Key Findings:

Factors and Trends Influencing Agent Networks in Nigeria

October 2018

Outline

A — About this Study

B — Background: The Agent Networks State of Play

C — Factors Affecting the Development and Scaling of Agent Networks in Nigeria and Key Opportunity Areas

D — Consumer Protection Issues intersecting with agent networks in Nigeria

E — Agents Performance Evaluation: Direct vs Indirect Models

F — Establishing the Business Case for the Development of Agent Networks

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About this Study

Overall Objective

To provide credible market information for financial services stakeholders to drive the growth and development of Agent networks in Nigeria

Study Methodology

- Desk research
- In-depth interviews
- Analysis

- To understand the regulatory factors affecting agent networks in Nigeria
- To get stakeholders' viewpoint on factors affecting rollout of agents in Nigeria
- To analyze the factors and trends influencing agent networks in Nigeria using the EFInA Financial Services Agents Survey 2017 data
- To understand how consumer protection issues intersect with agent networks in Nigeria
- To establish a business case for agent networks for operators in Nigeria, with performance evaluation matrix
- To evaluate the performance of direct and indirect agents using the EFInA financial services Agents survey 2017 data
- To analyze other landscapes on the context of the research

Respondents Profile
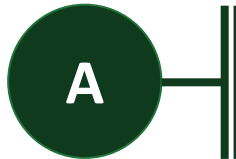
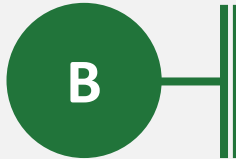Deposit Money Banks   Microfinance Banks   Super Agents   Mobile Money Operators

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A — About this Study
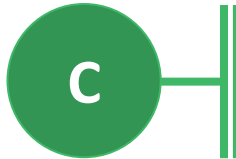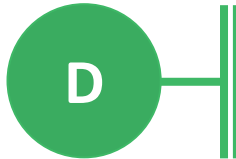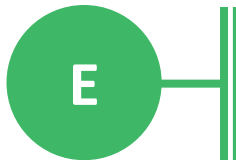
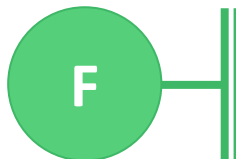**B** — Background: The Agent Networks State of Play

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In Emerging Markets, Agents are a Crucial Asset for Providers and Have Been Key to the Growth of the Industry Over The Last Decade

As of December 2017, there were well over 2.9 million agents and 690 million registered customer accounts worldwide. The industry now processes a billion dollars in transactions a day, and in 2017 generated direct revenues of over USD 2.4 billion, largely from agents performing cash-in and cash-out (CICO) transactions

Cash-in + Cash-out values (USD billions) — left axis; **Active agents (millions)** — right axis. Bar chart of Active agents and line of Cash-ins + Cash-outs from Dec-12 to Dec-17.

Legend: Active agents; Cash-ins + Cash-outs

GSMA "State of the Industry Report 2017" Report

There are a Number of Critical Success Factors in the Development and Scaling of Agent Networks in Leading Markets

Brazil:
- Bank-led (Direct and Indirect model)
- Shared agent networks (No exclusivity)
- Interoperability among players
- Supportive regulation

Kenya:
- Telco-led
- Shared agent networks (No exclusivity)
- Interoperability among players
- Supportive regulation

Peru:
- Bank-led model
- Shared agent networks
- Interoperability among players
- Networks with low cost structures, this making Agents the cheapest means of assessing financial services

Colombia:
- Bank-led model
- Subsidies helped the creation of agents in unserved/unbanked areas
- Flexible regulations
- Interoperability among players
- Regulators are open to suggestions from stakeholders that help remove regulatory obstacles that impede growth of the sector

