Business Finance for the Poor in Bangladesh

POLICY BRIEF
ADDRESSING MARKET DEMAND THROUGH AGENT BANKING:
LESSONS LEARNT

June, 2019

Executing Agency
MoF FID

Implemented by
Microcredit Regulatory Authority

Managed by
NATHAN
Trusted for Excellence

Funded by
UKaid
from the British people

DISCLAIMER

Business Finance for the Poor in Bangladesh (BFP-B) Project, funded by the UKaid/DFID, commissioned MicroSave Consulting Ltd. to conduct this policy study on "Addressing Market Demand through Agent Banking: Lessons Learnt". The views expressed in this policy brief are entirely those of the authors, and do not necessarily reflect the views of BFP-B Project, DFID, MicroSave or any other affiliated organisations.

About the BFP-B project

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.

BFP-B partners

Bangladesh Bank

Bangladesh Bank is the central bank and apex regulatory body for the country's monetary and financial system. The key functions of Bangladesh Bank are formulation and implementation of monetary and credit policies, regulation and supervision of banks and non-bank financial institutions, promotion and development of domestic financial markets, management of the country's international reserves and issuance of currency notes.

www.bb.org.bd

Microcredit Regulatory Authority (MRA)

The government of the People's Republic of Bangladesh established the Microcredit Regulatory Authority (MRA) under the "Microcredit Regulatory Authority Act, 2006". The MRA works to promote and foster sustainable development of the microfinance sector by creating an enabling environment for NGO-MFIs in Bangladesh. MRA is the central body that monitors and supervises microfinance operations of NGO-MFIs.

www.mra.gov.bd

UKaid

UKaid from the UK government funds the BFP-B Project through the Department for International Development (DFID), which leads the UK's work to end extreme poverty. UKaid works towards ending the need for aid by creating jobs, unlocking the potential of women in enterprise and helping to save lives when humanitarian emergencies hit. The UK government is currently among the largest bilateral development partners to Bangladesh.

www.gov.uk

Management agency

Nathan Associates London Ltd.

Nathan Associates is a private international economic and analytics consulting firm established in 1946. It works with government and commercial clients around the globe to deliver practical solutions by building frameworks for economic growth or navigating regulatory hurdles, securing infrastructure financing or evaluating and assessing disputes. Nathan Associates London has been awarded the contract by DFID to deliver technical and financial assistance under the BFP-B Project.

www.nathaninc.com

Introduction

Out of 140 countries, Bangladesh stands at both the 95^{th} and 89^{th} position on availability and affordability of financial services respectively. As per the World Bank's Global Findex Database , 41% of the adults in Bangladesh have accounts with financial institutions. While about 24% of the population has saved money in the past, only 10% have saved at a formal financial institution –significantly lower from 17% in 2011. Bank branch penetration in Bangladesh stands at 8.2 per 100,000 adults while the global standard is 13.4 bank branches per 100,000 adults. This highlights a reliance on the informal and unregulated financial sector throughout the economy.

The microfinance industry has played a significant role in the past four decades in providing financial services for low-income people in rural areas. In 2011, Mobile Financial Service (MFS) was introduced to speed up financial inclusion in the country. Subsequently in 2013, Bangladesh Bank introduced the opportunity for conventional banks to provide banking services through agents, which followed the notable success of MFS in reaching out to masses of people in line with global trends. Since brick-and-mortar branches cannot reach the last-mile customer, policymakers and stakeholders envisioned that agent banking would allow such customers to access a wider range of financial services in a more convenient way. Given the existence of large swathes of such people, agent banking is expected to expand quickly to cater to the unmet financial needs of this segment.

This policy brief has been prepared by extracting key findings from a study, titled "Addressing Market Demand through Agent Banking: Lessons Learnt". The study was conducted in August, 2018. This brief summarises the rationale of agent banking prospects, identifies barriers to agent banking, understands the current financial landscape, and analyses the existing policies in Bangladesh. The brief also seeks to understand the use of agent banking by customers and explore the opportunities available to regulators, policymakers, and industry players to address the bottlenecks associated with the proliferation of agent banking. It also presents evidence-based policy recommendation while illustrating a detailed roadmap of implementation for policymakers, regulators, think tanks, donors, and agent banking providers.

