



# Emerging Trends for Digital Finance Agent Networks

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*MicroSave*  
Market-led solutions for financial services

BILL & MELINDA  
GATES foundation



## Background




This presentation was prepared for a webinar hosted by Social Performance Task Force ([www.sptf.info](http://www.sptf.info)) to explore the increasingly important social performance issues that Digital Financial Services presents.

During the webinar, The *Helix* Institute of Digital Finance shared insights on **Emerging Trends for Digital Finance Agent Networks**, and the implication these trends have on **client experience** and **social performance issues**. These insights are derived from over 7,000 agent interviews in Kenya, Tanzania and Uganda, findings which are collated in our [research reports](#).



# The *Helix* Institute of Digital Finance & ANA

## The *Helix* Institute of Digital Finance

- Founded in November 2013 as partnership between  **MicroSave** Market-led solutions for financial services,  **BILL & MELINDA GATES foundation**,  **UN CDF** United Nations Capital Development Fund, and  **IFC International Finance Corporation** World Bank Group
- Provides world-class training & cutting-edge data for digital financial service providers.

## Agent Network Accelerator (ANA) Research Project

- Four year research project in eight major markets – Kenya, Tanzania, Uganda, Nigeria, India, Indonesia, Bangladesh and Pakistan.
- Designed to deliver cutting edge knowledge and global data on agent network management.
- Managed by *MicroSave*, funded by Bill & Melinda Gates Foundation



# Responsible Digital Finance : Client Experience, Protection and Social Performance

**Digital Financial Services (DFS)** has the potential to accelerate financial inclusion by making traditional banking products more accessible through:

- ▶ Reducing cost
- ▶ Extending reach
- ▶ Overcoming issues arising from lack of physical infrastructure

**Digital Financial Services are growing**, ‘with 219 services in 84 countries at the end of 2013’\*, **but how far is the industry advancing its social goal of financial inclusion?**



*Perhaps the biggest barrier preventing poor people from accessing digital financial services is the cost and complexity of building and managing a sustainable cash-in/cash-out (CICO) agent network across a broad geography.*

\*GSMA MMU [State of the Industry 2013 – Mobile Financial Services for the Unbanked](#)



# The Network Is Evolving

The CICO (Cash-in/Cash-out) network was built on top of the existing FMCG network. We are now witnessing the next stage in the evolution of the agent network as merchants accept e-money for the goods they are offering in store.

