or irrelevant data was identified and then either replaced, modified or deleted after consultation with Nielsen's field research team.

- Distillation of information from the qualitative research: As a critical first step, following data collection and prior to data analysis, raw qualitative data (e.g. interview notes, tables, charts, drawings, and maps) was processed and consolidated to be usable.

  This required some form of data cleaning, organising, and coding to so that the information is ready to be analysed and compared between different discussion groups or respondents. An iterative process was used to arrive at conclusive observations and recommendations.

- Analysis of quantitative and qualitative data: We also conducted an internal brainstorming session within the team to discuss the findings of the research. During the data analysis, the team searched for patterns and relationships in raw data. The team also collected explanations for identified patterns and relationships. The analysis included both descriptive and inferential methods. We analysed the quantitative data using quantitative data tools, such as SPSS and Microsoft Excel.

2 COUNTRY CONTEXT

COUNTRY CONTEXT OF AGENT BANKING

2.1 Background of financial inclusion

The story of financial inclusion in Bangladesh began with microfinance institutions, which have been able to reach the last mile customer through their micro financial products and wide distribution network throughout the country.

Bangladesh has had a long association with microfinance that has led the way to reach out to low-income people in rural and urban areas. The growth in the microfinance sector, in terms of the number of microfinance institutions (MFIs) as well as total membership, was phenomenal during the 1990s and the trend continues until today. As of MRA report on Microfinance[19], the microfinance sector comprised of 33.73 million clients with a total loan outstanding of BDT 403 billion (~USD 4.8 billion) and savings.

After decades of microfinance, its various achievements and criticisms notwithstanding, there is still demand for financial services among the underserved.

While microfinance institutions drove the financial inclusion agenda for decades, it is evident that the ecosystem will be more complex and digitally oriented, in the future. Until now, most bank branches (or ATMs) are concentrated in urban areas, and high costs of setting up bank branches in rural areas have dissuaded banks from reaching the last-mile customer.

In Bangladesh, banks are often reluctant to lend money to poorer borrowers[20] in the agricultural sector — where nearly half of the population earns its income. Collateral based loans and complex application and authorisation processes are the two main constraints that limit low-income customers from using formal credit services. One-fourth of the population is dependent on informal means of credit, borrowing from friends and family. The lack of customised and affordable formal credit products excludes the poor and pushes them towards informal lenders to meet their credit demand.

Similarly, mobile phones saw rapid adoption. As per a GSMA report[21] in 2018, there are 85 million unique mobile phone subscribers in Bangladesh and 117 million people who use mobile phones[22]. To take advantage of this situation, Bangladesh Bank issued guidelines for Mobile Financial Services (MFS) in 2011 to ensure access to financial services to the unbanked. Since then, the MFS sector in Bangladesh has experienced significant growth in terms of the number of users, as well as the number of agents that provide mobile money services. For instance, as of July 2018[23], there were more than 60 million registered MFS users as compared to 50 million in March 2017. Of these registered users, 37% of the clients are active MFS users. It is estimated that 22% of Bangladeshi adults

[19] Microcredit Regulatory Authority "Microcredit in Bangladesh". Can be accessed at www.mra.gov.bd/images/mra_files/News/mcinbd17082015.pdf

[20] Phelps, Megan, blog titled "Loans in Bangladesh: Stories of Change", January 2017, link: https://blog.usaid.gov/2016/01/loans-in-bangladesh-stories-of-change/

[21] GSMA intelligence, "Country Overview- Bangladesh 2018". Can be accessed at: https://www.gsmaintelligence.com/research/?file=a163eddca009553979bcdfb8fd5f2ef0&download

[22] Future Startup, "Mobile is Eating Bangladesh", April 2017, link: www.futurestartup.com/2017/04/15/mobile-is-eating-bangladesh/

[23] Bangladesh Bank website, https://www.bb.org.bd/fnansys/paymentsys/mfsdata.php, Accessed on July 9th, 2018

are using mobile money. Bangladesh now accounts[24] for more than 8% of the global mobile money accounts. However, 70% of all mobile money transactions are agent-assisted transactions.[25]

After the remarkable success of MFS, Bangladesh bank adopted another successful model of catalysing the penetration of financial services in the unbanked geographies – Agent Banking.

Evidence from Asia, Africa and Latin America demonstrate the advantage of agent banking in extending formal financial services to the underserved and unserved population.

Globally agent banking has gained popularity as important distribution channels for financial inclusion. In 2013, Bangladesh Bank launched the master guideline for agent banking followed by the prudential guidelines in September 2017.

These guidelines allowed banks to commence agent banking operations in earnest.

The guidelines clearly identified the processes that banks are required to follow starting from registration, recruitment of agents to increase outreach and setting minimum standards for data security, customer protection, and risk management.

Figure 4: Timeline of agency banking in Bangladesh

[24] Future Startup, "Mobile is Eating Bangladesh", April 2017, link: www.futurestartup.com/2017/04/15/mobile-is-eating-bangladesh/

[25] Intermedia "Financial Inclusion Insights- Bangladesh Wave 4 Report" September 2017, can be accessed at finclusion.org/uploads/file/Bangladesh%20Wave%204%20Report_20_Sept%202017.pdf

2.2 Definition, structure and features of agent banking in Bangladesh

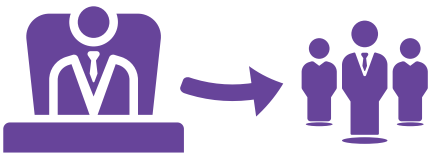
2.2.1 Definition of agent banking

According to statement of policy (clause 4) in the Prudential Guideline on agent banking, it is defined as providing limited scale banking and financial services to the underserved population through engaged agents under a valid agency agreement, rather than a teller/ cashier in their traditional roles. These agents are owners of agent banking outlets who conduct banking transactions on behalf of a bank.

Globally, agent banking concept has seen notable expansion (and acceptance), where financial services are rendered to the underserved population through agents under a valid agency agreement. The concept of providing banking services through contracted retail level agents has been increasingly used as an important distribution channel for financial inclusion. Bangladesh Bank has also decided to promote this complimentary channel to reach poorer (and underserved) segments of society with a special focus on geographically dispersed locations.

2.2.2 Structure of agent banking

Individual banks can structure their agent banking services according to business strategies following any one or a combination of the following structures:



Master Agent

Agents

In this structure, banks may enter into a contract with an entity having multiple branch offices or outlets, either owned or otherwise engaged legally by it, willing to operate agent banking services in the branch offices or outlests as master Agent Currently, some banks have entered an agreement with master agents with banks tying up with mobile network operators government's a2i program and distribution companies.

Unit Agents

Banks may enter into a contract with eligible entitiles willing to provide banking services exclusively in one outlet only unit agents(s) must fulfil the criteria. Unit agents are usally sourced by the bank's internal mechanism and due diligence.

2.2.3 Services offered at agent banking outlets

Agent banking aims to provide a near-branch level experience for customers as far as the product bouquet on offer is concerned. Agents can offer the following services on behalf of the bank that they are associated with:

- Collection of small value cash deposits and do cash withdrawals, the basic banking services which a customer may want to avail of (the ceiling for these small ticket transactions will be determined by Bangladesh Bank from time to time),

- Disbursement of inward foreign remittance which constitutes a large part of rural cash-flows, especially from expatriates,

- Facilitating small value loan disbursement to meet credit requirements of customers and recovery of loans instalments in case of recalcitrant borrowers. These loans will be on the books of the banks themselves. Agents also are tasked to monitor loans & advances, and follow-up of loan recovery

- Facilitating utility bill payment especially for rural customers who otherwise may face difficulty in accessing payment options for utility payments,

- Cash payment under social safety net programme (SSN) of the Government and already 3 banks have tied up with a2i to disburse safety net payments to old age, widow and disabled beneficiaries.

- Facilitate fund transfer from one agent point to another at minimal transaction cost, that is, at reduced rates compared to MFS platform.

- Conduct account balance inquiry, collect and process forms/documents in relation to account opening, loan application, credit and debit card application and so on.

- Agent banking outlets can only receive clearing cheque but they cannot act as a clearing-house for the check and that can be performed from the conventional branch only.

- Agent banking outlets can collect tax, insurance premium, including micro-insurance, school fees etc and this has helped individual agents to better manage their liquidity.

Agents are not allowed to provide the following services on behalf of the banks:

- Give final approval of opening of bank accounts and issuance of bank cards/cheques, regulator feels that agent cannot be left to do it alone since there may be lapses in KYC fulfilment.

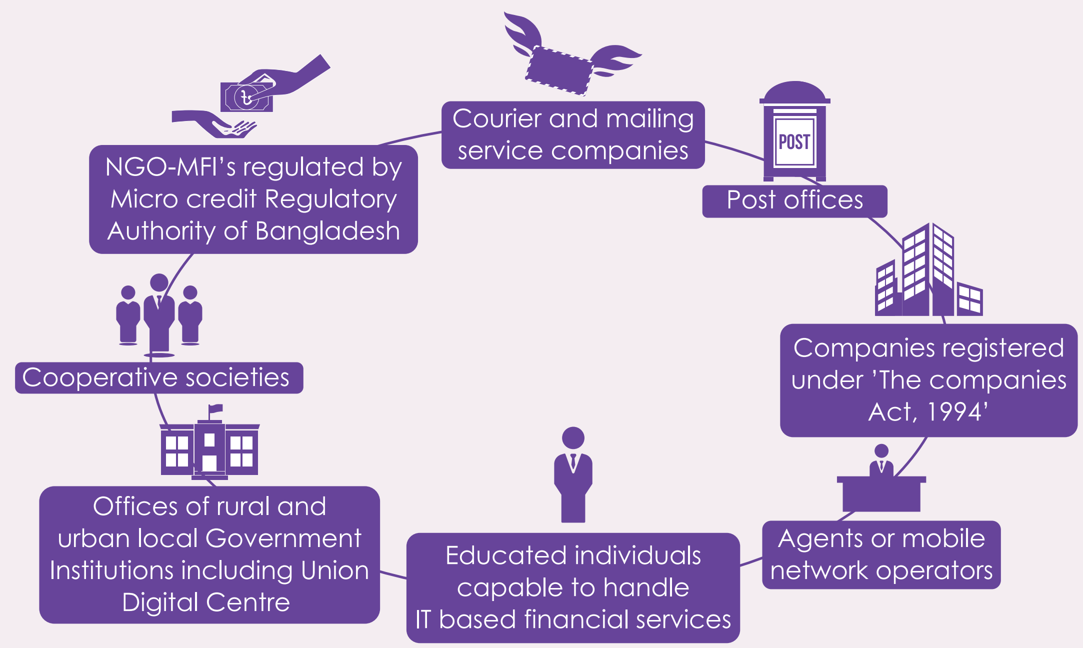
- Deal with loan/ financial appraisal. Regulator and agent banking provider alike opine that agents do not have the adequate acumen as of yet to appraise a loan application properly.

- Encash cheques and deal in foreign currency as regulator does not feel prudent to allow this service from agent banking outlets now.

2.2.4 Entities that are eligible to become agents

Banks may engage the following persons/entities as their agent:

Entities that are eligible to become agents



From the figure above, it is seen that there is a wide pool from which banks can source their agents. The regulator has emphasized that agents should have some prior experience in the service industry whether in providing financial services or other services. The regulator wants the entity or person to have some prior experience of engaging with mass level consumers. However, there is also provision for educated individuals with adequate IT skills and sound financials to apply for agent banking license. Banks are yet to utilize all the options available at their end but gradually they will tie up with various types of providers. Discussion with a senior official of agent banking provider revealed that they are looking to tie up with agents of mobile network operators. Furthermore, we have already seen a tie-up of agent banking with MFIs and Union Digital Centres across the country. More will be discussed about the experience of stakeholders about the association initiatives in later sections.

2.2.5 Features of the agent banking model

- An agent can be non-exclusive (that is, be associated with multiple banking partners as an agent) however, the agent outlet, which will be accessible to customers, can only represent and act as an agent banking outlet of a single bank. This essentially means that the banking outlet itself will have to offer the services of a single bank with any associated branding and collateral and with dedicated staff. The guidelines specifically mention that "An agent can act as the agent of more than one bank at a time but at the customer endpoint, a retail outlet or sub-agent of an agent shall represent and offer banking services of only for a single bank."

- The agent banking agreement between the bank and the agent needs to safeguard the interests of the customer foremost while ensuring financial compliances by the agent. The guidelines specify that "the agreement should contain clauses related to confidentiality/safety/ soundness and accuracy of all the transactions as well. Full financial disclosure, transparency and accountability of the agent must be ensured."

- The agents are to be equipped with the required hardware and software and banks will ensure that the integrated system is well in place before the commencement of service provision from any outlet. The agents are to be equipped with IT device like point of sale (POS) with biometric features capturing and reading facilities, card reader, mobile phone, barcode scanner to scan bills for bill payment transactions, Personal Identification Number (PIN) pads and may have Personal Computers (PCs) that are to be connected with their bank's server using a personal dial-up or other data connections. Clients may use magnetic stripe bank card or mobile phone to access their bank account.

- Customer identification is a major factor surrounding a financial transaction. The regulation stipulates that Identification of customers shall be done through PIN/ biometrics, however, in the case of Bangladesh, it is mostly biometric-based identification that is in practice.

- Bangladesh Bank regulation also outlines some ground rules about the transaction process. This is to ensure customer protection and clarity of financial transaction. At the customer end, the transaction should be operated through ICT devices that are continuously and uninterruptedly integrated with the systems developed by banks.

  The figures of the transactions must be reflected in 'Core Banking Solution' (CBS) of the bank and the transactions should be executed on a real-time basis. No transactions can be performed in case of communication failure. It is also required that customer should get instant confirmation of their transaction through visual basis (screen based like SMS) and paper-based (debit or credit slip) also.

2.3 Overview of agent banking operations in Bangladesh

2.3.1 Overview of agent and agent outlets

As of December, 2018[26], Bangladesh Bank issued agent banking licenses to 21 banks. Of these, 19 banks have already started their operations and have invested in agent banking. In line with the broader objective of agent banking, it is seen that around 9 in 10 agent banking outlets are situated in rural areas.

This bodes well for the purpose of financial inclusion and agent banking is well poised to play an important role in creating access to financial products for the rural populace of Bangladesh. Within a span of one year, agent banking operations have seen a significant escalation, as evidenced by 74% increase in agent numbers and 67% increase in agent outlets as of December 2018, compared to December 2017.

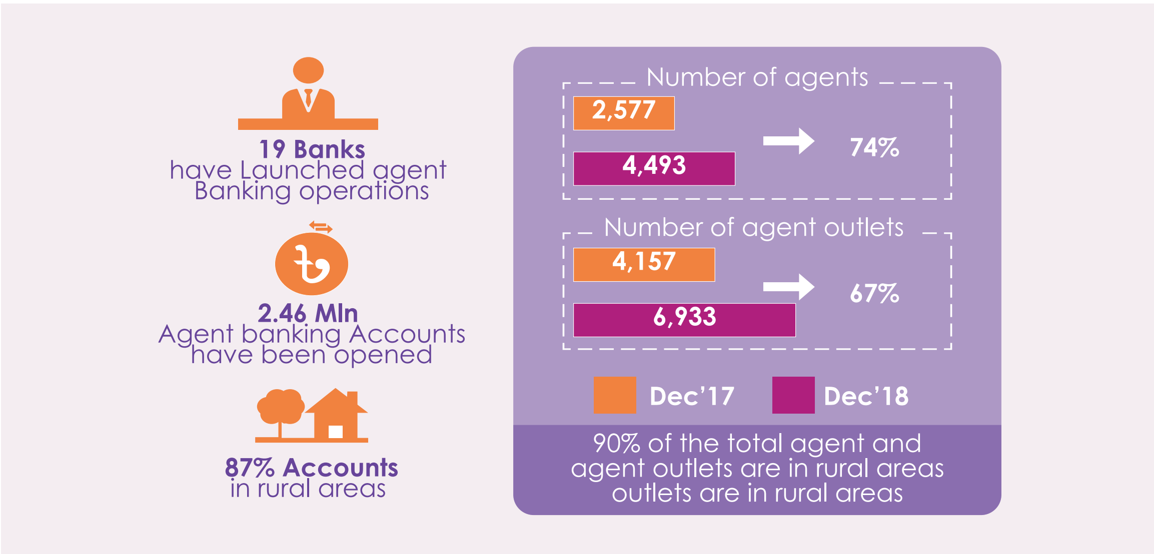
This corroborates the claim in some quarters that agent banking is gaining traction in the financial services landscape in Bangladesh[27].

Another notable observation from the Bangladesh Bank quarterly report is that Dutch Bangla Bank Limited (DBBL) and Bank Asia Limited have emerged as the leading players in the market,

in terms of market share, the share of accounts and number of outlets. The two banks have especially focused on this channel as an extension of their services, both providing a full range of financial services to their customers.

Bank Asia is leading in terms of agent and agent outlets due to their partnership with Access to Information (a2i)[28], a special program of the government of Bangladesh. This has enabled Bank Asia to convert more than 2,000 Union Digital Centre (UDC)[29] Agents into Bank Asia Agent banking agents. Besides Bank Asia,

NRBC bank and Modhumati Bank have also entered into a similar partnership with UDC agents. These UDC agents are providing this service in addition to their core service through the UDC outlet.



[26] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

[27] Islam, Shariful, "The rapid growth of agent banking in Bangladesh", published June 2018, Link: https://www.dhakatribune.com/business/2018/06/03/the-rapid-growth-of-agent-banking-in-bangladesh

[28] More info at: https://a2i.gov.bd/about/

[29] Access to Information
https://a2i.gov.bd/publication/union-digital-centers-in-bangladesh-present-status-and-future-prospects/

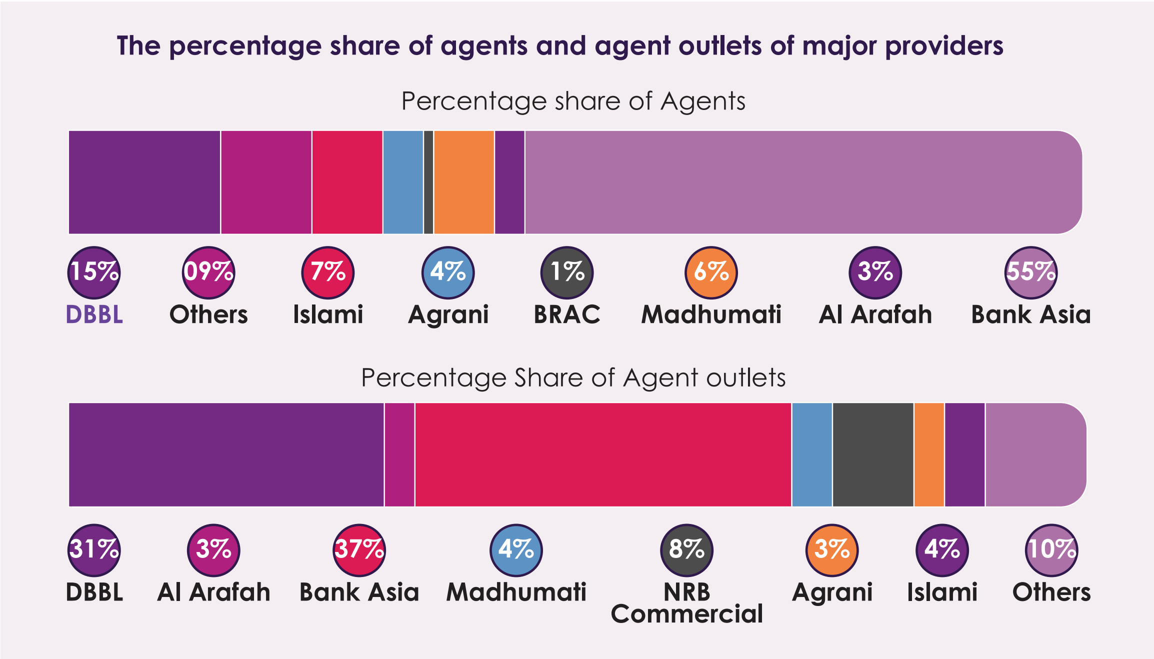


Figure 5: The percentage share of agents and agent outlets of major providers, source: Bangladesh Bank Quarterly reports on agent banking

A Brief Introduction of union Digital Centres

In Bangladesh, union councils (or union Parishads) are the smallest administrative and local government units in Bangladesh, Each union Council has a union digital centre (UDC). UDCs came into the picture so as to decentralize the delivery of public services and take them to the doorsteps of millions of underserved people. These UDCs act as one-stop service centres and caters to a wide range of legal and other requirements of the union where it is located. This initiative is the brainchild of Access to information (a2i) program of the government with technical assistance from UNDP and USAID. UDCs ensure that underserved segments such as rural women, people with disability, elderly people-regardless of their literacy and ICT literacy. Can access vital information and service.

Currently, more than 2,00 UDCs agents are rendering agent banking services in their respective unions. This accounts for roughly 50% of the UDC agents or union councils throughout the country being brought under the agency banking umbrella.

In the case of agent numbers, it was discussed before that there is an overall growth of 74% within a span of one year starting from December 2017. This is not surprising, given that many banks have escalated their agent banking operations within the last one year. Bank Asia was most active in agent acquisition through transforming UDC agents into agent banking agents. New entrants such as Islami Bank, BRAC bank and NRBC Bank have also contributed to the increasing trend. Similarly, the trend is evident in the case of agent outlets, in line with increased agent numbers. Most of the growth in agent number and outlets have been brought about by the inclusion of UDC agents into the agent banking fold. In the case of account numbers, we see a impressive quarter to quarter growth of about 20-25% with yearly growth of 103%. With growing agent number and agent outlets, such a statistic is expected. The illustration below shows the last 1-year growth in agent banking outlets and agent numbers:

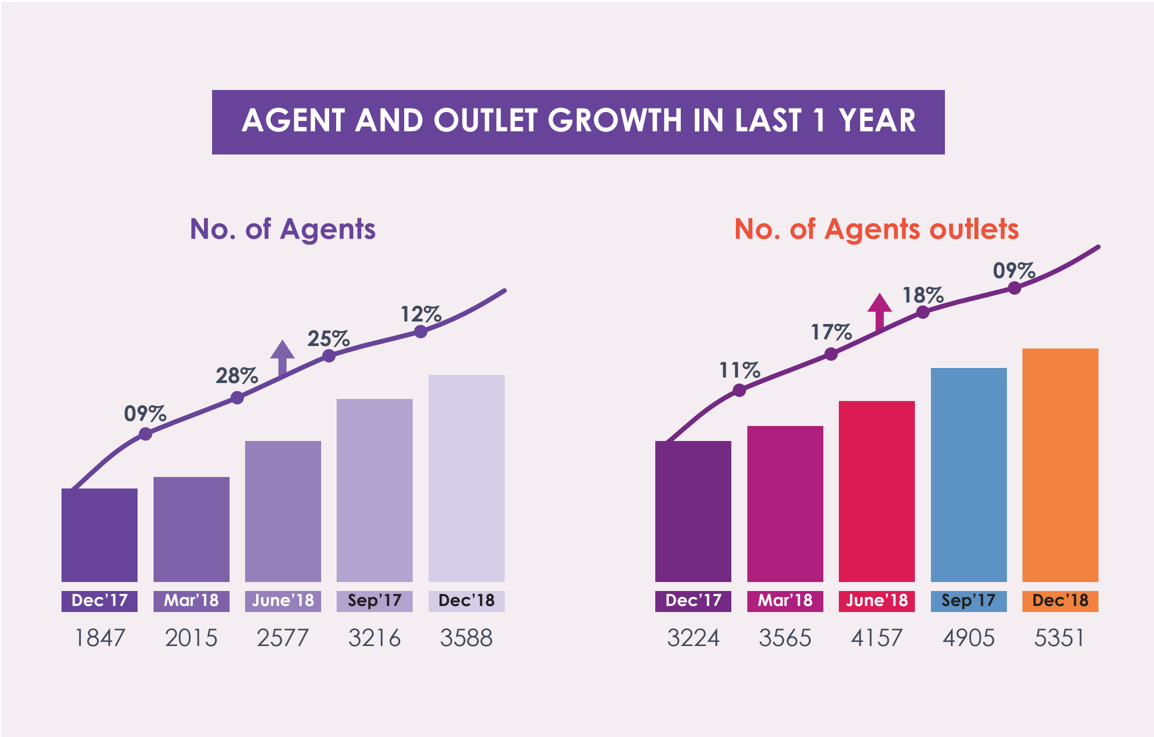


Figure 6: Agent and outlet growth in last 1 year (Source: Bangladesh Bank quarterly)

The figure below depicts the provider wise data for the trend in agent and agent outlet growth. It is evident that Bank Asia has made the most notable appreciation both in agent number and outlets. Dutch Bangla Bank Limited is the closest competitor to Bank Asia for agent and agent outlets. However, Bank Asia's tie-up with a2i has given them the impetus to grow appreciably in the space of a year.

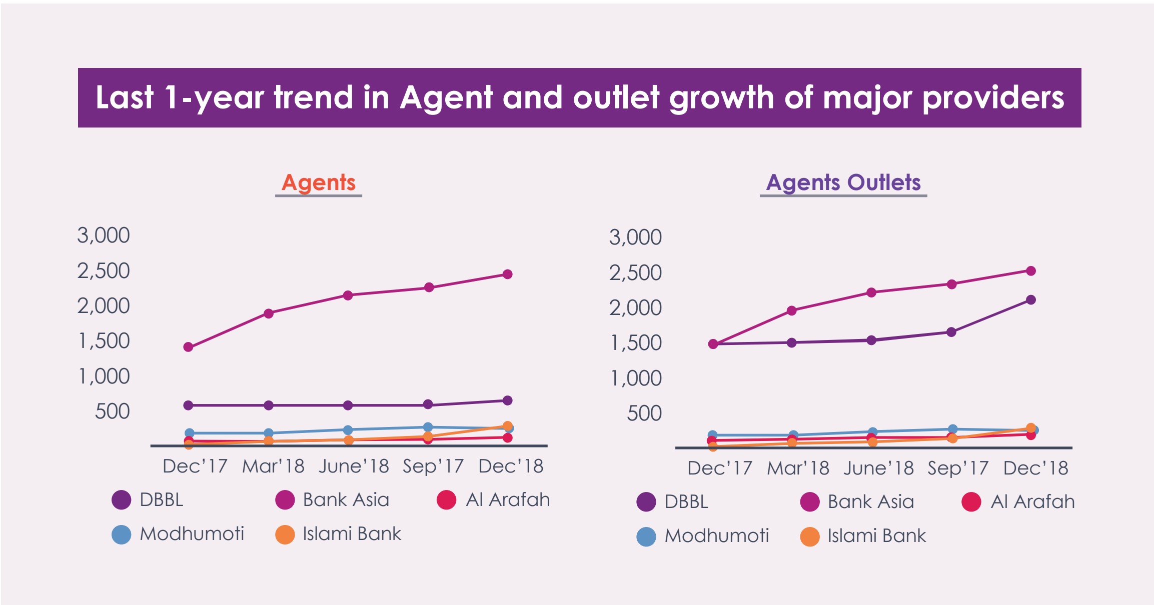


Figure 7: Agent and agent outlet growth trends of major providers in last 1 year (Source: Bangladesh Bank quarterly reports on agent banking)

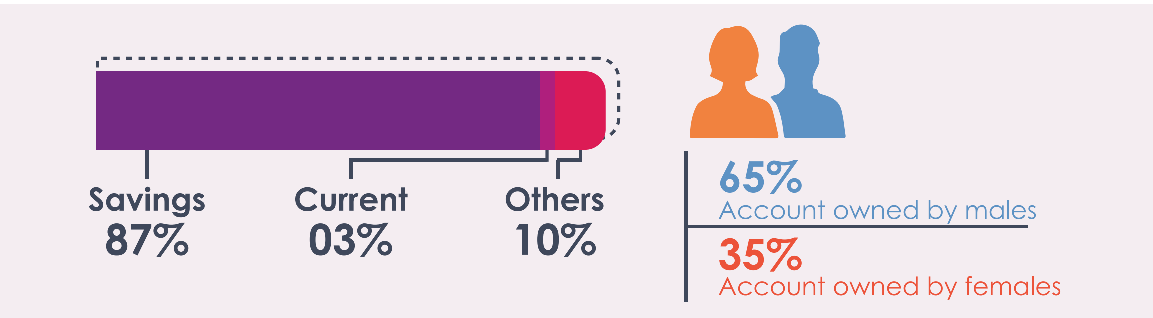
2.3.2 Dynamics of account holding in agent banking

Data from December 2018 quarterly report on agent banking[30] from Bangladesh bank also shows that almost 9 in 10 accounts in agent banking outlets are booked as a savings account and only 3% are booked as a current account.

Furthermore, it is to be noted that 35% of the accounts are owned by women customers, showing a notable presence of women in agent banking. A study conducted by the Bangladesh Institute of Bank Management also found that 18% of all agent banking accounts are held by housewives[31].

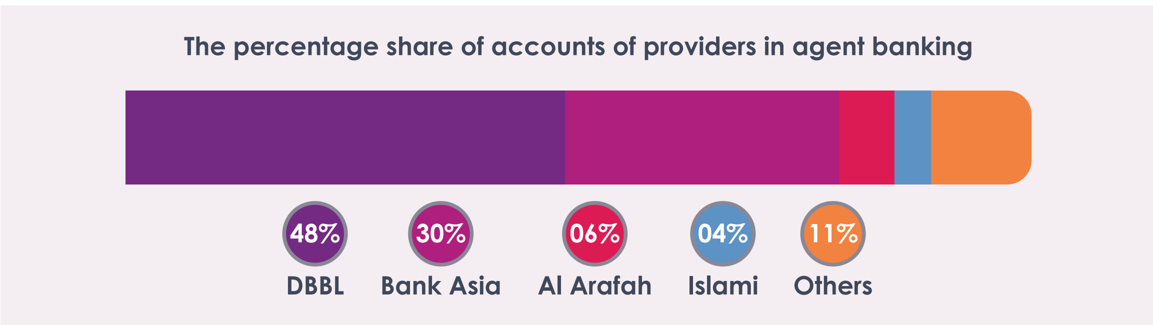
The report also mentions that 29% of the accounts belong to small businesses, 7% to farmers, 15% to salaried employees, 7% to students, day labourers and others constitute 21% of the pie. It is worthwhile mentioning though, that the majority of the accounts opened with agent banking outlets are savings accounts, with only 3% of the accounts being current accounts opened by business entities or individual businessmen.

Thus, although one-third accounts have been opened by small business owners, they are mostly conducting their day to day financial transactions using their savings account only. In this context, there is an opportunity to promote and increase uptake of current account with suitable enabling factors such as higher limits.



(Source: Bangladesh Bank quarterly report on agent banking, December 2018)[32]

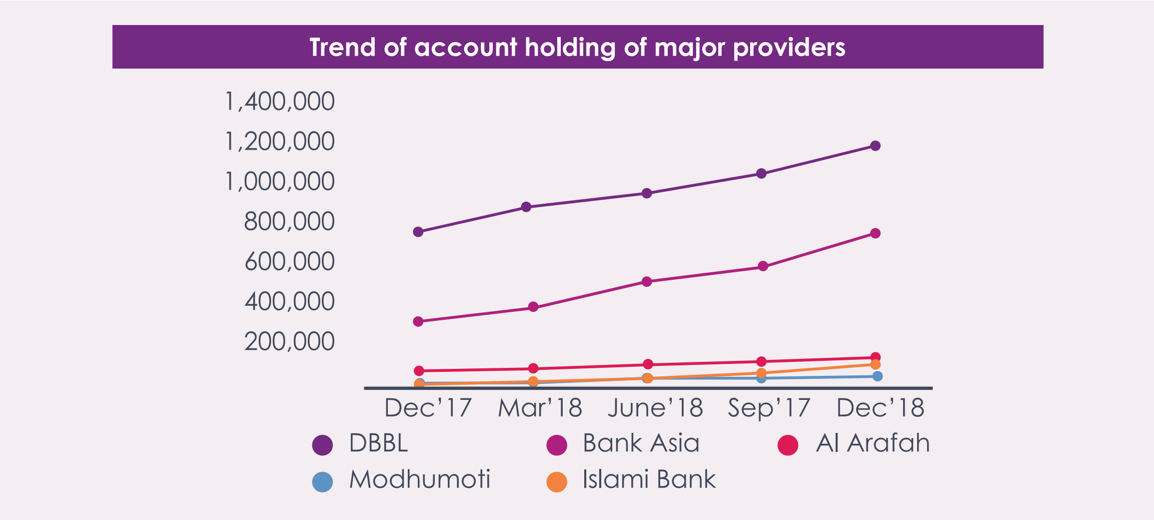
DBBL is leading the pack in terms of market share of accounts in agent banking as depicted in the illustration below. Bank Asia lies second with 29% of the agent banking accounts.



[30] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

[31] Dhaka Tribune, "Small businesses make up 29% of agent bank users", Published on May 15, ,2017, can be accessed at: https://www.dhakatribune.com/business/2017/05/15/small-businesses-make-29-agent-bank-users

[32] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf



(Source: Bangladesh Bank quarterly report on agent banking, December 2018)[33]

In case of account holding, a steady quarter to quarter growth can be witnessed among the major players with Bank Asia registering 140% growth in no. of accounts booked at agent banking outlets within the period from December 2017 to December 2018. DBBL also registered an impressive growth of 57% in the number of accounts booked under their system, within the same time period.

Looking into the trends in the past 1 year, it is seen that in the case of Account numbers, we see a steady quarter to quarter growth of about 20% with yearly growth of 103%. With growing agent number and agent outlets, such a statistic is expected.

In terms of the gender distribution of agent banking accounts, no significant change is noticed as the proportion of female-owned accounts has remained stable over the course of one year. The above information is depicted in the following diagram.