---

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

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

Approach to the study

The table depicts a phase-wise approach that has been carried out for the comprehensive study:

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 and supply side qualitative research Monitor quantitative research Document field notes for interviews and qualitative research	Consolidation of data from primary research (qualitative and quantitative) Data cleaning Analysis of Primary data collected Distillation of findings to identify trends, patterns and to formulate insights	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	Present findings 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)	Draft study report Draft policy brief Draft presentation deck (all outputs in English only)	Revised study report Revised policy brief Revised presentation deck (in Bangla also) Draft of synthesis report Final Summary sheet	Final study report Final policy brief Final presentation deck (in Bangla also) Final synthesis report

Sampling details of research

Quantitative research			Sample Areas	Quantitative research		
Sample=451				Sample=60		
Respondent type		Sample size	12 Districts of	Respondent type		Sample size
Banking agents	Male and Female	66	Dhaka	Banking agents Key Interviews of stakeholders	-	7 20
Individual users of agent banking	Male Female	66 66	Khulna	Individual users of agent banking	Male Female	7 4
Individual non-users of agent banking	Male Female	66 66	Chottogram	Individual non-users of agent banking	Male Female	5 3
CME users of agent banking	Male and Female	60	-	CME users of agent banking	Male Female	6 2
CME non-users of agent banking	Male and Female	60	Rangpur	CME non-users of agent banking	Male Female	4 2
Total users: 1692	**Total non users : 1692**	**Total agents: 67**		**KIIS=20**	**FGDS=4**	**In-depth interviews=36**

Current state

So far, 19 banks have introduced agent banking operations and have created 2.46 million agent-banking accounts. A growth spurt is evident in the past one year in the form of a 74% increase in agent numbers and a 67% increase in outlets as of December, 2018, compared to December, 2017[3]. The partnership of multiple banks with the government's a2i program has driven most of the growth. The initiative led to converting more than 2,000 Union Digital Centre agents into agent bankers.

The deposit collection through agent banking grew by 122%[4] and stands at BDT 31.12 billion as of December, 2018, pointing to the a 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 channel. However, remittance disbursement has picked up, as evidenced by BDT 55.57 billion of worth remittance disbursed from the channels as of December 2018, as compared to BDT 19.82 million in December 2017[5].