**FMCG → CICO → Merchant Payments**

**But, is it an evolution of the agent network or expansion of touch points?**

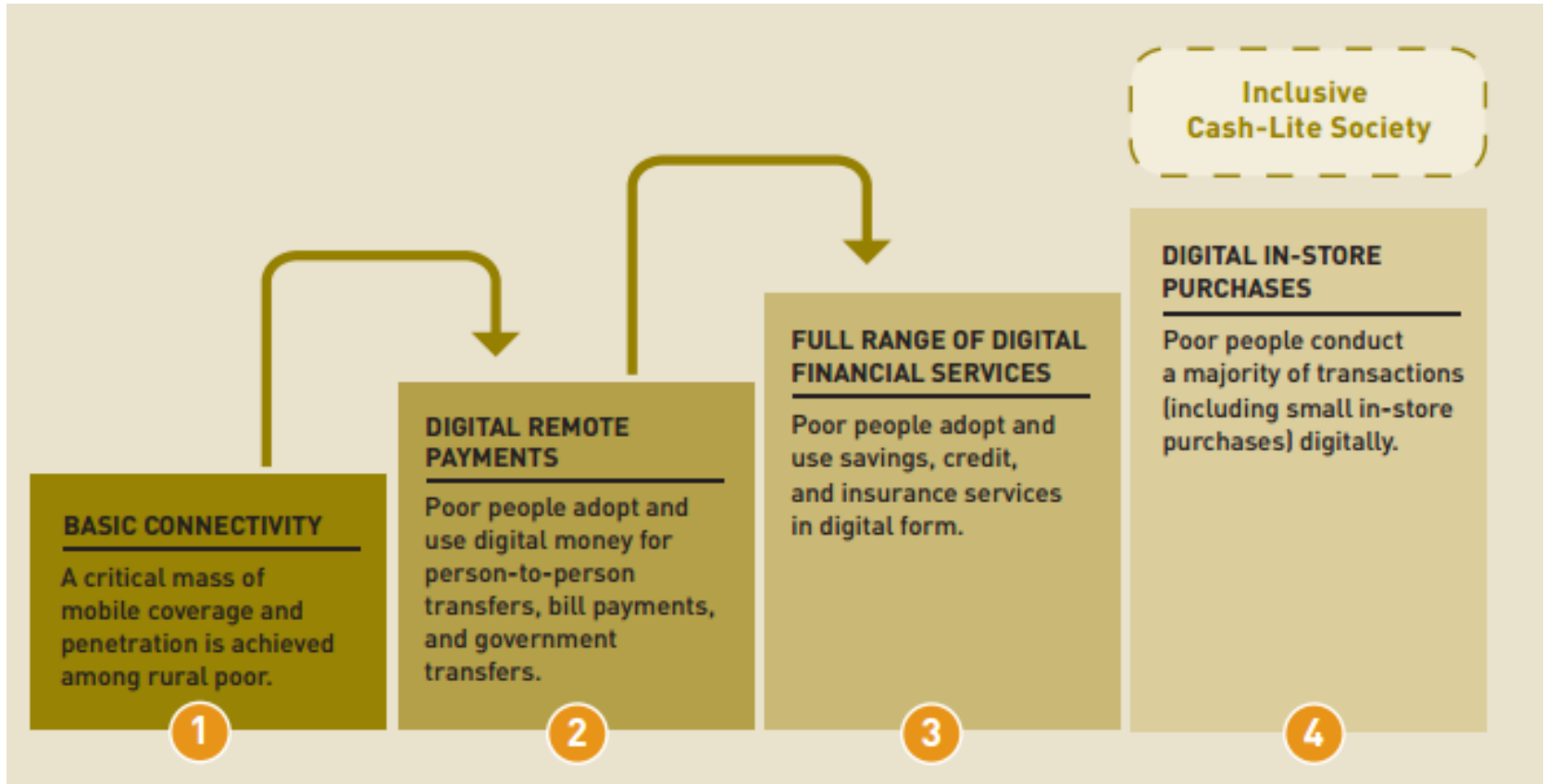


**And, how far are we in the evolution towards a cash-lite society?**



# But at what Speed?

## Stages of Market Development towards an Inclusive ‘Cash-Lite’ Society.



The majority of markets are still in Stage 1 of development

\*Bill & Melinda Gates Foundation – Financial Services for the Poor: Strategy Overview (Pg 4)

# Product Offering – Still Focus on Airtime Top-Up & P2P

## Products Currently Offered by Providers:

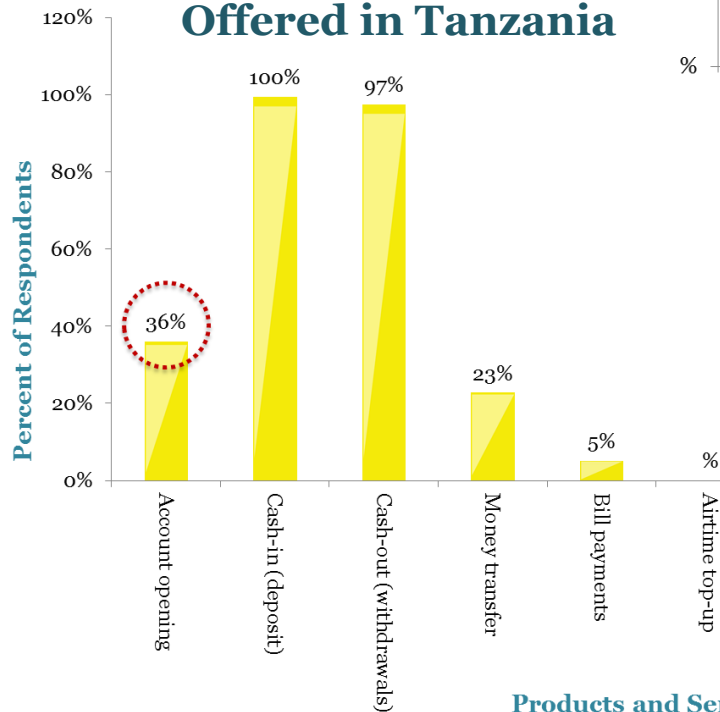
- **Airtime Top-up & P2P transfer** most adopted product in terms of offering and usage.
  - *‘Airtime top-up represents almost three-quarters of the total number of mobile money transactions performed in June 2013\*.’*
  