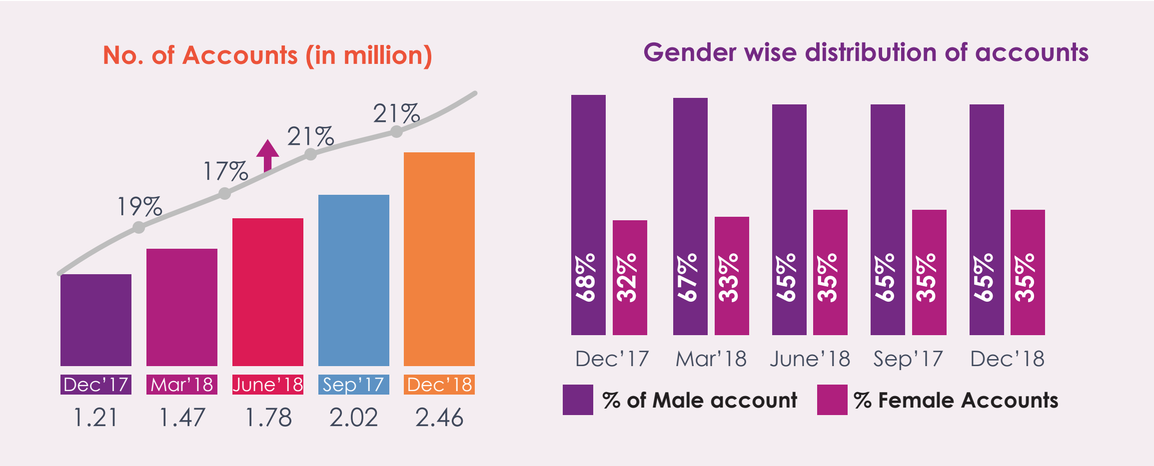


Figure 8: Trend of account growth and gender distribution (last 1 year) Source: Bangladesh Bank quarterly reports on agent banking, December 2018

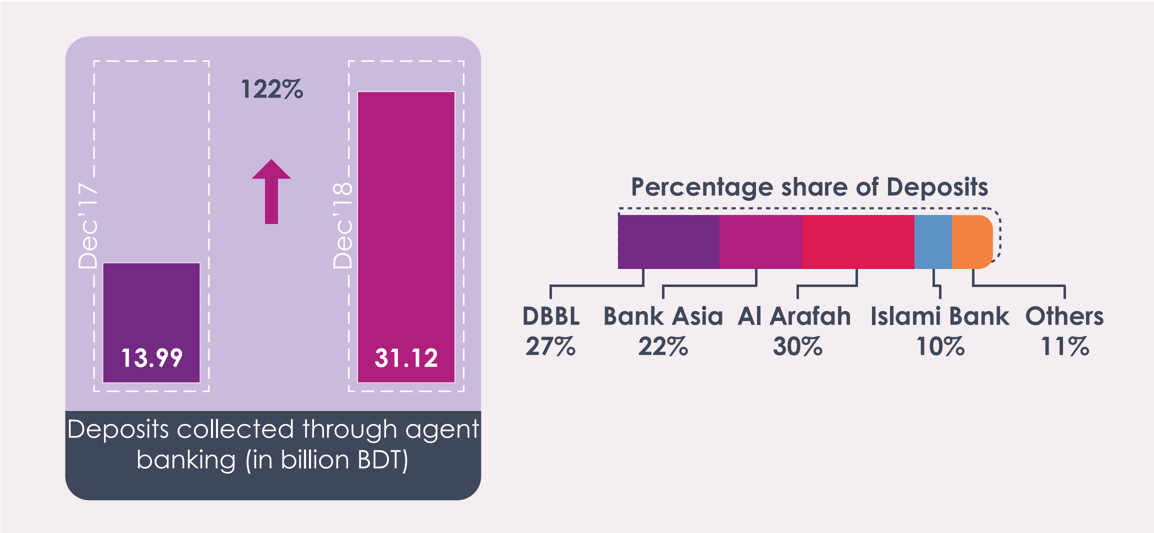
[33] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

2.3.3 Deposit mobilisation

In terms of deposit, agent banking is growing in prominence as a means to collect deposits for conventional banks.[34] The pictorial below depicts that deposit collection grew by 122% within a span of one year in the period from December 2017 to December 2018.

This is indeed a remarkable statistic and points to the growing acceptability of agent banking for deposit mobilisation. In terms of the percentage share of total deposits in agency banking accounts, Al-Arafah Islami Bank Limited is the market leader by holding 30% of the deposits sourced through agent banking. The statistic is slightly incongruous given the fact that Al-Arafah is not the market leader in terms of agents, agent outlets or accounts. Thus, there might be a possibility that some large-scale institutional deposits have been mobilised at agent banking outlets of this bank; however, it is only a logical insinuation.

The total size of deposits held at deposit money banks (DMBs) stand at BDT 10,232 billion as of March 2019 Bangladesh Bank statistics.[35] Thus, agent's banking share in the total pie of deposits lying in the banking sector is minuscule (0.30%) and there is plenty of scope to garner more deposits through the agent banking channel.



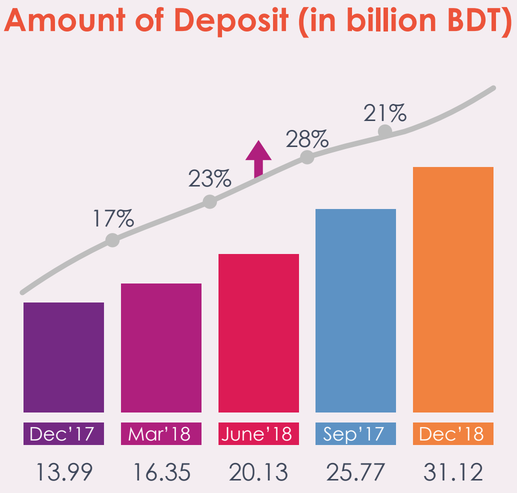
From the illustration, it is evident that the 122% increase in the amount of deposit collected from agency banking within a span of one year. In terms of the percentage share of deposits, Al Arafah Islami Bank is leading the way with 30% deposits garnered by them.

This is notable given the fact that Al Arafah Islami Bank does not lead the market in terms of agent or agent outlets and thus may have garnered some large value deposits through its agent banking outlets. The trends of deposit collection through agent banking channel is depicted in the following illustration:

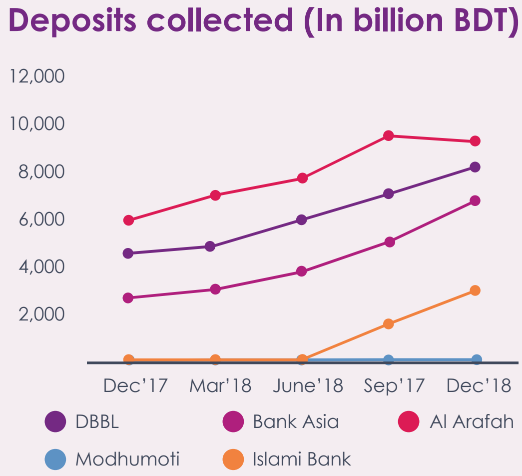
[34] The Daily Star, "Roundtable on Agent Banking", can be accessed at: https://www.thedailystar.net/round-tables/agent-banking-becoming-strong-source-deposit-banks-bangladesh-1611034

[35] https://www.bb.org.bd/econdata/bankdeposit.php

Trend of deposit collection through agent banking channel (in billion BDT)



Trend of deposit collection of major providers (in billion BDT)



From the figure above, it is seen that the significant appreciation in deposit collection was mostly contributed in the 2nd and 3rd quarter of 2018 with over 23% and 28% quarterly growth respectively. In terms of deposit collection of major providers,

it is noteworthy to see the appreciable growth of Al Arafa Islami Bank, although they do not lead the pack in terms of agents or agent outlets.

2.3.4 Credit disbursement

In terms of providing credit, Bank Asia is leading the way with 92% of the total credit disbursed through their agent banking outlets. Banks, in general, have been cautious in their approach as only BDT 1.89 billion BDT worth of credit has been disbursed as compared to BDT 31.12 billion deposits collected from the market, i.e. the deposit to credit ratio is around 16:1.

As seen above, Bank Asia has been leading the way for credit delivery. It is to be noted that Bank Asia has partnered with development partners and mobile network operators to develop innovative credit products for their rural customers. One such initiative is the "A Card" initiative[36] , which provides rural farmers with flexible and cheap credit to meet their working capital needs during the farming season. Furthermore, they have also tied up with telecom operators Robi[37] and Grameenphone[38] to provide microfinance support (flexible loan) to the underprivileged segment of the subscriber base of these MNOs to buy 4G enabled mobile handsets. Such initiatives have put Bank Asia above other players in terms of credit disbursement.

[36] The Daily Star, " A-Card: Smallholders' Access to Finance through Bank", can be accessed at https://www.thedailystar.net/round-tables/card-smallholders-access-finance-through-bank-1516957

[37] More info to be found at: https://www.robi.com.bd/media-room/press-release/bank-asia-to-provide-financial-support-for-robi-customers-for-urchasing-4g-handsets?lang=eng#cJ21ZjOu0WWxyXUG.97

[38] More info to be found at: https://www.grameenphone.com/about/media-center/press-release/grameenphone-and-bank-asia-introduces-device-financing-4g-handsets

Discussions with key representatives of provider banks have revealed that they will gradually increase their lending operations in the coming months. Currently, the agent plays a facilitator role in credit delivery through agent banking channel. The agent may either seek out prospective recipients of credit or service walk-in customers to the outlets. The agent is tasked to conduct basic due diligence of the customer and then collect all required documents from the loan applicant and fill up the loan application form. The documents are then organized and sent to the linked branch for further appraisal. The proposal eventually ends up in the Credit Risk Management unit of the bank for further evaluation. If the loan is sanctioned and if the applicant has an agent banking account with the provider, the loan is disbursed to the account of the applicant. Loan repayment is also enabled from the agent banking outlet if the applicant wishes to do so.

Discussion with several providers revealed that the bank's senior management and board had taken the stance to adopt a cautionary approach to credit disbursement in the early days of agent banking. Thus, the focus for providers was more on deposit collection and account opening in the first few years of agent banking operations. Bangladesh Bank data shows that the total value of advances from the banking channel now stands at BDT 9,326 billion[39]. Thus, the total advances from the agent banking channel are meagre compared to the overall pie. However, Banks in are gradually escalating their lending operations through agent banking operations, as evidenced by the trends in the last one year seen in the figure below:

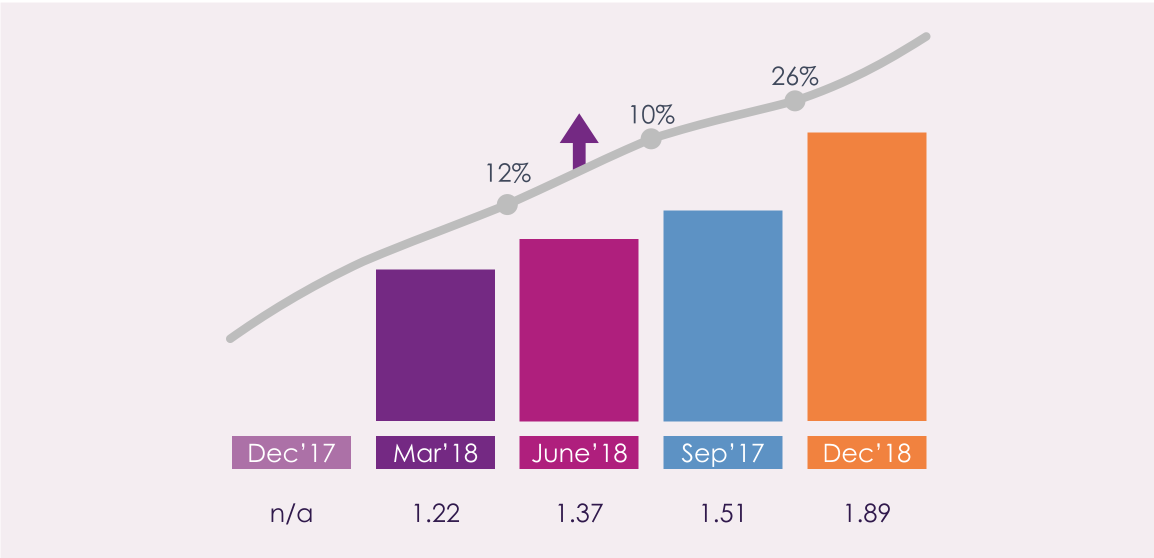


Figure 9: Trend of Credit through agent banking channel

(Source: Bangladesh Bank quarterly reports on agent banking)

There is much more scope to expand lending operations from agent banking channel and it can play an important role for the development of rural enterprises and stimulate the rural economy. However, most agent banking providers have adopted a cautious approach to lending operations from agent banking operations as they are apprehensive about the security of their asset products for non-collateral loans. For collateral-based loans, there are not enough takers as would be customer's struggle to furnish the required documents to avail a loan.

[39] https://www.bb.org.bd/econdata/bankdeposit.php

2.3.5 Remittance disbursement

Agent banking's role is also becoming prominent in remittance disbursement also, with BDT 55.57 billion worth of remittance being channelled through agency banking outlets in the country.

55.57Bn. BDT
(USD 670 Mn.)
Inward remittance
sent through agent banking

16%
of the total inward
remittance follow in the
country is channeled
through agent banking
remittance

Remittance disbursement has also shown impressive quarter to quarter growth since December 2017 as evidenced in figure 16 below. Furthermore, within the span of 4 quarters starting from December 2017, remittance disbursement through agent banking outlets has grown by almost 3 times. The quarterly value of remittance inflow to Bangladesh hovers around BDT 328 billion[40]. As of last published quarterly report of Bangladesh Bank, BDT 55.57 billion worth of remittance has been disbursed through agency banking channels in the last quarter of 2018. Thus, it can be deduced that around 16% of the total remittance flow into the country is channelled through the agent banking channel. Going forward this will be an important stream of business for agent banking and will pose a strong competition to existing channels of remittance distribution in the country.

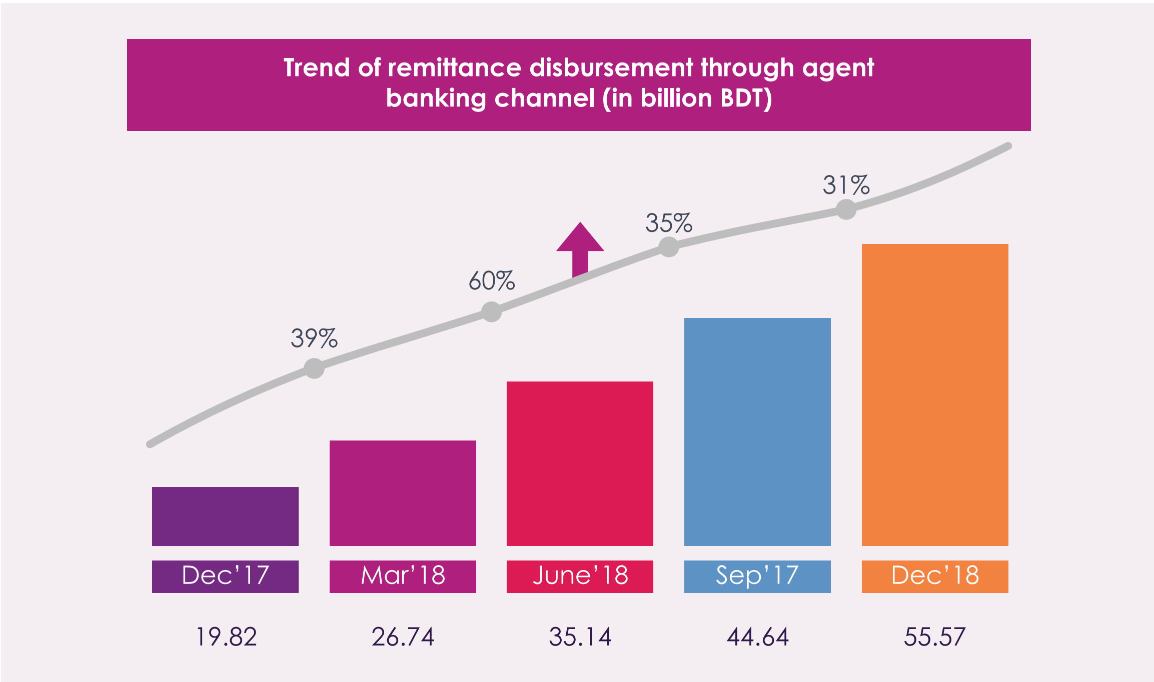


Figure 10: Trend of remittance disbursement through agent banking channel (Source: Bangladesh Bank quarterly reports on agent banking)

[40] bdnews24.com article published on 2018-05-04. Can be accessed at"
https://bdnews24.com/economy/2018/05/04/bangladeshs-july-april-remittance-inflow-rises-17.5-to-12.09-billion

3 REGULATORY ANALYSIS

REGULATORY ANALYSIS OF AGENT BANKING IN BANGLADESH

2.4 Regulatory framework of agent banking in Bangladesh

The status of financial inclusion in Bangladesh remains underdeveloped, despite having a large number of commercial banks, financial intermediaries, private banks and other players. To address the disparity in financial access among different population segments, alternative delivery channels have been introduced by the Government of Bangladesh. Agent banking is one of these, envisioned to deliver formal banking services to the last mile. Officially sanctioned by Bangladesh Bank, the regulator of the sector, in 2013, agent banking has taken off in the country over the last two years.

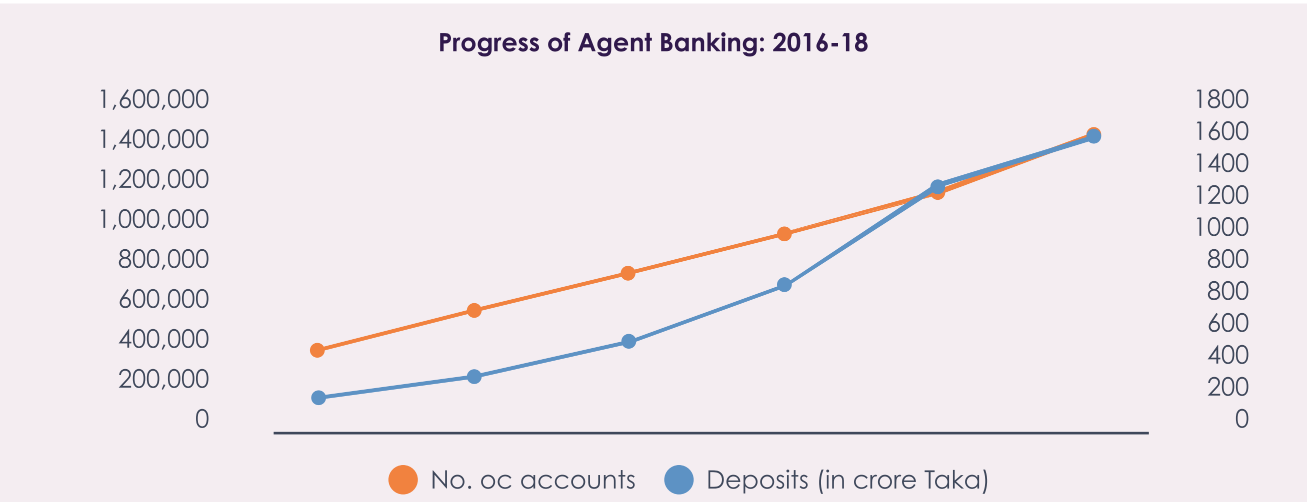
In 1972, Bangladesh Bank has been given the responsibility to supervise and regulate the financial institutions and banks that are operating in Bangladesh. Under the Bank Companies Act, 1991, and the Financial Institutions Act,1993, Bangladesh Bank has the power to supervise and control banks and non-Bank Financial Institutions (NBFIs).

Apart from issuing licenses, the regulatory and supervisory functions of Bangladesh Bank also include audit and inspection, reporting and collection of the information, enforcing operational rules. Bangladesh Bank, internally, has different departments that work in tandem to drive different initiatives. The various functions such as consumer protection, AML, agricultural credit, grievance mechanisms, foreign exchange, policy-making and others forming the entire gamut in the financial space are performed at Bangladesh Bank. The following departments carry out these functions as mentioned below:

With the commencement of agent banking operations in Bangladesh in 2016, the growth in the last two years has been especially steep with respect to the number of accounts opened at the agent level.2 Over a period of two years that is, 2016-2018, the number of accounts opened at an agent banking outlet have become threefold, vis-à-vis when MFS operations started, within the first two years (2014-16) the number of active accounts had only doubled.

Department	Main Objective/Functions	Major Areas of Operations
Deposit insurance department	To protect the depositors against the loss of their deposits in the event of a bank failure	• Deposit insurance Division • Liquidated bank monitoring division
BRPD (Banking Regulation & Policy Department)	Issuance of prudential regulations and guidelines	• Capital adequacy requirements • Criteria of corporate governance • Issuance of banking license • Issuance of directives for compliance
DBLs (Department of Banking inspection)	To conduct different types of on-site bank inspection	• Examining the books of accounts • Assessing the financial condition • Review of the internal & external audit report • Determining status of compliance • Transaction testing
DOS (Department of Offsite supervision)	To supervise the banks on the basis of submitted financial statements/ reports	• Performance analysis based on CAMELS • Monitoring statutory liquidity requirement • Monitoring the overall credit, deposit, investment and liquidity position • Review of the large loan portfolio • Preparation of off site supervision report
BFIU (Bangladesh Financial Intelligence Unit)	Establish an effective system for prevention of money laundering combating terrorist financing	• Suspicious transaction reports • Cash transaction reports • Information related to money laundering/financing of terrorism • Exchanging information with foreign counterpart to ensure cooperation at international level
Sustainable Finance Department	To develop sustainable banking framework	• Green Banking wing • Corporate social responsible wing • Financial inclusion wing

Figure 11: Bangladesh Bank's departments for regulation and supervision



The agent banking guidelines were issued in 2013, with 10 banks taking up the agent banking operations in 2016. The three-year period between these two guidelines was given to the banks by Bangladesh Bank to prepare for launching agent-banking operations, build credibility among the customers, design payment structure for agents, and other prerequisites of the banks before launch. Bangladesh Bank then released operational guidelines for the agents in 2017. So far, 16 banks in Bangladesh have started operations in agent banking, leading banks being DBBL and Bank Asia. The initial dominant players in agent banking were Bank Asia, Dutch Bangla Bank Limited & Al-Arafah Islami Bank. They pioneered in obtaining the license from the central bank and started to provide the agent banking services around the country. The other banks, which followed the league, are The City Bank, Mutual Trust Bank Ltd., South Bangla Agriculture and Commerce Bank Limited, Trust Bank, Standard Bank Limited, NRB Commercial Bank Limited, Agrani Bank Limited, Modhumoti Bank Limited, etc.

The 2017 prudential guidelines facilitated banks to engage in agent banking. It clearly identifies the process that banks are required to follow starting from registration,

recruitment of agents to increase outreach and setting minimum standards for data security, customer protection, and risk management. It has been certainly considered as a welcome step by the banks to push commercial operations of agent banking. This has been an enabling platform to offer basic products and services to all segments of the population at an affordable cost.

The thought leaders of the industry consider this (2017 prudential guidelines) as a forward initiative towards financial inclusion, which would bring the entire population under the banking system. In the preface of the guideline, it is stated that agent banking will provide the un-served population with limited scale banking and financial services through agent.

2.5 The objective of agent banking guidelines

The central bank of Bangladesh that is, Bangladesh Bank, which is the regulatory body for banks in Bangladesh has issued the agent banking guidelines as per the authority conferred to it by Article 7A(e) of Bangladesh Bank Order, 1972, Section 45 of Bank Company Act, 1991 and Section 4 of Bangladesh Payment and Settlement Systems Regulations, 2009.

Subsequently, Bangladesh Bank was brought into the financial ecosystem as per Article 7A(e) to manage the monetary and credit system of Bangladesh with a view to stabilising domestic monetary value and maintaining a competitive external par value of the Bangladesh Taka towards fostering growth and development of country's productive resources in the best national interest.

Section 45 of Bank Company Act, 1991 gives power to the central bank to apply to the government for suspension of business by any banking company. Additionally, the overall payments and settlement systems regulation, 2009, under its Section 4 lays down several objectives for regulations, that is, to regulate, and supervise payment systems that operate in Bangladesh, including cross-border transactional activities in Bangladesh that affect its currency; regulate the transfer and movement of funds in Bangladesh Taka within Bangladesh and cross-border transfers; establish effective regulation and supervision on the issuance and use of payment instruments, mechanisms, and channels, and other payment systems related objectives.

The primary purpose of these guidelines is to provide a regulatory framework for agent banking. It is expected to create an enabling environment for offering safe financial services to the potential and upcoming target segment that will use the services of agent banking. Mainly, this target segment would cover new customers from remote geographies and a higher number of women.

To safeguard customers and national interests, Bangladesh Bank has ensured that the agents of the various banks comply with the Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) standards set by AML/CFT rules, regulations, guidelines and instructions issued by Bangladesh Bank. A separate vertical, BFIU (Bangladesh Financial Intelligence Unit), at Bangladesh Bank looks after prevention of AML/CFT. The primary responsibility of the vertical is to check for suspicious transaction reports, cash transaction reports, information related to money laundering/ financing of terrorism, exchanging information with a foreign counterpart to ensure cooperation at international level.

The agent banking model will allow the banks to expand financial services into areas where they do not have sufficient incentive or capacity to establish a formal bank branch.

The coordination between Bangladesh Bank and the commercial banks working together towards establishing this model to introduce this service, select proper agents for offering agent banking, defining nature of services to be offered by agents, proper monitoring system and prompt address of customers' complaints will act as a catalyst to lead to a success of the Bangladesh Bank's initiative.

The interest of banks to launch agent banking depends on whether it will generate more revenue for banks. Largely, it has been recognised across the globe that agent banking systems are cheaper to operate than branch banking. Agent banking will minimise fixed costs by utilising existing retail outlets and reducing the need for financial service providers to invest in their own infrastructure. Among the unbanked population, it will gradually create banking habit.

2.5.1 Understanding the implications of the operational guidelines of agent banking

The prudential guidelines for agent banking state NGOs, micro-credit agencies, cooperatives, post offices, companies, mobile-phone operators' agents, union information service centres, local government institutions and any individual capable of offering financial services based on information technology can be appointed as agents. These entities or individuals who are eligible to take up agent banking business are restricted by the Central bank of Bangladesh with respect to the operations they can carry out. Agent banking, as a result, brings the following services at the doorstep of the customers.

The customers have the convenience to check the balance in their bank accounts, and deposit or withdraw cash at an agent outlet, receive remittance amount, receive the payments under the government's social safety net programmes. The customers can also conduct person to person (P2P) transfers at a reasonable cost.

The customers do not have to travel long distances for preliminary banking services. The hindrances that the unbanked or underserved population have towards accessing banking services are minimised. On the cost, time and convenience front, agent banking will be the most viable option in the coming time. The agents are allowed to facilitate the disbursement of small value loans and the recovery of these loan instalments, collect and process forms or documents in relation to account opening, loan application, credit and debit card application from the public.

Most of the underserved population does not hold any credit history or a financial track record at a formal financial institution. With an agent banking account and subsequent transactions at the outlet, a customer can apply for loans and the agent can appraise it to the banks. Overall, providing loans to the needy segment of the country would achieve financial inclusion and employment opportunities where the credit is being taken for an income-generating activity. Agents also need to conduct post-sanction monitoring of loans and advances apart from following up of loan recovery. Apart from focussing on loans, the agents can also perform other functions like the collection of insurance premium including micro-insurance etc.

To spread the convenience outside just basic financial transactions, the customers can handover cheques for clearing to the nearby agents, which will be subsequently be processed only at a bank branch. Additionally, the agents can provide the facility of utility bill payments to the customers. These services are an initial step towards making shifting the cash economy towards a cash-lite economy. The doorstep delivery of services can reduce the gap between the customers and the banking institutions. To safeguard the customers, Bangladesh Bank has put some restrictions on the activities that an agent can provide to the customers. An agent cannot give final approval of opening of bank accounts and issuance of bank cards or cheques, encash cheques, deal with loans, or dealing with foreign currency.

As an agent is a non-employee of the banks, s/he has to still appraise these transaction requests to the bank. Also, to bring a sense of ownership into the agent banking business that an agent takes up, s/he, as a prerequisite, has to provide, as a minimum, cash deposit and cash withdrawal services. The agent's activities would be within the normal course of the banking business of the scheduled banks but conducted at places other than bank premises/ ATM booths.

2.5.2 Compliances for agent banking providers

Bangladesh bank has also laid down certain compliances that each bank needs to follow before commencing agent banking services. Notably, these compliances have been put in place to ensure a controlled progress of the spread of agent banking and ensuring requisite customer protection processes. The regulations, compliances and selection criteria have been laid down to make achieve inclusion of the underserved or unbanked, provide low service costs, promote a "cash-lite" culture, reduce the TAT for services and, enhance efficiency.

The major compliance needs for market players are as follows:

(i) The explicit approval of Bangladesh Bank is necessary for any bank to commence agent banking operations. This will ensure that the regulator understands the scope of the various market players and also controls the activities of the incumbents. This is especially important since some sub-segments of the proposed target segments may be particularly vulnerable when it comes to information asymmetry and understanding of formal financial services. Banks willing to launch agent banking services will need to furnish full details of the services including tentative implementation schedule at the time of seeking approval from Bangladesh Bank.

(ii) To reduce any unsafe practices in case of money transfers from one account to another, the transaction currency will be Taka only. The primary objective of agent banking is to provide access to the bank's financial services to the unserved. This will limit any scope of syphoning of money from user's account to another across the country. Hence, the inward foreign remittance (credited to Nostro Accounts of Banks) transfer arrangement through designated agents will also be used only for delivery in local currency, and the system cannot be used for any cross-border outward remittance of funds.

(iii) Banks shall have to submit copies of agreement(s) or MOU(s) signed between banks and their agents to Bangladesh Bank before launching the product. This will help Bangladesh Bank to stay up-to-date with the implementation dynamics. Bangladesh Bank is flexible to receive feedback from the ground and modify the mandates to achieve the overall objective of financial inclusion. This step will help Bangladesh Bank to co-create the products that can be delivered through agent banking. Banks have to submit an overall report on agent banking annually to its Board as well as to Bangladesh Bank. The monitoring mechanisms will ensure that stringent agent-selection criteria are followed, as well as it is being tracked on a periodic basis in the interest of the customers. Bangladesh bank can amend the guidelines as and when required. Thus, a holistic involvement of Bangladesh Bank would help in gauging the all-round progress of agent banking, and the further enhancements that are required.

(iv) Bangladesh Bank is also maintaining a database of all the agents deployed by the banks. A monthly update on the agents selected by the bank and a list of the agents with their names and addresses is submitted to FID of Bangladesh bank. These updates on the agent and his credentials would help in reducing fraud by the agents. It will enable the tracking of an agent in case any suspicious activity is conducted. This diligence is one step among others to protect the customers as they are directly dealing with a non-employee of a bank, for their banking transactions. The recent increase in the fraud rate in MFS is alarming and has triggered the need for consumer protection to a larger extent. Bangladesh Bank may withhold, suspend or cancel approval for providing agent banking services if it considers any action by any of the parties involved in the system is detrimental to the public interest.

2.6 Risk management practices prescribed by regulations

Agent banking activities with the existing products may not bring expected outcome, because banks need demand-based products targeting rural, low-income customers. And, digital financial services can contribute remarkably in this regard. The diverse set of services that an agent provides to its customers has a low complexity, which does not necessarily require supervisory actions, but monitoring at the bank level would be sufficient to safeguard the customers. It more typically requires increased attention on the part of the bank due to the bank's ultimate liability for actions of its agent. The use of agent banking by the banks may trigger financial risk, technological risk, reputational risk, operational risk.

The operational risks are the most prominent at the customer level, where the customer interacts with a non-bank person conducting a bank transaction for him/her.

An agent who services bank customers introduces new operational risks. The cause of these risks can be a lack of capacity, poor training, and lack of necessary tools and technique. The risks can be described as the following:

(i) Agent fraud or theft: the cash at an agent outlet can vary from day to day, on some days when the cash deposits have been higher, the agent is subject to theft as safety measures at an agent outlet might be limited.

(ii) Unauthorized fees: the agents can charge any extra amount for providing the bank services to a customer.

(iii) Mis-selling by agent: the agents might give priority to those services that fetch higher commission. This would limit the array of services that the banks want to offer its customers through an agent.

(iv) Loss of customer assets and records: this can occur in case of lack of adequate training to the agents.

(v) Data entry errors: Manual errors at agent's end can occur which might lead to hindrances in customer identification and verification during a transaction.

(vi) Liquidity issues: Poor cash management resulting in an agent not having sufficient cash on hand to enable the customer to make a withdrawal. Also, not understanding or adhering to AML/CFT guidelines by the agent.

(vii) Agent failure to resolve or forward consumer complaints to the bank which might involve suspicious activities by the agent.

2.7 Risk mitigation

To overcome the regulatory risks to a larger extent, Bangladesh Bank has issued guidelines for it. They aim to reduce fraud-related risks at the customer level. The banks are responsible for the mitigation of all kinds of risks, such as liquidity, operational, fraud, cheating including money laundering and terrorist financing risks. Technical risks have to be covered by the solution provider. A bank's approach to risk management in relation to its agent business depends on the services performed by its agents, the aggregate value of the transactions they handle, and the number of agents and their geographic spread. The banks must bear all the liabilities that arise from any improper action on the part of their engaged agents. The four major risk mitigation measures that the banks need to follow are around money laundering, KYC norms, monitoring banks and its agents and adhering to regulations laid down by all the partners' regulatory institutions.

Banks and its partners i.e. Technology partner, Institutional partner should comply with the prevailing AML/CFT related laws, Regulations and guidelines Issued by Bangladesh Bank From time to time.

Banks have to follow KYC format issued by Bangladesh Financial Intelligence Unit (BFIU) of Bangladesh Bank for the agents and Customers. Banks will be responsible for authenticity of the KYC of all the customers and agents. These Will safeguard the customers and ensure proper monitoring.