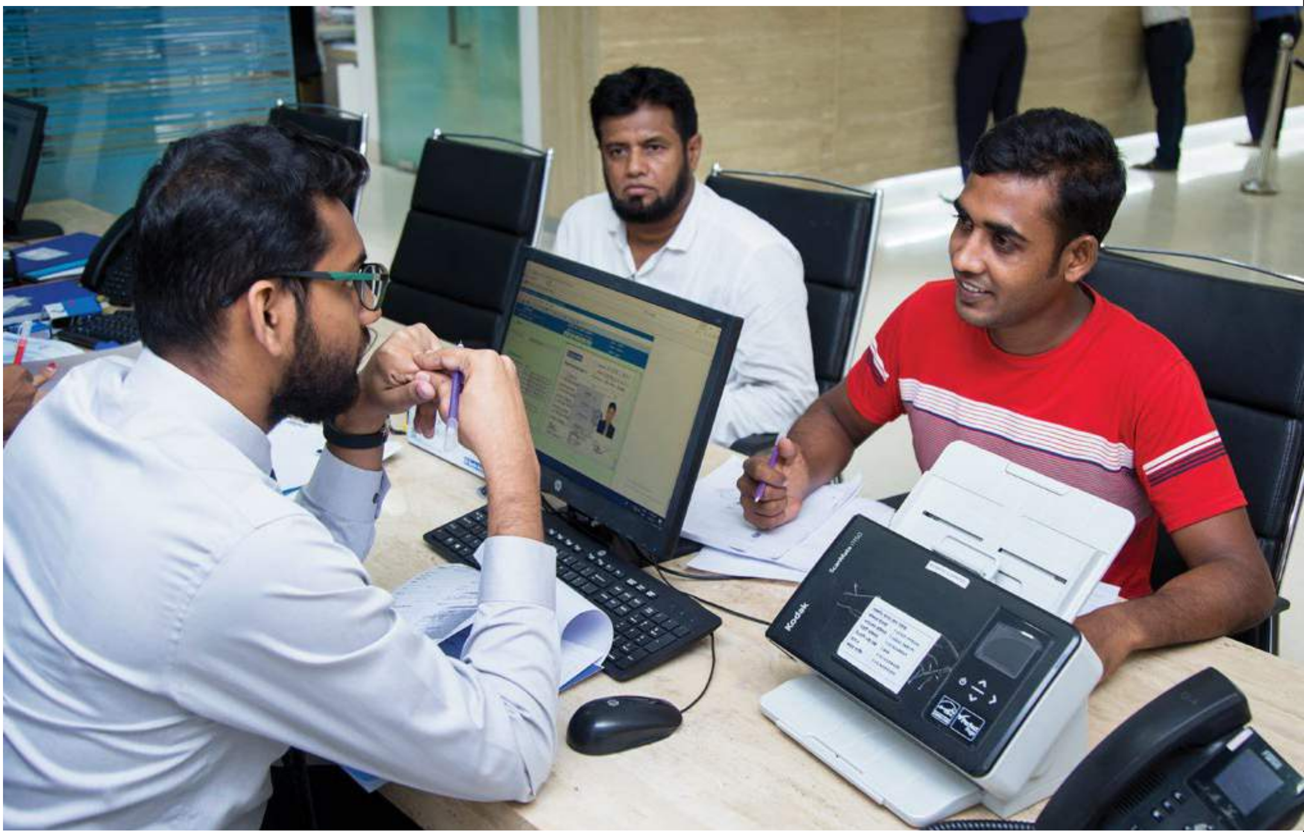
Key findings and constraints

In 2013, Bangladesh Bank issued the "Guidelines on Agent Banking for Banks" which was subsequently followed by "Prudential Guidelines for Agent Banking Operations", published in 2017. Even though several banks have extended their services to provide agent-banking since 2016, only two or three major players have dominated the market. Furthermore, the provision of agent banking service is yet to cater to the needs of all segments of the population, especially the small businesses and the rural populace. Furthermore, agents themselves are lagging behind in terms of business management and profitability. The following section highlights key findings from this study and touches upon various constraints that have limited the widespread proliferation of agent banking in Bangladesh. The findings are divided into regulatory, supply-side and demand-side constraints. However, many of the constraints are interrelated and some are perhaps mutually exclusive.

[3] *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*

[4] *Bangladesh Bank publication, "Quarterly Report on Agent Banking-December 2018". Can be accessed at: https://www.bb.org.bd/pub/quaterly/agent_banking/apr_jun2018.pdf*

[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*



I. Key regulatory findings and constraints for agent banking

Agent banking has seen notable growth in the past year, spurred by the expansive motives of various providers and partnership initiatives with government programs. However, some key regulatory constraints may have limited the growth of agent banking, as discussed below:

- A potential constraint for future expansion is regulations that allow a master agent to tie up with one agent banking provider exclusively. Clause 15.1 of the Prudential Guideline for Agent Banking, 2017, reflects on this. However, it is unlikely that a single provider will be able to utilise the entire network of a large-scale master agent, such as a Mobile Network Operator (MNO), due to cost and capacity issues. Inadvertently, the master agent may not be able to ensure sufficient utilisation of their retail agents.
- An agent has to furnish 20-22 documents to secure approval. These requirements and conditions make the end-to-end process a time-consuming affair. It may range from 2-4 months depending on the readiness of the agent and internal screening on the side of the provider and regulator. Many potential agents, especially in rural areas, lack the requisite legal documents, such as trade licenses, TIN certificates, bank account statements, and solvency certificates from the bank, among others. Some of these documents can be time-consuming to procure due to delays from the issuing authority. The potential agent has to incur costs at the time of submitting an application, such as renting a suitable space.

Therefore, uncertainties due to delay and possibility of rejection may demoralise them and increase chances of dropout. This long gestation period impedes the process of agent onboarding. Furthermore, the detailed documentation process for agents makes it difficult for providers to seek enough suitable candidates to fulfil the required criteria.

- The lack of e-KYC option for customer onboarding also hampers faster traction of agent banking. The regular KYC process for account opening requires customers to fill up a form, submit a photo ID and signature with other required documents. The process is manual, time-consuming, and prone to errors. It may take about 5-10 days for the account to be verified.