- **Bulk Payment & Merchant Payments** are fast growing.
  - *‘Offered by 60% of services while another 30% are planning to add them to their product mix next year\*.’*
  
- **Mobile credit, saving and insurance** slowing gaining traction.
  - *‘123 mobile insurance, credit and savings services are live of which 27 were launched in 2013’, however focus needed on customer education.*

\*GSMA MMU State of the Industry 2013 – Mobile Financial Services for the Unbanked

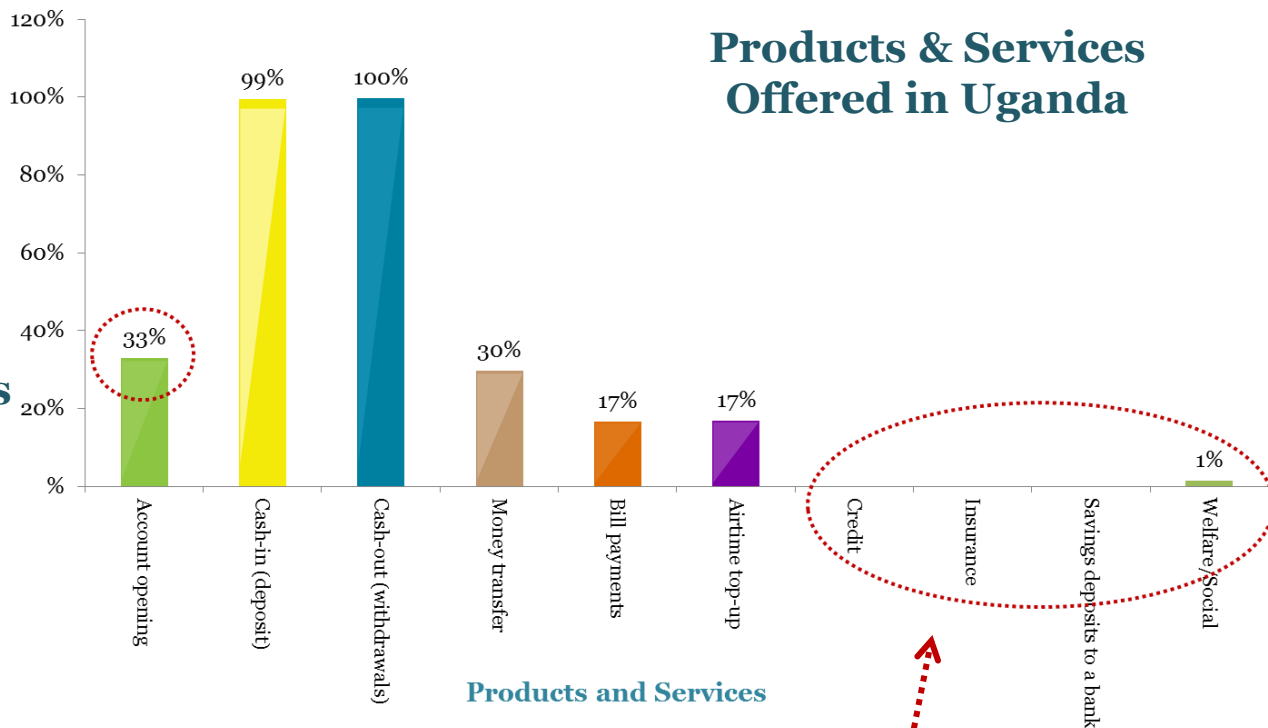
# Results from our Agent Network Accelerator Survey

How will the next generation of services be offered, and how will clients interact with them?