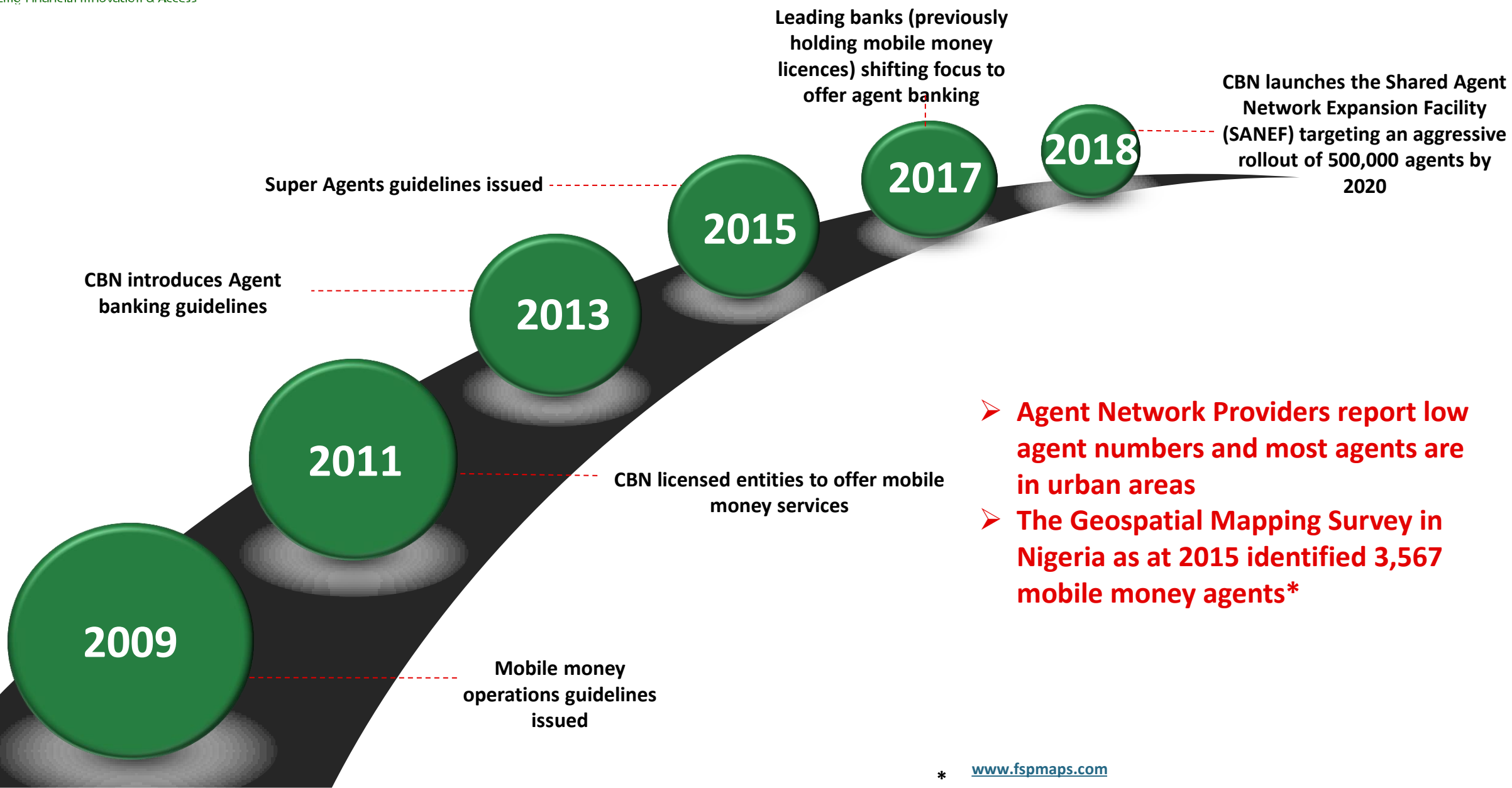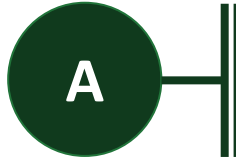|	Asia	
Country	**Bangladesh**	**India**
Authorised Business Operating Models (e-money issuance)	"Mobile accounts" can only be issued by banks or their subsidiaries. (EMIs allowed by law but not in practice.)	Issuance (open-loop PPIs) limited to banks and payments banks.
Leading Agent Network Development Inhibitors	❑ High fraud cases ❑ Limited product offering beyond CICO ❑ The leading challenge among agents is a long period of time taken to register customers	❑ High operating costs ccombine with dedication have had an impact on profitability and requires solutions. ❑ Increased cases of fraud
Leading Agent Network Development Enablers	❑ Superior agent rebalancing services e.g. door-step liquidity/float delivery ❑ Superior agent network management services through multiple partnerships with third party ANMs	❑ New players (Payments Banks) have emerged creating vast agent networks ❑ G2P* facilitation is a major driver of agent transactions in rural and non-metro urban areas
DFS Trends	❑ Increased use of technology to monitor and support agents ❑ Predominantly OTC based transactions at agent locations, providers are yet to offer a bouquet of products	❑ G2P payments have offered more use-cases, leading to increased transactions, revenues and profits. ❑ Agent recruitment has slowed, providers increasingly looking to maintain existing operations in preference to further expanding footprints.

Combined Sources include: various DFS reports by CGAP, GSMA, IFC, BFA, PHB, UNCDF, the Helix Institute, among others

Country	Ghana	Kenya	Tanzania	Uganda
Africa				
Authorised Business Operating Models (e-money issuance)	Banks are authorized as EMIs, nonbanks licensed as dedicated EMIs (DEMIs).	Banks, PSPs, and other financial institutions authorized to issue e-money. PSP can be telecom company or a nonbank.	Only PSPs can issue e-money. Nonbank PSPs must obtain license. PSPs that are financial institutions require regulator's approval.	Nonbank can become mobile money services provider (MMSP) as partner of bank. Regulator approves partner bank; mobile money is product of the bank.
Leading Agent Network Development Inhibitors	❑ Technology downtime challenges e.g. transaction failures,	❑ Rebalancing challenges including lack of adequate float and long periods of time taken by agents to rebalance	❑ Rebalancing challenges including long periods of time taken by agents to rebalance	❑ High incidents of crime and fraud, more than half of agents had been defrauded by September 2016 ❑
Leading Agent Network Development Enablers	❑ High quality of agent support through the use of institutional teams and third parties	❑ Banks bringing a greater diversity in the products and services available at the agent networks ❑ Decreased cost of liquidity management	❑ High quality agent support ❑ High transaction levels and low operational costs meaning on average almost all agents are profitable.	❑ Higher agent profitability from low operating costs ❑ Agents have more float rebalancing options
DFS Trends	❑ Payment of interest on e-money float accounts balances	❑ Increased use of technology to manage and support agents ❑ Banks aggressively expanding their agent networks, which is increasing the diversity of services offered at the agent level	❑ The exuberance of providers, is spurring innovation and interoperability in mobile money transfers and pushing the networks forward.	❑ As from September 2016, almost two-thirds (⅔) of agents are professional, full-time mobile money agents, demonstrating that they find the mobile money business profitable.