The commercial banks have to keep a close check on any suspicious activities being conducted by any of their partners or agents, which should be immediately reported to anti-money laundering department of Bangladesh Bank for immediate action.

The banking transactions conducted by banks or a bank agent outlet are to be closely monitored by the banks. Any suspected transaction is investigated. This is done by developing an IT base automated system to identify suspicious activity/transaction report (STR/SAR) before introducing any new services.

Some specific measures that are needed for consumer protection are stated as follows:

(i) Awareness: The agent banking departments of the banks need to make sure that their agent is easily identifiable by a potential customer. The agents need to be trained enough to market and pitch about the products and services accurately. This is to ensure that the customer is not duped in any case.

(ii) Proof of transaction: As an evidence, to the transactions conducted by the customers, the banks need to put in place the mechanisms for sending SMS. An agent also needs to give a customer the receipt for any documents that have been collected for any other banking purpose.

(iii) Grievance resolution: The banks need to ensure a toll-free customer care service is provided to the customers to register any complaints or to test the authenticity of an agent outlet. The banks are also mandated to resolve the complaints within a period of 7days.

It is the bank's primary responsibility to put in place adequate measures for customer protection, awareness and dispute resolution. The bank must run a call centre to receive and process disputes 24 hours a day via telephone, SMS, IVR and email. The resolution time given to the centre at the bank is usually 3days. The bank has to ensure that they are sufficiently equipped to keep track of all the disputes and review the status of each of them. A log has to be maintained simultaneously to check if its resolution has been done within stipulated time. The banks are bound to widely publicize about the disputes and grievances resolution mechanisms through electronic and print media. An annual report regarding disputes/grievances and their resolution has to be prepared by the banks and submitted to Bangladesh Bank.

(iv) Market positioning: The agent must have an outlet that doesn't represent it as a licensed financial institution, however, should carry the branding of the respective bank.

To make the risk mitigation measures robust, the following steps can be adopted to pre-empt the risks at an early stage:

(i) Banks should periodically review the financial and operational condition of their agents. This would help in identifying new or growing risks, bottlenecks in the bank's risk management policies or procedures. The financial performance of an agent can also be indicative of any risk that might occur in case of any malpractices like overcharging, mis-selling etc.

(ii) The bank officials should make periodic onsite visits to agents, and also lay down in advance certain corrective actions for agents. Monitoring and periodic reviews should enable a bank to identify and act on the need to make provisions in its books to cover significant risks, for example, the lawsuits brought by agents in Brazil claiming equal treatment with bank staff, for instance, have caused some banks with large agent networks to make provisions for damages in the event that the law decided in favour of the agents.

(iii) The agents should be covered in banks' regular audits, monitoring controls.

(iv) The banks should bring in insurance coverage for its agents in case of frauds, natural disasters, theft etc.

2.8 Analysing the effect of the guidelines on service delivery

The graphic below shows the implications- both enabling and limiting, that the guidelines have had on agent banking business and on the customers.

Key area	As per the guidelines	Implication
Credit	Agents are allowed to source credit applicants But the authority/signatory to sanction loans Remains with the banks.	It is a welcome step for the customers who do not have access To formal credit. However, after the sourcing by an agent, the Further process again becomes cumbersome and time consuming as the application goes to the banks for their approval. Agent banking is competing with the other market players such as MFIs which provide doorstep delivery of credit at a much faster rate. Hence, this would lead to MFIs trumping over agent banking in providing credit.
Transaction security	Finger print of the customer is a prerequisite for any transaction (apart from cash deposits) at the agent outlet.	The biometric input makes the customers feel safe and Secure, as for each transaction from their account an authentication is required. With the rising fraudulent transactions in MFS where the transactions are PIN-based, agent banking provides a more secure platform. However, the customer cannot transact unless s/he is physically present at an agent outlet.
Approval process for agent outlet	For opening of each agent outlet, Bangladesh Bank needs to provide an approval.	At times, the approval process takes longer time due to several reasons. This allows down the agent banking expansion activity of the banks. At the agent level, to remain invested in starting the agent banking business after applying and yet, waiting to start the operations, become difficult.
Exclusivity	The agents cannot take up the agency ship of more than one bank and the branding at their outlet is allowed only for one bank.	However, exclusivity is deterring the conflict of interest and the market cannibalization among the current providers. This helps the agents have a singular focus in liquidity management, marketing of products etc. This also reduces the risk of mis-selling or forced selling of a particular banks's products to the customers rather it leads to a demand driven customer service.

Key area	As per the guidelines	Implicatio
Business viability	Banks establish a fees, charge and commission structure for various agent banking services. The primary Income source for the agent still remains the interest generated on the customer's transaction amount/float etc.	The agents can't charge customers directly for the services provided at the agent outlet. This prevents overcharging by the agents which is in the customer's interest. However, the agents rely only on the commission that the respective banks will pay. In this case, there might be chances that the agents conduct other business activities which might not be in the ambit of agent banking. But the transparency about the charges at an agent outlet will minimise these changes.
Withdrawal limit on agent banking account	The limits are set by Bangladesh Bank, which can be revised however, it still has a limit which is lesser than the bank branches.	For CMEs, the limit on the withdrawals affect their business and in turn deters a section of the customers from using agent banking for higher value transactions. For individuals, the limit might not be a bottleneck in most of the transactions.
Regulatory approval	Any partner with the agent banking needs to get an approval from its own regulatory authority.	The centralised approval keeps the regulatory bodies aware about the activities that the market players are conducting. It also ensures that there are checks even before any kind of operations are started, even though the process might be time consuming.

4 SUPPLY-SIDE ANALYSIS

SUPPLY-SIDE ANALYSIS OF AGENT BANKING

2.9 Agent banking and the financial inclusion agenda

Financial inclusion in Bangladesh is still a big challenge. Despite the regulatory push from Bangladesh Bank to open more rural branches, conventional banks are still reluctant to expand their business operations in rural areas with their brick and mortar branches. The onus of financial inclusion in the rural areas is still being borne to a large extent by Micro Finance Institutions (MFIs) and to some extent by Mobile Financial Service providers.

MFIs have been the traditional players to reach out to customers who did not have any exposure to financial services. The evolution of MFIs, keeping intact the human interactions and social collateral values, has uplifted and provided the linkage to the weaker economic section of the society. Bangladesh has a vast outreach of MFIs, with 510 reporting MFIs operating with a client base of around 39.21 million in different regions[41]. While these MFIs have done a great job by targeting the poverty-stricken segment and providing small-scale financial services to these marginalized people, they have limitations as far as the regulatory framework is concerned.

The banking sector now has 57 banks with about 10,000 branches, but only 10% of the 86,000 villages of the country can be realistically covered with conventional bank branches[42]. However, it is worthwhile mentioning that in a span of roughly 3 years, more than 5,000 agent banking outlets have been opened across the country, providing limited banking services to its clientele. Through agent banking outlets, one-fifth of the villages of the country has been covered, but there is still a considerable way to go to attain satisfactory coverage.

Understandably, in some cases, it may not be financially feasible for a bank to open a full-fledged branch. In such cases, the agent outlets can act as mirror bank branches. The agents provide banking services to the people on behalf of a bank and the nearest branch of the bank will provide the necessary support such as liquidity and technical support. Thus, conventional banks now stand at the cusp of a unique opportunity to contribute to financial inclusion with their agent banking arm. Agent banking has the potential to provide full-fledged banking services at the doorsteps of customers in the remotest of areas, without incurring the fixed and variable cost of brick and mortar branches.

As seen in the chapter on the country context of agent banking, 87% of the agent banking accounts are in rural areas and 87% of the total deposits have emanated from rural areas as well. Furthermore, 92% of the agents and agent outlets are also in rural areas[43]. This is aligned with the Prudential

[41] Credit Development Forum "NGO-Bangladesh Microfinance statistics, 2016-17". Can be accessed at http://www.cdfbd.org/new/Bangladesh_Microfinance_Statistics_2016-17.pdf

[42] The Daily Star, "Roundtable on Agent Banking", can be accessed at:https://www.thedailystar.net/round-tbles/agent-banking-becoming-strong-source-deposit-banks-bangladesh-1611034

[43] In Bangladesh, agents and agent outlets are considered separate entity and as such approval for agent and agent outlet has to be applied for separately.

Guideline on agent banking[44] regulation that stipulates that a provider must have 3 rural agent banking outlets against one urban-based agent outlet. In fact, it makes more business sense as well to locate more and more agent outlets in the rural unbanked areas, since they have brick and mortar branches to cater to the urban areas.

Currently, more than 2,000 UDCs agents are rendering agency banking services in their respective Unions. This accounts for roughly 45% of the UDC agents or Union Councils throughout the country being brought under the agency banking umbrella. This model of service delivery was fomented by the a2i program of Bangladesh government, with the active participation of Bank Asia, Modhumoti Bank and NRBC Bank. Although the principal motivation for this partnership was to facilitate social safety net disbursement to the old, widowed or disabled segment of the population, the outlets are not exclusive to these beneficiaries only and open to all adults in the locality. This initiative has allowed the associated banks to expand their agent network rapidly as well, as evidenced in the country context of agent banking in Bangladesh section.

Data shows that 49.4% of the total population of Bangladesh are female[45], however, in terms of financial inclusion women were lagging behind as 65% of the women remain unbanked[46]. Latest Bangladesh Bank quarterly report on agent banking[47] reveals that agency banking is catering to the women populace to some extent, with 35% of the total accounts being owned by women. Furthermore, women are also recipients of remittance from family members working abroad and agent banking outlets are growing in importance as hubs of foreign remittance disbursement.

The above referenced quarterly report also shows that within the span of one year, remittance disbursement through agent banking outlets has grown by 3 times and around 10% of the total foreign remittance is being disbursed through agent banking channel as of latest Bangladesh Bank data on agent banking. Agents interviewed in Cumilla and Bagerhat mentioned that almost 50% of their customers are female and they are recipients of foreign remittance.

"Every household in my area has one or two members in Dubai or Malaysia. The wives of these workers come to my outlet to withdraw remittance money sent from abroad. Every month I serve 70-80 remittance customers."

An agent in Cumilla region

Agent Banking Centres are an extended hand of Branch Banking and can be a suitable hub for business transaction and credit for CMEs. However, as seen from the data in the chapter on country context, for 20 unit of deposit collected from agent banking outlets, only 1 unit of credit is being disbursed. Such disparity in the deposit to credit ratio is precipitated by the cautionary approach taken by most providers, as they are still strengthening and expanding their agent banking operations. This cautionary approach is understandable given that agency banking is still in a nascent stage and commercial banks have an apprehension about lending to rural population or people with limited asset base for providing adequate collaterals against credit. Since the core customers of agent banking are in

[44] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

[45] Source: https://countrymeters.info/en/Bangladesh

[46] The Global Findex Database 2017. Can be accessed at: https://openknowledge.worldbank.org/bitstream/handle/10986/.../9781464812590.pdf

[47] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

rural areas, access to credit products to both individuals and businesses is limited by their inability to furnish adequate documentation for loan approval. Some providers also mentioned that their Board of Directors are not too keen at this moment to go for widespread lending through agent banking outlets. However, discussion with several providers (in this study) revealed that they intend to increase their lending operations through agent banking outlets, through the development of customized credit products and finding out CMEs with good financial health.

"We have recently launched 'S' unit for SME banking throughout our bank and we plan to use our agent banking outlets for promoting this product to rural populace. We will mainly provide term loans to micro enterprises under this scheme"

Representative of Agent banking provider

Agent banking has now reached remote far-flung areas as well such as remote char[48] areas of Bangladesh. Chars are low-lying temporary sand islands formed and reformed yearly through silt deposition and erosion. Although mainly habitable and cultivated, the remote River Jamuna chars are inundated with flood water throughout the monsoon season (June – September), making inhabitants' lives subject to environmental instability, prone to seasonal migration and pronounced asset, income and consumption fluctuations. Home to approximately one million people, the isolated River Jamuna char communities are severely deprived and face multiple livelihood challenges. The poverty that characterises char households is not just a lack of income or assets; they also experience limited access to healthcare, education services, markets and other government institutions, and inadequate infrastructure. Thus, agent banking outlets in char areas can play an important role in providing financial services to these downtrodden people. Furthermore, before agent banking was introduced on a large-scale, a rural customer in Bangladesh had to on average, travel seven kilometres to reach banking services. Now, the average has come down to two kilometres[50].

[48] Banglapedia, National Encyclopaedia of Bangladesh. Can be accessed at http://en.banglapedia.org/index.php?title=Char

[49] Conroy, Goodman, K, "Lessons from the Chars Livelihoods Programme, Bangladesh" 2010, link: www.chronicpoverty.org/uploads/publication.../conroy_goodman_kenward_chars.pd

[50] The Daily Star, "Roundtable on Agent Banking", can be accessed at: https://www.thedailystar.net/round-tables/agent-banking-becoming-strong-source-deposit-banks-bangladesh-1611034

2.10 Experience of agency banking for providers, regulators and competitors

This section will discuss on the experience of agent banking so far for the providers, the regulators, competitors and the market observers and identify some of the pain points and barriers that impede the smooth growth of agent banking.

2.10.1 Agent acquisition & on-boarding

Prudential Guidelines for agent banking delineates the model of agency banking which states that banks can enter into a contract with master agents and provide agency banking services, with the latter overseeing multiple agent banking outlets for the same provider. Alternatively, banks may also employ individual agents through their internal process of screening and selection. due. The Prudential Guideline[51] for agent banking operations also allows various entities to become agents for agency banking such as MFIs, NGOs, UDC agents, MNO agents and so on[52]. Thus, banks have a host of options when deciding on agent selection. In the context of Bangladesh, it was seen that both the master agent (distribution model) and unit agent models are prevalent.

The standard process for onboarding unit agents entails a step-by-step procedure. Initially, field teams of provider (bank) scout for suitable locations and then try and identify individual entrepreneurs (according to the guidelines issued by Bangladesh Bank). Location is selected accounting for potential business volume of the area, historical/cultural significance, communication infrastructure, the presence of competitors, and so on. Once these individuals are identified, they are vetted by the agent selection committee at the head office. Required documents are collected such as TIN, NID, passport, police certificate, bank statement and solvency certificate. Simultaneously, the field teams also carry out a feasibility study in which the reputation of the individual is checked with locals and the proposed premises are also checked for suitability. After all the required due diligence, if the agent location and agent is found to be sound and willing, a formal approval note is placed to the selection committee of the bank composed of senior management. Subsequently, once approved by the selection committee, these applications are forwarded to Bangladesh Bank's relevant department for final approval. Once approved from Bangladesh Bank end, the agent banking outlet is all set to commence operations. When banks enter into a contract with Master agents, the due diligence process is similar, though the Master agent is responsible for ensuring that all documentary and bank requirements are adhered to.

The whole acquisition process- from initiating contact with the agent and the final approval from Bangladesh Bank may consume around four to six months. Some providers expressed their concern about this lengthy time lag because many agents get frustrated by this delay and lose their motivation and interest to continue the association with the provider. Subsequently, some agents resort to another trade or business. In such cases, the time and effort to select and sensitize prospective agents becomes futile. One of the representatives of an agent banking provider opined that Bangladesh Bank favours a steady approach to agency banking as too many outlets in a short span of time may disrupt the market.

[51] Bangladesh Bank Guideline "Prudential Guidelines for Agent Banking Operation in Bangladesh", 2017, can be accessed at: https://www.bb.org.bd/aboutus/regulationguideline/brpd/sep182017agentbank.pdf52

[52] Bangladesh Bank Guideline "Prudential Guidelines for Agent Banking Operation in Bangladesh", 2017, can be accessed at: https://www.bb.org.bd/aboutus/regulationguideline/brpd/sep182017agentbank.pdf

Furthermore, earlier banks had the opportunity to apply in advance and get permission for 100-300 agent/agent points beforehand and then went about finding and establishing agent points. After the opening of the outlets, banks then reported to Bangladesh Bank with required documentation, details of the outlet, agent details and supporting photographs. Thus, the process was more convenient for providers as they could plan their expansion in line with their business needs. However, the approval process now resembles the process followed for approval of brick and mortar branches. Agent banking provider opined that this process hampering the growth of agent banking.

What regulator is saying about approval process?

Bangladesh Bank representative is mindful of the delay in approving agent/agent outlets. However, they mentioned that they are constrained by the need to do proper due diligence at their end to ensure that all the regulatory requirements have been met. He opined that it is important to ensure that there is no conflict of interest, crowding of too many outlets in a particular region and so on. They want to ensure even spread of agent outlets throughout the country so that no corner is left untapped.

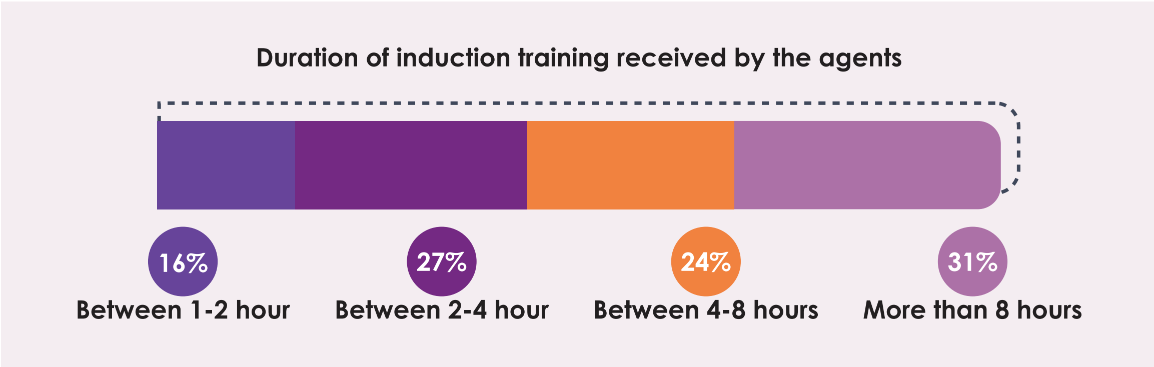
What agents say about acquisition process?

Some agents were satisfied with the process of on-boarding and mentioned about receiving good support from bank officials throughout the process. However, most of them opined that the documentation requirements are a bit too elaborate and some documents were not available at their end. Thus, they had to acquire or manage those documents, which itself consumed a lot of time. An agent is Jessore mentioned that it took 3 months to collect and organize all the documents that the bank personnel had demanded of him.

Another major observation of the agent acquisition process is that banks need to pre-select agents who must have the required documents as set out in the prudential guidelines. The application must also provide details of the outlet with proof of occupancy, which entails that the outlet had to be rented or managed before applying and that leads to incurring of some cost on part of the agent.

An important aspect of the agent onboarding process is training and sensitization of agents so that they can provide timely and adequate service to their clientele. During our agent survey, we observed some lapses in the training and development aspects of agents. Survey results revealed that 82% of the agents acknowledged receiving training on agency banking. However, in some cases, the training duration was not sufficient to ingrain the agents properly about agent banking rules and regulation and focus were mostly given on operational issues. Agent banking providers mentioned that due to manpower limitation, they are not always able to conduct comprehensive theory sessions for agents and focus is more on practical sessions. This is evident from the diagram below, which depicts that most agents opined about getting training on technical aspects and less on conceptual. Providers opined that training and development are perpetual and the bank personnel are proactive to solve agent's day-to-day problems. The figures below show the duration of training received by the agents and the topics covered as mentioned by the agents:

The training is mostly practical training imparted by the bank official/representative after installation of the agent banking software in the agent's computer. In case of UDC agent, all the agents of a particular district were called to the District Commissioners Office in the district centre and briefed about agent banking in general and the expectation from them to render



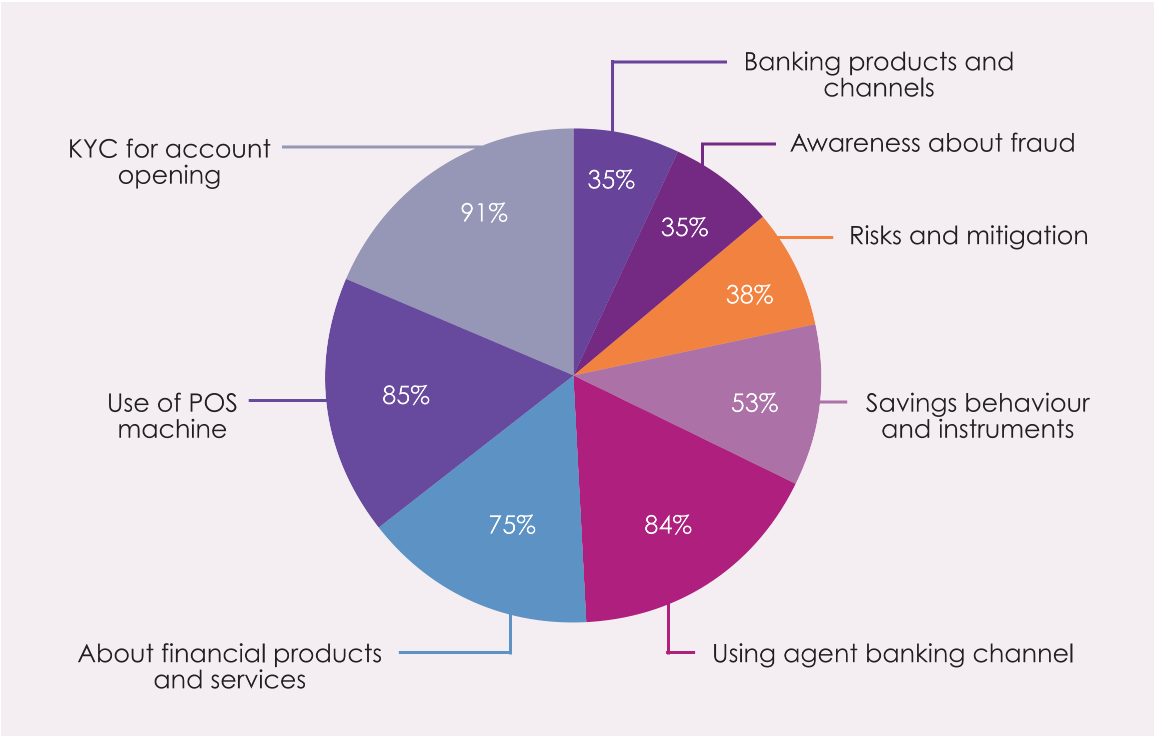


Figure 12: Duration of induction training received by the agents, n=55 (as % of agents)

agent banking services in their respective areas. However, hands-on training was provided at the agent's outlet only, after the availability of the software.

In conclusion, both the providers and regulators are thinking alike regarding the expansion of agent banking outlets. However, providers would ideally like to see the agent approval process expedited at the regulator's end to have a better control over business planning and execution.

2.10.2 Liquidity management

Liquidity management is a key concern for any financial service provider and is highly pertinent in the case of agent banking. Poor liquidity management can result in dishonouring of obligation to customer and erosion of trust in the service provision. Customers will get disoriented with agent banking 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 to and from an agent.

Discussion with agent banking providers and the agents themselves revealed that liquidity management in agent banking, despite some challenges, is relatively well managed. Primary survey results show that average daily transaction value in agent outlets is around BDT 0.36 million and agents were found maintaining average daily e-float amounting to BDT 0.43 million. The findings are depicted in the illustration below:

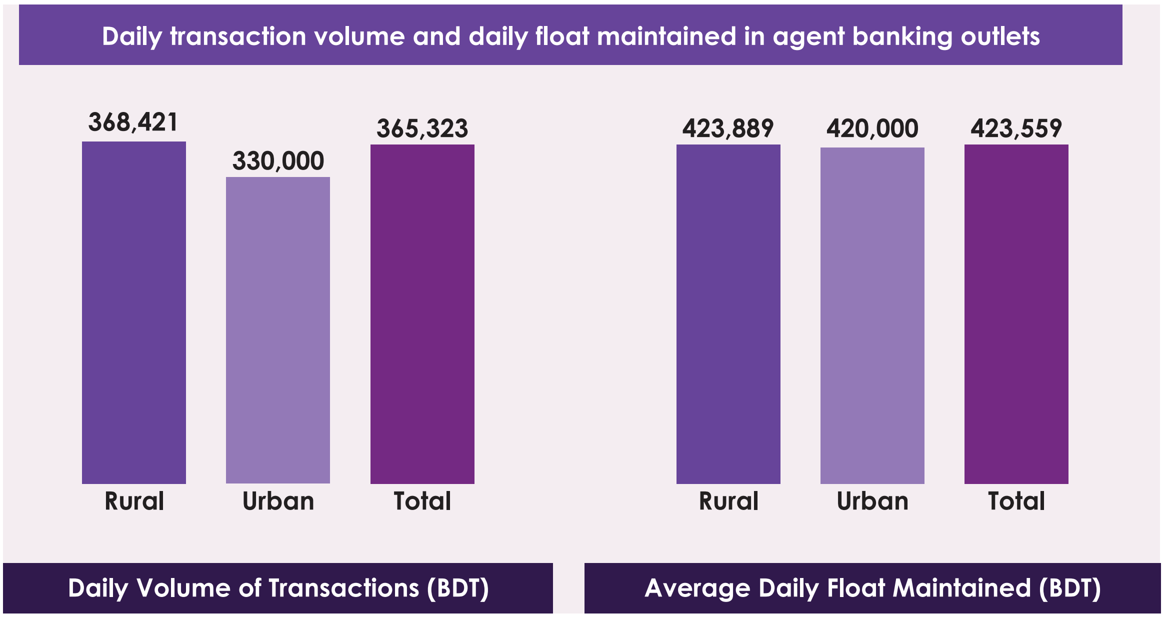


Figure 13: Daily transaction volume and daily e-float maintained in agent banking outlets, n=67

Unit agents are tagged with the nearest bank branch of the provider and they manage their float and cash balance through the branch. Usually, it is the agent who travels to the branch to manage e-float and cash balance. Sometimes the branch may not be of the agent banking provider as some providers have cash management agreement with government banks. This is mostly evident in the case of remote areas such as char areas, where providers have established liquidity management agreement with government banks such as Sonali, Rupali and Agrani Bank. Agents can deposit and withdraw money from certain bank branches of these banks. A leading provider is also mulling collaboration with MFS distributors for liquidity management.

In the case of the distribution model under master agent system, the liquidity management aspect is akin to a unit agent. However, only some master agents actively facilitate liquidity management of their agents, though they are obligated to do so. This may be the case when MFIs are acting as master agents (example: Shakti Foundation tying up with Bank Asia[53]) since the agent is likely to be their own employee and the outlet likely to be a shared space in one of their field offices. A senior representative from an agent banking provider opined that, in case of MNOs as a master agent, it is unlikely that the MNO will play any significant role in facilitating liquidity management of their retail agents and the latter has to maintain correspondence with their linked branch.

In the case of UDC agents, it was observed that they are more susceptible to liquidity management failures compared to non-UDC agents. Firstly, these UDC agents are already running a business operation through their outlet, through the provision of various IT and

[53] For more info: https://thefinancialexpress.com.bd/trade/bank-asia-sha ti-foundation-ink-deal-on-women-empowerment-1516603933

documentation service to the local community. Thus, UDC agents are not exclusively focusing on agent banking business and are prone to suffer from management inefficiencies. Secondly, since agent banking is not their primary income earning source, they often lack the appetite to make sufficient investment from their own pocket into their agent banking business. Lack of investment equates to poor cash and e-float management and makes them susceptible to dishonour client obligations due to lack of fund. Thus, some of the UDC agents do not have the required financial and business acumen and adequate appetite to run agent banking operations smoothly.

Data from the survey revealed that 22% of the agents reported having faced liquidity problems in the last one month from the date of the interview. Furthermore, the frequency of the liquidity problems was also noted from the agents as depicted in figure 23:

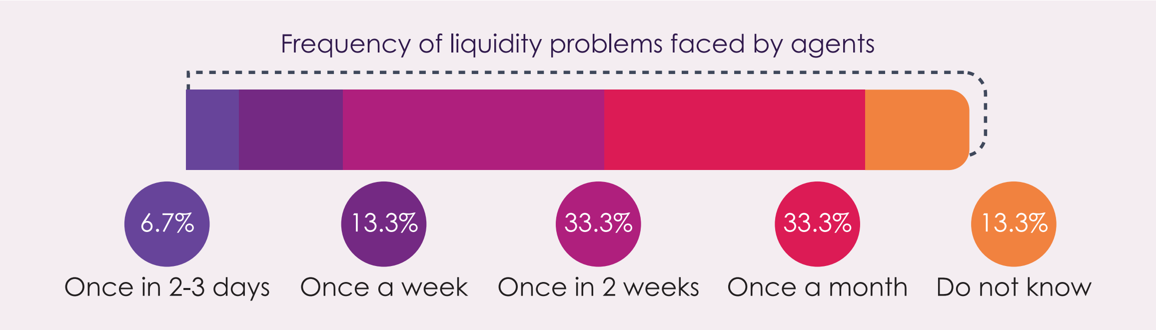
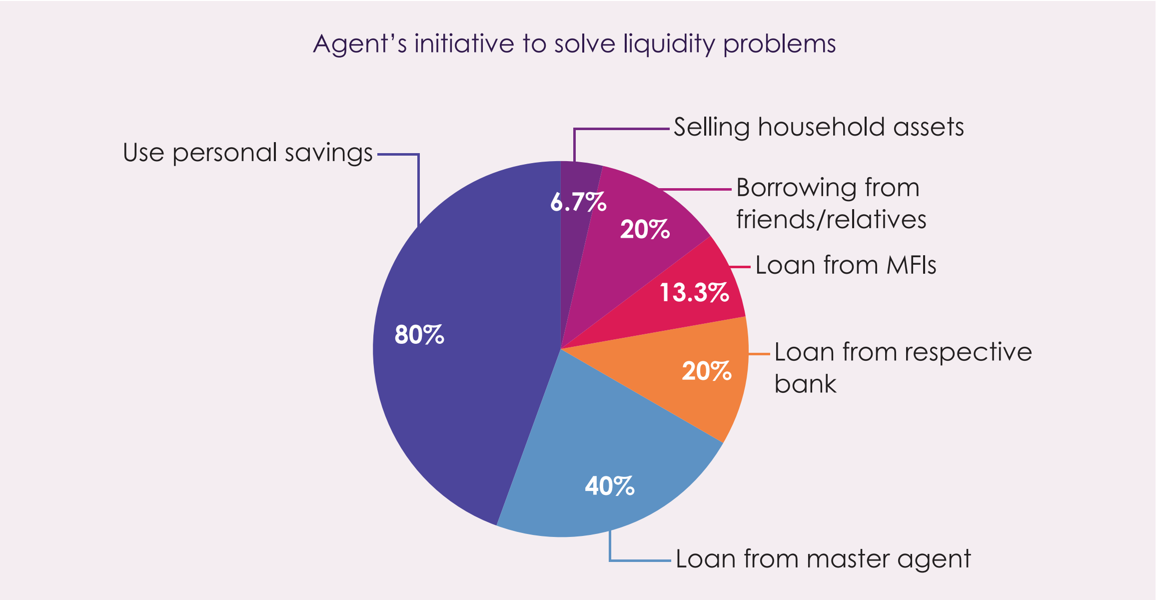


Figure 14: Frequency of Liquidity Problems faced by Agents, n=15 (as % of agents)

Agents employ a multitude of methods to solve a liquidity crisis. Primary survey data revealed that agents mostly rely on their personal savings or money pulled from their other business ventures to plug any liquidity gaps. Besides their personal arrangements, the agent can also request for short-term loan from master agents if they anticipate that their own funds will not be enough to cater to the liquidity requirements of the day. In such cases, the Master agent's distributor may provide cash to the agent on credit for a short time (1-3 days). Usually, this is provid-ed pro-bono to the agent since the credit is the very short term. However, if the credit is extended for a longer period, the distributor may charge the agent on mutually agreed terms.



Agents who have started utility bill/passport fee/insurance premium collection in full swing face liquidity problems as they have adequate cash inflow and can manage their cash requirements internally, without having to resort to lending or going to a bank branch. It is worthwhile mentioning that all types of agents are dependent on the relevant bank branch (own or other bank's branches) for liquidity management and other technical support. Thus, there is often a need to travel to the bank branch for managing cash, e-float liquidity and for seeking technical advice. Agents also source asset products such as a loan for the bank but they cannot sanction loans on their own. Thus, they collect all the required documents from the applicant and submit to their linked branch for further appraisal of the documents. Survey data revealed the frequency of branch travel required by all types of agents and the information is depicted in the following diagram:

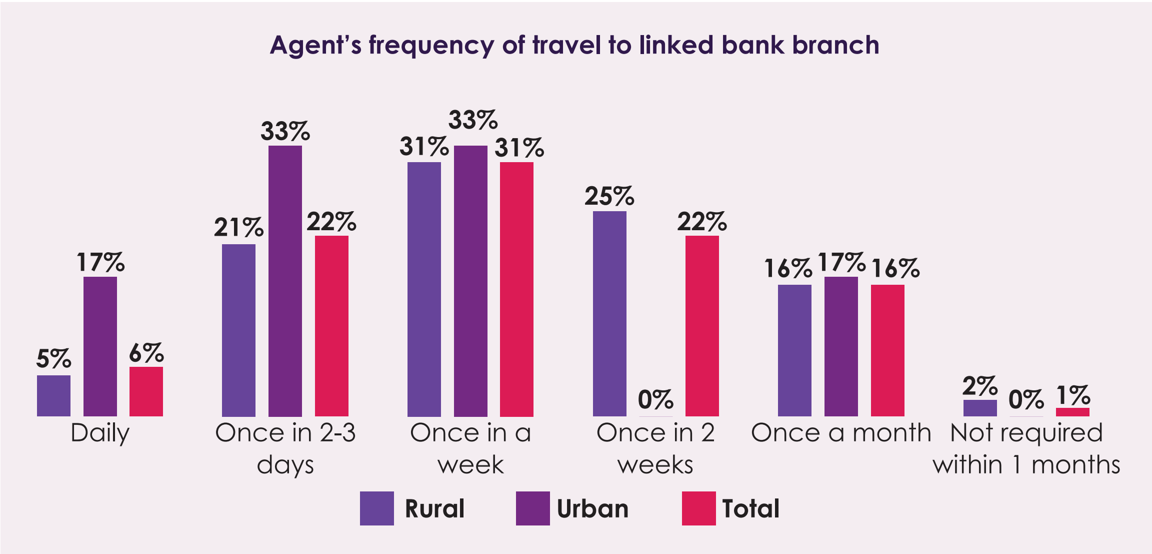


Figure 15: Frequency of travel to the bank branch, n= 67 (as % of agents)

	Rural	Urban
Avg. Distance to Branch	6.75 Km	2.50 Km
Avg. Time required to Reach Branch (one way)	23 min	14 min
Avg. Time spent in Branch	66min	34 min
Avg. Cost of Travel (one way)	BDT 45	BDT 16

From the figure above, it is seen that 81% of the agents need to visit their link bank branch at least once in 2 weeks. It is interesting to see that 17% of the urban agents mentioned that they need to visit the bank branch daily. This is however explained by the fact that urban branches are nearer and better accessible compared to rural branches. The most prominent frequency at which both rural and urban agents visits their bank branches lies between 2-7 days. Agents were also enquired about the distance from their outlet to the branch, the cost required to make the trip and the time required to reach their branch as well as the required time required to complete their work in the branch. The illustration below highlights the findings from the survey research:

From the illustration above, it is evident that in the rural areas, agent outlets are notably farther away from their link branches compared to urban areas. This subsequently has an effect on the time required to access the branch, the cost required to make the trip and so on. It is interesting to note that rural agents end up spending much more time to complete their work in the branch compared to urban-based agents. After discussion with agents and verifying with agent banking providers, it was ascertained that personnel of rural branches may be slower in addressing agent's problems due to manpower constraints in the branch.

