GAFIS Focus Note 4:
Agents and Cash Merchant Channels Begin to Deliver Useful Savings Products

Gateway Financial Innovations for Savings (GAFIS) is a special project of Rockefeller Philanthropy Advisors, funded by the Bill & Melinda Gates Foundation and managed by Bankable Frontier Associates (BFA). GAFIS is working jointly with five leading, non-competing banks: Standard Bank of South Africa, BANSEFI (Mexico), Bancolombia, Equity Bank (Kenya) and ICICI Bank (India).

The GAFIS project aims to assist the banks to leverage the "gateway opportunities" presented by certain existing financial relationships between the banks and a large number of the poor. Gateway opportunities are those which bring poor people to the threshold (i.e., the "gate") of the formal financial system, where the offering of small savings accounts becomes a more attractive proposition to the client and more viable to the financial institution. For all the banks, agent channels have become important gateways for selling to and serving clients, including low income savers.

This Focus Note explores the use of agent channels for low-cost selling, marketing and delivering useful savings products to the poor and for promoting usage of these accounts among clients of GAFIS banks. Agent channels may potentially improve the business case for serving poor clients. However, the GAFIS banks face a number of challenges in rolling out these channels. In this focus note, these challenges are examined largely from the perspective of the banks and their agents.

How are the banks building agent networks to provide gateways to the under-banked?

The five GAFIS banks, four commercial banks and one state bank, are adopting varied approaches to agent channel development that may ultimately deliver financial services to poor, rural and formerly unbanked populations at scale. Notably, the utilization of agent channels as a low-cost customer activation and retention strategy is a relatively new effort by the GAFIS banks, which are fully committed to investing in electronic payments through agent channels. To date, they confront similar risks – often operational – that impede scaled take-up and usage through these nascent delivery channels. Agent channels comprise agent network managers, agents that open banks accounts, and cash merchants, which offer cash-in cash out services only and on their own account. The banks are assessing the range of their delivery channels of

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GAFIS savings products. Their agent channels are affected by the maturity of their existing agent channels (if started before GAFIS), e.g. older networks primarily for bill pay in the case of Bancolombia, but also by branch infrastructure, technology involved, regulations and institutional mandates, both internal and external.

A Note about Definitions of Agents

The GAFIS Banks and the overall branchless banking industry generally face issues of definition of an agent. An agent can mean a person, premises or a place, a mobile handset or an organization. In many countries, the banking regulations may not have anticipated the distinctions. For the purposes of this paper, we refer to an "agent" as an organization or person who has the legal authority to open a bank account. For example, in India agents are called Customer Service Points working for Business Correspondents, and in Colombia agents are called Corresponsales Bancarios. In many cases, an account-opening agent also conducts cash in/cash out (CICO) transactions, though not always. Alternatively, we refer to those parties who conduct *only* CICO transactions – trading in cash on their own accounts – as "cash merchants." Cash merchants are not permitted, either by the regulatory authority or a bank's internal policy, to open accounts for customers. In South Africa, for example, the Standard Bank calls their cash merchants "AccessPoints". Some qualifying agents also choose themselves to act only as cash merchants, primarily for business reasons not regulatory reasons. Finally, we group "super-agents" and "aggregators" such as Diconsa in Mexico or MFIs in India that manage agent networks and their liquidity as "agent network managers (ANM)."

The business case at the individual account level is not yet clear for the banks to serve the poor with low-value savings accounts (see GAFIS Focus Note 3). The savings products are designed by the banks to meet poor people's needs, habits and preferences, as initially depicted through baseline and other customer research (see GAFIS Focus Note 2), but they may be difficult to sell at scale without better agent delivery channels that immediately impact the total customer experience. This difficulty arises, whether in rural areas where the banks have few branches but see a significant market opportunity (e.g. ICICI Bank and BANSEFI) or in urban and peri-urban neighborhoods where branches exist but client uptake is hindered by lack of convenience and other factors (e.g. Standard Bank, Equity Bank and Bancolombia).