Combined Sources include: various DFS reports by CGAP, GSMA, IFC, BFA, PHB, UNCDF, the Helix Institute, among others

In Nigeria, Agent Network Development Has Been Slow In spite of Industry Advancements and the Market Potential

EFInA
Enhancing Financial Innovation & Access

2009
Mobile money operations guidelines issued

2011
CBN licensed entities to offer mobile money services

2013
CBN introduces Agent banking guidelines

2015
Super Agents guidelines issued

2017
Leading banks (previously holding mobile money licences) shifting focus to offer agent banking

2018
CBN launches the Shared Agent Network Expansion Facility (SANEF) targeting an aggressive rollout of 500,000 agents by 2020

➢ **Agent Network Providers report low agent numbers and most agents are in urban areas**
➢ **The Geospatial Mapping Survey in Nigeria as at 2015 identified 3,567 mobile money agents***

* www.fspmaps.com

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A — Background: The Agent Networks State of Play

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C — Factors Affecting the Development and Scaling of Agent Networks in Nigeria and Key Recommendations

D — Consumer protection issues intersecting with agent networks in Nigeria
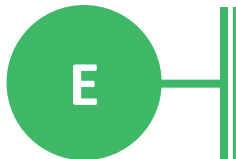
E — Agents Performance Evaluation: Direct vs Indirect Models
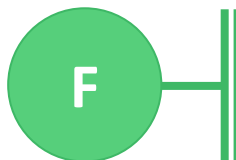
F — Establishing the Business Case for the Development of Agent Networks

Factors Affecting the Development and Scaling of Agent Networks in Nigeria

Price Regulation:
- Affecting provider commitment
- Ripple effect is lower agent earning
- Higher charges passed on to customers

Limited Infrastructure:
- Poor network connectivity
- Inadequate agent networks repository

External Factors

Strategic factors:
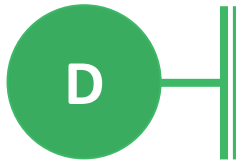- Strategic goals of the FSPs when rolling out agent networks are mismatched leading to unattainable KPIs for the Agent network team
- Top-down instead of bottom-up strategies
- Misinformed business cases in the deployment of agent networks leading to skewed strategies that do not take market demand into consideration

Operational factors:
Platform downtime issues, extended turn-around time for various processes, rebalancing challenges, risk of fraud, inadequate support to agents

Institutional Factors

Top Challenges

- *Strategic goals of the FSPs when rolling out agent networks are mismatched, creating confusion and low buy-in among staff members on the need for agents*

- *A general preference for top-down strategies developed at executive level, instead of bottom-up market-led strategies that take into consideration on-ground realities*

- *Misinformed or misunderstood business cases in the deployment of agent networks leading to operational hiccups for example use of lack of customer development considerations, inadequate teams, undefined agent network management roles and Key Performance Indicators (KPIs), lack of short-term and long-term objectives, among others*

Although Price Regulation /Capping is Intended for Consumer Protection, it Introduces Hindrance to Sustainable Agent Networks

Price regulation

- *Affecting provider commitment in driving financial inclusion* as all basic and necessary costs were not taken into consideration

- Introducing a ripple effect of *lower agent earning* in terms of commissions

- Ultimately leading to *agents introducing exorbitant charges to customers*

Recommendations

Regulators should allow the financial services providers (banks) and their agents agree on a pricing structure which is transparent and in accordance with the consumer protection laws of the state

Consideration of pricing reviews conducted in collaboration with all stakeholders

Supply side	Demand side
Customer price accommodating providers' cost to serve	The willingness and ability of customers to pay for convenience, in accessing financial services agent touchpoints

Limited Infrastructure: Access Channels are Still Not Reliable Enough to Inspire Market Confidence

Unstable networks are one of the greatest challenges in the agency businesses. USSD users are the most affected due to unstable platforms and networks. This erodes trust and demotivates agents and customers leading to agent churn

Presently, banks and licensed mobile money operators lack capacity to manage issues arising from infrastructural shortfalls.

Recommendations
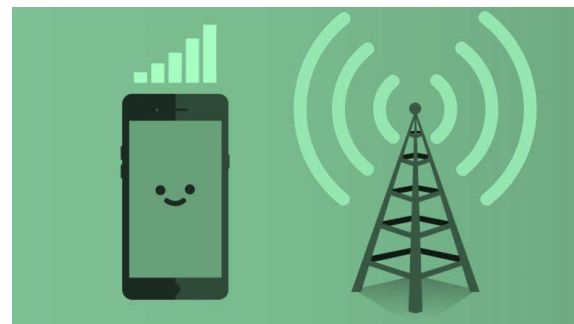
Significant investment by telcos:
- ❖ Investment to promote access to base stations across the country enabling every Nigerian to at least effectively operate the most basic mobile phone and get access to at least 2G network
- ❖ Ensure that USSD channels are open to all financial service providers
- ❖ Ensuring USSD up time

Introduce Your Institutional Rationale for the Deployment of the Agent Network and Build a Robust Strategy as Your Game Plan

Where should we be active (and with how much emphasis)?

Which market segments? Which geographic areas? Which core technologies? Which value-creation strategies? Which product categories? Which channels?

Why are we deploying agents?

How should we best deploy agents and scale

Institutional capacity/ considerations? Environment/market considerations?

RATIONALE

What will be our speed to market and sequence of moves

Sequence of initiatives? Speed of expansion?

What will make customers to prefer, choose and use our agent network?

Brand image? Service delivery, Channel reliability? Available products and services?

* **Major reason(s) for the deployment of agent networks e.g. decongestion of bank branches, lower cost to spread and serve, penetration to other market segments, among others**

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Consumer protection issues intersecting with agent networks in Nigeria

This leads to mistrust within different categories of customers, hence eroding agent business viability

Lack of effective complaints and other dispute resolution processes

The Extortion of Customers from High and Varied Agent-fixed Pricing

45% of agents set customer prices.