2.10.3 Customer acquisition

As per December 2018 quarterly report[54] on agent banking from Bangladesh Bank, the number of accounts held with agent banking outlets has doubled within the space of a year starting from December 2017. Such notable proliferation in agent banking accounts was brought about by a combination of efforts from both the agents and the agent banking providers. Among the providers, there are some who follows the mini branch model[55] . In this model, the outlet is not manned by the agent only but is staffed with temporary or permanent staff of the banks operating through more than one laptop/workstation. The bank branch manager usually acts as the cluster head of all the outlets in respective territory. In some cases, the additional staff is tasked with customer acquisition activities and they usually make frequent field visits to engage individuals and entrepreneurs, to sensitize them about the various offerings from the outlet. Even in the case of a unit agent, the bank usually plays a supportive role in engaging with rural customers. Bank would finance and also provide manpower to hold various events in the locality such as courtyard meeting, promotional events in crowded marketplace/ bus stand and so on. Furthermore, agents receive communication materials/collaterals from the bank to adorn their agent banking outlet. Some providers who have school banking facility[56] , run campaigns near schools to attract both students and guardians to avail school banking facilities from the agent banking points.

How agents engage in marketing communication on their own accord?

Snowballing through local influencers/ lead farmers/mosque imams

Conducting visits to shops owners in markets and explaining about agent banking

Engaging in talks/discussion in tea stalls

Engaging outlet staff to conduct door to door promotion

[54] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

[55] Mcmillin, David, "Mini Bank Branch takes shape" April 2013, can be accessed at https://www.bankrate.com /financing/banking/mini-bank-branch-takes-shape/

[56] Rahman, Sajjadur, "A new era of school banking", published on May 12, 2011, source: https://www.thedailystar.net/news-detail-185235

The incentive for the agent is quite pronounced to acquire more customers since agent receives a lump sum commission on every account opened and also a percentage commission on the total amount of deposit collected through his outlet. However, many agents do not have the resources to carry out promotional activities on their own and invest for promotional activities.

In the case of UDC outlets, they are in an advantageous position of having access to 1,000-1,500 customers in the locality through the social safety net disbursement scheme. As these beneficiaries get used to receiving money from agent banking outlets, they are likely to enquire and subscribe to other banking products.

> **"Mini Branch model is suitable for Bangladesh since people like to have adequate privacy while conducting financial transaction, People also feel more dignified to visit an outlet which gives them a feeling of visiting a bank branch.**
>
> **Representative of Agent Banking provider**

A representative from an agent banking provider opined that it is more difficult to acquire female customer compared to a male customer. Firstly, it is difficult to reach out to homemakers, as they do not venture out of the house much. Secondly, he also opined that women lag in financial literacy and financial confidence compared to men, thus they face more difficult to convince them about a new product or service.

2.10.4 Revenue model for agent banking

The revenue sharing model between various value chain players in the agent banking model may differ for different providers and their agents. However, the core concept is that agents receive a commission on the amount of business they generate in the form of account opening, deposit mobilization, bill collection and so on. The commission may be provided a lump sum or as a percentage of the total amount. Agents usually receive a lump sum payment for each account they open. In the case of bill collection, they receive a tiered commission based on the monetary value. In the case of deposits, they receive a percentage commission on the total amount of deposit mobilized.

The table below depicts the charges paid by the customer at agent banking outlets:

Service	Rate/Amount
Account opening /Registration	Nil
Account opening /Registration	Nil
Cash deposit	● Nil from same territory agent or own outlet ● 0.25% from a different territory or different outlet
Account to Account Money transfer (p2p)	● Nil for the same territory or own outlet ● 0.25% for different territory or different outlet
Bill/payment collection	BDT 5 to BDT 20 or 1% of the bill amount
Remittance payment	Nil
Balance enquiry	Nil
ATM card fee	Nil for 1st year and BDT 200-300/year from 2nd year
SSN disbursement withdrawal	Nil

Note: The figures above are not for a single provider but a consolidated picture of all providers

The commission rates which the agent receives are generally as follows with some variance from provider to provider:

- Savings Accounts @ 2-2.5% on total deposit amount
- Current Accounts@ 3%;
- DPS or monthly savings plan @ 1%-1.5%
- Term Deposit Schemes @ 1%-1.5%
- New account opening- BDT 60-80 taka/account

However, the fixed and operational cost of running an agency banking outlet has to be factored in to get a well-rounded picture of profitability for agents. The cost of setting up an agent banking outlet varies based on the location of the agent outlet, that is, whether it is in the rural or urban area and whether the area is a busy commercial area. Discussion with several agents and service providers revealed the total investment required of the agent to set up an agent banking outlet; cost components include premise cost, equipment cost, security money and investment working capital. The discussion below tries elaborate further on this issue.

An agent may end up spending in the range of BDT 0.3-0.5 million in urban areas and BDT 0.2-0.3 million in rural areas to set up the agent banking outlet, replete with all the required hardware and devices such as a laptop, biometric device, CCTV camera, office furniture, and so on. Furthermore, the agent has to deposit security money to the tune of BDT 0.1-0.2 million to the bank before commencing agency banking operations.

"A rural agent outlet needs to acquire deposits of BDT 10 million per year and an urban outlet needs to gather deposits of BDT 30 million a year to become profitable"

Representative of Agent banking provider

Finally, the agent must also inject around BDT 0.3-0.5 million as working capital to commence the agent banking activities. Thus, in a rural area agent may require BDT 0.4-0.5 million to be invested, whereas, in the urban areas, an agent may require BDT 0.8-1 million investment upfront to viably commence operations. The monthly costs of running an outlet include, but not limited to are rent for outlet space, utility bill, the salary of employees, customer entertainment and other miscellaneous expenses. On average, an agent may end up incurring the cost of BDT 20,000-50,000 per month as operational cost with urban-based agents likely to have a higher cost due to higher rent and salary expenses. Discussion with agents in different geographies revealed that they make a monthly profit of BDT 10,000 to BDT 50,000, however, around 60% of them did not manage to break even or recoup their investment as yet, due to high initial outflow. The figure below depicts the monthly income from agent banking operations for the agents:

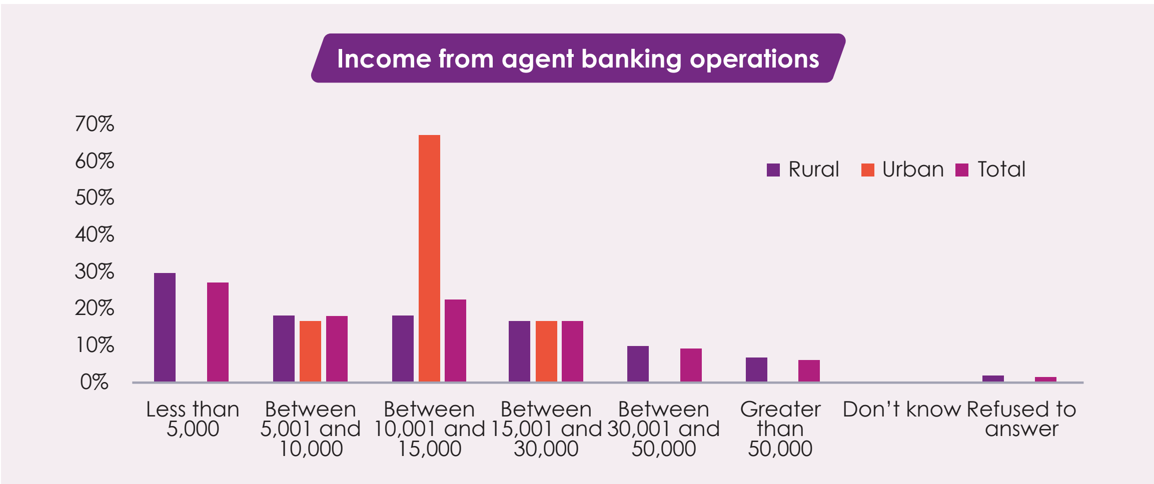


Figure 16: Monthly Income from Agent banking operations, n=67 (as % of agents)

In the case of UDC agents, the initial set up cost is much lower since they already have a space in the Union Council Office and computer device(s). The investment for IT equipment was made when they started as UDC agents some 5-7 years ago. However, they had to invest to buy the biometric device and some other equipment. Thus, it was easier for the providers to integrate the UDC agents into the agent banking fold due to comparatively low investment requirement.

Thus, although most agents are yet to break even, the increasing trend of the transaction happening in agent outlets will enable agents to reach break-even within the next 1-2 years. A senior official from one of the providers (having both individual agents and UDC agents) revealed that the individual unit agents have shown much better business management skills compared to the latter and they are the ones reaching break-even earlier, compared to UDC agents. As lack of investment equates to lower profitability, most UDC agents are quite a distance away from reaching break even.

Agent banking is not necessarily a highly profitable venture for the banks at this moment. The providers also incur costs, such as collateral cost, cost of running marketing and promotional cost, training and development cost and so on. In the case of safety net disbursement, the cost is quite significant without any tangible immediate benefits for the provider. The bank does not receive any commission from the government for SSN disbursement, nor can it charge the customers during disbursement. However, the bank has to employ 5-7 people for multiple days for pre-disbursement preparation and also on disbursement day. This is required because most UDC agents are not yet fully equipped or fully liquid to disburse around BDT 0.5-1.0 million to 500-700 recipients of SSN payment in a day. Thus, the operational cost of managing SSN disbursement is a burden on the bank's account or more specifically for the linked branch. However, they are hopeful that many of the SSN payment recipients or their kin will be converted to regular customers of agent banking, once they start using this system. The lack of commission also leads to lack of motivation on the agent's part to take part in this disbursement endeavour as it consumes a lot of time, demands physical effort and distracts them from their usual business activities at UDC point.

> **"The government should consider giving a commission on SSN disbursement soon, otherwise it will not be sustainable for us or the agent to continue this endeavour"**
>
> **Representative of Agent banking provider**

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2.11 Agent banking's focus on women

The merits of financial inclusion for women are strongly rooted in empowerment and thus providing women with effective and affordable financial tools to save, borrow, transact and manage risks is vital. However, the path to greater women's financial inclusion is reliant upon the creation of a more gender-inclusive financial system that addresses the specific demand and the supply side barriers faced by women, supported by an inclusive regulatory environment. These barriers range from something as basic as the lack of access to mobile phones to more constraints such as account opening requirements that disadvantage women. In Bangladesh, the dialogue surrounding the financial inclusion gender gap has intensified over the past years as key stakeholders explore how best to engage prospective women customers in ways that meet the needs of both consumers and providers situated within different market contexts. Despite such efforts, the gender gap is nearly 30 percentage points[57]. Development organisations and financial service providers have been focusing a lot on expanding women's capabilities, women's financial literacy knowledge and women's ability to use accounts. While this is a commendable and certainly necessary approach, there still needs to be a more critical and in-depth look at the way they are providing the financial services.

Agent banking is well placed to cater to the need of women, particularly due to its ever-increasing outreach in the rural areas. Statistics show that 35% of the agent banking accounts are owned by women, as well as 22% of the total value of deposits[58]. Furthermore, women are the major recipients of foreign remittance payment through agent banking as per the agents that were interviewed for this research endeavour. However, agent banking still has a lot to offer for the women customers.

From the field study, it was revealed that women, in general, do not feel discomfort in visiting male headed agent outlets, although the presence of women, whether as agent or assistant, bodes well for them. Rural women are used to dealing with men for financial matters as they are familiar dealing with MFS agents or field force of MFI/Cooperatives. Some providers also mentioned that they encourage male agents to employ a woman (kin or not) as their assistant(s) so that women feel more comfortable to visit the outlet.

> **"A prospective agent needs to show trade license of last 1 year to be considered for selection. Many potential women agents do not have this and it is a hindrance for them to become agents"**
>
> **Representative of Agent banking provider**

However, there are quite a few challenges that impede the participation of women in agent banking, both as agents and as customers. The major challenges are highlighted below:

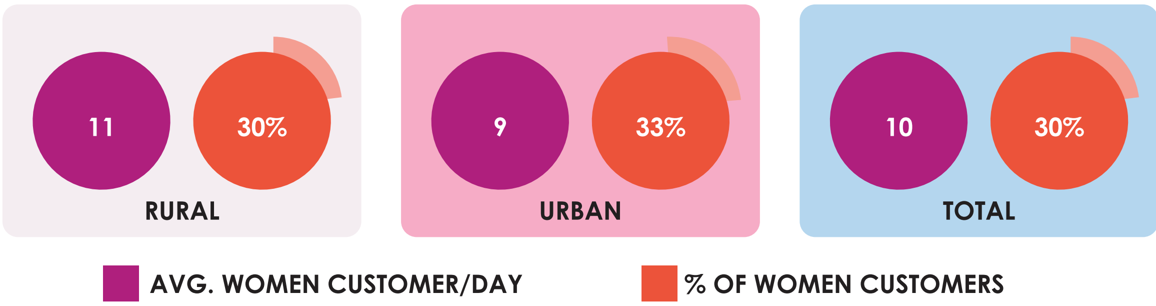
- It is difficult to find enough suitable candidates who possess adequate documentation to be eligible to apply for agent banking and thus providers have a relatively small pool of eligible women to engage with. Discussion with the providers revealed that only 3-5% of the total agents in the agency banking network are women.

[57] The Daily Star, "Why we should rethink financial inclusion", published on April 30, 2018, link: https://www.thedailystar.net/opinion/economics/why-we-should-rethink-financial-inclusion-1569505

[58] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

- The mobility of women in the rural areas is an impediment for access to agent banking outlets. Since most of the agent outlets are situated in the marketplace or busy thoroughfares, conservative-minded women might not feel too comfortable to frequent those places.
- Rural women have become accustomed to doorstep service due to the nature of MFI operations. The social interactions made possible by the MFI model would be hard to replicate by the agent banking model.

Despite the challenges, agents revealed during the interview that they are receiving a good number of women customers per day, that is, nearly one-third of their customers are women. As per survey data, around 10-11 women frequent agent banking outlets every day and currently 30% of the total customers frequenting agent banking outlets are women. This is aligned with official statistics[59] which mentions that 35% of the total agency banking accounts are owned by women.



2.12 Agent banking's focus on cottage and micro-enterprises

2.12.1 CME's current source of financing

CMEs play a critical role in boosting Bangladeshi economy from both economic and social perspectives. From the economic perspectives, it contributes to employment and asset creation, mobilisation of local resources and technological adaptations. The social perspectives cover the social dimensions of poverty reduction, balanced development, and redistribution of income to improve household and community welfare. Although the majority of the CMEs in Bangladesh are self-financed, sometimes they require external financial support for scaling up the business. Traditional banks have traditionally been lukewarm to extend credit to rural-based CMEs and the financing needs of CMEs have been partially met by MFIs and through other informal channels. However, the CME segment remains underserved as MFIs suffer from funding constraints, lack the range of services required by a business enterprise and also have less focus on enterprise financing.

[59] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

2.12.2 Agent banking's contribution to CME development

Bangladesh Bank statistics[60] on agent banking reveals that deposit to credit ratio is around 16:1, which entails banks are not injecting much of what they are collecting from their customers through agent banking channel. Agent banking outlets have been a good source of deposit for banks from the rural areas but there is concern about lack of credit injection into the rural economy. Industry stakeholders and think-tanks have also voiced their concern over this disparity.

For agent banking providers, CMEs ideally should be the appropriate segment to focus their credit disbursement since micro-credit segment is dominated by MFIs. It may not be feasible for banks to have a large portfolio of individual microloans in their books, due to security and logistical challenges. However, banks face various challenges to tap into the CME segment due to issues raised in the box below:

Why banks are reluctant to lend to CMEs

CMEs cannot furnish proper or adequate documentation for a solid loan application. Many CMEs hardly have any historical data or financial records, basis which banks can conduct proper due diligence and extend credit. CMEs often cannot provide adequate collateral against which credit can be sanctioned. Thus, it is a hassle for bank personnel and agents to formulate a decent proposal for CME loan due to weak documentation. Furthermore, banks incur operational cost in continuously knocking CME entrepreneurs for required document due to need for physical visit phone communication and man hours involved.

However, agent banking providers are now looking to escalate their lending operations and they can focus on CME financing as a means to increase their credit portfolio. The Prudential Guideline for agent banking also states clearly that banks shall put emphasis in its agent banking policies to prioritize cottage, micro and small businesses.

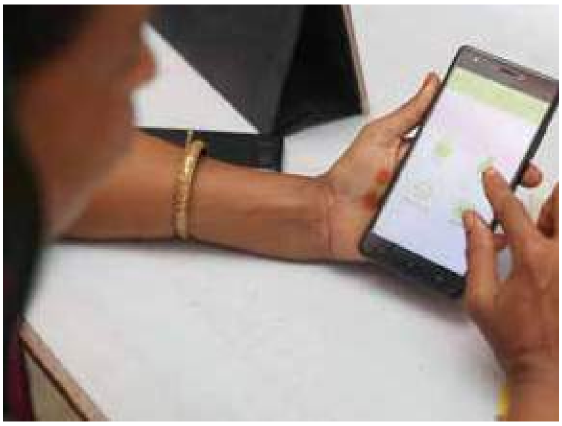
Thus, agent banking channel can be boon for CMEs due to a wide range of pro-enterprise services it can offer. Agent banking can offer so much more to enterprises beside credit support. Money transfer through agent banking is significantly cheaper compared to MFS channel. CMEs may leverage this channel to make supplier payments or receive payment from customers in distant places. Furthermore, CMEs can easily pay their utility and other bills at the agent banking centres, adding a notable convenience factor to their business. However, the biggest benefit for CMEs would be access to low-cost credit from agent banking outlets since they will be able to avail the credit at bank rates, instead of resorting to high-cost credit from MFIs or informal sources.

2.12.3 Evaluation of the role of the agent in credit disbursement to CMEs

Agents will be the first point of contact for CMEs for all types of service, whether account opening to loan application to money transfer. However, agents have a bigger role than just rendering basic services to CMEs. Agents have an incentive structure in place, that is, commission against the amount of loan disbursed through their outlets. Thus, agents have an incentive to seek out prospective recipients of credit and collect all the required documents for a robust loan application. However, as agents themselves are constrained by regulation to provide loans on their own accord, their principal role in relation to CME financing would be business development oriented.

[60] Bangladesh Bank publication, "Quarterly report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/oct_dec2018.pdf

Furthermore, agents do not have the technical and analytical acumen to independently assess a loan application and credit appraisal needs to be led by the credit risk unit of the banks. None the less, agents have a relationship management role to play and can play an effective role in connecting unbanked CMEs to the formal financial channel.



CME leveraging agent banking to good use

Sohel, a furniture trader in Jessore mentioned that earlier he used to send money to his supplier, situated 30 kilometres away through MFS. However, there was always a dispute about sharing of the cash out charge, which was around 2%. After the introduction of agent banking, he now pays his supplier through agent banking channel only, since account-to-account transfer is charged at only 0.25% of the transaction value.

2.13 Competitive landscape for agent banking

Agent banking is a relatively new entrant in the financial service provision. Within a short span of time, agent banking has made notable inroads in the financial service provision in mostly rural areas and has garnered notable customers and deposits in the span of 2-3 years. This section will explore the competitive landscape for agent banking and whether there are common grounds that agent banking can strike with other financial service providers.

2.13.1 Agent banking and MFI- common grounds and possible areas of conflict of interest

2.13.1.1 MFI footprint in Bangladesh

Since its inception, microfinance has evolved as an economic development approach to benefit low-income people in rural and urban areas. Bangladesh has one of the longest histories with microfinance and microfinance has undergone continuous improvement in the country. Now, Bangladesh boasts a large number of well-known microfinance institutions (MFIs) including Grameen Bank, BRAC, and the Association of Social Advancement (ASA). Simultaneously, many smaller MFIs have started operations throughout Bangladesh. As of 2017, there were 510 reporting NGO-MFIs and the sector players had BDT 770.47 billion of the loan outstanding in the market and BDT 349.06 billion worth of deposit of customers[61]. Data from the same publication also shows that around 46% of the total loan disbursed within the fiscal year 2016-17 was accorded to Micro Enterprises. Thus, the contribution of MFI is undeniable in providing financial products for the unbanked people. However, with the advent of agent banking, MFI players are cautiously assessing the competitive landscape.

2.13.1.2 Current status of collaboration with MFI and agent banking

Through agent banking outlets, conventional banks are operating in areas and customer segments which are traditional strongholds of MFIs. However, agent banking has a lot to offer to the rural unbanked segment and even to the core customers of MFIs[62]. It is worthwhile mentioning that agent banking and four MFIs are already collaborating, with the latter becoming master agents of agent banking providers. The collaboration aims at digitization of various micro-credit transactions, repayment and savings deposit of MFI beneficiaries through the agent banking channel.

However, the model of collaboration is still sketchy and a viable and replicable model is still absent. The collaboration initiative is yet to gain much traction due to vagueness in roles, responsibilities and profit-sharing mechanism of both partners. It seems that both parties have yet to embrace the collaboration initiative wholeheartedly.

2.13.1.3 Difficulties in Collaboration between MFI and agent banking

Agent banking and MFI have overlapping product and service offering for the same market segment. Thus, agent banking will undoubtedly be a competitor for MFIs and collaboration may not always be viable. Some MFIs opined that there is no viable business case of collaboration and inviting agent banking into their market may cannibalize their own core service provision of microlending and deposit collection. Furthermore, MFI regulator, i.e. Microcredit Regulatory Authority (MRA) and MFI affiliated bodies such as Credit Development Forum (CDF) also do not envision a clear business model of collaboration with agent banking. Discussion with MRA revealed that they only issue No Objection Certificate (NoC) for materialization of a partnership between MFI and agent banking and do not have sufficient information or data to comment on the viability of the model. Furthermore, they opined that MFIs are still carrying the banner of financial inclusion functioning and their activities are very much aligned with the government's objective of financial inclusion. Thus, there is no greater need to bring a substantial change on how MFIs are operating now, including a partnership with MFS or agent banking. There was also a suggestion that MFI and agent banking have different DNA and cannot be collaboration partners. Some of the key findings from the study focusing on interaction with MFI and agent banking are encapsulated in the box below.

2.13.1.4 Way forward for agent banking and MFIs

Despite the challenges of collaboration between agent banking and MFIs, it would be unwise to fully discount the collaboration scope between them. Four MFIs have already engaged with agent banking providers with a view to digitize their collection and disbursement. Furthermore, agent outlets provide a wide range of services, which MFIs cannot render. It is worthwhile mentioning that agent banking provides a gamut of services that MFIs cannot provide. Through agency banking, besides availing saving and credit products, one can pay various bills and fees, transfer money instantly from one place to another and so on. Most importantly, agent banking gives the customer a feel of visiting a bank branch, without the usual crowd and distance factor to factor in. Thus, association with agent banking may enhance the self-esteem of the concerned MFI customer.

[61] Credit Development Forum "NGO-Bangladesh Microfinance statistics, 2016-17". Can be accessed at http://ww.cdfbd.org/new/Bangladesh_Microfinance_Statistics_2016-17.pdf

[62] Buro Bangladesh, Rural Reconstruction Foundation (RRF), Coast Trust, and Shakti Foundation

MFI and agent banking - Can they find a common ground?

MFIs have no solid business case for collaboration with agent banking since the demerits are likely to outweigh the merits. Agent banking will cannibalize the market for MFIs and thus there is little incentive for MFIs to ponder collaboration with agent banking. The model of collaboration is vague and outcome unpredictable.

Agent banking, being an extended arm of core banking is more suited for high value clients, rural middleclass and business enterprises. Agent banking does not have the appetite or the manpower to serve low value retail customers.

MFIs fulfil various development objectives besides serving the financing needs of their customers. These MFI have many initiatives embedded with their savings/loan program such as skill development training, preventive healthcare, value chain development, technology transfer and so on. Thus, beneficiaries, when calculating the cost of fund will also consider these intrinsic benefits as association with MFI builds their social and human capital. Association with an MFI is basically association with a community and agent banking cannot replicate this social interaction model.

Agent banking might offer credit at a lower rate of interest than MFIs but the convenience factor in MFI lending is unmatchable. The rural customer segment in Bangladesh has been used to doorstep, documentation-free credit delivery and it will be difficult to persuade them to think differently. In case of agent banking, there is a need to physically visit the outlet for doing most transactions.

MFS might be a better collaboration partner for digitization of payments and disbursement and they do not pose a threat to their core lending and deposit mobilization activities.

Furthermore, biometric authentication requirement for conducting financial transaction adds a layer of security, which MFI customers would appreciate. Thus, there is ample scope for collaboration through the development of a workable business model, which will be further touched upon in the recommendation section.

"We have a written agreement with our partner agent banking provider that they cannot approach our members with any savings and credit products and they will focus on collection and disbursement only"

Director of MFI organization

2.13.2 Agent banking and MFS/FinTechs - common grounds and possible areas of conflict of interest

2.13.2.1 MFS/FinTech footprint in Bangladesh

Since its inception in 2011 in the Bangladesh Market, the MFS industry has witnessed impressive growth in the number of users and number of agents. For a quarter of the adult population of Bangladesh, MFS has become part and parcel of daily life. Currently, there are 64.69 million[63] registered users of MFS in Bangladesh. Even though the penchant for agent-assisted transaction is still present, various promotional activities, the introduction of interactive applications and development of the merchant ecosystem is enticing many to adopt mobile money wallets. Similarly, FinTechs are also making their mark in the digital financial sphere through innovations in technology and product development. bKash and DBBL, the two leading MFS providers can also be categorized as FinTechs. However, there are quite a few emerging FinTech ready to make their mark in the market. Leading among them would be Cloudwell[64], offers several payment solutions under its brand name Paywell. Then there is iPay[65], which is working in the digital wallet space by tying up with commercial banks and merchants. A smart FinTech to watch out for would be SmartKompare[66], which runs a platform to help consumers find the best financial products based on their specific needs such as personal loans, credit cards, car loans, and more. Another notable mention would be Pujee[67], which has developed an online platform that allows entrepreneurs to prepare early stage financials and valuation for fundraising purposes. The company also offers a myriad of fundraising resources and videos on its website. Thus, FinTechs are well poised to accelerate financial inclusion in emerging countries like Bangladesh.

2.13.2.2 Current dynamics between agent banking and MFS/ FinTechs

Agent banking and MFS/FinTechs are both contributing to financial inclusion, but their pathways are different. MFS is mostly identified among common people as a tool for money transfer and only recently with merchant payment and bill payment. However, agent banking and MFS have common areas of service provision such as money transfer, foreign remittance and collection of bills/payments and so on.

The range of services provided by MFS is limited compared to the range of services offered by agent banking. Agent banking also requires full KYC, has a strong biometric platform and two-step verification process for transaction. Thus, it is a very robust platform for customers to perform their financial activities. Moreover, the limits imposed by the regulator on MFS transaction limits its functionality for many users, whereas agent banking has a much higher transaction limit, enabling effective use for a range of customers. In the case of domestic money transfer too, it is cheaper to conduct the transaction in agent banking compared to MFS platform. However, with their vast agent network and proximity of agents to the end customers, MFS will still retain much significance for users. The table below provides a snapshot of the characteristics of both agent banking and MFS:

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[63] Bangladesh Bank Mobile Financial Services Data, accessed on 27.09.2018, link: https://www.bb.org.bd/fnansys/paymentsys/mfsdata.php

[64] For further information visit: http://www.cloudwell.co/index.php/welcome

[65] For further information visit: https://www.ipay.com.bd/

[66] For further information visit: https://www.smartkompare.com/

[67] For further information visit: http://www.pujeebd.org/

<table>
<tr><th>Particulars</th><th>Agent banking</th><th>MFS/FinTech</th></tr>
<tr><td>Reach</td><td>Agent Number-3,588
Agent Outlets- 5,351</td><td>Agent Number-3,588</td></tr>
<tr><td>Customer Base</td><td>1.78 million Accounts</td><td>64. 69 million registered accounts</td></tr>
<tr><td>KYC requirement & Platform Security</td><td>Agent banking requires full KYC, has a strong biometric platform and two-step verification process for transaction</td><td>64. 69 million registered accounts</td></tr>
<tr><td>Operational hours</td><td>Aligned mostly with banking time in work days and closed on at least one weekend day.</td><td>Operable 24/7 for P2P transactions. Agent-assisted transactions can also be done 7 days a week and 10-12 hours a day.</td></tr>
<tr><td>Convenience Factor</td><td>Most transactions require the presence of the customer in the agent outlet</td><td>Except for Cash out, most transactions can be done from anywhere with a mobile device.</td></tr>
<tr><td>Service Range</td><td>The range of banking services such as savings schemes, credit, collection, payment, foreign remittance, money transfer, etc.</td><td>Domestic remittance, receiving international remittance, merchant payment, bill payment etc. No provision for availing savings or credit products.</td></tr>
<tr><td>Transaction Limits in BDT (Daily, unless otherwise stated)</td><td><table>
<tr><th></th><th>Amount</th><th>Number</th></tr>
<tr><td colspan="3">Savings Account</td></tr>
<tr><td>Cash In</td><td>4,00,000</td><td>2</td></tr>
<tr><td>Cash Out</td><td>3,00,000</td><td>2</td></tr>
<tr><td>Transfer</td><td>5,00,000</td><td>2</td></tr>
<tr><td colspan="3">Current Account</td></tr>
<tr><td>Amount</td><td>6,00,000</td><td>4</td></tr>
<tr><td>Amount</td><td>5,00,000</td><td>2</td></tr>
<tr><td>Amount</td><td>15,00,000</td><td>4</td></tr>
</table></td><td><table>
<tr><th></th><th>Amount</th><th>Number</th></tr>
<tr><td colspan="3">Daily</td></tr>
<tr><td>Cash In</td><td>15,000</td><td>2</td></tr>
<tr><td>Cash Out</td><td>10,000</td><td>2</td></tr>
<tr><td>Transfer</td><td>10,000</td><td>20</td></tr>
<tr><td colspan="3">Monthly</td></tr>
<tr><td>Amount</td><td>1,00,000</td><td>20</td></tr>
<tr><td>Amount</td><td>50,000</td><td>10</td></tr>
<tr><td>Amount</td><td>25,000</td><td>70</td></tr>
</table></td></tr>
</table>

One key observation from the above table is that MFS providers cannot engage in lending and although customers can park money in MFS account, it is not akin to a deposit product and interest rate provided against it is very nominal. However, they have the appetite and ability to develop digital savings and digital credit products in partnership with banks. This has the potential to cause a major stir in the market for financial products. Digital savings and digital credit product offerings are accessible, convenient, affordable, instant and private. They offer the customer to save and borrow in a flexible manner without any restrictions being imposed. Digital credit offers short-term instant loans virtually with minimum documentation whereas digital savings allows customers to save small amounts in a goal-based manner. Thus, a digital financial product will provide unmatched convenience for subscribers with reduced need for physical travel and quick turnaround time, since it is envisaged that due diligence and appraisal will be conducted by in-built credit scoring mechanism supported by complex algorithms.

2.13.2.3 Way forward for agent banking and MFS/FinTechs

As per regulation, MFS providers are barred from underwriting financial products, however, they can serve as platforms for collection and disbursement. As mentioned before, MFS/FinTechs have the scope to tie up with a financial service provider and launch digital savings and credit products. It is a capital intensive and resource intensive proposition for an existing scheduled commercial bank to venture into semi-urban and rural areas. Thus, they may buy in the idea of digitally reaching out to their customers. In fact, the agent banking provider bank may also tie up with MFS providers and develop a digital product for the mass market.

On the other hand, agent banking may find more avenues for collaboration with FinTechs. FinTech has the capability to automate traditional financial activities in a significant way. Retail financial activities such as granting of loans or approval require verification of the applications using standardised techniques. FinTech can automate these verification processes entirely and the process can be completed within minutes. Process digitization brings consistency in business operations and reduces the risk of error and bias.

Fintech complements rather than threatens banking institutions since banking has always been about technology. A Chief Executive Officer of a multinational bank believes that FinTechs are supplementing and diversifying the existing financial system – not replacing or disrupting it[68].