## Products And Services Offered in Tanzania



## Products & Services Offered in Uganda



Sophisticated financial services (credit, savings, insurance) are practically absent.



# Trends Impeding Evolution of the Network

The network is evolving, but we still have a long way to go in the journey towards financial inclusion:

- ▲ Markets are yet to offer a bouquet of financial services.
- ▲ Agents networks are still nascent and their trajectory is unclear.
- ▲ Novel product structures could lead to risks to client protection.

We are going to focus on three fundamental trends and the implication these trends have on client experience/protection and social performance.

## Interconnectivity



## Liquidity tethering



## Fraud



# Interconnectivity

**Interconnectivity can happen on three levels: In the System, On the Handset, At the Agent.**

- **In the System:** Allowing transfer of funds from one operators platform to another (e.g Airtel Money to M-PESA)
- **On the Handset:** Customers can access any operators services through one SIM
- **At the Agent:** Agents of one operator, offer the services of another operator.

**Where is it happening/not happening?**



**System:** No, although there is a voucher system this is complicated, more expensive and completely different customer experience.



**Handset:** No, still not available. Only dual SIM phones could manage this more easily.



**Agent:** Yes, Exclusivity is on the decline even in monopolistic markets such as Kenya.

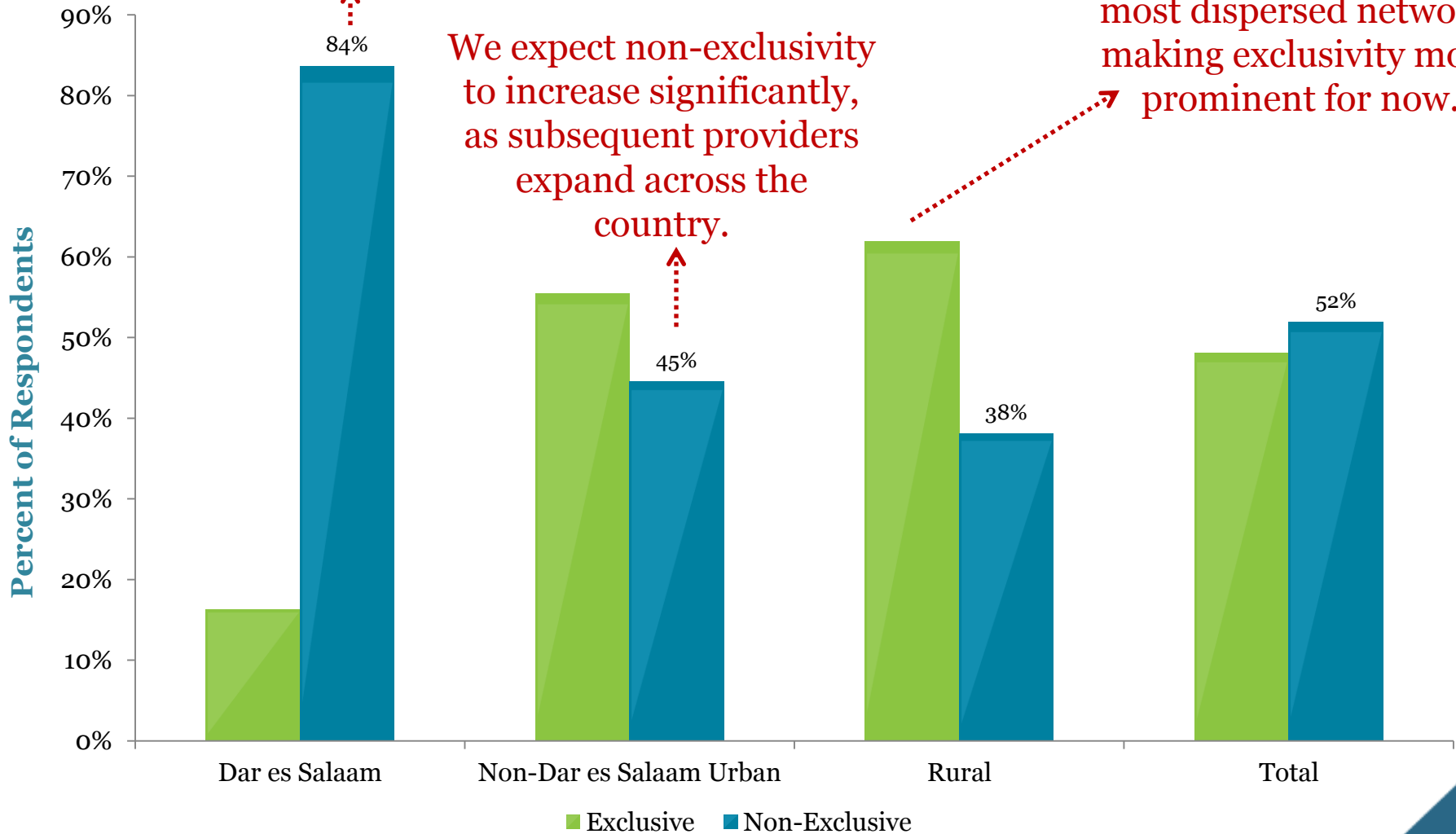
# In Tanzania, Overall Agents Are Non-Exclusive, But It Varies By Area