Savings product offerings and gateways to the poor

Table 1 below highlights the GAFIS savings products and delivery channels. Of the five GAFIS banks, three initially intended in early 2011 at the beginning of the project to target G2P-related "gateway opportunities" (ICICI Bank, Standard Bank and BANSEFI) and a fourth (Equity Bank) also had experience with implementing payments for Donor2P schemes in Kenya. Due largely to policy implementation challenges, only BANSEFI, whose core business is increasingly the electronic delivery of G2P to rural Mexicans, continues within GAFIS to focus on promoting savings and other transactions with G2P customers. Nevertheless, the other GAFIS banks are still attempting to effectively grow their portfolios in this financial inclusion space. Interestingly, three of the commercial banks identified the reactivation of existing largely dormant accounts of low-income customers as a gateway opportunity. ICICI Bank, which has a long history of partnering with MFIs with a range of wholesale debt products to deliver microfinance loans to the poor, is testing loan groups whose members are seeking individual savings accounts in their own names as a primary gateway (with an eye towards enabling domestic remittances into these new savings accounts in rural areas as a complementary gateway).

The main GAFIS savings product features summarized below highlight the diversity of savings products that have been developed or re-developed. For example, Standard Bank and Equity Bank are piloting commitment savings products with a range of illiquidity features and incentives. Bancolombia is featuring a basic savings account with a health insurance benefit incentive; BANSEFI is promoting re-deposits of G2P transfers and new deposits to prepaid debit card accounts. BANSEFI also wants to migrate from a closed to an open system for making deposits or withdrawals, which in the long run should benefit both cash merchants and customers. Equity Bank has developed two new commitment savings products that are focused around specific customer goals. One product called Jijenge is similar to a recurring deposit account with a savings goal, monthly deposit amount, and period of time established by the client up-front. The banks deliver these products using a multiplicity of delivery channels, but primarily agent channels.

Table 1: Savings product features and delivery channels

	BANSEFI ***Oportunidades***	**Standard Bank** ***AccessSave***	**Equity Bank** ***Jijenge & School Fees***	**Bancolombia** ***Ahorro a la Mano***	**ICICI Bank** ***Apna***
Date of Product Launch	Electronic G2P disbursements 2011; new marketing pilot July 2012	June 2012 launch	Piloted August 2011; May 2012 launch	Piloted September 2012; March 2013 launch	August 2011 launch
Main Product Features	Redeposit in basic savings account through cards	"7 day notice" savings account; free deposits; tiered interest & "bonus"	2 commitment savings accounts with illiquidity features	Basic savings account on mobile platform; health insurance incentive	No frills account on 3rd party mobile platform; 4% interest rate
Delivery Channels	Agents Branches ATMs (Cash Out)	Agents Cash merchants Mobile Branches	Branches Agents/Cash Merchants (Cash in only)	Mobile Agents/Cash Merchants ATM (Cash out only)	Agents Branches of ANM Mobile

The banks' efforts to try agent channels as a low-cost customer activation and retention strategy are recent. All of the GAFIS banks decided to test agent channels within the last 2-3 years, except for Bancolombia that has been employing bill pay cash merchants (and some sales agents) for more than five years. Equity Bank began to establish an effective network of bank agents to open its traditional basic bank account in late 2010. The agents now are cash-in points for the two GAFIS commitment accounts, which to date have been opened exclusively at their branches.

Overall, Standard, ICICI, Equity and Bancolombia expect that their agent channels will be profitable. In contrast, BANSEFI is seeking more social impact, as it is mandated to promote savings and G2P distribution by government. Nevertheless, BANSEFI is seeking financial sustainability for its agent network. Equity Bank and to a lesser extent Standard Bank also intentionally want to decongest their bank branches.

The banks all have substantial existing branch infrastructure that they have leveraged differently to build up their agent networks. Equity Bank has the fewest branches of the five GAFIS Banks (though one of the top two in Kenya), but branch managers and even tellers are incentivized to identify and activate agents. A few of the agents have become very successful stand-alone businesses and are offering a significant level of financial services, though not necessarily in opening the GAFIS-supported savings accounts but providing deposit services into these new saving accounts. BANSEFI, Standard Bank, Bancolombia and recently ICICI Bank maintain "mini-branches" that influence the agent and cash merchant channels and the customers who use them. Bancolombia, for example, has eleven different types of branches in small town and urban locations. Its so-called "Alfa" branch is a small branch, usually with 2-3 employees and an ATM, offering loans and bill payment, among other services. New Alfa branches are sometimes established in areas where successful agents have reached a number of transactions high enough to support a profitable mini-branch, according to the bank's internal analysis. These mini-branches provide most of the same services as the main branches, but they also refer clients, who want to pay bills or do simple CICO in their accounts, to the bank's agents and cash merchants when the mini-branches are closed or crowded.