Banks are investing heavily in new technologies. And spending is expected to continue to grow as banks seek to take advantage of new IT and digital solutions to make their operations more efficient, comply with regulators whilst simultaneously increasing interaction with customers to maintain competitiveness. Thus, banks are now looking at how they can cooperate or co-innovate with FinTechs, rather than

"We want to invest in Artificial Intelligence to develop a robust credit scoring mechanism. We want to work with agricultural input companies for credit delivery to farmers using AI technology"

Senior Official of Agent Banking provider

competing with them. A recent example of Bank-FinTech tie-up is the case of Bank Asia partnering with a FinTech company called Cignify[69] to conduct credit scoring of the underprivileged segment of the subscriber base for the initiative, which provides microloans for 4G, enabled mobile handset purchase. Bank Asia has tied up with Robi[70] and Grameenphone[71] for this initiative.

On another note, both banks and FinTechs have a lot to offer each other. Banks with their huge customer base, good infrastructure and regulatory experience can be ideal partners for FinTechs or innovative start-ups. If MFS and banks come together to launch a digital savings/credit product in the market, a FinTech can develop the financial DNA or algorithm to conduct the credit scoring. Furthermore, FinTechs can also develop the Application Programming Interface (API) for system integration of bank and MFS. Thus, the opportunities for collaboration are numerous.

[68] HSBC News Release, "Fintech is an opportunity, not a threat to Bangladesh's Banking Industry", July 30, 2017, can be accessed at: https://www.about.hsbc.com.bd/-/.../bangladesh/.../170821-fintech-is-an-opportunity

[69] More info can be found at: https://cignifi.com/

[70] More info can be found at: https://www.robi.com.bd/media-room/press-release/bank-asia-to-provide-financial-support-for-robi-customers-for-purchasing-4g-handsets?lang=eng#cJ21ZjOu0WWxyXUG.97

[71] More info can be found at: https://www.grameenphone.com/about/media-center/press-release/grameenphone-and-bank-asia-introduces-device-financing-4g-handsets

5

DEMAND SIDE PERSPECTIVE

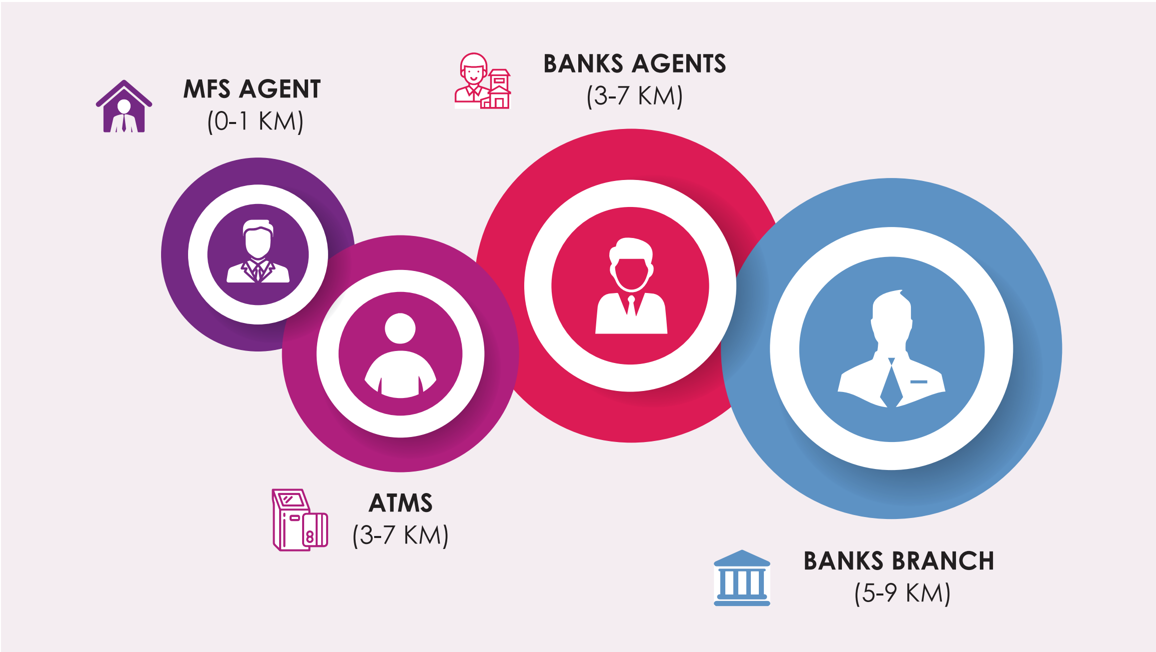
AGENT BANKING: A DEMAND-SIDE PERSPECTIVE

At the granular level, the purview of financial inclusion aims to cover sections of the population that have been left unbanked by the formal financial sector. This means that more households have access to, and can effectively use, appropriate financial services.

In Bangladesh, customers have access to alternative financial services such as MFS which have seen a surge in recent times. Agent banking has been introduced as a new channel for customers and while still at a relatively nascent stage, the initial effects have been largely positive.

The impetus to agent banking has been provided by the low penetration of banks in rural Bangladesh. In emerging markets and rural areas, one of the biggest challenges for traditional banks has been providing accessibility to customers. Setting up and operating bank branches are often not cost-effective because of the financial behaviour and trends of rural customers. It is one of the many reasons why banks are sceptical to set up rural branches or do it only to meet regulatory mandates.

As a result, rural customers often have to travel extensively to visit their respective bank branches and incur other costs while doing so. The distance of various channels available for accessing financial services is depicted below:

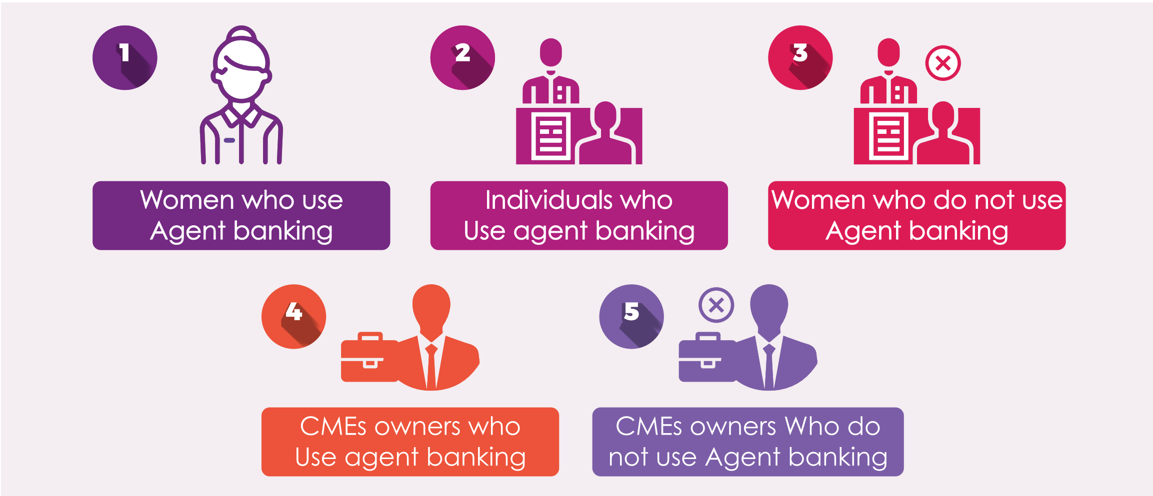


Reach of different channels for the customer

Products and service delivery are also not customised for rural populations which then see poor uptake. While there are options available for rural customers, accessibility still remains a major challenge. MFS agents are ubiquitous in Bangladesh but may not have a product bouquet which suits customer requirements. Customers are also not very tech savvy and may require assisted usage which dissuades the use of ATMs.

2.14 Primary customer segments

Our study has focussed on five key customer segments based on their use of agent banking services as well as their assumed patterns of use.



1. **Users:** The customers who have been part of the formal financial services sphere have had the experience of conducting transactions at a bank, with money lenders, Somities, and lately MFS. They have also started to use agent banking for transactions like cash deposit, cash withdrawal, remittances, utility bill payments, cheque deposits etc. Agent banking has proved to be a boon for them as it takes less time to reach an agent outlet, transactions are quicker as there is no or short queue, the cost is lower compared to the alternatives. As discussed in the upcoming sections, customers have shown preference towards agent banking over other channels.

2. **Non-users:** There is still a segment of the population that has not used agent banking till now. However, some of these have not been able to use it because of lack of access to an agent banking outlet, whereas the other remaining segment has not been able to use it because of lack of awareness about agent banking. They would prefer to use agent banking if there was awareness created about agent banking as a concept, services it offers, pre-requisites and whereabouts of an agent outlet.

3. **CME users:** These are small-business owners (cottage and micro enterprises) who have started to use agent banking for their business transactions. Their transactions are seasonal and vary in frequency and size every day depending on their business volume. The most preferred transaction is money transfer, cash withdrawals for business purposes. CME users have preferred agent banking as it provides them with the flexibility to conduct banking transactions beyond the designated working hours at a bank branch.

"Agent banking outlets are much more accessible for people like us. They are open in the evenings which is when we get time to do any banking work"

A fisherman in rural Comilla describing his experiences of using agent banking

4. **CME non-users:** These are small-business owners who have not yet started using agent banking for their business transactions. They would prefer to use it the limits on the transactions were flexible for them, as on some particular days the transaction limit acts as a barrier. These mostly include business owners who have a large volume of transactions – mostly medium businesses.

5. **Women users:** Women have started using agent banking for savings, money transfer, and cash withdrawals mainly. Earlier, with just banks and other informal mechanisms available, women would choose informal mechanisms as they would be near to their homes. But, with agent banking providing door-step delivery of financial services and being less time-consuming, women have become active participants in the formal financial sector. The presence of more women agents would promote more women taking up these services as it would make the banking environment more conducive and comfortable for them.

> **"Agent banking has made financial services easier and convenient for me. I cannot travel to a bank branch often, so I could not open an account to save money."**
>
> **Rural woman describing her experience**

2.15 Enabling factors of agent banking

The recent uptake of agent banking among the people has been credible. The preference towards using agent banking has been because of the several benefits that it offers. In comparison to the previously existing channels for accessing financial services, agent banking users have preferred agent banking because it is safer as it uses fingerprint authentication, faster as the queues at an agent outlet are shorter, more convenient as the outlet is located nearby in most cases, and the cost of using same services at an agent outlet are economical.

For agent banking, these benefits have been the enablers for its uptake. The following figure shows the most compelling enabling factors among the users:

ENABLING FACTORS

1. Simplicity In Customer On Boarding
2. Easier Accessibility In Terms Of Distance
3. Ease Of Transaction
4. Lower Costs Of Availing Services
5. Round The Clock Availability Of Services
6. Transaction Security
7. Immediate Transaction Receipts

A customer's enabling environment drives the customer's financial journey. The financial journey can be described as the following:

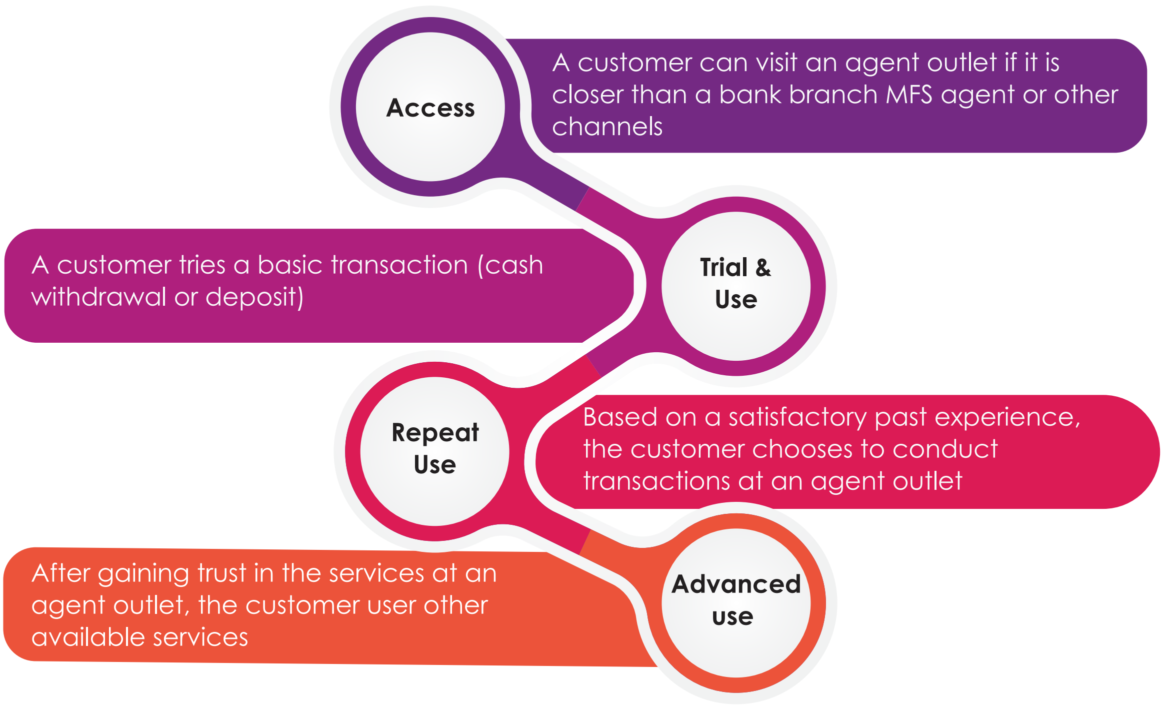


Figure 17 : A customer's journey in using financial services and its influencers

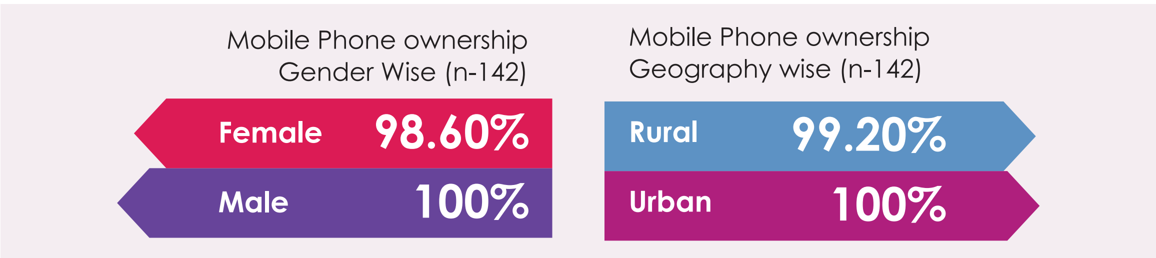
The customer's use is dependent on the willingness and resources available with their, and also on the channels such as agent outlets that are available at a shorter distance to the customers.

2.15.1 Simplicity in customer on-boarding

The ownership of mobile phones in urban and rural areas is high. The positive side is that mobile ownership among women is also notable. However, even if women use financial services, the account would be in the name of the husband or any other male in the family. Consequently, the person owning it and the person using the services may differ, which makes it difficult to reach out to the women directly. With the advent of agent banking, only the owner of the account can access the account for any financial transaction as the fingerprint authentication of the account owner is

Sahela borrowed her husband's mobile phone to access his bank account till she got an account opened at an agent outlet.

A user from Dinajpur



mandatory. The women have started to open their own accounts at the agent. With simple on-boarding process at an agent, an increased coverage of women in the formal financial services is foreseen.

2.15.2 Easier accessibility in terms of distance

48% of the users did not know about the whereabouts of an agent outlet near to their home. Whereas, of the remaining users only 18% had seen an agent outlet within a range of 1km from their home. The remaining 34% of users have to travel more than 1km to visit an agent banking outlet. However, the presence of agent banking outlets near to the people's homes as compared to bank branches has been one of the reasons why agent banking has gained popularity among the rural population of Bangladesh. Primarily, people avoid going to the banks as they are situated at far away distances from their homes, which takes a lot of time, leads to loss of the day's wage and the cost incurred on transportation for going to the bank.

The agent banking outlets in a rural area have led to increased number of women accessing formal banking services as the women, due to the social constructs, are not allowed to stay out of their homes for a long time. Earlier, if they had to visit a bank branch either their husband would do the transaction for them or accompany the women if the primary account holder is the woman herself. Agent banking outlets have also made transactions easier and convenient for small businesses. Mostly, CMEs

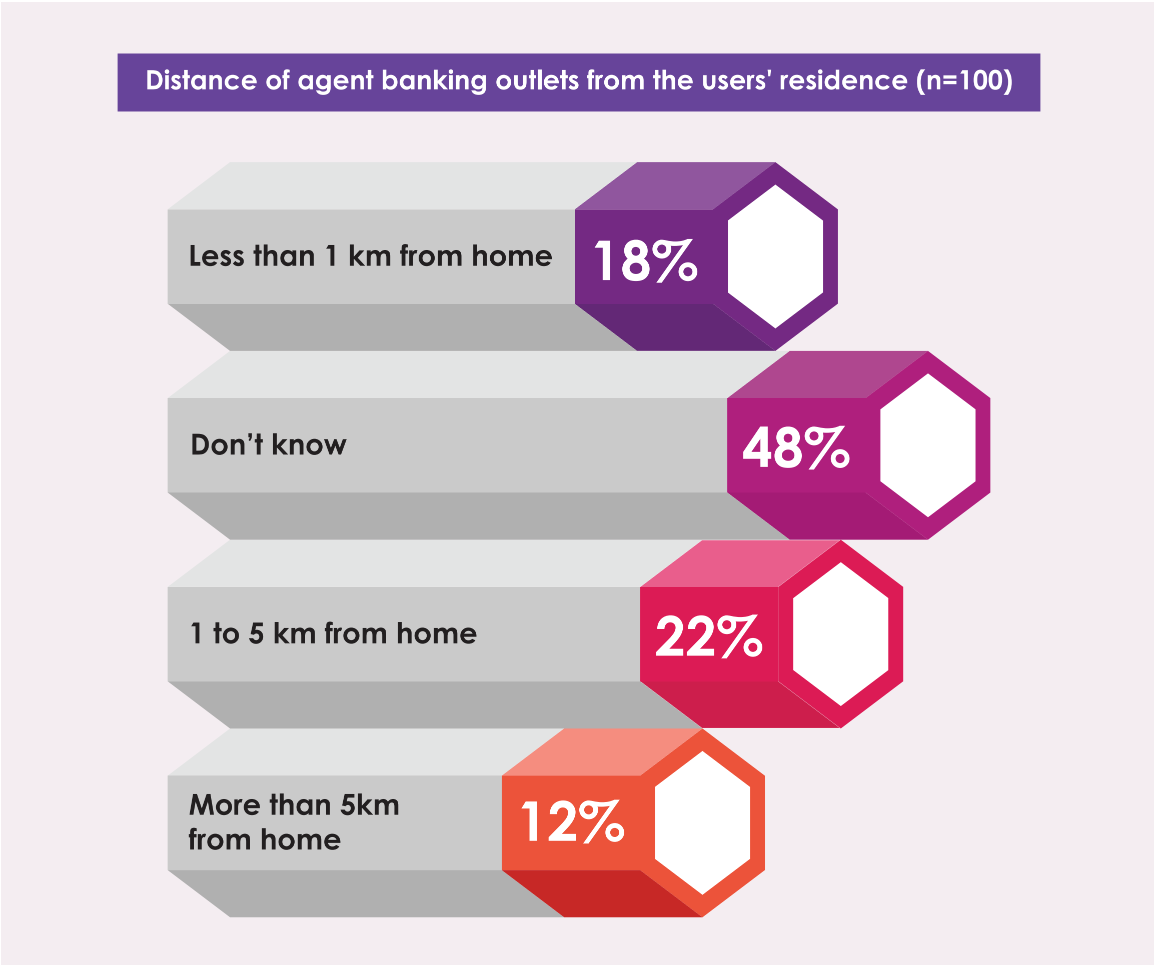


Figure 18: No. of bank branches and agent outlets people are aware about

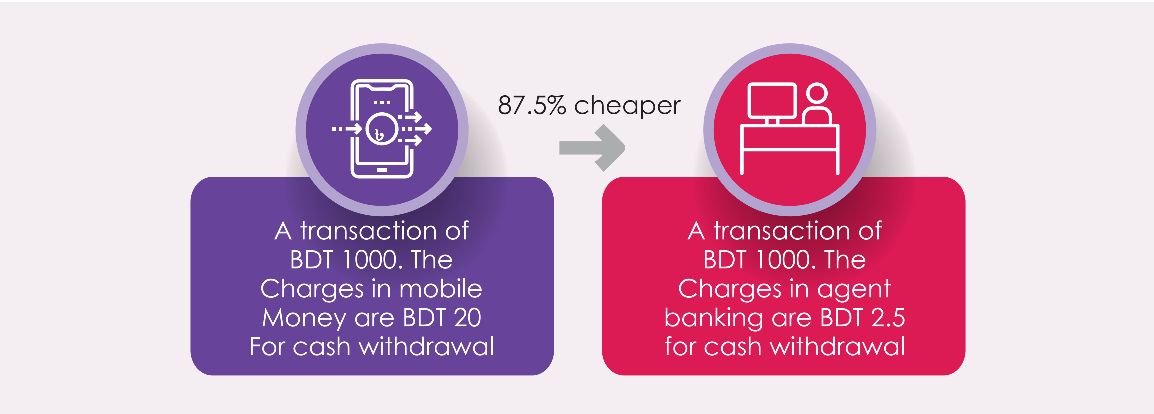
have business cycles, and during the peak season, it is not possible for businessmen to visit far away bank branches to do the transactions. With agent banking, the last mile delivery has reached this segment as well.

2.15.3 Ease of transaction

Certain transactions like P2P transfer of money, cash withdrawal, cash deposit, electricity payments etc. which are not high-value transactions yet important for a particular economic section of the population have been made easy by agent banking. A person can either do the transaction on his/her own or handholding support of an agent is always available. Additionally, utility bill payments have become easier in comparison to how they were previously paid. The agent helps the customers to do the transaction. It also allows people to conduct transactions at a nearby agent outlet.

2.15.4 Lower costs of availing services

At an agent outlet, the cost of transactions is lower than MFS which the users generally opt for conducting transactions like cash deposit, cash withdrawal, money transfer etc. As mentioned above, these are the most popular services that a customer uses on a more frequent basis. Thus, despite the



ubiquitous presence of MFS, the customers who have tried both MFS and agent services prefer using agent banking because the charges are lower. Also, the other channels, that is, banks and ATMs are located farther away, which involve other logistics cost to add to the overall cost factor.

2.15.5 Round the clock availability of services

Bank branches have a limitation with respect to providing services to its customers beyond its designated operation hours in a day. In contrast, an agent is available beyond banking hours at the agent outlet for different kind of transactions.

This provides flexibility to customers across different segments. For instance, women are more comfortable going out for banking transactions during daylight whereas CME owners prefer utilising their employee's lunch

Agent banking has made making the utility payments, cash withdrawals easier. Earlier, I had to travel to far away distances to the ATM for withdrawal, and separate office to pay my bills respectively. Now, I can do both at the agent outlet with his help. It is inconvenient to travel to the bank for small transactions.

breaks for banking transactions. An agent outlet's availability supports the suitability of these segments apart from mainstream customers. Even though mobile money is also available all throughout the day, agent banking is preferred over MFS as it offers a wider gamut of services at a lower cost.

Dilshad used bKash extensively to make small payments at beauty parlour, grocery stores etc. However, her children started to use her bKash account without her knowledge and she couldn't keep track of the updated balance so dynamically.

Recently, she started using agent banking, and is now relieved that nobody can access her account without her fingerprint for any money-related activity.

2.15.6 Transaction security

Recent incidences of frauds among MFS users have dissuaded the use of digital financial services to an extent. The primary reason for the rapid uptake of agent banking among customers has been the use of biometrics for authentication and authorisation.

For most of the transactions that a customer does at an agent outlet, biometrics is the pre-requisite. This has exponentially deepened the faith in agent banking services that nobody other than the primary account holder can access the customer's account. This assures customers that the account at the agent banking outlet safe and that agent banking can be trusted as an extension of bank services.

2.15.7 Immediate transaction receipts

The confirmation of the transaction via a Short Messaging Service (SMS) works as a proof of any transaction that customers do in their bank account. This is a valued service both for rural and urban customers. With rural customers, where agent banking is more popular and prevalent, the physical evidence of a correct transaction in their bank account reinstates the trust of the customer. With rising fraudulent transactions from customer's mobile money account, customers have become wary of digital banking. Hence, the immediate SMS that they receive once the transaction is done using their agent banking account helps them to safely increase the uptake of financial service through their agent banking account. For users who cannot read the SMS, there is an option of listening to the audio messages intimating about the transaction in their bank account.

2.16 Patterns of use among customers

2.16.1 What products are the customers using?

The financial products and services that have gained popularity at agent banking outlets are primarily those which customers would usually visit a bank branch for or can access through MFS.

For the agent banking users, CICO has been the most frequently used service. As agent banking outlets are closer and it's convenient for the customers to visit them. Other preferred services are utility bill payments, money transfer, cheque deposit.

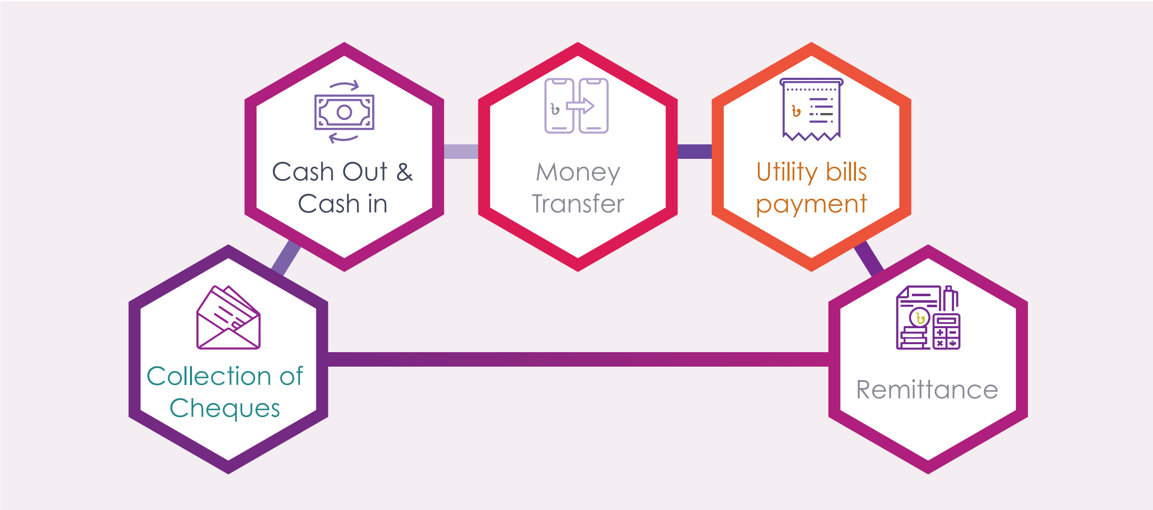


Figure 19: Products and services used at an agent banking outlet by individuals

I work at a shop and my day gets over at 6:00pm. Earlier, I had to take a day off if I had to visit the bank for my work. I have now opened an account with an agent and I have the flexibility to visit the agent outlet after 6:00pm. My shop owner has also started to give me each day's revenue to deposit in the account, earlier we would keep more cash at the shop as we did not find the time to visit the bank during business hours.

- Anonto Saha, Dinajpur

55% CME users have started to make business-related payments through agent banking.

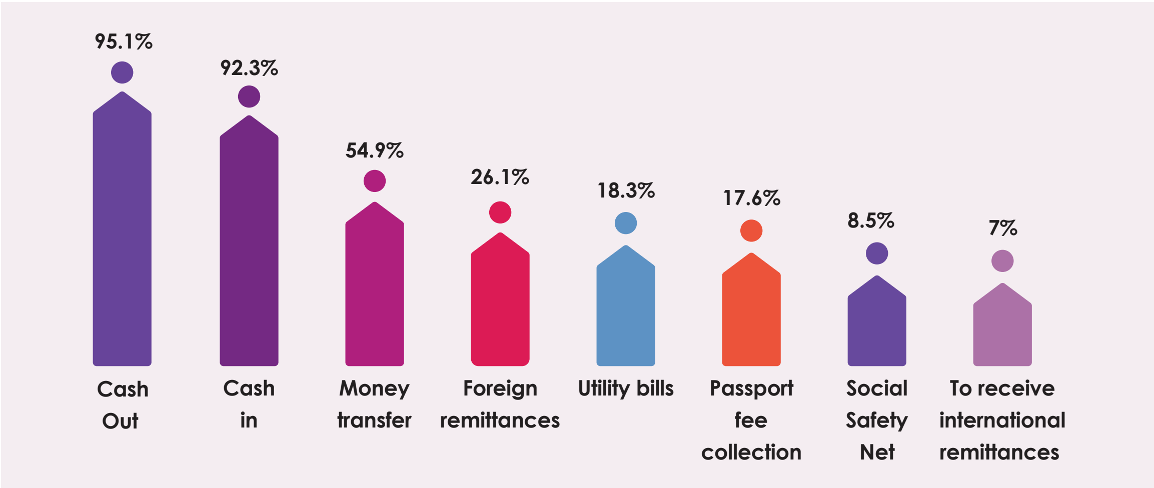


Figure 20: Products and services used at an agent banking outlet by individuals

CME users have similar needs as individuals when it comes to doing basic transactions. Cash deposit and withdrawal are the most prominent transactions conducted at an agent outlet. Furthermore, two-third of the CME agent banking users resort to transferring funds during emergency and half of the users mentioned about receiving funds.

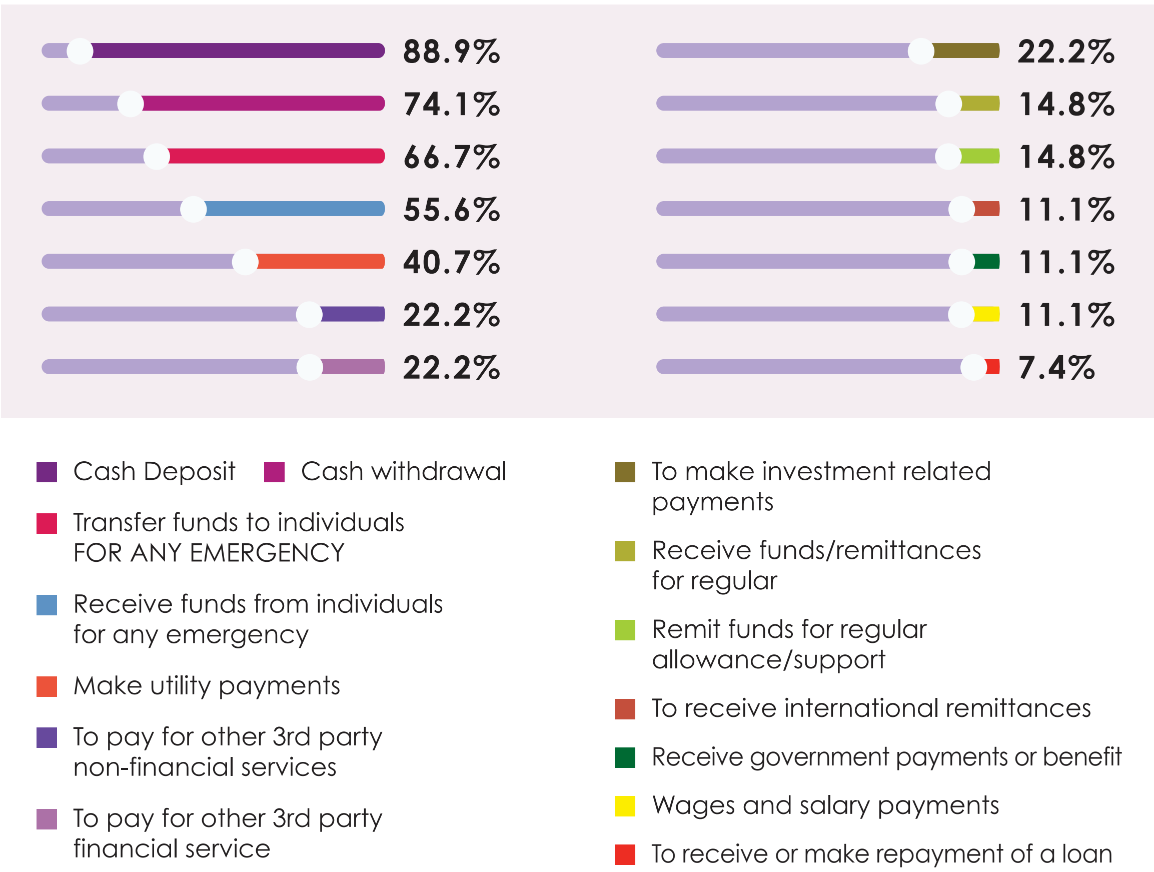


Figure 21: Products and services used by CMEs at an agent outlet

2.16.1.1 Cash-in and cash-out

When a customer wants to deposit a small amount of money in his/her bank account, he/she has to go all the way to a bank branch which is at least 5-7kms away. There are three kinds of costs- direct or indirect involvement in this transaction:

(i) the time taken to reach a bank branch,
(ii) the time spent at a bank branch for the transaction and
(iii) the cost involved in the transportation.

These costs surpass the benefits of depositing the cash in the bank account at a bank branch. Consequently, discouraging the customer to deposit the cash in his/her bank account. This maintains the status quo the preferred choice becomes either keeping the liquid cash or depositing it using an informal mechanism.

Agent banking has reduced these hassles for the customers. Primarily, the financial products that are the most popular among the customers are cash deposit and cash withdrawal. The customer has easy access to an agent-banking outlet, takes less time to transact, enabling him/her to use formal bank services. Women generally cannot stay out of their homes for a long time of the day; hence the male members of the family would do most of their financial decisions and transactions. Agent banking has specifically given convenience to women customers, who earlier could not commute to the bank branches for the transactions, but now can visit an agent-banking outlet, and do the transactions on their own.

"Agent banking has made financial services easier and convenient for me. I cannot travel to a bank branch often, so I could not open an account to save money."

Rural woman describing her experience

2.16.1.2 Money transfer

P2P transfers are conducted using MFS channels such as bKash in Bangladesh. As an extension, agent banking has penetrated that section which might not own a smartphone yet or is not tech-savvy to do a transfer without handholding support. Banking agents have bridged that gap, with lower cost services compared to mobile money.