Agents should be continually screened, monitored and held liable for non-compliance with applicable rules

Agent fraud

Non disclosure relevant terms and conditions of the services

Non disclosure of business materials such as tariff sheet, Agent ID number and recourse channels

There should be confidentiality agreement between the operators and agent in handling customers' data

Data Protection and Privacy

Unethical Agent Behaviour

This dissuade the uptake and usage of agent services

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Agent Profiling: Agents are Predominantly Male, Own their Businesses, and are Directly Managed and Supported by Their Various Providers

Agent characteristics	Gender		Ownership		
	Male	Female	Owner	Employee	Other
Indirect structure	43	10	49	4	0
	81%	19%	93%	8%	0%
Direct structure	499	151	615	35	0
	77%	23%	95%	5%	0%
Both	97	18	108	7	0
	84%	16%	94%	6%	0%

Agent Network Management Hierarchies

7% Indirect structure
79% Direct structure
14% Both

■ Indirect structure ■ Direct structure ■ Both
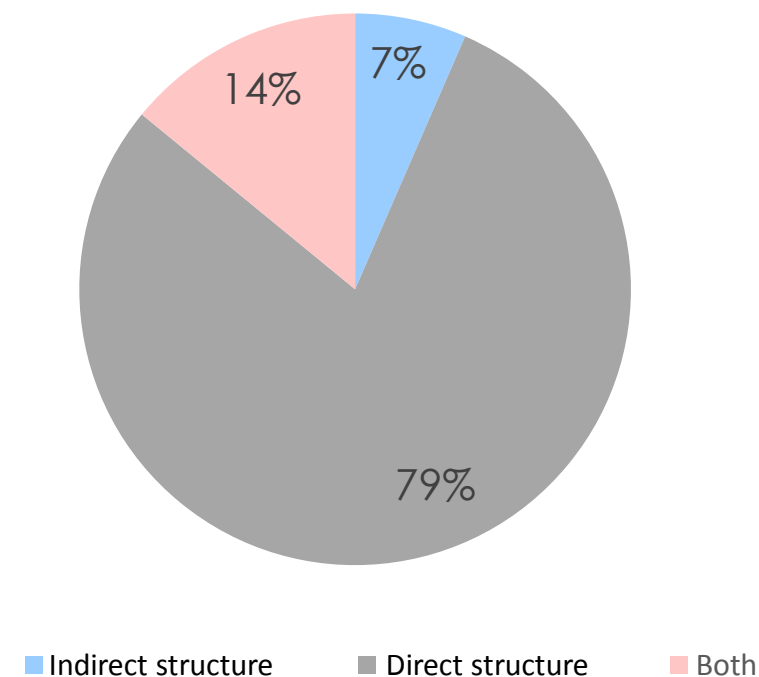
Agents in Direct Network Management Structures Maintain Higher Float levels and Conduct More Transactions than their Counterparts Indirect Structures

- **The median amount of cash and e-float kept by both Direct and Indirect Agents as trading float is N50,000**

Value of float held in Naira

- Direct Model
- Indirect Model

Cash: 50,000 / 30,000
E-Value: 50,000 / 20,000

Agent Transactions

- Direct Model
- Indirect Model

Most Busy Day: 20 / 14
Least Busy Day: 5 / 5
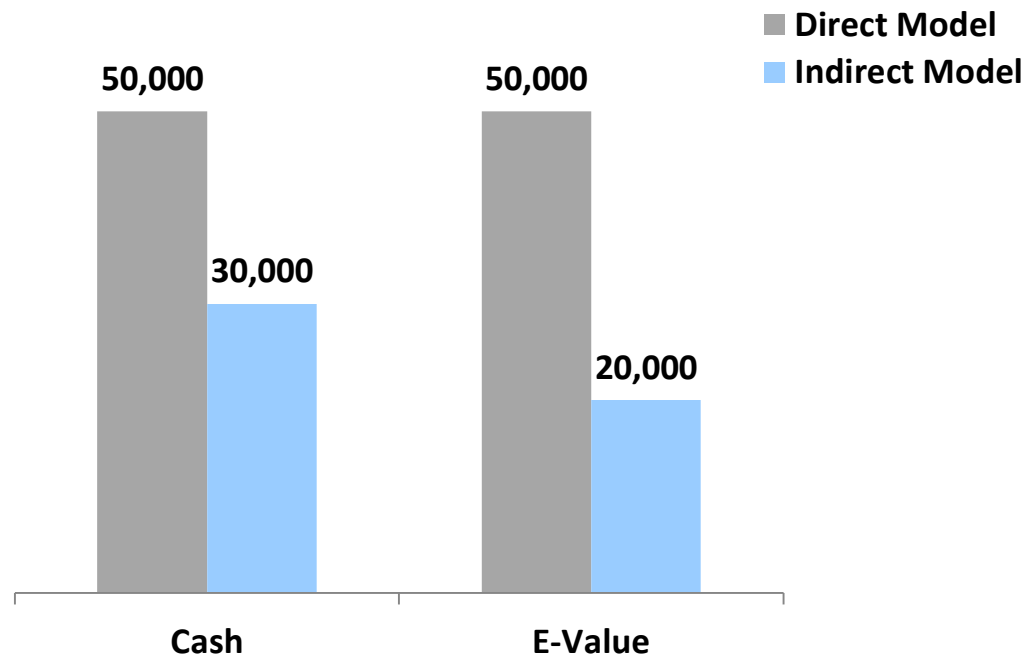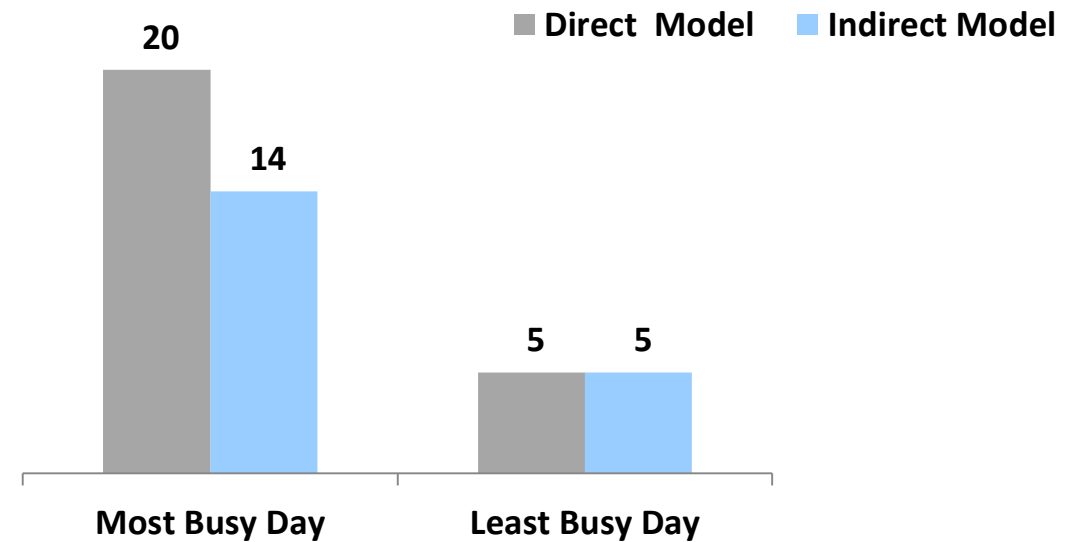
Although the Agent On-boarding Turn-around Time is Improving, It Still Takes a Period of Over Two Weeks to On-board Some Direct and Indirect Agents.