Comparative agent acquisition strategies

The banks rely primarily on three types of agent acquisition strategies. The Inclusive Banking division of Standard Bank intentionally distinguishes its account opening sales agents from its cash merchants (called Access Points). The bank manages its own mobile sales force to handle customer account openings, but then identifies cash merchants where clients are able to conduct deposits and withdrawals and other CICO transactions, such as purchasing airtime and making money transfers. Most of the bank's Access Points were on-boarded by a third party en masse in 2011, but the effort to re-train and re-brand these cash merchants is almost a "one at a time" exercise, but proving successful as the take-up and usage of the GAFIS savings and transaction accounts increases.

Second, Equity Bank incentivizes its branch managers to analyze their customer base to identify highly credible bank clients and entrepreneurs to offer them an opportunity to be associated with its bank brand and supplement their core businesses with transactional services. While regulations forbid Equity from establishing exclusive agreements with its agents, the entrepreneurs are long-term Equity clients and willing to share costs, follow strict guidelines and promote the bank's brand. This acquisition strategy increasingly resembles a potentially cost effective "franchise" model. In the GAFIS Project, Equity's agents do not open the

GAFIS commitment accounts, but they do enable new savers to make deposits into their accounts. Equity's agents are not yet opening commitment accounts because the products are more complicated to originate. Training the agents to explain niche product parameters such as goal setting, recurring deposit requirements and limited withdrawals is planned, but to date a substantial amount of the deposits into the GAFIS accounts is occurring through the agent network.

Similar to Equity Bank with its existing agents, Bancolombia is depending on its existing cash merchants, but they can now assist the clients to open the new GAFIS-supported saving accounts. They are less familiar with account opening and share the account opening responsibility with the clients themselves, as the product and mobile platform actually enable self-service account opening on the mobile. The cash merchant may guide the client through the process and can obtain a commission thereafter by calling the bank's call center to register the shared account opening.

Finally, BANSEFI relies on a sister government agency (Diconsa) that essentially acts (somewhat reluctantly) as an agent network manager of state owned rural stores that sell subsidized food staples and distribute G2P payments. BANSEFI is also acquiring and piloting state owned gas stations (PEMEX) to offer savings and transaction services to both G2P and non-G2P clients. BANSEFI is expecting to sign up other more commercially oriented agent network managers that may be able to add value to a new set of agents. Similarly, ICICI Bank is targeting MFIs as Business Correspondents as agent network managers of their loan officers as agents to effectively develop and scale up delivery of the GAFIS savings products to poor new savers.

The cost differences between the agent acquisition strategies are the continuing subject of business case analysis undertaken by the banks and GAFIS project staff.

Comparative agent selection criteria and responsibilities

The banks' agent selection criteria correspond to their reasons for developing agent channels, and are also affected by regulatory standards. Standard Bank, for example, recruits its own sales force and selects cash merchants in urban and former townships with high foot traffic. Equity and Bancolombia similarly recruit agents in urban and semi-urban markets whereas BANSEFI's focus is primarily rural. Typically, the banks or the agent network managers look for agents located in economic activity zones, and sometimes in locations some distance away from other agents. Equity Bank, on the other hand, also likes some agents to be close to their branches and ATMs as part of a branch de-congestion strategy.

Table 2: Primary selection criteria of agents

	BANSEFI *Oportunidades*	Standard Bank *AccessSave*	Equity Bank *Jijenge & School Fees*	Bancolombia *Ahorro a la Mano*	ICICI *Apna*
Agent characteristics considered					
Creditworthiness		✓	✓	✓	✓
Reputation in community	✓	✓	✓	✓	✓
Size/ performance of existing business	✓	✓	✓	✓	
Robust business activity		✓	✓	✓	
Geographic focus					
Rural	✓				✓
(Peri-)urban		✓	✓	✓	
Primary motivation of agent					
Social	✓				✓
Financial		✓	✓	✓	
Brand alliance		✓	✓	✓	
Required investment by agent/CM					
Security	✓	✓	✓	✓	
Cell phone	✓	✓	✓	✓	✓
Other			Shared POS cost		

All the banks place a high value on reputation and community trust. They also assess the number of years' operating the business, creditworthiness, liquidity capacity and general excitement about the product. However, Standard, Equity and Bancolombia expect agents to maintain robust retail operations with sufficient space for a teller window/customer interaction while BANSEFI and ICICI look for distributors, such as publicly owned stores and MFIs, respectively, to be agent network managers. Standard Bank, ICICI, Equity Bank and Bancolombia are seeking agents with successful business profiles motivated by profitability and demonstrated brand alliance. The text box below gives an example of Bancolombia agents' brand alliance and other incentives.