P2P transfers have also played a role in making transfers easier for CME users. A business owner can transfer money to its suppliers using agent banking. This has reduced the hassle of cash withdrawal from the bank branch and mitigated the risk of carrying a large amount of cash to pay the suppliers.

2.16.1.3 Utility bills payment

The facility to pay electricity and other bills at an agent outlet has benefitted the customers by saving their time to an extent. The customers can visit an agent banking outlet for dual-purpose - conduct a bank transaction as well as pay their electricity bill. In contrast to previous days, a customer had to go to different outlets to do different types of transactions-banking or utility bill payments. At an agent banking outlet, utility payments are one of the most preferred transaction (after deposit and withdrawal).

More than 90% of agent banking users use CICO

2.16.1.4 Remittance

Inward money receipt has become convenient for the customers whose family members are working outside Bangladesh. Earlier, for withdrawing remittance amount, or to check whether the transfer has been done, a customer had to visit the bank branch.

Now, with the alternate channel, checking the balance and withdrawing money has become more convenient for the customers. Also, the reduced distance for availing banking services has provided the customers with the flexibility to withdraw small quantum of cash in one go, as they can visit an agent

> **Cheque deposits are difficult for me because if I make a mistake, then the cheque does not pass and I have to visit the bank branch again. At an agent outlet, I can deposit the cheque and fill the form with help of the agent, do not have to travel to the bank branch, not worry about wrong data entry in the form.**
>
> **Bimol Kumar Das, CME owner who gets most of his client payments through cheques.**

outlet more frequently than a bank branch. For the customers, whose relatives stay abroad, agent banking has made receiving money easier, now they can withdraw money at an agent outlet or check the balance, without going to an ATM or bank branch.

2.16.1.5 Collection of cheques

An agent, even though is not allowed to pass the cheques deposited by the customers, the collection of cheques is permitted. However, as a first step, this has made it easier for customers to now deposit cheques for two reasons: (i) In a customer's perspective, bank branches are intimidating (ii) Bank employees are usually busy and cannot support the customers in understanding the process of cheque deposits. The agent acts as a mediator between the bank branch and the customer in case of cheque collection. Additionally, the agent can provide handholding support to the customers in case they need help and agent banking outlets are run by local people from their community, so the customers are more comfortable interacting with the agents in contrast to bank employees.

2.16.2 How are the customers getting to use these financial services, via agents?

Owning an agent banking account is the first step to becoming a part of the extension of banking services to the rural area. To take the full benefit of agent banking services, the customers need to use it in a safe and convenient way.

The users of agent banking can be tech-savvy, financially literate, numeracy literate or not. Hence, agent banking supports them to be a part of the financial ecosystem by providing handholding through an agent.

> **40% users have used agent outlet for receiving remittance.**

Account Opening

- Agent coordinates with the bank officers and provides the necessary documents of the interested customer to the bank officer
- Agent will fill up the bank account opening form for the customer, and provide the desired information along with the customer's KYC to the bank officer
- After a customer has opened an agent banking account, he/she can visit the agent outlet for any kind of banking transaction that an agent is permitted to do

Cash Deposit

- The agent counts the cash given by customer
- Agent logs in to his account on the core banking system
- Customer needs to provide his/her account number, and fingerprint
- The system then credits the customers account and the customer receives an SMS indicating completion of the transaction

Cash Withdrawal

- Agent asks the customer to log on the his/her account using fingerprint
- Agent inputs the amount and checks for the balance in the customers account
- Agent willlog on to his/her account to complete the transaction
- After agent's biometric verification the customer's is debited, and the agent's account credited
- SMS is sent to the customer's mobile number with an updated balance
- The agent pays the cash to the customer

Remittance Payments

- Customer provide the relavant information to fill the remittance form (Eg.: Name, Mobile no., NID etc.)
- This information is sent for verification at the back end
- After the customer and agent's details are confirmed; the agent pays the respective amount to the customer with a receipt of the transaction

Utility Bill Payments

- There are two options with which the customer can pay: cash or via bank account
- if he/she chooses to pay in cash, the amount gets deducted from the agent's current account
- If the customer chooses to pay frm his/her bank account, the agent takes the biometric of the customer and the customer's account is then debited.
- Agent submits the utility bills copy to the bank for further processing of the bill

2.16.3 When do the customers use agentbanking?

The users are picking up agent banking services. The vast adoption of agent banking services by the underserved or unbanked population has been because of the following needs of their daily lives:

2.16.3.1 The need to save

The limited presence of formal mechanisms for a certain economic section has been limited for a long time. Especially women, who try to save for different purposes like children's education, medical emergencies, as a contingency fund etc., have been largely forced to save informally. Agent banking outlet, because it is located mainly in the rural regions, is accessible beyond banking hours, and allows a deposit of smaller quantum.

This has increased the number of women depositing money in their bank accounts rather than keeping it at home. Whenever a customer has any spare amount, he/she deposits it in the agent banking account. This has imbibed saving practices among the customers. Consequently, these customers create a financial record for themselves. At a later stage, some customers, both males and females, have become eligible for availing credit. Thus, agent banking has contributed to a wider coverage to lead to financial inclusion.

Earlier, I preferred to save with Somities or collect cash at home. The banks were too far, and Somities give loans without any documents.

Recently, one agent bank outlet has opened near to my home. I have opened an account there, now I don't have to keep the cash at home, and the agent has told me I can apply for a loan also after some time.

Shamim Alamin, Comilla

2.16.3.2 Emergency cash requirement

Agent banking is the go-to outlet for customers when they need cash urgently. As the ATMs and bank branches are located further away. The logistics acts as a hassle factor. The key plug point between bank and customers in such cases is the availability of an agent-banking outlet. The customer can withdraw money in lesser time at a lower cost, which makes it a viable channel for the customers to avail financial services. For CMEs, the businesses work in cycles. During the peak cycle, the churning of cash between the suppliers, the customers is high. Most of the suppliers take cash payments.

2.16.3.3 Business transactions

CME owners mostly do all the transactions with their customers and suppliers in cash. When the amount of transaction is large, the risk increases whereas when the amount of transaction is small, the inconvenience in making the payments increases. Agent banking helps CME owners to do transactions throughout the day, in contrast to the bank branches, which are open only for designated hours in a day. Additionally, the CMEs can save more time in transferring money from one account to another rather than physically handing over the cash in emergency cases. This saves them time, cost and inconvenience. If all the stakeholders in their business supply chain have an agent banking account, it gives them more time to focus on their business. Also, for the workers or employees in the business, the transfer of wages or salaries in the employee's account leads to an increased financial coverage.

2.16.4 The customers' choice: Agent banking over MFS

Some of the recent incidences of fraudulent transactions in MFS may be one of the reasons why users are shifting towards using agent banking. The prominent reason for the shift towards agent banking has been the fingerprint authentication as a prerequisite to conducting any financial transaction from the account holder's account. This minimises the threat of any unauthorised access to one's bank account. Apart from that, the rural population is slowly graduating towards agent banking, hence they use preliminary services at the agent outlet such as cash deposit, withdrawal, P2P transfer, utility payments, cheque deposits etc. All these products and services at an agent outlet directly or indirectly reduce their cost. For example, P2P transfer via agent banking is cheaper than MFS which is the next best alternative available in the market, or visiting a bank branch for a cheque deposit would involve higher transportation cost than doing the same transaction at an agent outlet. To top it all, agent banking hence proves to be a cost-effective and convenient option. MFS provides the facility to conduct OTC (Over the Counter) transactions, which is convenient for users who are not tech-savvy for P2P transactions. In comparison to agent banking, the cost of P2P transactions is higher in MFS. The respondents, some of them being MFS users, prefer to use agent banking transactions than MFS. Additionally, with the rapid expansion of agent banking and the increased scale and spread, the user base would increase. The benefits of agent banking may outweigh the benefits of MFS. Another imporatnt consideration for users to choose agent banking over MFS was the disparity in the transaction limits in agent banking and MFS. The regulator has imposed rigid caps for MFS transactions and thus daily transactiton limits are quite low compared to agent banking.

90% of the users prefer agent banking over MFS.

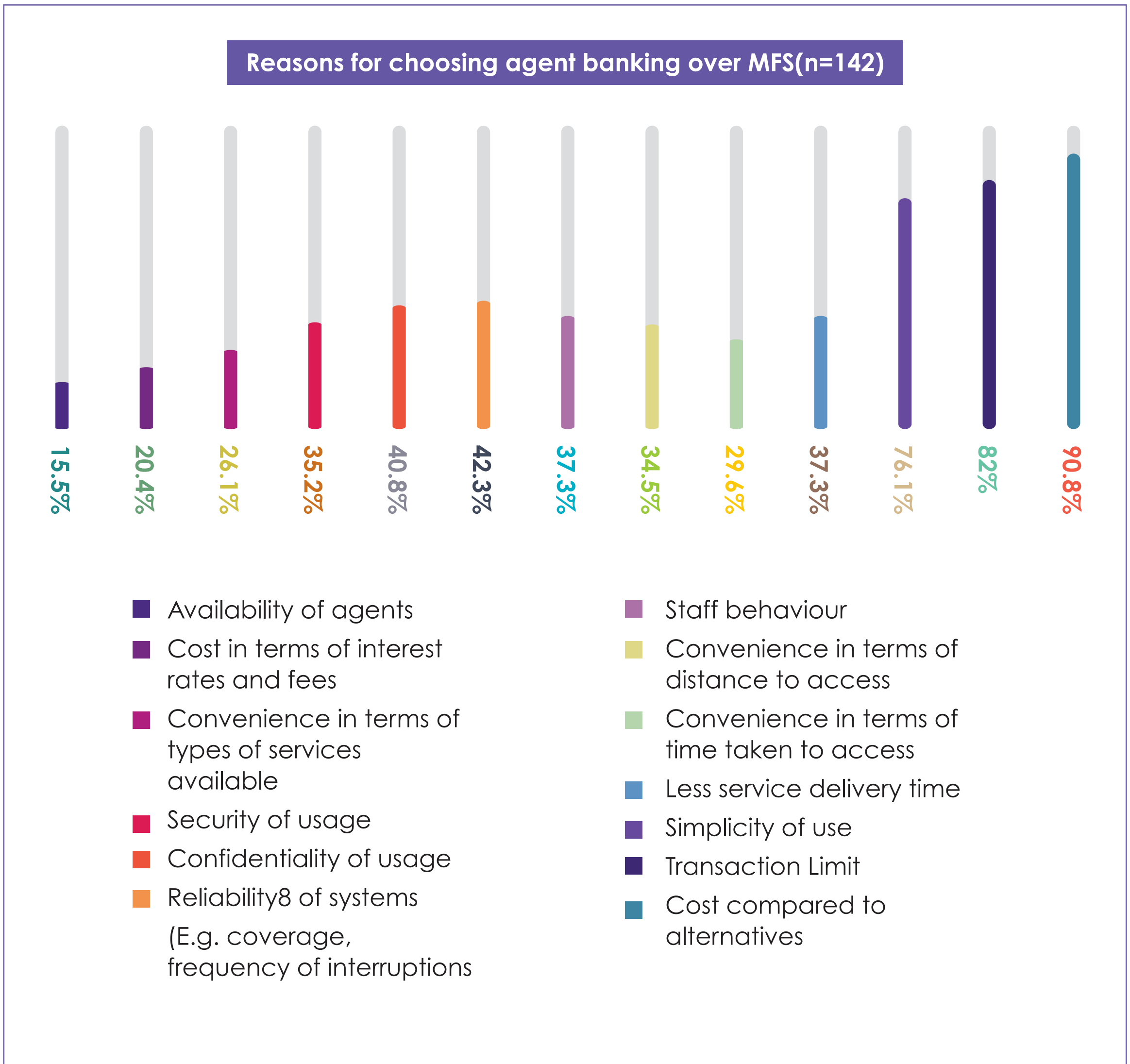


Figure 22: Reason for choosing agent banking over MFS (n=142 and considering multiple response)

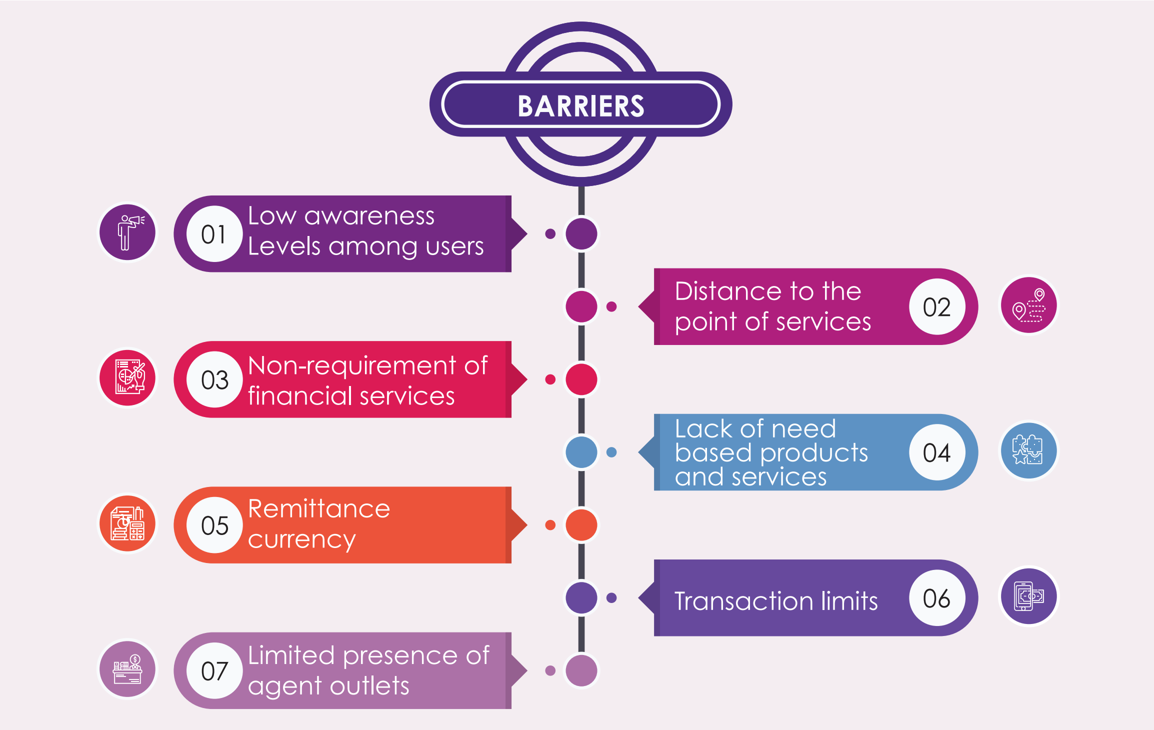
A shift from MFS to agent banking

Tajul, a CME owner used to pay his suppliers and employees in cash earlier. With the advent of mobile banking, he started making digital payments to all of them. He used bKash for these transactions. Once, while transferring the salaries to his employees, he made a mistake in entering the recipient's number. The wrong transaction could not be reversed, as there was no provision to do that in mobile banking.

Recently, in Thakurgaon, he got to know about an agent-outlet, where he opened an account for himself. He asked a few of his employees staying nearby to the agent outlet to open up their agent-bank accounts. The agent told him that fraudulent transactions or wrong transactions' probability would be really low, as the money transfer and cash withdrawal require the account holder's fingerprint as prerequisite. The agent also showed him that if he inputs his fingerprint in place of Tajul, the transaction from the Tajul's account couldn't be done.

2.17 Barriers for agent banking users

The users of agent banking are also facing issues while they are using the services. A few barriers are around limited awareness, less geographical presence of agent outlets etc. Some of the most prominent barriers are as follows:



2.17.1 Low awareness levels among users

The users who have been introduced to agent banking have heard about it from their relatives, neighbours, or agents themselves. As per our research, only 8.4% have seen an advertisement of agent banking by banks in the newspapers or on the billboards. 19.7% of the users have heard about agent banking on radio or television. The lack of ATL media to create awareness about agent banking is dominant. Word of mouth is currently the most dominant information disseminating tool. This section which is not aware of the benefits of agent banking can be a potential target segment. It is this lack of awareness that has prevented them to become a part of the formal financial services sector through agent banking. This section can also be the ones who are dependent on OTC transactions, and might not be comfortable to shift from one channel to another.

He started the DUTCH- BANGLA agent banking. As my husband stays outside of Bangladesh so one day while talking he asked me "How does your husband send money to you?" He suggested me to open an agent banking account because I can withdraw money from the bank agent outlet and do not need to go to the bank.

Rehana Begum, Jessore

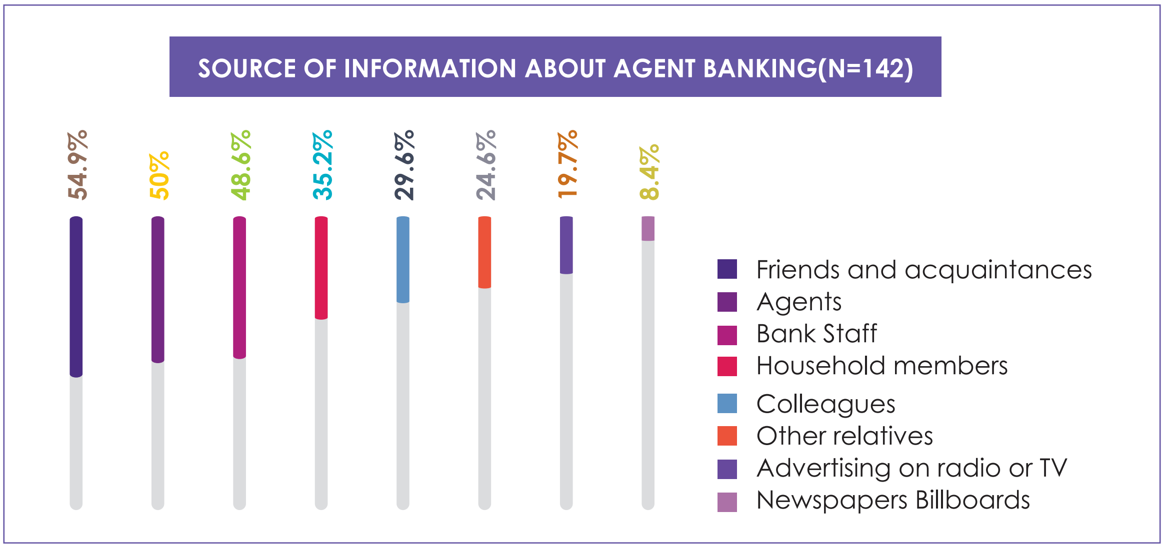


Figure 23: Source of information about agent banking, n=142

Mostly, the information dissemination about agent banking is BTL, and hence cover a limited target segment. The agents make the customers aware through pamphlets, product brochures etc. when a customer visits an agent outlet. There are no hoardings, or signboards of an agent outlet nearby, no banners, or campaigns about agent banking. In contrast to MFS, there is a widespread marketing through posters, banners etc. around an MFS agent's outlet. The foremost reason for a low uptake of agent banking among CMEs or non-CMEs has been lack of awareness about agent banking, its usage and the technical know-how (which leads to fear towards using it). They do not use agent banking because they have not heard about it or they have heard about it but do not know the details. The limits on the amount that the user can withdraw from his/her account are one of the significant reason for non-usage by a CME. The agent outlet being run by a non-employee of a bank leads to trust issues towards using the services. As depicted in the graph below, these have been the topmost reasons for CMEs low uptake of agent banking services.

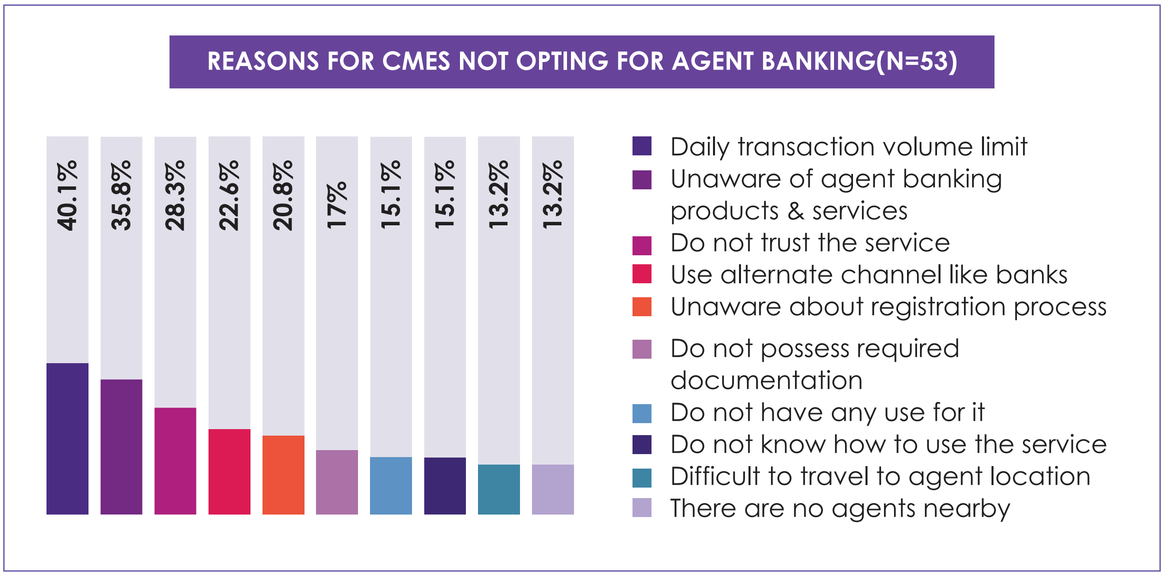


Figure 24: Reason for CMEs not opting for agent banking

2.17.2 Distance to the point of service

The potential target segment claims that they have heard about agent banking and they have a preliminary idea about the services it offers, however, they do not have access to any agent-banking outlet near their homes. Not having an access to point of service is a second-level barrier, which needs to be addressed if awareness has been created. The users stated that they prefer using agent banking as it is safe, convenient, low cost more reliable, however, the distance to the agent outlet is not near to their workplace or home. With the expansion in agent banking, the increased number of outlets would reduce this gap and lead to an increased frequency of use of agent banking.

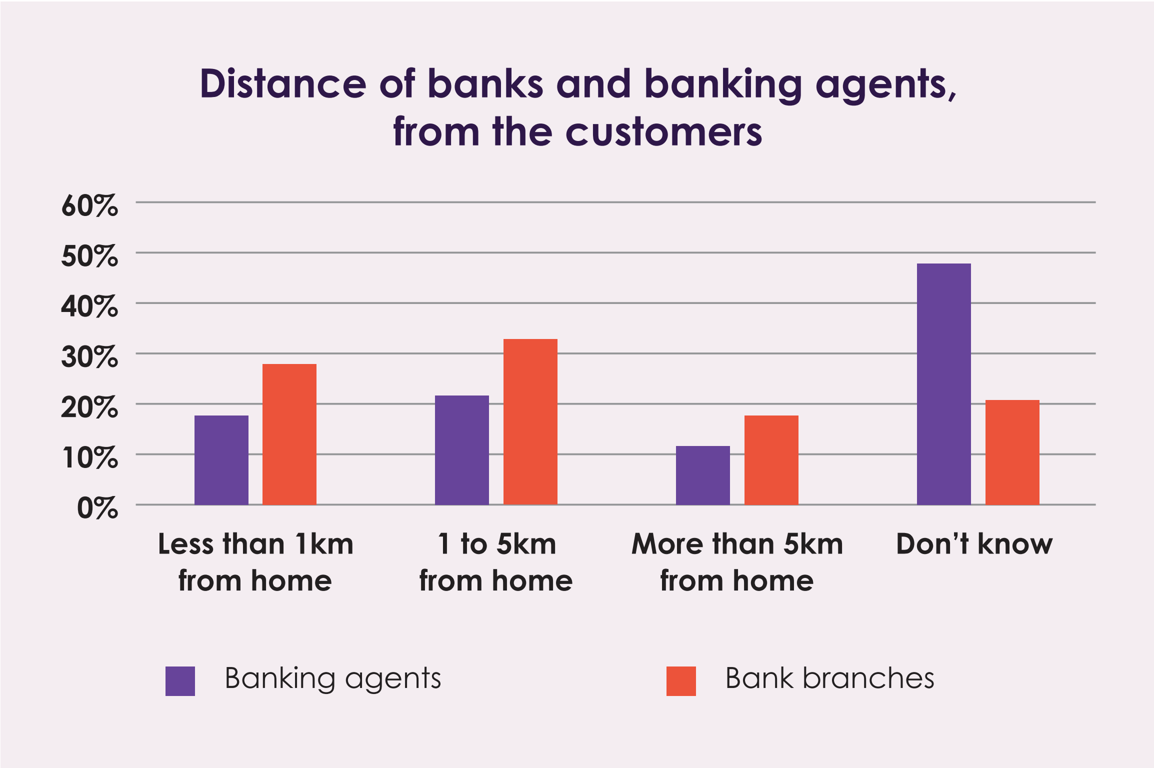


Figure 25: No. of bank branches and agent outlets people are aware of (n=6000): Intermedia Bangladesh FII Survey Wave 4

2.17.3 Non-requirement of financial services

A section of the population is not a part of the formal financial services for a simple reason that they think it is not needed. This is due to having a limited amount of money to save or having no need to avail credit.

Also, they prefer to remain part of societies (Samitis), which have a ubiquitous presence across Bangladesh for their savings and credit needs. This section of the target segment is reluctant to take up formal financial services because there is the absence of financial education for them. They do not understand the importance of basic financial products such as savings, credit, insurance. There is also a lack of mass campaigns at local levels that is, at Upazilas. The importance of financial planning is not understood, which leads to a perception that they do not need to avail any formal financial services.

> **During the peak season of my poultry business, I need to make frequent transactions in a single day. If agent banking would allow that, it will be easy for my business.**
>
> **-Rasheda Alam, a CME user**

2.17.4 Lack of need-based products and services

Agent banking has tried to reach out to a larger section of the population by bringing banking services in the vicinity of the rural population. However, credit availability for CMEs, limits on the transaction amount and its frequency etc. do not divert the entire target segment to agent banking outlets. The brick and mortar model still remain, slightly inconvenient, but popular as a full-fledged financial service provider. Most of the customers need credit for various purposes. 81% of the customers would prefer loan sanctioning at agent outlet. A few customers also prefer mobile recharges, credit card application processing at the agent outlet. MFIs in Bangladesh are deep-rooted and effectively giving credit to the weaker economic section at their doorstep.

2.17.5 Transaction limits

CME users specifically have a requirement of doing transactions beyond the limit set for them. From field observation and interviews, it was ascertained that some CMEs such as food processors and agro wholesalers have repetitive and large quantum transactions.

Thus the limits set by agent banking does not provide them with the flexibility of relying on agent banking completely for their business needs. This is especially pertinent During peak seasons the business requirements surpass the limits of an agent banking account, which causes inconvenience to the users. Also, for non-business transactions, certain users want to use the agent banking account for various kinds of emergencies such as medical emergency, withdraw remittance amount etc. The per-day cap on how many times money can be deposited or withdrawn can causes inconvenience for certain CMEs.

Daily Number of transaction and amount limit

Nature of Accounts	Cash deposit		Cash withdrawal		Transfer/BEFTN/ inter-bank/Intra-bank	
	No. of Transaction	Total volume	No. of Transaction	Total volume	No. of Transaction	Total volume
Nature of Accounts	4	6.00	4	6.00	4	6.00
Savings Accounts	4	6.00	4	6.00	4	6.00
Special notice deposit (SND)	4	6.00	4	6.00	4	6.00

Table: Transaction limit by Bangladesh Bank (Amt. is in Lacs BDT)

2.17.6 Perceptive barriers among customers

There are certain barriers to the uptake of agent banking, which are perception based (which may or may not be true) and have been formed because of past experiences. Some of such barriers as described as follows:

Agent Banking needs heavy documentation
As agent banking is an extension of a bank, the potential customers have a perception about agent banking similar to that of a bank. The notion is that opening an account would involve a lot of document submission. Also, the documents submission is not finished in the first time. The customers are asked to submit different documents over an extended period of time. This causes inconvenience, and customers have a preconceived notion about procedures of any banking institution being difficult and full of hassles.

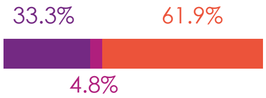
Not useful when compared to MSF / MFIs
Unlike MFS, banks have not created widespread awareness about agent banking, A few of customers pain points have been addressed with the introduction of agent banking, however the lack of information, inequitable dissemination of that information has kept a large set of potential customers at bay. The customers need to know how agent banking can be more convenient, approachable, less time-consuming and beneficial for their overall financial inclusion through agent banking outlets

Agent Banking is only for high value deposits
The target segments that do not have high incomes and hence, are able to save little amounts are not comfortable keeping those savings in a bank account. The general apionion of those potential customers is that like bank, agents at the outlet would also not prefer to give their time on small value transactions. In such cases, Informal saving mechanisms become more prevalent across these customer segments.

Bank related usage in intimidating
MFIs and banks are the most popular financial institutions in Bangladesh. Their operational protocols are very diverse. However, MFIs only cater to rural population and provide door-to-door delivery, also, their branches have simple aesthetics. On the other hand, banks have a more professional set-up wherein the rural population might not feel comfortable. Hence, agent banking as a part of bank services is perceived as the same type of an environment, which discourages people to take benefit of the services available at an agent banking outlet.

2.18 Perception about women agents in Bangladesh

Traditionally, women have been excluded from formal financial services in Bangladesh. This can be factored to the socio-cultural environment in the country. Our study finds that having more women agents could catalyse a substantial increase in women customers. There are currently, very few women agents operating on the ground. Our respondents, however, feel that having more women agents could not only build a convivial environment for women to transact in but can also significantly help in furthering access to other adjacent financial services. The info graph below captures responses of users who have engaged with female agents or female staff in agent banking outlets.

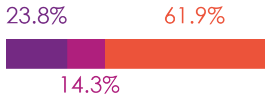


95% Users say female agents are likely to be easier to approach or easier to talk to compared to male agents

For women customers residing in rural locations, it is difficult to interact with male agents. The agent handholds the customers to take their fingerprint authentication, with which not all the women customers are comfortable. To acquire more women customers, a higher number of women agents can work as a pull factor

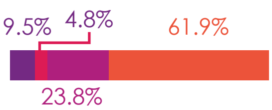
100% Users say female agents are likely to be polite and respectful compared to male agents

Agent banking users have come across a few women agents, however they felt that women agents are much more polite and attentive to their customers. It is thus, important to have more women agents for the nascent customers



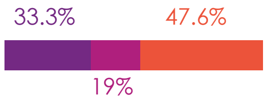
85% users say female agents are likely to offer faster service compared to male agents

The customers felt that women are equally efficient in providing financial services to them. There is no difference in the technical knowhow of male or female agents.



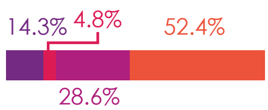
72% Say female agents are likely to be more trustworthy compared to male agents

The customers feel it is easy8 to discuss and share their financial status/goals with women than men. Also, the household is generally run by the women in the families so it is easy to rely on women agents for financial transactions as well.



84% users say female agents are less likely to overcharge for any transaction

Some of the customers have been overcharged by male agent and have developed trust issues. Women agents are more trustworthy, hence the chances of them overcharging their customers is lesser.



66% User say female agents outlet is more likely to face security8 risk such as theft or robbery

Since, women agents would not be able to work till very late in the evening and agent outlets do not have a safety measures for cash management, it is more prone to any theft/robbery at the outlet

■ Somewhat agree ■ Neutral ■ Completely agree ■ Completely disagree

6 KEY RECOMMEN-DATIONS

KEY POLICY RECOMMENDATIONS

Stakeholders in the agent banking landscape include regulators, policymakers, agent banking providers, and other industry players. The analysis of existing policies, regulations, and study findings suggest that there is an imperative need for these stakeholders to adopt a concerted approach in addressing the bottlenecks that limit the uptake of agent banking in Bangladesh. The policy recommendations summarise a detailed roadmap to suggest key action points to stakeholders and the potential impact of those initiatives. For each action area, the roadmap also illustrates the lead institution that should drive the initiative and the potential outcomes.

1 Allow non-exclusivity of master agents to serve multiple banks, with each agent outlet representing one bank

Constraint:

Master agents cannot enter into an agent banking contract with more than one bank as per clause 15.1 of Prudential Guidelines for Agent Banking 2017. This leads to an underutilisation of the distribution network of large-scale master agents.

Rationale:

Before the launch of the Prudential Guideline for Agent Banking Operations in 2017, agents – including master agents – could render service for multiple providers, as per PSD circular no. 5 on Agent Banking 2013. However, the regulator mandated agents to be exclusive to one provider in a bid to bring more clarity and accountability to the provision of service. Clause 15.1 of the Prudential Guideline for Agent Banking 2017 reflects this. Although the regulation is pertinent for individual agents – large-scale master agents, such as mobile network operators with thousands of retail agents will be constrained by this ruling from being able to fully utilise their agent network. A single bank is unlikely to have the capacity to absorb all the retail agents of a large-scale master agent.

Action point:

Thus, master agents with large retailer networks may be allowed to serve multiple providers, that is, allow non-exclusivity of master agents to serve multiple banks with each agent outlet representing one bank. Thus, a possible way forward to address this issue will be by amending clause 15.1 of the Prudential Guideline 2017 and reverting to clause 6.1 of the PSD Circular no. 5 on Agent Banking 2013.

Potential impact:

- This initiative will precipitate much faster expansion (around 30% faster) of agent banking countrywide, especially in rural areas.
- This will ensure a level playing field for the new entrants in agent network expansion across the country.
- Large-scale master agents will have more incentive to support agent banking expansion as they can tie up with multiple providers.

Responsible entity:

Bangladesh Bank's Banking Regulation and Policy Department (BRPD) is the responsible authority to change or amend regulations related to agency banking. Thus, BRPD with the involvement of the Financial Inclusion Department (FID) of Bangladesh Bank may initiate discussions with providers and relevant industry stakeholders to understand market realities better and accordingly make changes to the regulation if needed.