The time it takes to sign up an agent

Category	Indirect structure	Direct structure	Both
Less than a week	40%	26%	42%
Up to 1 week	21%	21%	22%
Between 2 to 3 weeks	8%	21%	17%
More than 3 weeks to 5 weeks	15%	15%	9%
More than 5 weeks	9%	10%	7%
Don't know/can't remember	8%	9%	4%
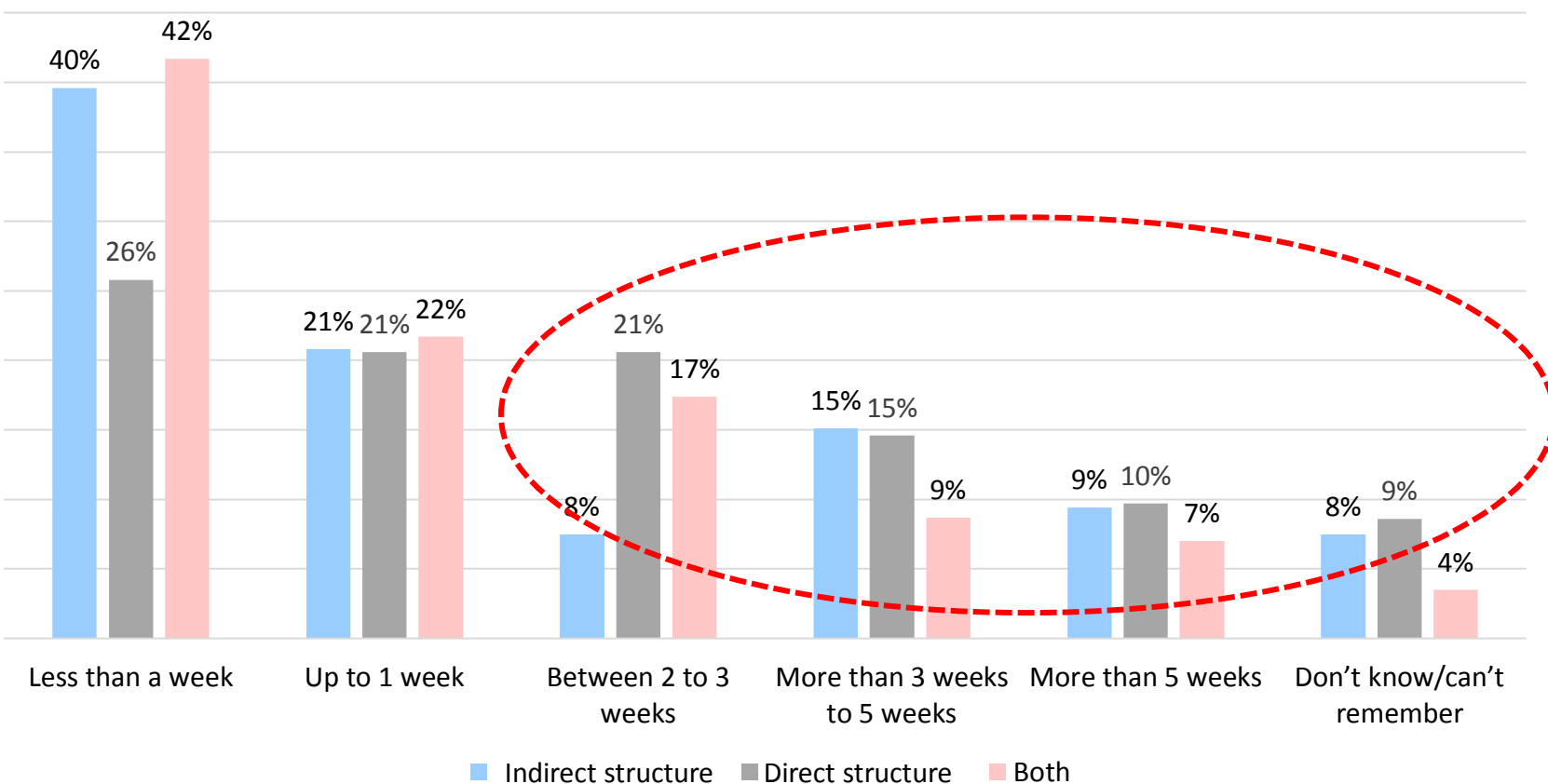
Core implications:
- *The long delays from undelivered turn-around time demotivates agents from adequately investing in the agency businesses*
- *Contributes to mistrust among agents and low business enthusiasm*

More Indirect Agents use the price structure fixed by the Service Providers, however, a huge proportion of Agents set their own prices