II. Key supply-side findings and constraints for agent banking

As seen in the previous section, a few regulatory constraints may have impeded the smooth expansion of agent banking networks in Bangladesh. Additionally, a number of supply-side constraints exist as well, that is, constraints that arise on the side of the provider and agent. These also contribute to the constraints that hamper smooth expansion of agent banking. We discuss some major constraints in the following section:

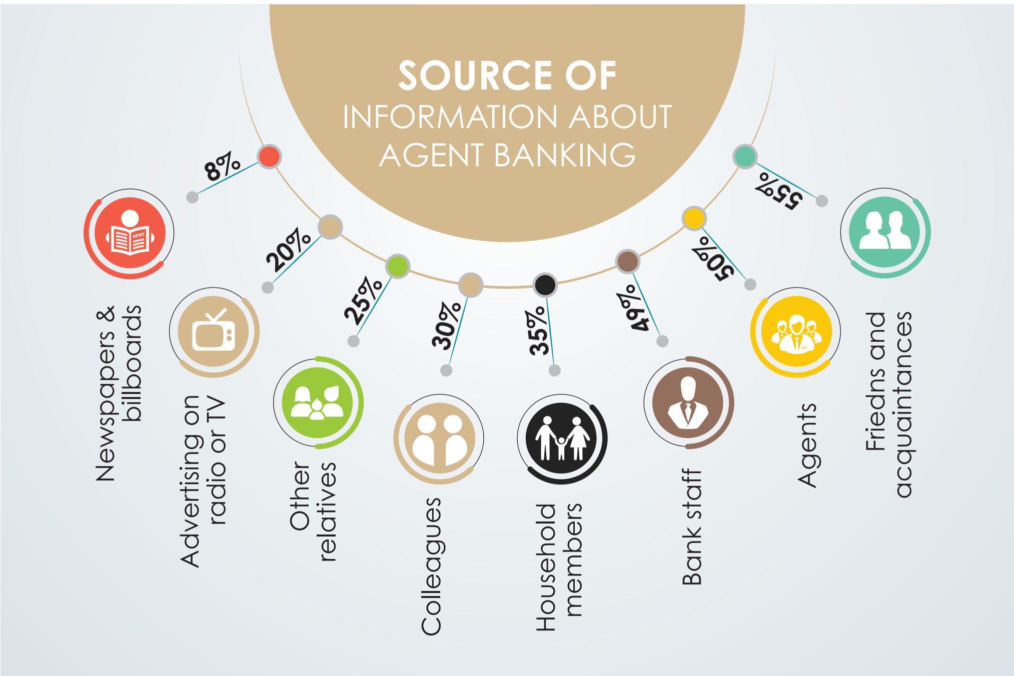
- Agents face liquidity problems while doing business. One-third of registered agents mentioned that they face liquidity problems at least once in two weeks. However, agents who have diversified their service offerings, such as bill and government fee collection are less prone to such problems, as they have alternative income sources. The study also found that Union Digital Centre (UDC) agents were more susceptible to liquidity management issues due to low appetite in making sufficient investments in a business and dilution of efforts resulting from their involvement with UDC outlets. It is worth mentioning that UDC agents provide a whole host of government and other services to local people. Experienced entrepreneurs may earn 4-5 times more than agent banking. The high initial investments required to commence agent banking operations also impose major impediments on potential agents seeking to start an agency. Data from this study also reveals that agents may require BDT 500,000-100,000 investment to commence the operations sustainably.

- The Social Safety Net (SSN) disbursement program has proved to be a burden on banks. They receive no commission on the total amount disbursed, which in itself is a massive endeavour, and thus are unable to compensate the agents.
- There is a notable absence of female agents. Although the providers and regulators are interested to encourage more women entrepreneurship only 2-3% of total agents are women. Prospective female agents often fail to provide the required legal documents as they are mostly obtained in the name of male members of the household.
- Agent banking providers have shown greater interest in generating deposits rather than providing credit, as evidenced by an unfavourable credit-deposit ratio of 16:1. This is mostly due to lack of viable financial records of the customers and their inability to provide adequate collateral against the loan. These lakings result in unmet credit requirements of rural Cottage & Micro Enterprises (MSE) and individuals. This may be detrimental for the rural economy.
- The partnership between agent banking and MFIs for service enhancement has not seen much traction. MFI representatives fear that agent banking may cannibalise their own service offerings in the long run. However, If a viable model of partnership can be chalked out MFI beneficiaries will stand to benefit in terms of financial products and ancillary services. Additionally, agent banking providers can also reach out to a new set of customers who are usually excluded from mainstream banking services.
- The range of services provided by agent banking is much more diverse compared to MFS and has a much higher transaction limit which is around 25-30 times higher for basic services.