2 Reduce the turnaround time (TAT) for Approval of agents and rationalise Documentation requirementsi

Constraint:

There exist an elaborate documentation requirement and lengthy approval process associated with agent application. This leads to lengthy TAT for agent approval and increases the risk of subsequent drop out of prospective agents.

Rationale:

At present, an individual has to furnish 20-22 documents for an agent application. The documentation requirement is a lengthy process and is perhaps daunting for a prospective agent looking to set up an agent outlet. Currently, it may take 2-4 months from the first contact with a prospective agent to obtaining the final approval for the agent to commence agent banking operations. As mentioned before, many potential agents do not possess the legal documents required for applying as an agent for a provider. Managing these documents can be time-consuming due to inefficiencies at the side of the issuing authorities and often there is a requirement of speed money. Another contributing factor to this delay is the screening and selection process at the side of the provider and regulator. Furthermore, the potential agent has to incur some cost, such as outlet rent, before submitting the application. Therefore, uncertainties due to delay and possibility of rejection may demotivate them and increase the chance of dropout.

Thus, such lengthy turnaround times are not helpful for the agent aspirant or the service provider. This is especially because the service provider has to invest considerable time and resources to seek and motivate an entrepreneur to become a banking agent. Furthermore, with some banks looking to expand their agent banking operations aggressively, it will become difficult to find suitable agent candidates who have all the prerequisite documents at the time the bank officials contact them.

Action point:

Therefore, the study recommends rationalising the documentation requirements for agents, especially with regard to the TIN certificate, trade license, CIB report, police clearance, and so on. Providers may be allowed to furnish the name and relevant background details of the agent when sending a file for approval rather than sending detailed information about the agent, including legal documents and proof of possession of the outlet location. However, providers may be instructed to collect these documents from the agent within a reasonable time after operations commence.

Furthermore, both the regulator and provider need to expedite their internal screening and approval process. Currently, receiving approval from the regulator takes around a month. The regulator, however, opined that it has reduced the TAT from its end and it was during the transition period after the launch of the Prudential Guidelines in 2017 that there were some delays in the approval.

Potential impact:

- A lower early dropout rate (25% lower) of prospective agents;
- Facilitation of better business planning for the agent banking providers and reduced agent acquisition cost for them – it may be reduced by around 30%

Responsible entity:

The providers and concerned department of Bangladesh Bank (BRPD) can both improve their internal screening and approval process for new agents, that is, ensure faster appraisal of agent banking applications. With the influx of new players in the market and the expansionist motive of providers, the volume of applications for review will only keep increasing. Furthermore, revisions can be made to the existing regulation to strike a balance between due diligence through documentation and the expansion of agent banking to serve the unbanked people.

3 Allocate a certain portion of existing Refinancing funds for banks to lend through The agent banking channel to improve the deposit-to-credit ratio

Constraint:

The deposit-to-credit ratio is unfavourable at 16:1 through agent banking operations compared to the optimal industry ratio for banks at 1:0.85. There is a high demand for loan disbursement from agent outlets. Yet two-thirds of rural outlets still collect deposits exclusively.

Rationale:

In the early days of agent banking, providers focused on deposit mobilisation alone. As such, they have been cautious when channelling credit through their agent banking outlet. More than four-fifths of agent banking outlets are in rural areas but they predominantly collect deposits. This reflects the discomfort of banks towards lending to this sector – mainly CMEs. Meanwhile, MFIs have been catering to this unmet demand to some extent. The other discomfort that banks probably face is delegating the credit function to agents. While banks like Bank Asia have been able to do this effectively, others have not been too confident in allowing their agents to source credit. This has resulted in an extremely unfavourable deposit-to-credit ratio at 16:1, which may be detrimental to the rural economy in the long run.

Action point:

To rationalise this unfavourable trend, regulators can encourage banks to utilise funds from various refinancing schemes available. It would be prudent to allocate a certain portion of the existing refinancing program for banks to provide loans through the agent banking channel to improve the deposit-to-credit ratio. Furthermore, the regulator may also encourage providers to channel more credit through regular operations of their agent banking outlets in a gradual manner.

Potential impact:

- Through channelling of more credit through agent banking, if the deposit-to-credit ratio could be improved ratio to 10:1, it would result in additional loanable funds amounting to BDT 1.3 billion for 39% more rural clients.

- Rural populations and the low- and moderate-income segments will have greater access to low-cost funds from the banking channel. This will benefit customers, mainly CMEs, whose loan requirements are slightly higher than typical MFI loan sizes, but less than what banks offer. These customers tend to gravitate towards informal lending sources, and agency banking can tap this segment.

Responsible entity:

Bangladesh Bank's FID department may consider initiating discussions with various agent banking service providers and make appropriate recommendations to ensure a better balance between deposit mobilisation and credit delivery from agent banking outlets. FID may also collaborate with other relevant departments of Bangladesh Bank – BRPD, SME, SPD – and tag them with their initiatives regarding this issue.

4 Introduce e-KYC using digital signature, national ID, or mobile network operator (MNO) database for The account verification process

Constraint:

The KYC process for customer acquisition is still a very manual and time-consuming.

Rationale:

The regular KYC process followed in agent banking outlets while opening new accounts requires filling in the KYC form, submission of a photo ID and the signature of customers along with other required documents. The process is manual, time consuming and prone to errors in recording and input. On the other hand, e-KYC is a paperless account opening process for fulfilling the KYC requirements for particular financial services and it can verify customer's credentials faster. e-KYC helps fetch all the necessary details such as—full name, address, mobile number, gender, date of birth and photograph, electronically in a secure and transparent manner. The paper-based KYC process can take several days and at times up to weeks to get verified, but the e-KYC process may take just a few minutes to verify and issue. Thus, it is imperative to introduce e-KYC at the earliest to expedite the customer acquisition process and facilitate the uptake of agent banking among the unbanked population.

Action Point:

It is imperative to introduce e-KYC at the earliest to expedite the customer acquisition process and facilitate the uptake of agent banking among the unbanked population. The ongoing effort for e-KYC needs to be expedited and the lead department within the regulator may work closely with government implementing agencies to conduct pilot and roll out at the earliest.

Outcome:

- If e-KYC process is introduced, the manual KYC, storage cost and account opening time may be reduced by 50%.
- e-KYC offers benefits to service providers as well as customers, eliminating the need for photo copies and careful handling of documents. Since the whole process is centralised and the information is stored digitally, service providers and customers can both save money on paper costs. The minimal requirement of human intervention in the process ensures that the process is error-free and is a low-cost affair. Overall, e-KYC provides great convenience for customers and agents.
- A customer's account, data and information are secure because the entire process is online. Issues such as identity theft, fraud, loan scams, money laundering and the flow of black money among others, are all minimised with a secure online digital system of KYC.
- Implementation of e-KYC can contribute at the macro-economic level (for example, poverty reduction, societal equality, inclusive economic growth and good governance) as well as the micro-economic level (for example, public savings, distribution of social benefits, public investment).

Responsible entity:

The Bangladesh Financial Intelligence Unit (BFIU) of Bangladesh Bank is leading the effort to introduce e-KYC in the banking sector. BFIU may take more proactive steps to understand the bottlenecks in the ongoing endeavour, expedite resolving of outstanding issues with other implementing organization(s) of this project and move forward to conducting pilot of this project in the field.

OTHER POLICY RECOMMENDATIONS

1 Ensure business case for providers with regards to Social Safety Net (SSN) disbursements

Constraint:

There exists a lack of financial incentive for providers and agents to associate with Social Safety Net (SSN) disbursements.

Rationale:

The agent banking providers do not receive any commission from the government for SSN disbursement, nor can it charge customers during withdrawal of their funds. However, there is resource and time involved before and after the disbursement process for both banks and the UDC agent. However, without an incentive structure in place in terms of commission, both providers and the UDC agents will lose motivation to continue this endeavour effectively.

Action point:

In view of the lack of incentives as discussed above, we suggest providing a percentage commission on the total amount of disbursement, which the provider and agent may share based on a mutual understanding.

Potential impact:

- This may encourage an additional 2-3 banks to associate with government payment schemes within the next one year.

In addition to the commission on payment service, there is also an opportunity to tap into the beneficiaries to cross-sell other banking products. As a result, another 100,000-150,000 SSN beneficiaries may have access to banking services, which is a convenient and secure means to collect their payments.

Responsible entity:

Since the Ministry of Social Welfare is the coordinating agency for SSN transfer, it should be the lead institution to implement the required changes. The Ministry may thus explore avenues and lobby for commission payments for SSN disbursement after engaging with other relevant government departments, such as the Ministry of Finance.

2 Strengthen the sourcing of women agents through collaboration between banks and women-centric associations

Constraint:

Banks face difficulties in sourcing suitable women candidates to onboard as agents

Rationale:

The study revealed that only about 2-3% of the agents who provide agent banking services are women. This is not entirely due to the lack of initiative from providers to enlist more women agents, but mostly due to lack of suitable women candidates available. Furthermore, banks do not have the resources or time to spend in sourcing suitable women agents.

Action point:

We suggest that banks could collaborate with development partners or NGOs to assist them in recommending suitable candidates as per their pre-defined criteria. NGOs can also contribute to the training and development of the women candidates through their skill development and business management programs.

Potential impact:

- The banks will have access to a pool of prospective women agents without a substantial search cost. Within a year, women entrepreneurs may run around 8-10% of the total agent outlets. These women entrepreneurs will thus have more opportunities for gainful employment.
- The share of accounts of women in agent banking may increase to 40% from 35% (of total accounts) within a year. This would reduce the gender divide among the customer segments, and make them better integrated with the formal financial sector.

Responsible entity:

The agent banking providers may reach out to development partners or NGOs working for the economic empowerment of women. Furthermore, providers may also engage women associations that work with women's economic emancipation, such as Bangladesh Mahila Parishad, Bangladesh Federation of Women Entrepreneurs, and Bangladesh Women Chamber of Commerce and Industry (BWCCI), among others.

3 Feasible business models between banks providing agent banking and MFIs to tap into the unbanked customer base.

Constraint:

Despite attempts at a collaboration of agent banking and MFIs, the potential to serve the unbanked population remains unfulfilled due to the lack of a viable business model of collaboration.

Rationale:

Currently, four MFIs work as master agents of various agent banking providers. The collaboration aims to digitise various micro-credit transactions, repayments, and savings deposit of MFI beneficiaries through the agent banking channel. However, MFIs are sceptical about this digitisation process as they feel that agent banking may cannibalise their own service offering in the long run. There is also little clarity on the return on investment of such endeavours for MFIs – that is, investment in setting up agent outlet within their own branch network. Therefore, the appetite to escalate the scope of the partnership remains low.

However, there are certain benefits of such collaboration. Through agent banking, besides availing saving and credit products, customers can pay various bills and fees, transfer money instantly from one place to another, and so on. Most importantly, agent banking gives the customer a feel of visiting a bank branch without the usual crowd and distance factor. Thus, association with agent banking may enhance the self-esteem of the concerned MFI customer. Moreover, the requirement of biometric authentication to conduct financial transactions adds a layer of security that MFI customers would appreciate.

Action point:

Both microfinance and agent banking have some unique as well as similar propositions to offer to customers. However, there needs to be a clear delineation of roles and the scope of services that each provider can deliver from a jointly supported outlet. MFIs can allow their branches to operate as agents of the bank and create a mechanism where the MFI branch can manage liquidity effectively with the cash that it receives. Furthermore, for agent outlets emanating from the partnership, there can be an understanding where banks do not offer credit/savings facility to small-ticket-size customers of the MFIs. However, banks may offer both credit and savings facilities for customers with larger loan requirements.

Potential impact:

- Agent banking providers get access to a huge pool of unbanked customers. Banks may be able to serve into 0.5 million additional customers in the next one year – through account-based services and ancillary services, such as bill payments – brought about by effective partnerships with MFIs.
- Around 0.5 million MFI customers can get access to a wide range of services in the next one year. These are services that MFIs do not have in their service provisions, such as remittance disbursement, bill payment, tax collection, home loan, and other ancillary services.
- MFIs can benefit from the superior technology that agent banking brings into the fold and can leverage it to digitise their regular disbursements and receipts.

Responsible entity:

In view of the opportunities to be harnessed through their collaboration, agent banking providers and MFIs can engage in multiple dialogue sessions or workshops and chalk out a workable model of collaboration. Individual agent banking providers may engage with individual MFIs, as is evident in the market presently. The onus is on the individual agent banking providers and MFIs to work out the model that works for them, as it may need to be fine-tuned for different geographies, though the core aspects may be retained.

[72] BURO Bangladesh, Rural Reconstruction Foundation (RRF), Coast Trust, and Shakti Foundation

4 Ensure security of agents & customers, through stricter monitoring and facilitation

Constraint:

A lack of security for agents and customers since most agent outlets do not have vaults, or surveillance devices in their outlets and agents do have insurance coverage for their cash holding.

Rationale:

Agents and customers frequenting agent banking outlets are always at risk of theft or burglary similar to customers visiting conventional bank branches. However, the risk is much more pronounced in case of agent banking as the outlets are numerous and wide spread; it is difficult to maintain the same level of security akin to a brick and mortar bank branch. Many agent outlets do not have a proper vault for storing cash and do not have surveillance devices such as closed-circuit cameras installed in their outlets. Furthermore, the location of outlets, especially in remote areas make them susceptible to burglary attempts. Agents also inadvertently put themselves at risk when carrying cash back and forth from their linked branch and the lack of insurance coverage makes them more vulnerable.

Action Point:

In order to make the agent banking operations safer for customers and agents, stricter monitoring is required from the regulator to ensure that the security aspects of the outlet are not compromised in any manner due to cost considerations. Furthermore, Bangladesh Bank may request the relevant law enforcement agencies to provide security to the agents during cash transportation.

Potential impact:

- Agent will feel more secure and subsequently retain more cash in the agent outlet to avert liquidity crunches.
- Customers will feel safer when conducting financial transactions at agent banking outlets and greater sense of security among customer equates to greater adoption of agent banking services.

Responsible entity:

Bangladesh Bank's FID may conduct periodic monitoring visits to various agent outlets, report on the state of security of the agent outlets, and accordingly, communicate the findings to respective providers for rectification. FID may also involve Integrated Supervision Management Department of Bangladesh Bank to conduct the onsite supervision exercises. Thus, internal coordination between various departments within Bangladesh Bank may also lead to desired output. In parallel, FID can also engage with law enforcement agencies and request their support to agents in their respective areas during cash transport.

5 Conduct a financial literacy campaign to increase awareness about agent banking

Constraint:

A lack of mass awareness about agent banking products and services among customers.

Rationale:

As agent banking envisages to serving unbanked populations with banking services, it is imperative that the customer segments are also willing and able to reciprocate in terms of uptake. Since most of the agent outlets are in rural areas, it is imperative to sensitise rural populations about agent banking and benefits of integrating with the banking channel.

Action Point:

Bangladesh Bank can initiate a financial literacy campaign to educate people about agent banking. It is worthwhile to mention that Bangladesh bank has experience of undertaking similar literacy campaigns for school children and can draw on that experience to conduct a similar literacy campaign for agent banking.

Potential impact:

Greater awareness and interest about agent banking among the wider population, which will subsequently lead to better adoption of agent banking.

Responsible entity:

Bangladesh bank's FID could take the lead in conducting the financial literacy campaign. Initially they can conduct pilot programmes in select geographies and then expand its scope nationwide after incorporating the lessons learned from the initial pilot programmes.

6 CREATE AN ENABLING ENVIRONMENT FOR MORE WOMEN AGENTS TO ENTER THE AGENT BANKING BUSINESS.

Constraint:

Very few women agents have been on-boarded onto the agent banking business.

Rationale:

The mobility of women in rural areas is a barrier to the access to agent banking outlets, since, most agent outlets are situated in crowded or commercial areas. However, the presence of women agents may give them more encouragement to visit agent outlets. Market insights show that very few women agents have actually taken up the agent banking business, even though there is willingness on the part of providers and regulators to promote more women agents. There are many potential women

[73] For more info: https://www.dhakatribune.com/uncategorized/2013/04/21/bb-plans-financial-literacy-drive-for-school-children

entrepreneurs who may become good agents but they lack the required documentation to apply for an agent license. Sometimes, the required legal documents are in the name of their male family members (father, husband). Furthermore, finding suitable and interested applicants for agency-ship is also a difficulty for providers.

Action Point:

Thus, the best way to mitigate the above problems would be to ease documentation requirements for women agents, ensuring access to low-cost capital for the women entrepreneurs and so on. Bangladesh Bank may also work with various partners to mitigate the above problems such as local and international development partners working in women empowerment or government entities such as the Department of Women Affairs under the Ministry of Women and Children. Furthermore, BB may also engage women associations working with women economic emancipation such as Bangladesh Mahila Parishad, Bangladesh Federation of Women Entrepreneurs, Bangladesh Women Chamber of Commerce and Industry (BWCCI) and so on.

Potential impact:

- Easier agent-on boarding will provide women entrepreneurs with opportunities for gainful employment. It will also encourage other women to take up agent banking.

- The customer acquisition among the women customers is likely to increase as a women agent is likely to acquire more women customers from her community. This would reduce the gender divide among the customer segments, and make them a part of the formal financial sector.

Responsible entity:

Bangladesh Bank's FID may take the lead role in engaging with projects/development partners who specialize in women affairs, especially related to women economic empowerment. The Department of Women Affairs runs several programs aimed at capacity development of women and women's economic empowerment. FID can collaborate with this department to support financial literacy and business management skills training for women entrepreneurs, with a view to induct these women into the agent banking fold. Furthermore, various women centric associations as mentioned above can also be engaged by FID.

7 ENSURE FLEXIBLE TRANSACTION LIMITS FOR CURRENT ACCOUNTS

Constraint:

Agent banking accounts limit the amount that a user can withdraw in a day from his/her account (savings/current) and the number of times it can be done.

Rationale:

The current account holders mainly run business enterprises. During their peak business cycles, the cash flows of their business churn more frequently than other times. CME owners, unless suppliers and customers also have an agent banking account, have to make cash payments or through MFS, which is quite expensive for any one party. However, he/she can withdraw only a limited amount of money from his/her bank account.

Action Point:

The regulatory norms restrict the amount that can be withdrawn in a day (four deposits, two withdrawals for a total amount of BDT 600,000 and BDT 500,000 respectively) which can be customised for different needs of different users of agent banking. Before customers open an agent banking current account, additional parameters such as cash flows, the maximum number of transactions in a day, the minimum transaction amount in a day and business-type, should be part of the account opening form. Based on the churning of the account, the daily limit for the CME owner should be set. It should be categorised separately for micro, small, and medium enterprises.

Potential impact:

The customisation of the daily transaction limit will help in:

- Reducing the cost of availing financial services for CMEs and provide doorstep delivery.
- Larger coverage of CMEs who currently use informal financial services
- Trickle-down effect leading to an increase in the reach of agent banking services across other potential customer segments, which form a part of the supply-chain of the various businesses.

Responsible entity:

BRPD and FID may jointly work together to formulate a workable and flexible limit structure for CMEs.

8 INSTITUTE AN INTEGRATED COMMUNICATION STRATEGY TO SPREAD AWARENESS ABOUT AGENT BANKING

Constraint:

A lack of mass awareness about agent banking products and services among customers.

Rationale:

Banks should devise focussed marketing and communication strategies for pitching agency banking to target segments. Even with the intent of gradual expansion, banks should promote agent banking using above the line (ATL) and below the Line (BTL) modes.

Currently, most users of agent banking come to know about it from their relatives or friends who are using the services or through some of the agents. The agents, who already had to invest a substantial amount of money to commence agent banking operations are constrained by lack of funds to conduct mass scale promotional campaigns in their locality. Their promotional activities are mostly limited to word of mouth initiatives and personal level interaction with community people.

Since not all agents have sound financial capacity, agent banking providers should support select agents through cost sharing of mass level promotional and publicity events to be conducted in busy market places, thoroughfares or other crowd puller spots. Effective promotional events will provide impetus to the uptake of agent banking in the area. However, cost sharing should not be perpetual but rather for the initial engagements with the local populace to gain traction.

Action Point:

Considering this, banks should conduct mass campaigns (role-plays, loudspeaker announcements, banners etc.) in villages where the bank officials are present with the agents as ATL marketing activities. This would build the credibility of the agent before he/she starts the outlet. Alongside, BTL techniques should also be used; banks should provide pamphlets at the agent outlets depicting the financial products and services an agent is offering, charges of different transactions and other minute but significant details. The agents or bank staff can conduct sessions/camps for small groups to help them understand the different products people can avail.

Potential impact:

Information dissemination and awareness from the right sources will help banks cover a large number of unbanked people, it will generate the pull factor which will lead to deepening of financial inclusion in remote areas.

Responsible entity:

The agent banking provider banks need to devise effective communication plans to increase awareness among the potential target segments. The marketing and activation teams can customise the marketing plan depending on the geographical requirements since urban and rural segments will need different media to reach out to the population. Subsequently, the relevant agent needs to be provided support in cash and kind to organize at least one or two mass marketing communication campaign in the locality.

PRIORITY RANKING OF THE RECOMMENDATIONS

Prioritisation	Recommendation	Lead institution
Key Policy Recommendations		
01	Allow non-exclusivity of master agents to serve multiple banks with each agent outlet representing one bank	BRPD/FID
02	Reduce the turnaround time (TAT) to approve agents and rationalise the documentation requirements	BRPD/FID
03	Allocate a certain portion of the existing refinancing program for banks to provide loan through agent banking channel to improve the deposit-to-credit ratio	BRPD/FID/SME/SPD
04	Introduce e-KYC using digital signature, national ID, or mobile network operator (MNO) database for the account verification process	BFIU
Other Policy recommendations		
01	Ensure a business case for providers with regard to Social Safety Net (SSN) disbursements	Ministry of Social Welfare
02	Strengthen the sourcing of women agents through collaboration between banks and women-centric associations	Agent banking providers
03	Feasible business models between banks providing agent banking and MFIs to tap into the unbanked customer base.	Banks and MFIs
04	Ensure security of agents & customers, through stricter monitoring and facilitation	FID
05	Conduct a financial literacy campaign to increase awareness about agent banking	FID
06	Create an enabling environment for more women agents to enter the agent banking business.	FID
07	Ensure flexible transaction limits for current accounts	BRPD/FID
08	Institute an integrated communication strategy to spread awareness about agent banking	Banks

7 ANNEXURES

ANNEX A- AGENT BANKING: AN INTERNATIONAL PERSPECTIVE

The transformative effect of agent banking

In the last two decades, there has been an explosion of different forms of remote access financial services, that is, beyond branches. These have been provided through a variety of different channels, including mobile phones, automatic teller machines (ATMs), point-of-sale (POS) devices and banking correspondents[74]. In many countries, these branchless channels have made an important contribution to enhancing financial inclusion by reaching people that traditional, branch-based structures would have been unable to reach.

One of the main obstacles to financial inclusion has been cost: both the cost to banks involved in serving low-value accounts and extending physical infrastructure to remote rural areas, and the cost (in money and time) incurred by customers in remote areas to reach bank branches. Agent banking is rapidly evolving and its regulation plays a central role in enabling (or sometimes limiting) its spread. Regulators are required to strike a balance between promoting financial inclusion through profitable, lower cost delivery models, and protecting consumers and the integrity of the financial system.

Operationalising agent banking on the ground

Agent banking services are provided by authorised banking agents. These agent points are much smaller than bank branches and are equipped with point of sales (POS) devices, mobile phones, barcode scanners, computers, and biometric devices[75]. By reducing the overhead required to set up a bank branch and through its use of technology, agent banking allows financial institutions to reach underserved segments of the population, particularly in rural and remote areas, in a more cost-effective way. The agent banking model also heavily stresses rural access, and banks are required to have two agent points in rural communities for every one agent point they have in an urban area.

Agent banking enables clients to store, send and receive electronic money through local agents, rather than travelling to the nearest bank branch. It is hoped that by moving financial services beyond banks traditional "bricks-and-mortar" infrastructure and shifting them to a more scalable, variable-cost channel, financial services can be provided profitably and sustainably to segments of the population that are poorer or more remote and that are currently neglected by regulated financial institutions.

Agency banking looks to minimise fixed cost; by leveraging existing retail outlets and stores. This means that financial service providers do not need to invest in their own

[74] Oxford Policy Management Ltd, (2011). Evaluation of agent banking models in different countries, EFInA

[75] FHI 360, Tipsheet: Agent Banking 101, retrieved from https://www.marketlinks.org/sites/marketlinks.org/files/resource/files/Tipsheet_AgentBanking101_July2016.pdf

physical infrastructure and also by using mobile phones rather than POS terminals as technology platform, financial service providers do not even have to incur equipment costs, for each new retail outlet opened and further, by remunerating the outlet with a commission per transaction rather than paying salaries to agents, service costs are incurred only if there is business. Such a variable cost structure makes agent economics very simple.

Regulations drive the specific agent banking models

Regulators want to ensure that agents, as extensions of the banking system, are able to provide professional customer service, keep records, handle cash, and manage liquidity. As a result, one of the primary questions regulators grapple with is who can act as an agent[76] .

Many countries permit a wide range of individuals and legal entities to be agents for banks. Other countries limit the list of eligible agents on the basis of legal form. For example, India permits a wide variety of eligible agents, such as certain non-profits, post offices, kirana shop owners, retired teachers, and most recently, for-profit companies, including mobile network operators (MNOs).

Kenya takes a different approach, requiring agents to be for-profit actors and disallowing non-profit entities (like nongovernment organizations [NGOs], educational institutions, and faith-based organizations).

In another example, Brazil permits any legal entity to act as an agent but prevents individuals from doing so. While these varying limits may be reasonably motivated, they may unintentionally restrict the involvement of actors who may be the most promising agents due to their existing network of retail locations and their capacity to manage decentralized operations. As global experience deepens, some countries have relaxed initial restrictions.

The spread of branchless banking depends on agents making an attractive return, whether directly (such as through transaction fees paid to the agent) or indirectly (such as in the form of increased footfall, brand building, customer loyalty, etc.). While most regulatory approaches leave the issue of agent revenue to free negotiations between the agent and the financial institution, nearly all countries prohibit the agent from charging customers directly for agent services, and some countries even restrict how much a bank can charge customers for agent transactions. Such well-meaning regulations, aimed at protecting customers from excessive fees, can endanger the spread of branchless banking models if they leave participants unable to make an acceptable return in light of the unique challenges and costs of reaching the poor.

[76] Tarazi, M. and Breloff, P. (2011). Regulating Banking Agents, Focus note no. 68, CGAP

International experiences of offering agent banking services

Agent banking is quickly becoming recognised as a viable strategy in many countries for extending formal financial services into poor and rural areas. In recent years, agent banking has been adopted and implemented with varying degrees of success by a number of developing countries.

Riding on the success of its mobile money initiatives, Kenya adopted agent banking and now boasts of a wide-spread network of agents. Brazil is often recognised as a global pioneer in this area since it was an early adopter of the model and over the years has developed a mature network of agent banks. India, realising the potential of its robust banking network, has made them the focal point of its agent banking initiatives. Mexico has leveraged its existing retail presence to extend agent banking services in the country. These separate case studies, highlighting the model of agent banking in each of these countries and the evolution of enabling regulation have been presented in this section.

KENYA

Innovating through agent banking

Kenya has made considerable strides in recent years in extending financial services to its populace. The spread of access to financial services has been accomplished on the back of the rapid expansion of banks across the country, particularly in rural areas, and the transformational introduction of mobile money transfer services in 2007. Kenyan policymakers and regulators continue to develop and implement innovative models to expand financial inclusion. To this end, the agent banking model in the country was rolled out in 2010 to enable banks to contract with third-party agents, just as telecommunications companies have been doing since 2007.

The Central Bank of Kenya (CBK) regulates the banking and financial services in the country, and agent banking also falls under its' purview. Agency banking regulations passed in 2011 enable banks to offer services

Major agent banking providers in Kenya

Equity Bank (Equity Agent),

Co-operative Bank (Co-op Jirani),

Diamond Trust (DTB Mlangoni),

Post Bank (Post Bank Mashinani),

Family Bank (Family Pesa Pap),

Kenya Commercial Bank (KCB Mtahani),

National Bank (National Agent)

through third-party agents approved by the CBK. Following the rollout of the agent banking model, commercial banks have also been able to contract varied retail entities apart from individual agents. These entities, such as supermarkets, petrol stations, post offices, security companies, and courier services among others act as third-party agents to provide cash-in-cash-out transactions and other services in compliance with the laid down guidelines.

Latest figures[77] show that over 89% of the approved commercial bank agents were concentrated in 3 banks with the largest physical branch presence namely; Equity Bank with 28,663 agents, Kenya Commercial Bank with 14,466 and Cooperative Bank with 11,207. On the other hand, for the MFBs, over 94% of the agents are contracted by the largest MFB – Kenya Women Finance MFB. The overall increase in the number of agents is attributed to the growing confidence and acceptability of the agency banking model by the public.

Delivering financial services: The branchless way

Banks, along with mobile money players, are the main drivers in expanding and promoting financial inclusion in the country, particularly in rural areas that are financially underserved. These players are responsible for creating and sustaining new and innovative channels and the numbers are certainly impressive.

In 2017, the value of banking transactions undertaken through agents increased by 46.4% from the previous year; from Ksh.734.2 billion (USD 7.1 billion) in 2016 to Ksh.1 trillion (USD 10.5 billion) in December 2017. The large increase was attributed to the growth of transactions relating to payment of bills, transfer of funds, cash deposits and cash withdrawals. These transactions experienced a growth of 128.2%, 113.4%, 47.1% and 42.7% respectively. Bill payments have emerged as the most popular service offered by agent banking outlets.

Cash deposits, cash withdrawals and account balance enquiries were the major transactions carried out by bank agents in 2017, representing 51.5%, 35.0% and 10.2% of the total transactions in the year, respectively. Notably, cash deposit transactions recorded the highest increased (Ksh.253.4 billion) as a result of the banks' change of business model by moving their customers from "brick and mortar" channels to digital channels.

Unlike the traditional banking hall where a teller is only available within the strict banking hours, agents – mostly the outlet owners – normally offer flexible time schedules even though they provide a limited range of financial services.

Delivery of financial services through the agent banking model is continually increasing. In 2017, 18 commercial banks and 5 microfinance banks (MFBs) contracted 61,290 and 2,191 bank agents respectively recording an increase from 53,833 and 2,068 agents reported in December 2016.

[77] Central Bank of Kenya (2017). Bank supervision annual report 2017. Retrieved from https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1818825039_2017%20Annual%20Report.pdf

The CBK report indicates that the number of agents has been increasing countrywide, from 53,833 in 2016 to 61,290 in 2017. The additional 7,457 agents implied a 14 per cent increase in the number of outlets.

The continued increase in agent banking transactions has been attributed to the increase in the market presence of bank agents, their products and services they offer. Further, the increase in transactions underlines Kenyans' growing confidence and acceptability of the agency banking model by banks and the public.

All the large banks in Kenya engaged in agent banking employ direct agent network management models. MNOs, on the other hand, have used the indirect model and have engaged several third-party institutions, known as agent network managers, the most notable being Top Image and Tell 'em Communications. Top Image currently trains and monitors more than 80% of M-PESA agents.

In the early days during the inception, Top Image was also involved in the market identification and outlet auditing. Banks and MNOs, both, contract these service providers for activities such as agent selection, agent network management, agent training, and provision and maintenance of technical equipment used for banking services.

Kenya's 2010 Guideline on Agent Banking, for example, explicitly provides that an agent shall not subcontract another entity to carry out agent banking on its behalf. Such prohibitions are often intended to ensure greater bank involvement down to the "last mile" agent locations.

Convivial regulations have created an enabling environment

In 2009, the Central Bank of Kenya (CBK) commenced measures to open up banking channels to non-bank agents. An amendment to the Banking Act (passed as part of the Finance Act, 2009) allowed banks to start using agents to deliver financial services. These agents were to be any profit-making entity that has been in business for at least 18 months and could afford to fund a float account to facilitate payment. Launched in 2011 following an amendment in the banking laws in January 2011 to allow commercial banks to offer their services through third-party businesses, agent banking has experienced tremendous growth and is arguably the service of choice for marginalised segments of Kenyan society with no access to banks. One of the major reasons for its success is the product bouquet available to customers at agent banking points. The convivial regulations have enabled banks to offer most mainstream services through this channel.

Under the CBK regulations, agents can offer a number of banking services, including cash deposits and withdrawals, fund transfers, bill payments, loan payments, payment of benefits and salaries, and collection of account and loan applications[78]. However, agents are limited to cash-only transactions and cannot assess applications. The CBK regulations require that agents have secure operating systems capable of carrying out real-time transactions, generating an audit trail, and protecting data confidentiality and integrity. This is all driven by technology, transactions can be made via mobile phone,

[78] Afande, Francis. (2015). Role of Agent Banking Services in Promotion of Financial Inclusion in Nyeri Town, Kenya, Research Journal of Finance and Accounting, Vol.6, No.3, 2015

a point of sale (POS) system, or internet banking, and must be reflected immediately on the bank's side in the core banking system.

The regulations also prohibit exclusivity, specifically mentioning "No contract between an institution and an agent shall be exclusive." This means that an agent may provide services for agent banking to multiple institutions provided that the agent has separate contracts for the provision of such services with each institution and provided further that the agent has the capacity to manage the transactions for the different institutions. This caveat has allowed a rapid rise in service offering to customers allowing market dynamics and customer service to become prime motivators in the choice of a particular service provider.

List of services provided by banking agents in Kenya:

- **Cash deposit and cash withdrawal**
- **Cash disbursement and cash repayment of loans**
- **Cash payment of bills**
- **Cash payment of retirement and social benefits**
- **Cash payment of salaries**
- **Transfer of funds**
- **Collection of debit and credit cards.**
- **Agent mobile phone banking services.**
- **Cheque book requests and cheque book collection by customers Balance enquiry**
- **Collection of bank mail/correspondence for customers**
- **Collection of documents in relation to account opening, loanapplication, credit and debit card application**

Operational challenges still exist

In spite of the considerable efforts for financial reforms and inclusion, especially with innovative models such as agency banking, there are some striking operational challenges in pertaining to agent-based banking and services. Some of these highlighted 79challenges are:

Liquidity concerns:

Liquidity management still remains a concern for most agents on the ground, especially those in rural areas. Service denial is still a major barrier and even if re-balancing points such as banks are close, agents have to constantly rush to the bank and replenish their accounts held with the principal institution which is time-consuming and interrupts the operations of the outlets.