Setting customer fees on transactions
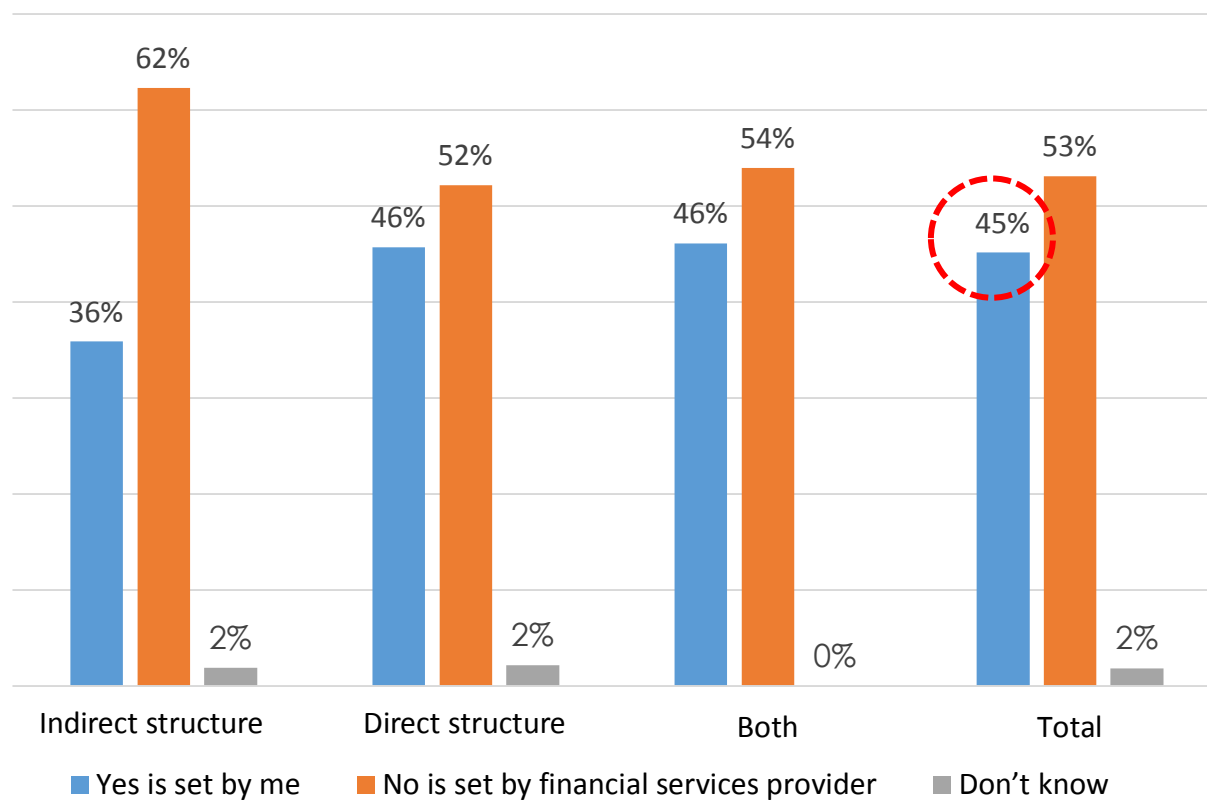
45% of agents set customer prices. Customer pricing is varied and higher to ensure higher returns for agents

Legend: ■ Yes is set by me ■ No is set by financial services provider ■ Don't know

The Use of Super Agents to On-board Agents Hastens the Process

The time it takes to sign up an agent

	Less than a week	Up to 1 week	Between 2 to 3 weeks	More than 3 weeks to 5 weeks	More than 5 weeks	Don't know/can't remember
Indirect structure	40%	21%	8%	15%	9%	8%
Direct structure	26%	21%	21%	15%	10%	9%
Both	42%	22%	17%	9%	7%	4%
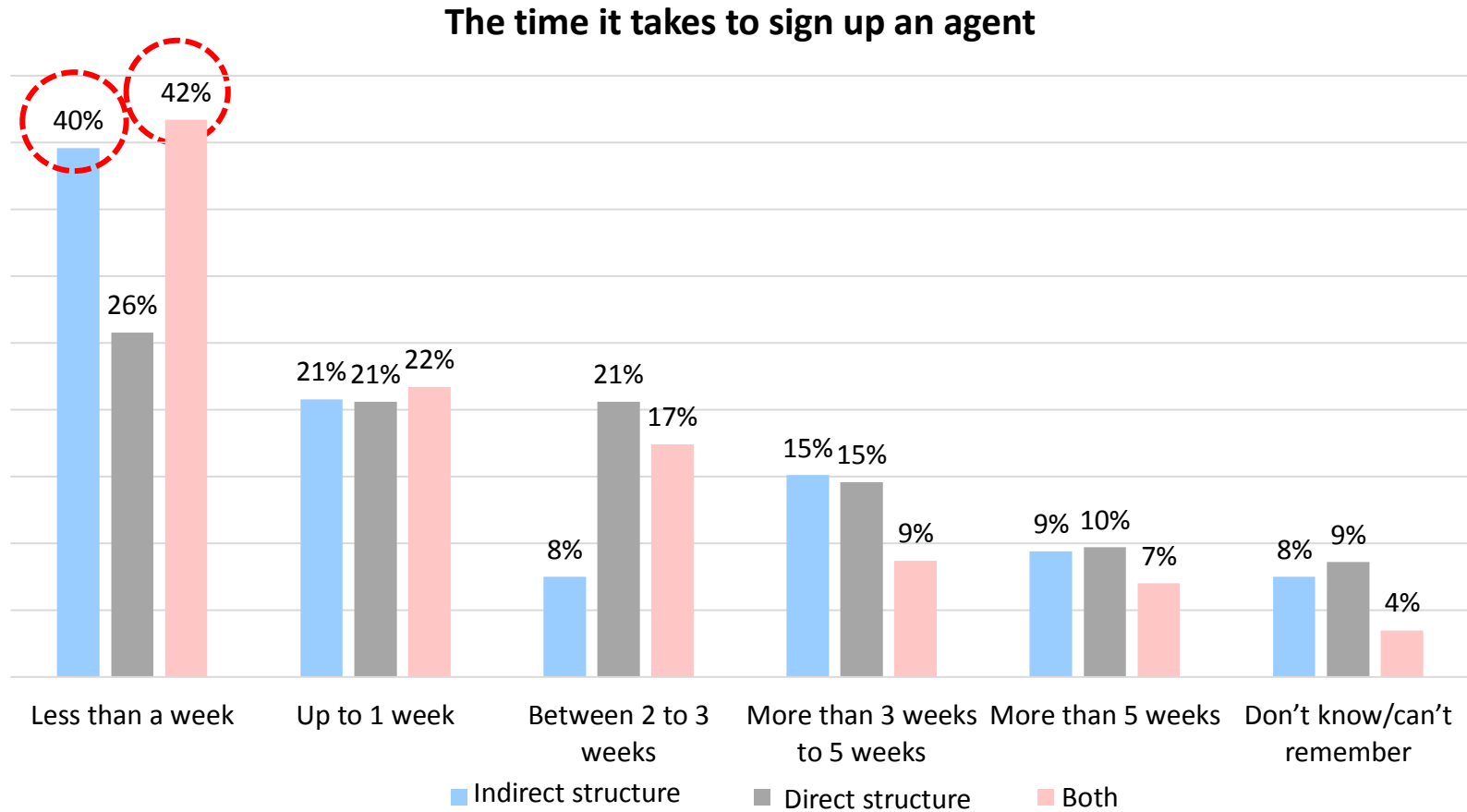
Agents in Indirect Network Management Structures Prefer Rebalancing Through Mobile/Electronic Banking Channels