84% of agencies in Dar are serving more than one provider.

## Exclusivity Of Agents By Location (Tanzania)

Vodacom still has the most dispersed network, making exclusivity more prominent for now.

We expect non-exclusivity to increase significantly, as subsequent providers expand across the country.



# Interconnectivity – Implications on Client Experience/Protection

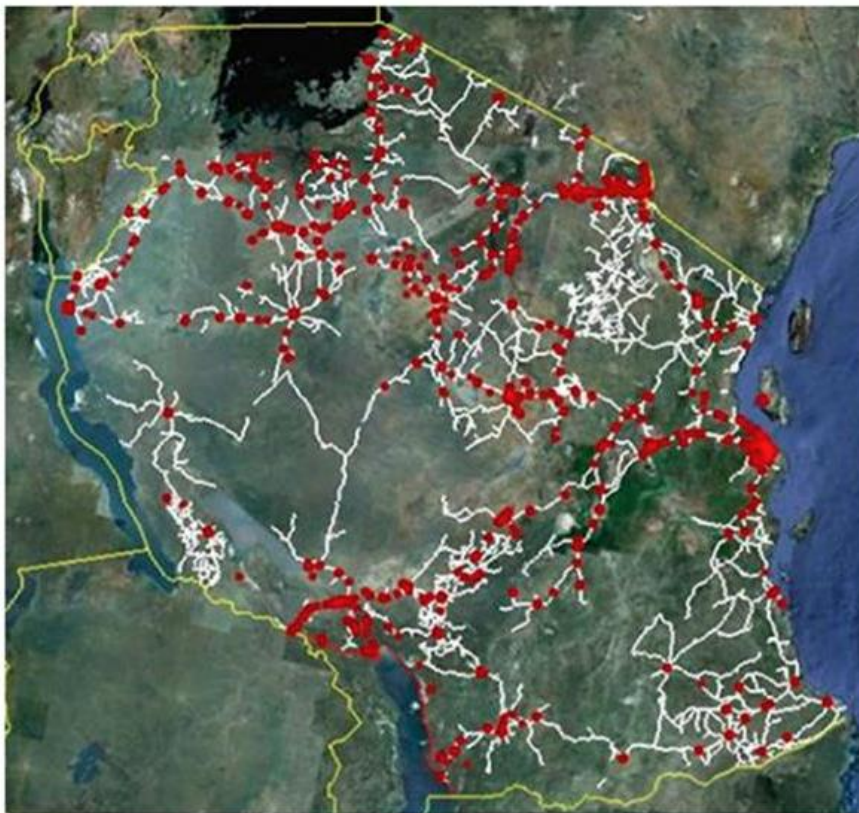
Agent Level	Consumer Level
<p><b>Inappropriate Product design:</b></p> <ul style="list-style-type: none"> <li>Agents have to manage multiple pools of liquidity.</li> <li>Low levels of connectivity with and between banks still mean frequent visits to financial intuitions or agents.</li> </ul>	<p><b>Inappropriate Produce Design :</b></p> <ul style="list-style-type: none"> <li>Reduced transaction volume as customers are only able to transact with people within their network.</li> <li>Customer unable to lead a cash-less life, and must therefore deal with insecurity of handling and storing cash.</li> </ul>
<p><b>Unfair Treatment of Client:</b></p> <ul style="list-style-type: none"> <li>In some markets providers will pressure agents to remain exclusive, although non-exclusivity leads to higher profits.</li> </ul>	<p><b>Higher Prices :</b></p> <ul style="list-style-type: none"> <li>When systems don't connect higher prices are charged for sending money</li> </ul>