Does it work for the agent? Incentives of two Bancolombia agents during start-up

Different retailers have various reasons for adding banking services to their core businesses, and the level of commitment to becoming an agent may predict the likelihood of the success of the agent business. Additionally, the motive for becoming a bank account opening agent may differ from that of conducting merely CICO transactions, such as deposits, withdrawals and billpay. Below are profiles of two Bancolombia agents to highlight this dichotomy, based on a November 2012 field trip to review its pilot started in late 2012. Bancolombia is working on improving its methodologies for the national launch.

Agent A is a hardware store owner selling large construction materials in a working class neighborhood in Bogotá. **Agent B** runs a conglomeration of stationery, office and school supplies store, internet café offering copy and printing services as well as a small café in a similar neighborhood in Bogotá.

Agent A was not a Bancolombia client before becoming an agent. An agent is not required to be so by the bank, though it is preferable. The manager decided to become an agent in order to provide useful services to her existing hardware store customers and local community members. She viewed it as a valuable service to her best customers but also one that makes her neighborhood better off, reflecting a social motivation that Bancolombia does not necessarily require of its agents. Her drive to offer a convenient, time-saving service motivates this manager to strive for excellent service as an agent. In contrast, the manager at Agent B sees the agent business as a hook to lure people into his shop, where they might buy his other services, reflecting a financial motivation to increase "foot traffic." Since Bancolombia is well known, this manager feels that having the bank brand attached to his shop will raise his profile as well as increase the sales of the shop's main goods. A long-time Bancolombia client, Agent B thinks the bank offers quality service and wants to associate with a respected, high profile brand.

During the pilot period, despite the social, financial and brand loyalty motivations of Agents A and B, neither manager felt very enthusiastic about offering Bancolombia's new mobile-led savings account product Ahorro a la Mano, which is highly reliant on the agent channel to promote and open. The manager at Agent A explained that if the customers had problems or questions about the product, the customers would come to her first, since she had helped them open the account. Because at this early point, she had limited training on the details of how the mobile product works and about financial offerings in general other than billpay, she did not feel confident to resolve customer queries, or even point customers in the right direction.

The manager at Agent B remarked that spending time with a customer to open the account was substantial, and the opportunity cost was higher than the commission offered. Moreover, the agent noticed that the bank client could purchase airtime through the new account, competing with his prepaid airtime products.

The need for agents to spend more time with clients and develop more expertise, including technical product knowledge, troubleshooting skills and more complex POS/ cellphone transactions, did not align with the incentives anticipated. It seems the agents' motivations only extend so far, but might also depend on the support and training they receive from the bank and its partners.

Banks select their agents against criteria that reflect the mandates of the banks. They must also be able to sufficiently manage their liquidity, know the products and perform the transactions.

Table 3: Available transaction types at agent or cash merchant interface

	BANSEFI *Oportunidades*	Standard Bank *AccessSave*	Equity Bank *Jijenge & School Fees*	Bancolombia *Ahorro a la Mano*	ICICI Bank *Apna*
Cash Deposit	Yes, free	Yes, free	Yes, free	Yes, free	Yes, but fee
Cash Withdrawal	Fee	Fee	Jijenge – Fee; School Fees – 4 free/year	Fee	Fee
Balance Enquiry	Yes, fee	Yes, free	No	Free from mobile; fee other	Yes, free
Airtime	No	No	No	Yes	No
Bill Payment	Yes, phone bills only; electricity projected	No	No	Yes, free	No
Receive G2P	Yes	No	No	No	No
Statements	No, but will be possible soon	Yes, but not at agent	Yes, but not at agent	No	Customer passbook
Transaction List	No, but will be possible soon	Yes, but not at agent	Yes, but not at agent	No	Customer passbook