Preferred Rebalancing Options

Indirect structure
- 21% — Go to the bank
- 8% — Visit an ATM
- 60% — Rebalance over the internet
- 11% — Meet with a Financial Services Provider's representative

Direct structure
- 42% — Go to the bank
- 9% — Visit an ATM
- 25% — Rebalance over the internet
- 23% — Meet with a Financial Services Provider's representative

Both
- 34% — Go to the bank
- 9% — Visit an ATM
- 43% — Rebalance over the internet
- 12% — Meet with a Financial Services Provider's representative

Legend: ■ Go to the bank ■ Visit an ATM ■ Rebalance over the internet ■ Meet with a Financial Services Provider's representative ■ Don't know/Refused to answer

Most agents in indirect hierarchies prefer rebalancing through mobile/electronic banking

Most agents in direct hierarchies prefer visiting the provider for rebalancing

Most agents in hybrid hierarchies prefer rebalancing through mobile/electronic banking

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For Agent Deployment Self Sustainability, Take Note of Some Key Financial Projections Analysis

Providers should put together a financial model to cover the following aspects:

(a) Income sources
(b) Expenses
(c) Client acquisition and adoption rates.

Agent Deployment Self-Sustainability Calculation
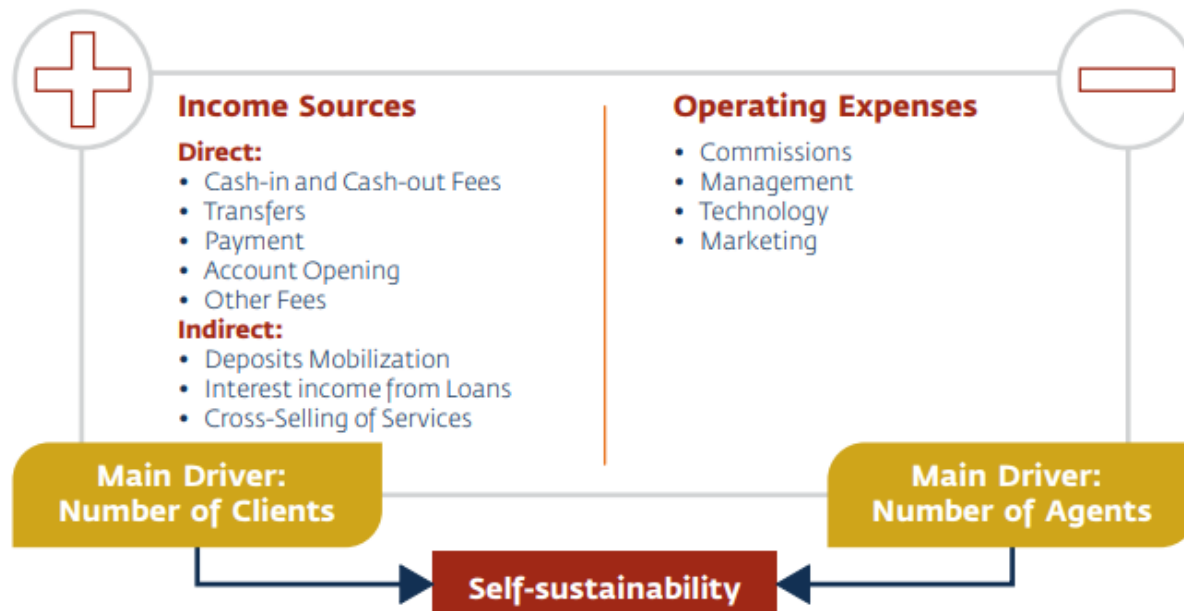
Key Financial Projections Analysis Components

❖ **Use adequate complexity in your financial projection approach**
Consideration of cost savings and other benefits (cash handling, lower branch operations expenses and lower cost of serving customers)