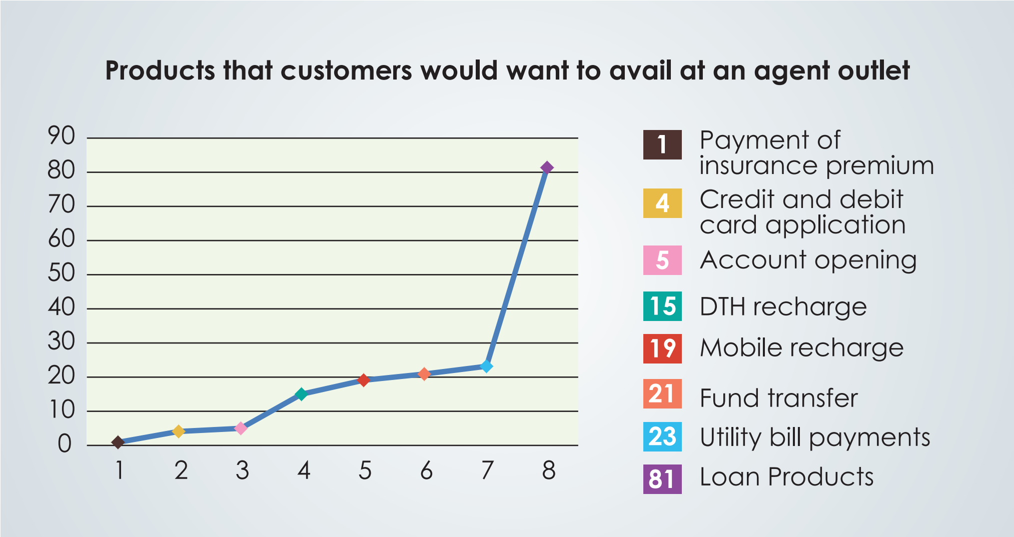
III. Key demand-side findings and constraints to agent banking

In emerging markets and rural areas, one of the biggest challenges for banks is to provide adequate access to its customers. The low penetration of banks in rural Bangladesh has provided the impetus for agent banking to grow rapidly. However, there are some demand-side constraints for agent banking, such as:

- Awareness on agent banking is low as evidenced through our discussions with agent banking users during the study endeavour. The study reveals that 55% have heard about agent banking through their friends or relatives, and 50% have been introduced to the system through agents. Meanwhile, 36% of CMEs also mentioned that they have not availed agent-banking services due to lack of awareness.



- The outlet model of agent banking continues to be a source of inconvenience, as it requires customers to physically travel to the outlets. Furthermore, the lack of credit delivery from agent banking outlets is a concern for the health of the rural economy. Most customers need credit for various purposes. In fact, 81% of the customers would prefer loan sanctions through an agent outlet.
- Women customers find it difficult to access agency banking services. The mobility of women in rural areas is a barrier to access the service since most outlets are situated in crowded or commercial areas.
- Low digital financial literacy, especially in rural areas is still a challenge for providers to address, while low digital financial literacy equates to low uptake of financial products of agent banking.



Key Policy Recommendations

Stakeholders of agent banking 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 loopholes that limit agent banking in Bangladesh.

The policy recommendations summarise a detailed roadmap to suggest key action points 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, leading to an under utilisation of distribution networks regarding large-scale master agents.

Rationale:

Before implementation of the Prudential Guideline for Agent Banking Operations in 2017, agents – including master agents – could render services for multiple providers, as per PSD circular 5 on Agent Banking 2013. However, the regulator mandated agents to be exclusive to one provider, in a bid to bring more transparency and accountability to the provision of the services. Clause 15.1 of the Prudential Guideline for Agent Banking 2017 reflects this. Although the regulation is relevant for individual agents – large-scale master agents, such as mobile network operators with thousands of retail agents, will be constrained by it as they will not be able to fully utilise their agent networks. A single bank is unlikely to have the capacity to absorb all the retail agents of a large-scale master agent.

Action point:

Master agents with large retailer networks may be allowed to serve multiple providers, that is, they may become non-exclusive and serve multiple banks with each agent outlet representing one bank. It is possible to address the complexity by amending clause 15.1 of the Prudential Guideline 2017 and reverting to clause 6.1 of the PSD circular number 5 on Agent Banking 2013.

Potential impact:

- This initiative will speed up the expansion of agent banking countrywide, especially in rural areas by around 30%.
- This will ensure transparency for the new entrants in agent network expansion across the country.
- Large-scale master agents will have more incentives to support agent banking expansion as they can tie up with multiple providers.

Responsible entity:

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

2. Reduce the turnaround time (TAT) for approval of agents and rationalise documentation requirements

Constraint:

There exists an elaborate documentation requirement and lengthy approval process associated with the agent application. This leads to lengthy TAT for agent approval and increases the risk of subsequent dropouts.