Training requirements:

While most agents are given basic training, there are still gaps to be met in terms of effective service delivery to the customer. For mobile money players too, as most of the

[79] Challenges facing the implementation of agent banking strategy in commercial banks in Kenya. (n.d.). Retrieved from http://erepository.uonbi.ac.ke/bitstream/handle/11295/9074/ABSTRACT.pdf?sequence=1

agent management is handled by ANMs, there is a distinct lack of operational training for the agents in handling customers better. In some cases, the agents even need basic training on the technical know-how to run the agent outlet more efficiently and also ensure a uniform customer experience.

Security and risks of theft:

Agency banking should be given more attention to security measures including a risk-based approach. The banks/ANMs should find better ways of screening their agents to ensure that the large cash transactions handling is effectively carried out.

Geographic spread of agent locations:

The concentration of agent banking outlets is high around urban centres and thinly spread in rural areas. This has led to an inequitable spread of agent banking with a lowered effectiveness in tackling access to financial services in remote areas.

The approach of providers has been a significant factor in uptake

The pro-active approach of service providers towards agent banking has also played a significant part in its rise. Some of the key initiatives which can be attributed to agent banking's phenomenal rise are:

Aggressive branding and marketing by agent banking service providers increased the awareness and trust among people. This has been helped by the fact that mass-market banks with their wide footprints in Kenya have embraced agent banking. Their positioning already suits the target market needs.

The varied business model using in-house resources to manage the agents instead of fully relying on third-party ANMs (as in the case of mobile money) has brought down the costs of operations further.

Availability of KYC requirements with a big proportion of bankable adults was helpful in rapid deployment of the model. Most Kenyans have a national identification card, which is a prerequisite for customers in enrolment for agent banking.

Finding harmony with mobile money and the way forward

Kenya is a classic example of how both mobile banking and agency banking can coexist in the same market working for a common goal of providing greater access and achieving financial inclusion. The country is globally recognised as home to the most notable mobile money service, M-Pesa. Launched in 2007 by Safaricom, M-Pesa pioneered mobile financial services in Kenya serving the unbanked population.

The advent of agent banking is now leading to the rapid growth and access to a variety

Equity Bank's recent disclosure says that non-branch transactions are 91% of all monetary transactions – which are now happening on self-service and third-party platforms at variable costs – compared to the fixed costs of branches.

of banking services. Both these branchless banking models have become the cornerstone for agent led financial services in the country.

The greatest value proposition with the introduction of mobile money transfer services is the availing of affordable mobile money transfer and banking services to large sections of the poor community, concurrently reducing the financial divide among the rural population.

Agent banking's scope is larger and with the rise of bill payments and other utility services, a new paradigm of service delivery is shaping itself to further financial inclusion in the country.

BRAZIL

Early pioneers

Over the past decade, Brazil has made significant strides toward financial inclusion. Key factors contributing to this success include the expansion of a national correspondent banking network, growth in microfinance and cooperatives and increasing incomes at the base of the economic pyramid due in part to well-targeted government transfer programs such as Bolsa Familia[80]. As a result of these policies, Brazil has one of the highest levels of penetration of bank accounts among emerging economies.

Number of transactions at business correspondent agents in 2016 (In '000s)[81]	
Payments of bills (boleto)	2,808,289
Account balance checks	297,254
Deposits	376,116
Loans	23,146
Cash withdrawals	559,457
Money transfer	1,193

The development of a far-reaching correspondent banking network has been one of the key factors behind Brazil's success story in financial inclusion. Between 2005 and 2011, the number of correspondents approximately doubled to more than 160,000. The Central Bank encouraged financial institutions to reach out to more distant consumers and to communities where they had not previously been active, including lower income areas, through partnerships with a variety of retail establishments including some with public ties such as the post office network and lottery agencies. Regulators have gradually reduced restrictions on correspondent banking, such as individual approval processes, in response to early successes with this program. The legal framework also facilitated healthy expansion by putting the onus on regulated institutions to train and monitor their correspondents.

With lower operating costs, these trusted correspondent banking outlets can process

[80] Bolsa Familia is a conditional cash transfer programme which is part of the government's social plicy programme

[81] From Central Bank of Brazil statistics

everything from money transfers to bill payments, deposits and withdrawals and even account applications, usually using point of sale terminals or personal computers that link to banks' servers. Seventy percent of households in the country pay at least one bill using agent banking, according to a 2013 survey[82] by the Bankable Frontier Associates and the Bill & Melinda Gates Foundation.

Differentiating through the agent model

Broadly speaking, there are two types of agency banking models that operate in Brazil: Full Services Agents and Negotiation/Credit Agents[83]. Credit agents provide payment services (receipts and payments) and receive-and-forward loan requests and/or credit card applications. Full services agents also provide services such as receive-and-forward applications for deposit and savings accounts (account opening), receipts and payments relative to accounts (deposits and withdrawal) along with the two services provided only by the credit agents. Notably, most agents only facilitate these processes; they cannot open accounts or approve credit on their own. It must be mentioned that only businesses are hired as agents; individuals are not allowed. Exclusivity is not regulated as well and agents/service providers such as retail chains have several branches. Between them, Caixa Federal, Banco Bradesco, and Banco Popular have created the largest example of POS-enabled agent networks worldwide. In particular, Bradesco has set up a successful postal bank as a joint venture with the post offices.

[82] Retrieved from:
http://bankablefrontier.com/data-from-a-national-survey-on-financial-inclusion-and-the-use-of-banking-correspondents-in-brazil-now-publically-available/

[83] Agent Banking and Brazilian Financial Inclusion-FEBRABAN. (n.d.). Retrieved from http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/282884-1395348372931/Day1_0145_Madeira.pdf

The evolution of regulations

A strong and robust banking structure has been the biggest key to the economic growth of Brazil. This foundation has allowed for agent banking to flourish. As an early adopter of the model, the inception of agency banking in Brazil dates back to 1973 with a Central Bank of Brazil Circular-220 authorizing banks to hire agents for performing payment transactions on their behalf. A timeline of related regulation is provided below:

Year of Adoption	Key points of regulations
1973	Circular 220 authorises banks to hire agents for performing payment transaction on their behalf
1979	Resolution 562 authorises financing companies to hire agents to offer credit on their behalf
1989	Resolution 1665 authorises banks to freely set agreements for payments of public interest (including taxes and utilities)
1999	Resolution 2640 consolidates credit and payment agents under one rule, exclusively for banks, and allows account opening in cities without branches
2000	Resolution 2707 eliminated the requirement of hiring agents only from cities without bank branches
2003	Resolution 3110 opened the use of agents to all other financial institutions other than banks, and agents on hiring sub-agents
2004	Resolution 3211 allows banks to open simplified accounts with proportionate KYC requirements

With the adoption and widespread use of the agency banking model on achieving many milestones in financial inclusion for more than four decades, the focus of the regulators turned towards various risks associated with the model and how to face them. As the agent networks were matured by the year 2011, several regulatory changes were made to facilitate the risk angle of the model.

Year of Adoption	Key points of regulations
February, 2011	Resolution 3954 restricted agents only to companies; agency banking businesses owned by directors of financial institutions were not allowed to deal with the financial institutions to avoid conflict of interest
November, 2011	Resolution 4035 mandated all financial institutions to implement risk control policies and assess the economic viability of operations done by the agents
December, 2013	Resolution 4294 establishes commission caps for credit agents and differed commission payment based on operation retention

The scope for improvement still exists

While much has been accomplished, the financial inclusion agenda in the country is far from complete. Handling payments, including those related to paying utility bills and the monthly government benefit, remains the primary service performed by many correspondent banks. The range of financial services that people need beyond payments– including savings, credit and insurance--is still not readily available for many low-income consumers. Progress has also been unbalanced along other dimensions.

Agency banking channels have a trend of decreasing relative use for accessing financial services when compared to other innovative channels such as mobile banking and internet banking. This stifles other innovations in digital financial services with a decreased emphasis on self-usage of products and services by customers and an ever-increasing dependence on agents. Furthermore, the agent banking model has not yet been particularly successful in channelling microcredit and savings. Interest rate caps and other account-related costs render microcredit unprofitable for banks.

There is agent saturation in many areas, especially in all commercial and urban areas. This affects agent profitability at the individual level while also limiting the spread to rural areas where these services may be needed with the absence of other alternatives.

Service offering through agent banking continues to be dominated by bill payments. Other services such as account opening remain relatively unsuccessful. In spite of incentives that have been created for an increase in new accounts, a large number of these remain inactive.

Liquidity management and a heightened threat of robbery are the main challenges facing agents. Moving and protecting cash is costly, risky and time-consuming. These security concerns, in turn, hinder agent network growth.

In 2017, Brazil had ~295,000 banking correspondent agents, compared to 22,300 full banking branches according to the Central Bank of Brazil

The early advances in agent banking have helped uptake

Early experimentation with agent banking has allowed Brazil to enhance the delivery of financial services through this channel. Gradually, regulations have been directed to enhance transparency in prices and services. To protect the interests of agents, contracts were standardised and made simpler to support agents' decision-making.

Schemes that were targeted at low-income customers allowed for reduced documentation norms and fees were exempted. The accounts too required simpler procedures and were allowed to have limited balances.

To allow for a uniform customer experience and maintain standardised service delivery, certifications for both staff and correspondents of the financial institutions offering these services were made mandatory. Also, the financial institution licensing and supervising the operations of banking agents were given the responsibility for the services offered. Non-dedication was made official and the regulations mandated that the main activity of the agents must be commercial and not related to financial services.

Taking correspondent banking forward

Considering the legacy of correspondent banking in Brazil and importance of agent banking in large diverse geographies and in reaching people living in rural regions, the current model needs some revisions to stay significant and competitive in the landscape of use of various channels in achieving financial inclusion and beyond. Multi-bank agent networks have a better business case for agents. This brings increased viability in low demand areas in the country. Similarly, agents need to use business analytics to increase the operational efficiency of their units.

In general, agents provide cheaper and more convenient financial services for clients: they are therefore popular among the population, increasing demand for their services. The agent model has not only brought convenience and safety for low-income families that receive government benefits through it - and for others accessing basic bank services such as bill payments - but it has also brought greater economic development to isolated communities. Instead of shopping in the cities where they would have previously travelled to receive their benefits, benefit recipients now withdraw cash, pay bills, and shop locally.

All Brazilian municipalities are served by some type of facility provided by a formal financial institution delivering a basic set of financial services. This ubiquity has been primarily led by banking correspondent agents.

INDIA

Leveraging a robust banking network

The Business Correspondent model (BC Model) (As the agent banking model is known in India), is one of several measures being used by India's central bank, the Reserve Bank of India (RBI), to accomplish the larger goal of financial inclusion in India.
This model, propounded by RBI in 2006 on the recommendations of the Khan Committee report, permits banks to appoint third party agents to offer banking and financial services on their behalf. To this end, a wide range of institutions and individuals can work as business correspondents on behalf of the bank.

The success of the Business Correspondent (BC) model relies on the ability of banks to position a sufficient number of BCs across the country to provide services anytime and anywhere. Hence, BCs deploy a network of agents or customer service providers (CSPs) to interface with customers on the ground. These agents or CSPs are individuals, shops or other outlet points responsible for direct contact with the clients.

They open bank accounts, conduct Know Your Customer (KYC) verification, carry out money transfers and transactions, and in some cases, extend credit by linking the client to the base branch.

The evolution of agent banking in India

The agency banking model was conceptualised in India in 2006 when the Reserve Bank of India (RBI) issued guidelines – 'Financial Inclusion by Extension of Banking Services – Use of Business Facilitators and Correspondents.' This allowed banks to employ intermediaries to expand their outreach and promote financial inclusion using agents.

Agent networks in India became broadly divided into two categories. These were individual business correspondents that banks manage directly and corporate business correspondents that are managed by intermediaries. The intermediaries came to be known as business correspondent network managers (BCNMs) or agent network managers. In 2010, the agent network expanded further as RBI widened the list of eligible entities. This allowed banks to include for-profit companies as business correspondent network managers.

In 2015, RBI issued in-principle licences of new banking models, such as payments banks and small finance banks. This resulted in new players entering the banking sector, which further expanded the agent network. Out of the 11 entities that were granted payments banks licence, three dropped out and the remaining may start providing core-banking services when they are infrastructure ready.

The evolution of entities allowed to be appointed as banking agents

In 2006, the initial regulations allowed the following entities to be appointed as BC agents.

NGOs/ MFIs set up under Societies/ Trust Acts,

Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States,

Section 25 companies,

Registered NBFCs not accepting public deposits and

Post Offices

The scope of activities of BC agents included:

Disbursal of small value credit

Recovery of principal/ collection of interest

Collection of small value deposits

Sale of micro insurance/ mutual funds/ pension products/ other third party products

Receipt and delivery of small value remittances/ other payment instruments

In 2008, regulations relaxed the holding of Section 25 companies and later, allowed the appointment of sub-agents

In 2009, the regulations increased the scope of possible agents. The revised list included:

Individual kirana/medical /fair price shop owners

Individual Public Call Office (PCO) operators

Agents of Small Savings schemes of Government of India/Insurance Companies

Individuals who own Petrol Pumps

Retired teachers

Authorised functionaries of well-run Self Help Groups (SHGs) linked to banks

Integrating technological advances through agent banking

With the wide-reaching success of PMJDY, several technological advances have also reached customer through the existing BC network.

Electronic Know Your Customer processes (e-KYC) that have made the account opening of customers with Aadhar numbers easier, and almost all Banks have adopted this process so far.

Using Micro-ATMs which is biometric authentication enabled hand-held devices to offer one of the most promising options for providing financial services to the unbanked populations.

Introducing the Aadhar Enabled Payment System (AEPS) that allows online interoperable financial inclusion transaction at PoS (Micro-ATM) or Kiosk banking through the banking agent of any bank through Aadhar authentication.

Introducing RuPay debit cards that allow customers to access ATMs and other outlets which offer card swiping features.

These initiatives have ensured that rural Indian customers have a service bouquet comparable to their urban counterparts.

In 2015, the State Bank of India (SBI) dominated the market with one-third of agent share in terms of the number of agents. The bank's presence further increased to 38% in 2017 with an increased presence in non-metro urban areas.

Pradhan Mantri Jan Dhan Yojana (PMJDY) – A holistic approach to financial inclusion

The Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme was launched for comprehensive financial inclusion in 2014.

Under the scheme, which leverages the existing agent banking networks of banks, the scope of coverage has shifted from village to households with the objectives of:

- **Providing one bank account for every household,**
- **Improving financial literacy,**
- **Improving access to credit, insurance, and pension facilities.**

The implementation strategy has been to utilise the existing banking infrastructure as well as to build upon the same to cover all households

Big steps forward but more efforts are required

In spite of the considerable efforts for financial reforms and inclusion, especially trying to reach people with innovative models like banking through the agency banking model, there are some[84] challenges that still exist in India.

After a good initial surge in income levels of the banking correspondents and agent branches (mostly due to commissions on account opening), it seems the operational costs have increased in many areas in the country. Although, overall, there are profits in the business model; the income levels have slightly decreased (because of reasons such as account opening saturation, etc.) and the operational costs and other overheads for maintaining agent branch operations have increased significantly.

In recent years, there is a big surge in the number of new agent outlets in the country. There were instances where it can be seen that three to four agency banking outlets were opened in very small towns and villages. This oversaturation decreases agent incomes and commissions.

The unavailability of uninterrupted internet services in many parts of the country has resulted in frequent downtime. This affects the delivery of services exponentially and has led to increased agent dormancy as well.

Most of the agency banking operations in India are exclusive, meaning agents working for only one bank. This has become one of the prime reasons for decreased incomes in the agent branches throughout the country.

Agent Network Managers in India – The Case of Eko

Eko is a start-up that began as a third-party platform provider in the year 2008; linking the State Bank of India (SBI), provider of the Mini Savings Account with Airtel (one of the large MNOs in India), provider of the distribution channel/agents. The relationship with Airtel has since changed, and Eko has now completely revamped its strategy. This led Eko/- to develop sophisticated management tools, including an SMS-based dashboard showing real-time status of their entire workforce in each of the states they operated with their bank partners.

To reach profitability, Eko needed agents to be very sales-oriented. This proved to be different from other markets such as Kenya and Brazil where branchless banking proved to be a pull product (with very little extra selling needed by agents).

Eko engaged distributors who were not specialised in airtime sales, compared to M-Pesa in Kenya that considerably leveraged its airtime distributors.

Eko's agents and agent network managers also receive daily text messages on the volume of transactions and number of new account openings for the day. The message includes the commission earned that day; which allows agents to regularly track and understand their revenue.

Eko requires senior customer service points (SCSPs) and agent network managers to conduct rebalancing. SCSPs hire dedicated "feet-on-street" staff to pick up client application forms from agents and deliver or collect cash, often running circuits via motorbikes. This allows agents to stay in their businesses full-time and focus on serving customers.

[84] State of the Agent Network, India 2017. (n.d.). Retrieved from http://www.microsave.net/files/pdf/Agent_Network_Accelerator_Research_Country_Report_India.pdf

Provider-led efforts are leading successful implementation

The success of the BC model in India can be attributed to a mix of robust regulations and pro-active provider activities.

Indian agents offer a bouquet of services. This has helped turn agency business into a one-stop shop for all financial needs. It further establishes that the agent network could be a tested channel for delivery of a new line of products.

Agent training seems to have been institutionalised. A majority of agents receive training within the first three months of joining, while most agents have been receiving (on-the-job) refresher training.

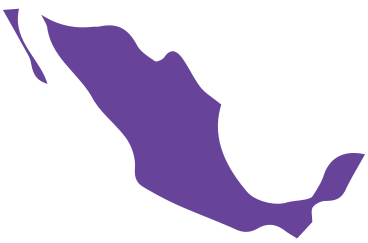
Provider compliance has also seen a significant rise, which hints at a growing sense of professionalism in the agency banking business. This has also increased customer trust in the system.

New models of liquidity management have emerged, with an increasing number of agents availing liquidity delivered at their doorstep.

The emergence of new players and way forward

The move of giving licenses to payment banks and small financial banks has been a major step towards pushing financial inclusion in the country, especially since they will be able to act as BCs of established banks. The main target segments for payment banks and small finance banks has been envisaged to be The move of giving licenses to payment banks and small financial banks has been a major step towards pushing financial inclusion in the country, especially since they will be able to act as BCs of established banks.

The main target segments for payment banks and small finance banks has been envisaged to be small businesses and low-income household by providing them with financial services at low transaction cost. While initial hurdles are still present, especially the evolution of a sustainable business model, many of the licensees have begun operations.



MEXICO

Extending services through agent banking

Mexico has a sophisticated banking sector and looks back on a decade of economic stability. However, a limited number of households in the country have access to bank accounts. More than half of the municipalities in the country have no bank branches. The country saw a wave of market entrants targeting the lower income segment, and financial regulators have been responding with a high degree of openness to policy and regulatory changes.

The new players – banks focusing on low-income clients and cost-efficient, alternative channels - have contributed to bringing about legal reforms to permit banks to use agents. Wal-Mart Bank was the first to inaugurate the current regulatory framework, after a long authorisation process by the Comisión Nacional Bancaria y de Valores (CNBV). Today, the agency model is being used by all major banks.[85]

Banking in store-fronts

In Mexico, broadly, there are three types of providers of agency banking: Retail chains, mobile network operators, and pharmacy chains. These providers deal with one or more banks to provide financial services to the people through their service outlets. As many as 15 banks supply their financial services through bank agents in Mexico. Some of the banks offering banking services through multiple agency banking providers are BBVA Bancomer, American Express, Banamex, and HSBC. Similarly, as many as 41 agency banking providers provide financial services to the people on behalf of the banks in the country. Telecomm, Soriana Stores, Oxxo, Chedraui Stores, and Wal-Mart provide services for more than one bank. Interoperability exists and the non-exclusive nature of banking agents gives them the advantage of supplying more services to the customers.

Some of the products and services the banking agents offer at their outlets are cash deposits, loan payments, cash withdrawal, payment of services, opening savings accounts, cheque collection, and balance information. In aggregate, almost all banking agents in Mexico accept loan payments and deposits to bank accounts.

These two are the most common types of transactions carried out by the banking agents. Cash withdrawal is the third most popular service used in agency banking.

Oxxo's dominance in the Mexican context

As of May 2017, Oxxo stands as the largest corner store retail chain and agent network in Mexico. It has the highest market share in terms of the agent banking outlets in Mexico.

Some of the salient points about Oxxo's dominance in agency banking in the country are:

- **Operates 15,500 outlets**
- **Agent for 11 banks**
- **Serves 11 million customers daily**
- **Performs 2 million financial transactions per day**
- **Continues expansion at a rate of 500 new outlets per year**

The use of analytics was a key element of Oxxo's strategy in the case of agency banking, which enabled it to achieve large-scale continued growth and geographical coverage.

Oxxo's use of analytics has been focused mostly on increasing operational efficiency of its store network.

[85] Mauricio Carabarín & Adrián de la Garza & Juan Pedro González & Antonio Pompa, 2018. "Banking Correspondents and Financial Inclusion in Mexico," Investigación Conjunta-Joint Research,in: María José Roa García & Diana Mejía (ed.), Financial Decisions of Households and Financial Inclusion: Evidence for Latin America and the Caribbean, edition 1, chapter 12, pages 389-427 Centro de Estudios Monetarios Latinoamericanos, CEMLA.

Building regulations in response to market dynamics

Banks have been using agents for many years in Mexico, although the underlying regulatory framework has changed significantly over time. Until 1993, banks could use agents—known as comisionistas—to

deliver a variety of services. The outsourcing was subject to the CNBV's supervision and the bank was held responsible for the agent's acts.

From 1993 until early 2008 banks were prohibited from using agents.30 Nevertheless, banks continued "outsourcing" services simply based on the fact that there is no legal obstacle for a comisionista to be an agent of a customer. the agent had an implicit agency contract with the client, not with the bank.

The bank held no responsibility for the agent's acts and the CNBV had no supervisory authority over the agency business. Moreover, the Financial Consumer Protection Code did not cover these agency relationships. To overcome the pitfalls of such a framework, the banking law was amended in February 2008. It gave ample regulatory and supervisory powers to the CNBV and held banks fully responsible for the acts of their agents.

In December 2008, the CNBV issued its agency regulation pursuant to which banks may hire legal entities and individuals to deliver a wide array of services, subject to an authorisation process that includes the submission of a full business plan for the agency business and the compliance with a suite of security and technological requirements set in complementary regulation applicable to electronic payments.

Agency agreements could not be subcontracted to third parties and could not have exclusivity clauses. In 2011, the Mexican government created a central body, the National Council for Financial Inclusion (CONAIF) to further financial inclusion in the country.

CONAIF defines financial inclusion as "access and usage of formal financial services under a proper regulation that guarantees consumer protection schemes and promotes financial education, to improve the financial capabilities of all population segments." The council brings together the financial authorities and the private sector players to work on the common objective of designing, coordinating, and promoting the country's financial inclusion policy.

Key functions of CONAIF

Analysing and formulating policy proposals related to financial inclusion and establishing the guidelines of the National Policy for Financial Inclusion.

Planning and executing financial inclusion policies and programs at national, state and municipal levels; defining medium and long term goals for financial inclusion.

Coordinating activity on financial education.

Proposing necessary changes to the regulatory frameworks at the federal, state, and municipal levels.

Of all access points, banking agents have registered the fastest growth, going from 9,753 in Q2 2011 to 27,422 in Q2 2015, which translates to an annual average growth of 29%.

Synergies with mobile banking

The increased usage of mobile phones and other mobile devices by people led regulators to harness the potential for advancing financial inclusion. Financial authorities settled on a channel-and-payments-based approach for mobile financial services regulation. This issue was addressed in parallel to and the agency banking, resulting in a major amendment to the General Dispositions for Credit Institutions Law, addressing safeguards for the use of the new banking agent channels and using mobile phones for payments and transactions.

In accordance with the new regulatory approach for bringing regulations for mobile banking, the Ministry of Finance, Banxico, and the other financial authorities amended the Credit Institutions Law to allow for new transactional deposit accounts (using a risk-based approach) in terms of client identification and information.

This amendment created the potential for designing new easy-to-open deposit accounts that could use the different financial channels and utilise mobile payments. Therefore, banking institutions could introduce transactional and deposit products that are easy to open and do not require major documentation, while also linking the account to a mobile device (from simple mobile phones to tablets). The banking agent regulations were amended at the same time to allow these agents to open these accounts (level 2 and 3 accounts) for their operations.

Features	Tiered 1 Accounts “Prepaid Cards”	Tiered 2 Accounts “Low transactions”	Tiered 3 Accounts “Low risk”	Tiered 4 Accounts “Traditional”
Opening channels	Bank branches, Banking agents, Electronic means, Any retail stores	Bank branches, Banking agents, Electronic means	Bank branches, Banking agents, Electronic means, Internet	Bank branches
Opening requisites	Presence is not required	Presence is not required, only personal information without photocopies (Verification of information is required)	Presence is not required, only personal information without photocopies (Verification of information is required)	Physical presence is required and photocopies of documentation for KYC file
Means of Access (cash-in/cash -out)	Bank branches, ATMs, PoS, Banking agents	Bank branches, ATMs, PoS, Banking agents, Electronic banking, Mobile phone	Bank branches, ATMs, PoS, Banking agents, Electronic banking, Mobile phone	Bank branches, ATMs, PoS, Banking agents, Electronic banking, Mobile phone, Cheques

74% of all municipalities and 98% of all adults in Mexico have access to a financial services point

The spread of agent banking has not been uniform

The bank agent model emerged as a complement to branches to reach places that lacked these and provide an access point to the financial system at a lower cost for the financial institution. However, the presence of these adjacencies has not shown a substantial increase in those municipalities usually excluded from financial services.

Most bank agents are located in urban areas, where access points are already in place. This inequitable spread puts people living in rural and remote areas at a severe disadvantage.

One of the factors that may influence this situation is the authorisation process, which shows significant variation in regard to time, thus, banks usually look for a commercial network -generally located at urban areas- that allows them to enable many points simultaneously.

Riding on retail channels for success

The success seen in the Mexican context can be attributed to a multibank, shared agent network. This has piggybacked on well-established retail and distribution networks.

Agent companies better placed than banks to drive business because of their FMCG orientation. Most of the retail chains possess high standards of technical infrastructure to support their businesses, with the capacity to process high volumes of cash-based transactions. They have a large footprint and offer extended hours of over-the-counter operation. Most importantly, mom-and-pop shops are at the customer's doorstep, making them the most convenient location for services.

Banks also seem comfortable participating in shared agent networks because of sharing ATM networks for ten years. Shared agent networks may need to drive some of the products offered through the network to improve the business case and to profit from their knowledge of customer needs

One of the biggest problems of digital financial inclusion in developing countries has been lack of adequate internet/mobile network connectivity in the agent outlets. However, in the case of Mexico, retail chains working as banking agents have successfully mitigated this particular constraint. There is adequate connectivity to accept card payments and perform other financial transactions.

The need to bank on rural customers

Despite recent improvements, Mexico still lags behind other economies in similar stages of development in terms of most measures of financial development and inclusion, which makes addressing these problems a crucial task for boosting economic activity and reducing poverty. Agent banking has the potential to solve some of Mexico's exclusion problems but there needs to be a more pro-active approach to address the thinly spread agent network in rural areas, moving away from over-saturated urban areas.

ANNEX B- LIST OF STAKEHOLDERS

Name of Organisation	Name Of The Stakeholders Met	Designation of stakeholder(s) interacted with
a2i	Mr. Tohurul Islam Tutul	Program Coordinator
Bangladesh Bank	Mr. Mohammed Abul Hashem	General Manager- Financial Inclusion Department
Bangladesh Bank	Mr. Shah Zia-Ul Haque	Payment System Department
Bangladesh Bank	Mr. Md. Iqbal Hossain	Joint Director, Banking Regulation & Policy Department
Bank Asia	Mr. Sarder Akhter Hamid	SEVP & Head of Channel Banking
bKash	Mr. Mizanur Rashid	Chief Commercial Officer
BRAC	Mr. Sahed Azad	General Manager, Microfinance program
BURO	Ms. Farmina Hossain	Assistant Director, Program
City Bank	Mr. Quazi Mortuza Ali	SVP and Head of Agent Banking
Credit and Development Forum	Mr. Abdul Awal	Executive Director
DBBL	Mr. Md. Firoz Kabir	Head of Agent Banking Department
Dhaka Bank	Mr. Mosleh Saad Mahmud	Senior Vice President, Retail Business Division
Federation of Bangladesh Chambers of Commerce and Industries	Mr. Ali Zaman	Chairman of Standing Committee for Research and Product Development
Microcredit Regulatory Authority	Mr. Mohammad Yakub Hossain	Deputy Director
Mutual Trust Bank Ltd.	Mr. Madan Mahan Karmoker	Vice President and Head of Agent Banking
NRBC Bank	Mr. Safayet Kabir Kanon	EVP & Head of Agent Banking
Palli Karma Sahayak Foundation	Mr. Fazlul Kader	DMD- Operations
Shakti Foundation	Mr. Imran Ahmed	Senior Director, Head of Program and Initiatives
SME Foundation	Mr. S.M Shaheen Anwar	General Manager
SureCash	Mr. Zahirul Islam	Assistant Vice President, Business Development

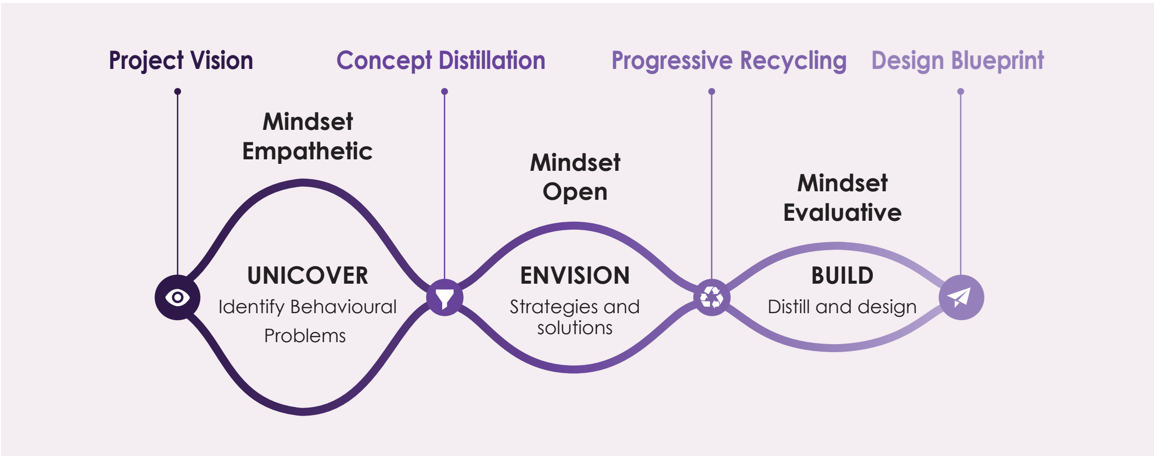
ANNEX C- LIST OF ABBREVIATIONS

ABB	Association Of Bankers Bangladesh
AML	Anti-Money Laundering
API	Application Programming Interface
ASA	Association Of Social Advancement
ATL	Above The Line
ATM	Automated Teller Machine
BFIU	Bangladesh Financial Intelligence Unit
BFP-B	Business Finance For The Poor In Bangladesh
BSCIC	Bangladesh Small And Cottage Industries Corporation
BTL	Below The Line
CBS	Core Banking Solution
CDF	Credit Development Forum
CFT	Countering Financing Of Terrorism
CICO	Cash-In Cash-Out
CME	Cottage & Micro Enterprise
CSR	Corporate Social Responsibility
DBBL	Dutch Bangla Bank Limited
FDG	Focus Group Discussion
FID	Financial Inclusion Department
GoB	Government Of Bangladesh
KYC	Know Your Customer
MFI	Micro Finance Institution
MFS	Mobile Financial Services
MNO	Mobile Network Operator
MoU	Memorandum Of Understanding
MRA	Microcredit Regulatory Authority
NBFI	Non-Bank Financial Institution
NoC	No Objection Certificate
P2P	Person To Person
PI	Personal Interview
PPS	Proportion To Population Size
SSN	Social Safety Net
TIN	Taxpayer Identification Number
TNA	Training Needs Assessment
UDC	Union Digital Centre
WEF	World Economic Forum

ANNEX C- Our MI4ID approach

MSC is a pioneer in exploring low-income markets and deriving strategic insights from them. These insights have helped many financial service providers in product development and channel-innovations, marketing & communications, customer service, risk analysis, process optimisation, social performance management, and impact evaluation. We have a decade-long experience of conducting participatory qualitative research in the domain of financial inclusion. We conduct causal, descriptive, and exploratory market research to inform the business strategy, product design, and operations of service providers. We take up impact evaluations using experimental, quasi-experimental, and post-facto research designs. Our mantra of 'market-led solutions for financial services' based on the need for 'market insights' and 'innovative designs' inspires us to find and deliver actionable solutions to clients and service end-users.

MSC has assimilated the behavioural economic research and user-centric design research techniques in its Market Insights for Innovations and Design (MI4ID) approach86. The research skills and tools in the MI4ID tools rely on fundamental behavioural diagnosis and employ a host of PRA, BE, and user-centric design tools. We have used MI4ID approach for a wide variety of activities that are critical for any financial institution.



[86] MicroSave Website, MI4ID - Market Insights for Innovation and Design, http://www.microsave.net/pages/home/mi4id_market_insights_for_innovation_and_design; Accessed on 20th July 2017

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