❖ **Make realistic assumptions on partnerships and product offering**
Consideration of assumptions from industry collaborations
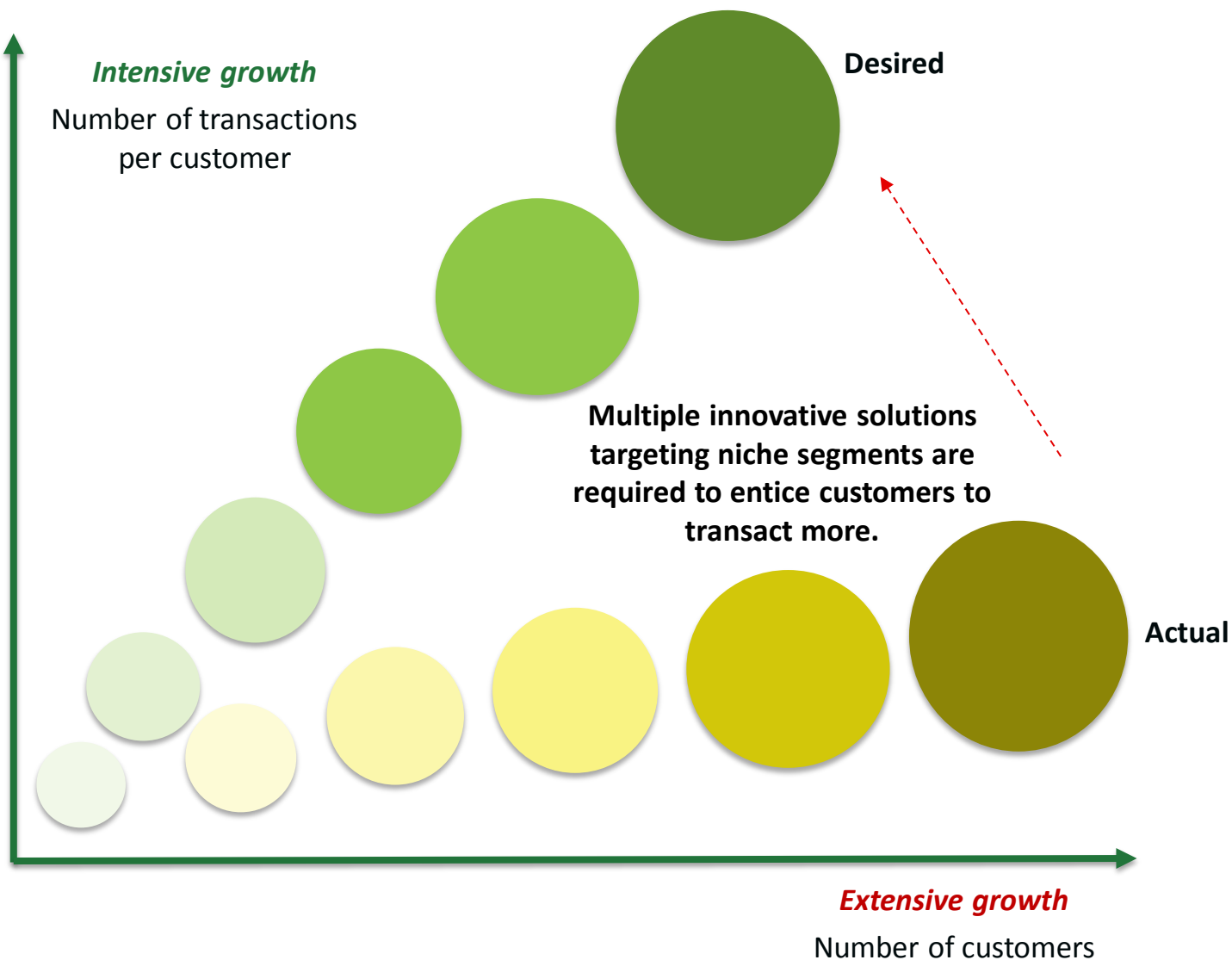
❖ **Developing scenario-based financial models**
Consideration of base case, best case and worst case

❖ **Factor in short-term and long-term objectives**
Consideration of initial and subsequent value propositions

Key Customer Development Considerations are Important to Strengthen the Agent Deployment Sustainability

Industry growth is primarily characterized by more customers rather than more transactions per customer.

Intensive growth
Number of transactions per customer

Desired

Multiple innovative solutions targeting niche segments are required to entice customers to transact more.

Actual

Extensive growth
Number of customers

Providers lose out on profitability by failing to optimise the customer value proposition that drives adoption

Providers can create value for agents and customers if they are to benefit from increased transactions . Providers would be able to increase usage through digitising local use-cases and by enhancing the user experience

Open APIs in Digital Financial Services 2017 report by CGAP

DFS Customer Development Opportunities in Nigeria blog by Jacqueline Jumah

EFInA's Approach

Enhancing Financial Innovation & Access (EFInA) is a financial sector development agency, funded by the UK's Department for International Development (DFID) and the Bill & Melinda Gates Foundation. Set up in late 2007, EFInA's mission is to make Nigeria's financial system work better, especially for the poor, by facilitating the emergence of an all-inclusive, growth-promoting financial system. EFInA's holistic approach to expanding access to financial services for all, especially for low income households is based on the following four pillars:

Research	Advocacy	Innovation Fund	Capacity Building
• Providing credible market information on the Nigerian financial sector • Disseminate bespoke results at EFInA breakfast series, working groups & at stakeholders' events	• Work closely with regulators & policy makers in Nigeria to foster an enabling environment for innovative inclusive financial services & products for the un-banked & under-banked segments	• Host and facilitate innovation fora to trigger debate and ideas about pertinent issues. • Financial support for new ideas and approaches to expanding financial access to the un-banked and under-banked segments	• Provide linkages between local stakeholders and experts who can help with the development & implementation of inclusive products • Facilitate skills acquisition through opportunities to attend training sessions or interact with success stories within and beyond Nigeria

BILL & MELINDA GATES *foundation*

UKaid
from the British people

Primary efforts target selected thematic areas

Women, Northern Nigeria, Non-interest Finance, Microsavings, Microloans & Microinsurance, Financial Literacy