Rationale:

At present, a prospective agent has to submit 20-22 documents for an agent application. The documentation requirement is a lengthy process for a prospective agent looking to set up an outlet. Currently, it may take 2-4 months for a prospective agent to obtaining the final approval to commence operations. As many potential agents do not possess required legal documents, managing these can be time-consuming due to Delayed functioning process of issuing authorities. Another contributing factor to this is the screening process at the provider and regulator's end. Furthermore, the potential agent has to incur some costs (such as outlet rent) before submitting the application. Therefore, uncertainties due to delay and possibility of rejection may demoralise them and increase chances of dropout.

Lengthy turnaround times are not helpful for both the aspiring agent and service provider. This is especially because service providers have to invest considerable time and resources to seek and motivate an entrepreneur in becoming a banking agent. Furthermore, with some banks looking to expand their agent banking operations aggressively, it will become difficult to find suitable candidates having the necessary documents at the time contacted.

Action point:

The study recommends rationalising the documentation process 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 including legal documents and proof of possession of the outlet. However, providers may be instructed to collect these documents from the agent within a reasonable time after the operation commences.

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. Recently regulators reduced the TAT during the transition period following the implementation of Prudential Guidelines 2017.

Potential impact:

- The early dropout rate of prospective agents will be lowered by 25%
- Facilitation of better business planning for the agent banking providers and costs of agent acquisition may be reduced by around 30%

Responsible entity:

The providers and concerned departments of Bangladesh Bank (BRPD) may improve their internal screening and approval process by implementing a quicker system for new agents to 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 to the existing regulation may be made to strike a balance between due diligence through documentation and the expansion of agent banking.

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 only on deposit mobilisation. As such, they have been careful when channelling credit through their agent banking outlet. More than four-fifths of the 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 a certain extent. The other discomfort that banks probably face is delegating the credit function to agents. While Bank Asia did this effectively, others are still reluctant in allowing their agents to source credit. This has resulted in an extremely unfavourable deposit-to-credit ratio, which may be detrimental to the rural economy in future.

Action point:

To rationalise this unfavourable trend, regulators may find it helpful to encourage banks to utilise funds from various available refinancing schemes. It may turn out prudent to allocate a certain portion of the existing refinancing program to provide loans through agent banking channels in order to improve the deposit-to-credit ratio. Furthermore, the regulator may also gradually encourage providers to channel more credit through regular operations of their agent banking outlets.

Potential impact:

- By channelling more credit through agent banking, the deposit-to-credit ratio may improve the ratio to 10:1. It would result in additional funds for loans amounting to BDT 1.3 billion for 39% more rural clients.
- Rural populations and 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. These customers tend to gravitate towards informal lending sources, giving agent banking the opportunity to tap into this segment.

Responsible entity:

Bangladesh Bank’s FID department may consider initiating discussions with agent banking service providers and make appropriate recommendations to ensure a better balance between deposit mobilisation and credit delivery from the outlets. FID may also collaborate with other relevant departments of Bangladesh Bank such as BRPD, SME, SPD to aid their initiatives.

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

Constraint:

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

Rationale:

The regular KYC processes of opening new accounts requires customers to fill out and sign the form, submit a photo ID and submit other required documents. The process is manual, time-consuming, and prone to errors. On the other hand, e-KYC is a paperless account opening process that can verify customer's credentials faster. The paper-based KYC process can take 5-10 days to be verified while the e-KYC process may take just 8-10 minutes. Earlier, it would cost BDT 10-12 per account for paper-based KYC, while the cost of e-KYC may reduce drastically.

Action point:

It is important to introduce e-KYC at soon as possible to expedite the customer acquisition process and facilitate the uptake of agent banking among the rural population. The 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. The ongoing effort for e-KYC needs to be expedited. Lead departments within the regulator may work closely with the government's implementing agencies to conduct pilots and roll out the program at the earliest.

Potential impact:

- If the e-KYC process is introduced, the manual KYC, storage cost, and account opening time may be reduced by 50%.

Responsible entity:

The Bangladesh Financial Intelligence Unit (BFIU) of Bangladesh Bank has been striving 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 organisation(s) of this project, and move forward to conduct the pilot project in the field.

Other Policy Recommendations

1. Ensure a business case for providers with regard 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 they charge customers during withdrawal of their funds even though both bank and UDC agent's resource and time are involved in the disbursement process. However, without an incentive structure, both providers and the UDC agents will lose motivation and efficiency.