ICICI Bank, which is piloting a number of agent channels and technology service providers outside the GAFIS Project, is leveraging and testing its MFI distribution networks as part of the GAFIS project (which is the only model discussed herein). For example, CASHPOR a MFI is an agent network manager (Business Correspondent) and is mobilizing its branch and loan officer network ("Customer Service Points") using a third party mobile platform (EKO). Interestingly, ICICI Bank is the only GAFIS bank that charges for account openings, deposits and withdrawals to test client willingness to pay for savings services and to decrease dormancy rates and improve the business model. Unfortunately, the money transfer functionality of the accounts is limited and therefore limits the potential business case for the agents. For example, ICICI Bank's current core banking technology enables its agents in Delhi to remit over-the-counter funds to every "mainstream" bank account in the country, other than to those opened by BCs, including those opened by CASHPOR. This operational challenge will undoubtedly be overcome, but the current situation undermines the value proposition for both agents and new savers.

For BANSEFI, clients receiving their G2P payments on its prepaid debit card are required by the rules of the Oportunidades scheme first to withdraw their benefits in full from a specific POS before clients can then redeposit a portion into the account. It is still unclear, however, how comfortable people feel in leaving a balance on an account linked to a government social welfare transfer for many reasons. One common reason is that they fear if the government sees a balance in the account, the government will think that they no longer need government support. Additionally, the bank has struggled to inform G2P beneficiaries that their cards are actually their own bank accounts with which they can save and conduct other transactions. This situation undermines the business case for the Diconsa agents.

Comparative management approaches of the agent channel

Given the brand allegiance that Standard Bank and Bancolombia expect from their agents, they also try to maintain exclusivity agreements with their agents. However, due to the high agent turnover for some GAFIS banks (20-40% of agents go dormant or are terminated in a given year), they struggle to monitor and maintain the quality of their agents and keep them apprised of the latest products and services and the best ways to market them to clients.

BANSEFI and ICICI Bank work through agent network managers and exclusivity agreements are not applicable at that level, but exclusivity does apply between the agents and the ANM. Liquidity management is a key challenge for all the banks. They have elected to help to support the management of the agents, including their liquidity requirements through different strategies:

- BANSEFI monitors Diconsa, a publicly owned foodstuffs supplier, which ensures the community acceptance of the agent, the liquidity of the agent, remuneration and transaction limits; security has been an issue for Diconsa and its agents but this function and cost is primarily borne by BANSEFI.
- Standard, Equity and Bancolombia expect their agents to manage their own liquidity, and the three banks monitor transaction limits. The banks are involved in the training, monitoring and supporting of agents through regional managers, branch managers and bank staff, respectively, but Standard and Bancolombia also rely on outsourced providers to assist.
- ICICI relies on its MFI business correspondents and their agents to manage own liquidity, and they also set transaction limits; they also facilitate EKO in training, monitoring and supporting agents on the use of mobile technology.

The banks pay to provide their agents or cash merchants with POS devices, though Standard Bank and Bancolombia have developed their own special POS-like devices, building on previous technology in which they have already invested, to save money. Equity Bank, however, requires cost sharing by its agents in the purchase of a POS. Equity agents are also responsible for acquiring a dedicated phone, teller window in store, and store painting. All banks provide their agents with signage and ongoing marketing materials, but they require some other investments such as cell phones, receipt paper, stationery and security; e.g. safes and guards.

Table 4: Agent channel management

	BANSEFI *Oportunidades*	Standard Bank *AccessSave*	Equity Bank *Jijenge & School Fees*	Bancolombia *Ahorro a la Mano*	ICICI Bank *Apna*
Exclusivity		✓		✓	
Liquidity management					
Managed by agent		✓	✓	✓	
Managed by ANM	✓				✓
Transaction limits					
Bank-imposed		✓	✓	✓	
ANM-imposed	✓				✓
Agent training, support & monitoring					
Bank head office team	✓				✓
Regional/branch	✓	✓	✓		✓
Other	ANM	Outsourced providers		Outsourced providers	ANM & Platform provider
Bank investments					
POS (one-time)	✓	✓	✓ (shared cost)	✓	NA
Signage (one-time)	✓	✓	✓	✓	✓
Marketing materials (recurring)	✓	✓	✓	✓	✓
Other	Receipt paper			Info booklets	Pass books