# Liquidity Tethering

**Liquidity Tethering:** Agents clustering around financial points (banks) where they can easily rebalance their physical cash and e-float.

Figure 2: Map of mobile money agent locations (red dots) and roads (white lines) in Tanzania

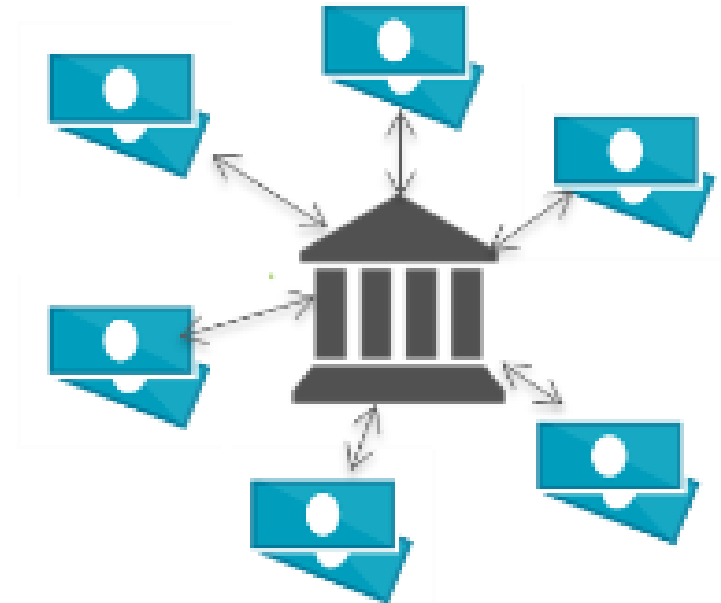


- ✓ Clustering of agents
- ✓ Large areas of the country uncovered
- ✓ Agents follow road network
- ✓ Lack of agents off the paved roads and deep into rural areas

\*CGAP– Blog: [‘Where’s the Cash? Geography of Cash Points in Tanzania’](#)

# Liquidity Tethering – Implications on Client Experience/Protection

Agent Level	Consumer Level
<p><b>Increased Competition:</b></p> <ul style="list-style-type: none"> <li>• With agents clustering together around rebalancing points.</li> </ul>	<p><b>Lack of Reach Into Rural Areas:</b></p> <ul style="list-style-type: none"> <li>• DFS designed to reach deep into ‘hard-to-reach areas’, however not quite there yet.</li> </ul>
<p><b>Increase Pricing:</b></p> <ul style="list-style-type: none"> <li>• Agents in rural areas have to pay money for rebalancing.</li> </ul>	<p><b>Uneven Service:</b></p> <ul style="list-style-type: none"> <li>• Customers report one of the biggest issues is agents regularly do not have float.</li> </ul>