Action point:

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

Potential impact:

- This may help to encourage banks to associate with government payment schemes within the next year. In addition to the commission on payment services, 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 in implementing the required changes. The ministry may thus explore avenues for commission payments for SSN disbursement after engaging with other relevant government departments, such as the finance ministry.

2. Strengthening women agents through collaboration between banks and women-centric associations

Constraint:
Banks face difficulties in finding suitable women candidates as agents

Rationale:

The study reveals that only 2-3% of the agents are female. This is not entirely due to the lack of initiative from providers to enlist more female agents, but mostly due to lack of suitable candidates. Furthermore, banks do not have resources or time to spend in sourcing suitable female 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 female aspirants through their skill development and business management programs.

Outcome:

- The banks will have access to a pool of prospective female candidates without a substantial search cost. Within a year, women entrepreneurs may run around 8-10% of the total agent outlets. They will thus have more opportunities for gainful employment.
- The share of accounts of females 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 better integrated them within 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 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 models.

Rationale:
Currently, four MFIs[6] work as master agents of various agent banking providers. The collaboration aims to digitise various micro-credit transactions, repayments, and savings

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

deposits 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 customers can avail savings and credit products, 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, a clear delineation of roles and the scope of services are needed 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 auxiliary 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 currently have in their service provisions, such as remittance disbursement, bill payment, tax collection, home loan, and other auxiliary 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.

Priority ranking of the recommendations

Prioritisation	Recommendation	Lead institution
Key policy recommendations		
1	• Allow non-exclusivity of master agents to serve multiple banks with each agent outlet representing one bank	BRPD/FID
2	• Reduce the turnaround time (TAT) to approve agents and rationalise the documentation requirements	BRPD/FID
3	• Allocate a certain portion of the existing refinancing program for banks to provide loans through agent banking channels to improve the deposit-to-credit ratio	BRPD/FID/ SME/SPD
4	• Introduce e-KYC using digital signature, national ID, or mobile network operator (MNO) database for the account verification process	BFIU
Other policy recommendations		
1	• Ensure a business case for providers with regard to Social Safety Net (SSN) disbursements	Ministry of Social Welfare
2	• Strengthen the sourcing of women agents through collaboration between banks and women-centric associations	Agent banking providers
3	• Feasible business models between banks providing agent banking and MFIs to tap into the unbanked customer base.	Banks and MFIs

Conclusion

There is little doubt about the enormous scope of agent banking to contribute positively to the financial inclusion landscape in Bangladesh. There is a significant chance for stakeholders to bring about innovation, promote competition, generate consumer awareness, and facilitate sustainable partnerships to move the agent-banking sector in the right direction. If providers and policymakers implement these recommendations, while taking stakeholders' view into account, it would change the agent banking landscape in the country and further the agenda of financial inclusion.


সঞ্চয় প্রকল্প সমূহ
ডিপিএস প্লাস
ডাবল বেনিফিট প্লাস
মান্থলি বেনিফিট প্লাস
ট্রিপল বেনিফিট প্লাস
সঞ্চয় প্লাস
সঞ্চয়ে কোটিপতি
বিস্তারিত জানতে আজই যোগাযোগ করুন
ব্যাংক এশিয়ার যে কোন এজেন্ট আউটলেট/শাখায়
ব্যাংক এশিয়া
Bank Asia
BOARDING PASS
3rd WINNER
Mr. Md. Mashud Perveje Chowdhury
DHAKA-COX'S-DHAKA

Addressing market demand through agent banking: Lessons learned

Agent banking has grown rapidly over the year demonstrating a key role in financial inclusion of Bangladesh

Status of agent banking (as of Dec 2018)

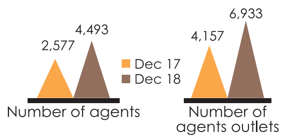
Agents 2017 → 2018 74%

Agent outlets 2017 → 2018 67%

Amount of Credit 1.89 Bn BDT

Amount of Deposits 31.12 Bn BDT

Amount of Remittances 55.57 Bn BDT



Rural agent outlets are visited by an average of **11** women a day

Women make up **35%** of the customer base for agent banking outlets in Bangladesh

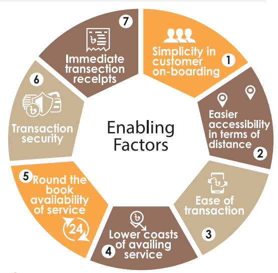
19 banks have launched agent banking operations