Marketing of the savings products and promoting usage

All the banks require their agents to make some investments in the agent business, so as to have some "skin in the game". All the banks also rely to some extent, on their agents or cash merchants to market the GAFIS savings products. For example, Standard Bank is engaging in innovative below the line (BTL) marketing, which involved hiring a third party marketing agency to leverage and promote the bank's agent and CM footprint with in community events and promotions. But to date this type of effort seems relatively weak among the other banks. BANSEFI and Bancolombia in particular must rely in the future on agents to conduct "word of mouth" campaigns, while the banks also invest in above the line (ATL) advertising, including national campaigns of product-specific marketing. Equity Bank has recently embarked on an ATL national campaign and expects some word-of-mouth selling, but branch managers are chiefly responsible for promoting its commitment savings products. ICICI Bank relies primarily on the relationship clients have with CASHPOR for sales and marketing, but it also conducts product-specific marketing at the branches of CASHPOR. ICICI relies on CASHPOR agents to distribute ICICI-branded pamphlets and signage that advertise the fixed deposit (FD) and recurring deposit (RD) accounts, and other marketing collateral are also available in the CASHPOR branches for promoting savings products.

Despite each bank relying on its agents to perform and invest in marketing, each bank also struggles with adequately and successfully incentivizing its agents to sell the products profitably while also providing clients with fair, timely services.

- During its recent pilot, Bancolombia's agents were reluctant to register new clients and assist them with savings transactions, which tend to take more time than bill pay even though the commission is the same. Particularly given Bancolombia's reliance on agents who previously did only CICO transactions, the combination of insufficient commission and insufficient training about the savings product (as demonstrated with the agents profiled above during the pilot stage leaves the bank with underserved clients (who may not return to the brand and/or the product). Bancolombia aspires to improve agent training and make them enthusiastic product users, so they will be better positioned to champion the product to clients, but this has not yet been achieved.

- BANSEFI also uses caravans to reach rural communities, market the bank, product and agent channel, teach financial education and open savings accounts concurrently. However, the bank has experienced issues with its agent network managers misinforming agents about the bank's products, leading to inconsistent service for the agents and fewer transactions.

- Equity Bank incentivizes agents to register and activate customers (though not GAFIS accountholders yet); the number of CICO transactions across all of the agents is approaching the number of CICO transactions at the bank branches. Nevertheless, the bank is not keen to rely on this strategy alone.

- By dividing its network into sales agents and cash merchants (AccessPoints), but also maintaining loan centers as mini-branches, Standard Bank's cash merchants are sometimes disconnected from promoting sales and usage. The bank is still looking for the optimal incentives for sales agents to also promote usage at the cash merchants. The bank, however, is increasingly supporting the cash merchants with high quality signage and marketing.

- ICICI, leveraging the CASHPOR distribution network, is reaching its target population with some encouraging results to date, but the business case is unproven for both the

MFI/ANM and the agents who also find the account opening and deposit-taking activities time-consuming compared to their core business of lending. ICICI continues to search for a more profitable network solution such as more functionality for the account that would benefit the agents, the MFI and the bank.

One Bank's Agent Incentives

The agents are paid Rs 5.00 for every new account they open and Rs 0.20 for every deposit or withdrawal transaction, each of which is a portion of what the bank pays the ANM (MFI BC). Based on the MFI's November 2012 sales figures, 5,828 new customers were registered and 54,390 transactions were performed resulting in the following:

Agent commission for Nov 12	Rs	$
Total transaction commission	10,878	217.56
Total registration commission	29,140	582.80
Total commission	40,018	800.36
Average commission per agent	67	1.33

Agent incentives for providing the savings service

An agent's regular salary averages $175 per month. The average commission per agent is unlikely to be a significant source of supplemental income. The savings business of the agent is expected to take about 30 percent of the time spent with each group of customers, but in practice the agent's core business sometimes over-runs so the savings activity is may be put on hold until the following week.

Performance indicators of the new agent channels: a good start

The number and type of transactions through the agent channel varies greatly among the banks (See Table 5 below). Two banks have on average higher volumes of transactions due in part to the "maturity" of their agent channels and the fact that their customers may be more accustomed to transacting at agents, instead of at the branch. But the bank with the oldest channel has seen negligible GAFIS related transactions to date as the opening of savings product is in the early pilot stage. The average account balances of the GAFIS savings products at this point are either small (as in the case of Bank E), or surprisingly high, begging the question of the income levels of the new savers (a poverty filter will be applied at the end of the project).