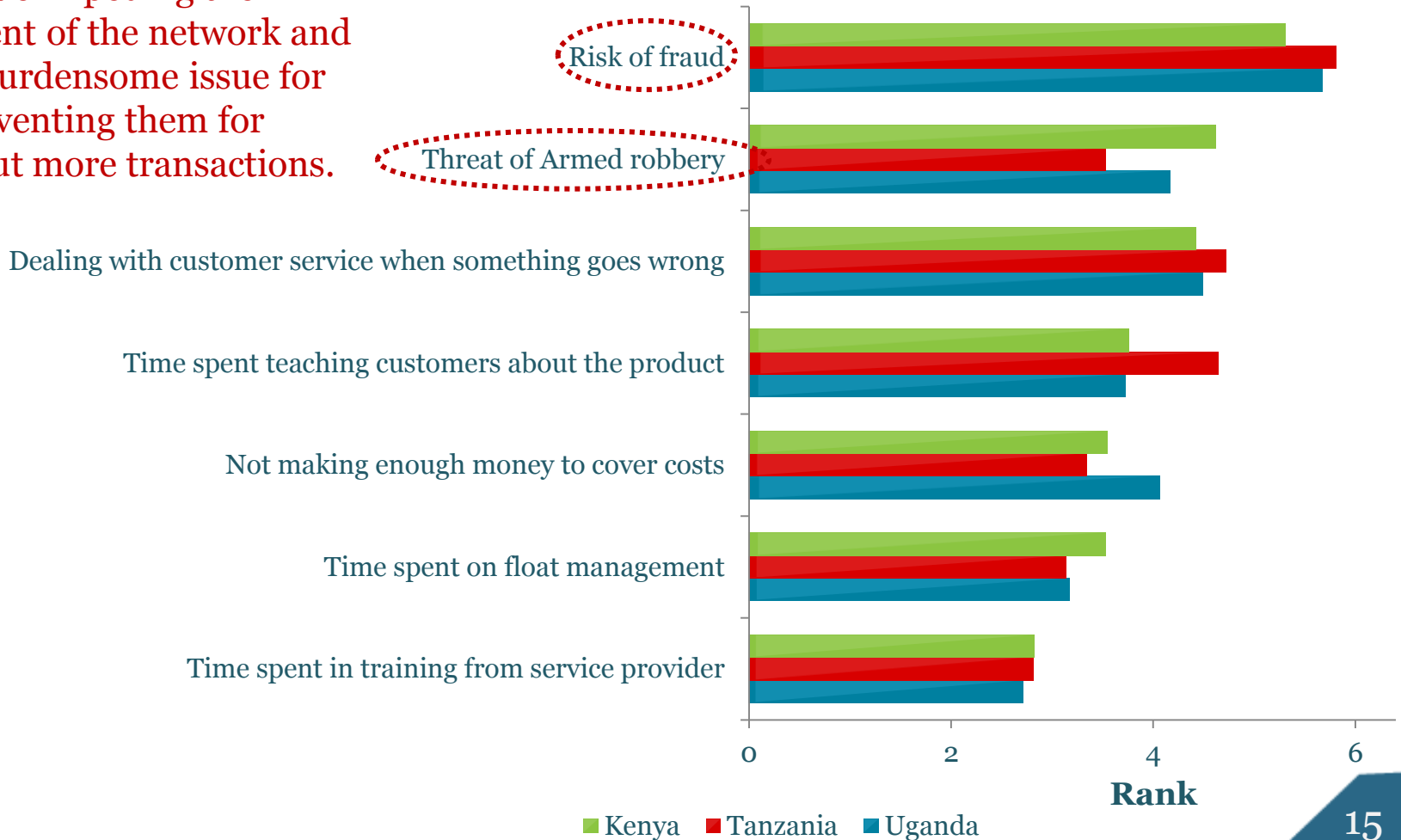


**Solutions:** Need to come up with sophisticated float management tools and decentralized liquidity management. Interoperability will assist as providers will be able to move e-float between different float accounts.