87% Accounts in rural areas

2.46 mn Agent banking accounts have been opened

Most widely used products and services

- Cash-in and Cash-out
- Money transfer
- Utility bills payment
- Remittance
- Collection of cheques



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

55% users started using agent banking for money transfers

40% of users received inward remittance through agent outlets

Key challenges that limit the uptake of agent banking

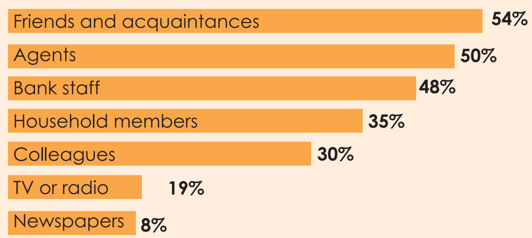
Supply-side

- Restrictions on master agent to provide services of only one bank
- High turnaround time for approval of agents
- Lack of e-KYC for onboarding customers
- Elaborate documentation requirements for agents

Demand-side

- Low awareness levels about agent banking
- Lack of need-based products for the users
- Low financial literacy for smooth uptake of banking products
- Distance to the point of service

Sources of information about agent banking



Awareness generation about agent banking is still in nascent stage and need renewed efforts from incumbents

Addressing market demand through agent banking
Lessons learned

Key Policy Recommendations

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

Constraint: The clause 15.1 of Prudential Guidelines for Agent Banking 2017 restricts an agent to have banking contract with more than one bank. This leads to underutilisation of distribution network of large scale master agents.

By amending the clause 15.1 following PSD circular no. 5 on Agent Banking 2013, clause 6.1, an agent is allowed to act as agent of more than one bank. This amendment could increase current agent outlets by 30% which is around 9,013 agent outlets and also create level playing field for new bank entrants in agent banking.

Responsible Department: Bank Regulation and Policy Department (BRPD)/Financial Inclusion Department (FID)

2 Reduce turnaround time for approval of agents and rationalise approval conditions

Constraint: The amount of time required from agent selection to approval for every agent by a bank is about 3-4 months. The documents required especially proof of possession of agent outlet is cost-ineffective to obtain before getting approval .

This change may reduce early stage dropout of prospective agents by approximately 25% and help banks in better business planning, setting up agent outlets and reducing agent acquisition cost by 30%.

Responsible Department: Bank Regulation and Policy Department (BRPD)/Financial Inclusion Department (FID)

3 Allocate a certain portion of existing refinancing scheme for banks to provide loan through agent banking channel and to improve deposit to credit ratio.

Constraint: Despite demands of loan disbursement from agent outlets, two-thirds agents in rural areas are collecting deposits only. This resulted in low deposit to credit ratio of 16:1 from agent banking channel compared to industry optimal ratio for banks as 1:0.85

For example, if deposit to credit ratio can be improved to 10:1, additional BDT 1.3 billion loan could be served to 39% or around 3,715 more rural clients demand.

Responsible Departments: BRPD, SME & SPD, FID

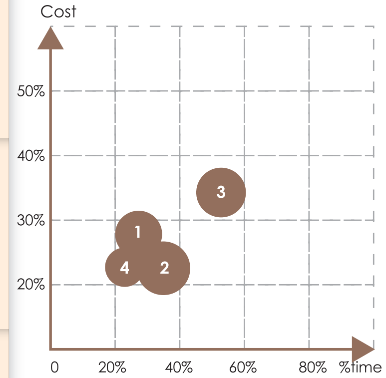
4 Introduce e-KYC , using digital signature and national ID or mobile network operator (MNO) database to verify, for account opening through agent banking to expedite customer on-boarding activities.

Constraint: The KYC process for account opening through agent banking, customer verification and signature is still manual which makes the process lengthy.

If e-KYC process is introduced, the manual KYC, storage cost and account opening time may be reduced by 50%.
Responsible Department: Bangladesh Financial Intelligence Unit (BFIU)

Approximate impact of the key policy recommendations on agent banking expansion due to reduction in banks overall cost and time

Bubble size represents agent banking expansion with regards to number of agents, outlets and customers. The size varies due to effect of lower cost and time.



*the numbers and percentages are forecasted and deduced after consultations

Contact:

BFP-B
Road 27, House 71, Level-3,
Gulshan 1, Dhaka 1212,
Bangladesh.

www.bfp-b.org
facebook.com/bfpborg/

twitter.com/bfpborg/
linkedin.com/company/bfpborg/