Table 5: Agent and cash merchant channel details and statistics

	Bank A	Bank B	Bank C	Bank D	Bank E
Year of first deploying agents	2011	2010	2010 (2012 with GAFIS)	2006 (2012 with GAFIS)	2010 (2011 with GAFIS)
Agent Network Managers	2	0	1	0	3
Approved Agents	297	8,500	5,849	1,619	538
Active Agents/CMs	271	7,700 (6,200 CMs)	3,000	1,225 (including 6 pilot agents)	538
Agent/CM Growth Targets 2013	1,000+	15,000 CMs by 2015	10,188 active agents, 14,900 CMs	7,500 by 2015	1,000+
Avg. Account Balance (US$)	$50	$150	$120	$24	$5

Active = having transacted at least once in the past quarter

Primary challenges with the agent channels

The process for identifying, recruiting, training and monitoring agents requires combinations of the skills of agent network managers (ANMs) and the clear commitment from the banks, as they demonstrate in their respective ways.

The GAFIS banks all encounter similar challenges, including:

- Agent selection, including finding those whose own costs will not exceed the commissions they will earn as agents, though any profit/loss analysis should also be supplemented by the impact on the overall business of the agent.
- Agent turnover is a challenge for some of the banks. Whereas the agents are ultimately driven by financial return, turnover is affected by opportunity cost of time and available space. If the agent sees a strong business model, s/he will stick with it; if that model deteriorates and better opportunities come along, an agent may not hesitate to abandon the bank relationship. The latter impulse is tempered, at least in the short-run, by the agent's own sunk cost in the business or the value placed on the bank relationship (either brand or as a bank customer).
- Agent set up, training, re-training and sufficient monitoring are required so that agents are confident in selling products to current and potential customers. Some of the banks struggle with choice of using third party service providers to support these efforts.

- Agent commissions and incentives to register new customers as well as encourage those customers to remain active clients are in some cases misaligned. One outcome is an agent may assist customers with product and service offerings that are most convenient (and quickest) for the agent rather than most useful to the client.

- Liquidity management is vexing, as some banks have experienced, where agents rely on nearby branches or agent network managers to assist. The agents also incur the risk of carrying large amounts of cash. Daily visits to a branch to rebalance may take away time from their other businesses as well as require transportation, which is a direct cost cited by agents we interviewed. Other costs have been unnecessary SMS expenses incurred in the re-balancing process.

- Theft, which can be tied to managing large volumes of cash, is always a risk. This security issue has been felt more in Mexico than other places to date but is a constant risk.

Nevertheless, the GAFIS banks have demonstrated to themselves the benefits of using agents to reach new clients. As their market campaigns reach scale and agent channel challenges get sorted out, the banks expect to see increasing usage in 2013 and continuing investment in platform development.

Conclusion

This *Focus Note* tries to establish a framework to better understand the agent channels recently deployed by the five participating GAFIS banks to deliver useful and reliable savings products to the poor. To date, the banks are seriously committed to agent channels and technology features that enable real-time transactions and encourage electronic stored value, which the banks see are attractive to their clients. However, the weakness of the agent channels, including misaligned incentives and differing expectations by the agents, may be negatively affecting the full customer experience. And in some cases the technology platform itself is flawed. We will certainly find out more following the results of additional work alongside the banks in 2013.

Furthermore, the banks are facing some interesting operational problems:

- BANSEFI faces uncertainties on G2P payments and inexperienced ANMs that inadvertently undermine agent incentives. This state bank will continue to try inform its G2P customers that they have bank accounts in which they may deposit their benefits and other cash.

- Bancolombia faces significant hurdles related to mobile network operator dominance and to managing cash merchants who are learning to open bank accounts using mobile phones where incentives for account opening are yet to be sufficiently worked out.

- Equity Bank's agents are particularly robust, but some are not making sufficient money or only want to be cash merchants.

- ICICI Bank's remittance agents can send money to any mainstream bank account in the country except to those opened by Business Correspondents, such as CASHPOR, undermining the value proposition for both agents and clients on both ends of the remittance transaction.

- Standard Bank's AccessSave clients may be more comfortable going to bank branches and using ATMs than transacting at the Access Points, which are now increasingly incentivized, promoted and trained by the bank, and this effort is beginning to be reflected in increased transactions.

Nevertheless, the GAFIS banks are addressing their challenges head-on, and the final outcomes may result in agent delivery channels that can deliver useful savings products at scale by the end of 2013.

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