# Fraud

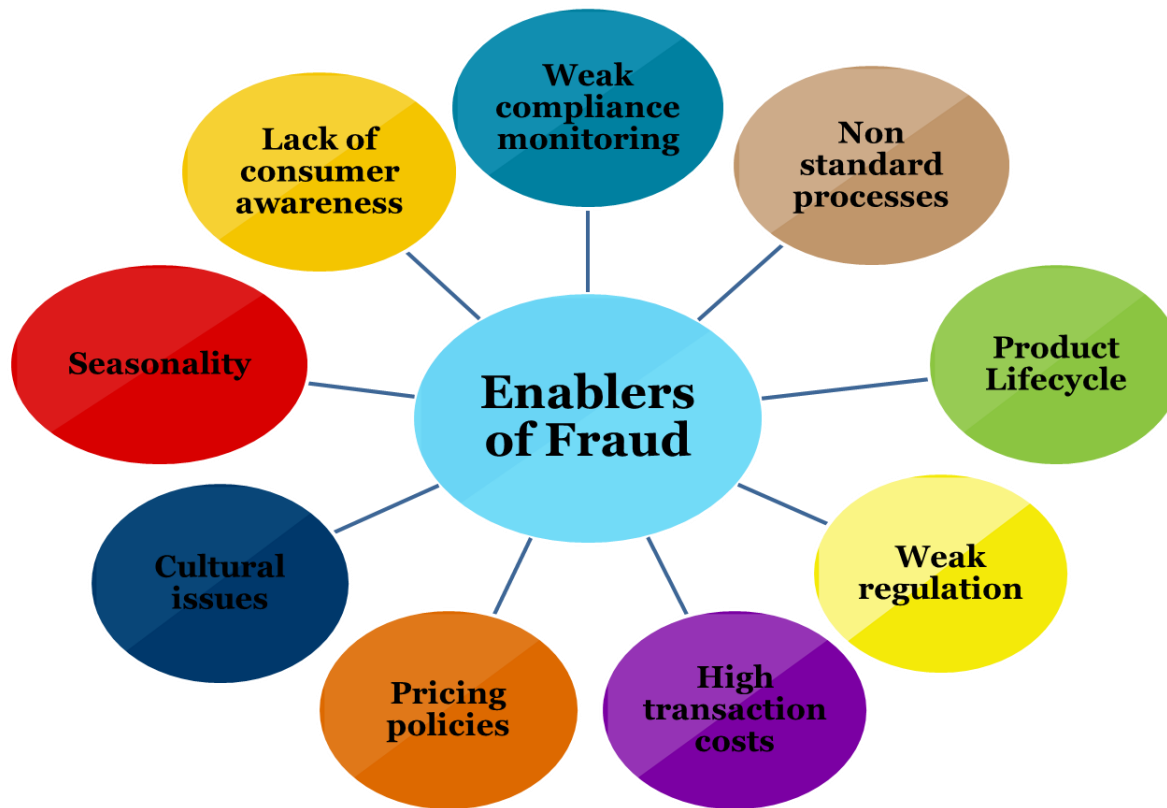
Across Kenya, Tanzania and Uganda fraud is stated as the biggest issue impeding the development of the network and the most burdensome issue for agents preventing them for carrying out more transactions.

## Issues In Running Agency Business



# Enablers of Fraud

There are many different enablers of fraud, and these affect all levels of the ecosystem: Agents, Master Agents, DFS Providers, Corporate Clients and **Consumers**





# Fraud: Implications on Client Experience

Fraud comes in many shapes and sizes both driven by agents or fellow customers. For example:

- ▲ Illegal Charges on Customers
- ▲ Registration Fraud – Non-existent customers or without proper KYC
- ▲ Unauthorized access to customers PINS
- ▲ Counterfeit currency
- ▲ Phishing, SMS spooking, fake SMA
- ▲ Voucher Fraud

This affects **TRUST** and **USAGE** on the client side.



For more read *MicroSave's* paper: [Fraud in Mobile Financial Services](#) – Joseck Mudiri

# Agent Network Accelerator Research

There are many barriers preventing the evolution of digital financial services and the journey towards a cash-lite society, and therefore greater financial inclusion.

Our cutting-edge insight on agent networks are designed to:

- ▶ Inform the curriculum of the **Agent Network Accelerator** Training Courses at The *Helix* Institute of Digital Finance.
- ▶ Be used to help agent network manager identify strengths & weaknesses, and benchmark performance.
- ▶ Generate a rich, cross-country comparable dataset across several agent networks.
- ▶ Enable donors & policy makers to track the evolution of the agent networks and better target intervention for greater financial inclusion.

# Thank You

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