EFInA
Enhancing Financial Innovation & Access

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# Factors and Trends impacting the Building And Scaling of Agent Networks in Nigeria


October 2018

# Foreword

Enhancing Financial Innovation & Access (EFInA) is a financial sector development agency, funded by the UK Department for International Development (DFID) and the Bill & Melinda Gates Foundation. 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.

This research was conducted in partnership with Intermarc Consulting, a financial services consulting firm, to identify the important factors and trends that accelerate or inhibit agent networks in Nigeria.

The research findings are intended to be used by key stakeholders such as policy-makers, regulators, and financial service providers in driving the rollout of sustainable agent networks in Nigeria.

Our sincere appreciation goes to various stakeholders in the industry including representatives from CBN, Deposit Money Banks, Mobile Money Operators, Microfinance Banks, Super agents, Agents and Customers. The work would not have been executed without this team.

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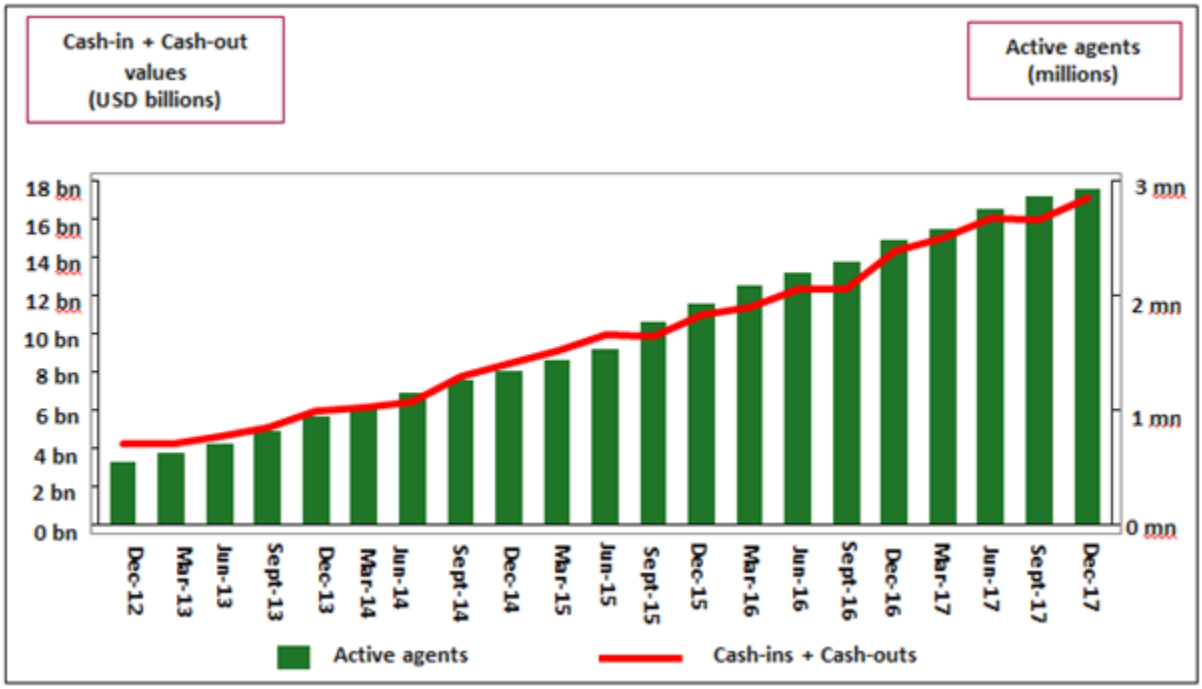
## 1.0 Background: The Agent Networks State of Play

In emerging markets, Agent Networks continue to be crucial assets for Digital Financial Service (DFS) providers and have been key to the growth of the industry over the last decade. As of December 2017, there were 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, direct revenues of over USD 2.4 billion were generated largely from agents performing cash-in and cash-out (CICO) transactions.[1] Agent networks can be thought of as extensions of different providers' service distribution points.

Agent Network and Transactions (December 2012 – December 2017)




***Source: GSMA "State of the Industry Report 2017" Report***

Financial service providers in emerging markets have embarked on building and scaling agent networks through differentiated business models and aligning with their strategic objectives. Key focus areas in maintaining these essential networks include; agent selection and on-boarding, agent training, network monitoring activities, defining and creating liquidity management structures, ensuring agent network security and compliance as well as providing support to agents' daily operational requirements. The execution of these core agent network management functions can be complex and heavily dependent on robust and well-informed deployment strategies.

Global challenges also still exist, that highly impact the spread and maturity of the agent networks. A few of the leading challenges include high operational costs, for example, agent remuneration from cash-in and cash-out transactions which can take up about 70% of revenues[2]. Moreover, complex network management activities demanding extensive agent supervision by use of large teams, heavy paperwork, and labour-intensive market scoping missions. Financial service providers and agent

[1] GSMA. "State of the Industry Report 2017"
[2] McKinsey&Company. "Mobile money in emerging markets: The business case for financial inclusion 2018"

network managers have over the years introduced different initiatives to address these challenges and cope with agent network evolution.[3]

In leading markets, there are several critical success factors that have contributed to the growth of ubiquitous agent networks[4] fostering the availability of financial services to the unbanked and underbanked market segments.

Several Critical Success Factors that Have Contributed to the Growth of Ubiquitous Agent Networks in a Few Leading Markets

**Brazil**: Supportive regulation over the last decade and huge Conditional Cash Transfers (CCT) programmes, boosting transactions

**Peru:** Agents are cheapest means of accessing financial services. Banks don't charge customers to use agents nor allow agents to charge customers thus positioning agent banking as the lowest cost channel

**Kenya:** The Central Bank of Kenya (CBK) is open and flexible in regulating agent networks. Alliance of Financial Inclusion (AFI) has supported the CBK through a knowledge transfer programme. Provider institutions heavily invest in agent network management and receive donor and The World Bank support

**Colombia:** Dedication of a specific public institution which lobbies the financial superintendence of Colombia (SFC) for regulatory changes and subsidizes the creation of agents in underserved/underbanked areas. Also, flexible regulations which allow any type of legal entity to act as an agent and allows agents to deliver more services including account opening

In Nigeria, the financial services ecosystem is dynamic and evolving; comprising banking and other financial institutions and payment systems providers and their regulator, the Central Bank of Nigeria (CBN). The Digital Financial Services (DFS) industry in Nigeria is rapidly evolving since the launch of DFS operations in 2009. There has been a high uptake of DFS products among the banked population mostly in the urban areas; however, there has been low uptake and usage of DFS products among the unbanked and those living in rural areas. There are 25 licensed Mobile money operators (MMOs) and an adult population with 40 % financially excluded.

In 2012, the National Financial Inclusion Strategy (NFIS) was launched by the CBN aimed at reducing the percentage of Nigerian adults who are financially excluded from 46% in 2010 to 20% by 2020. The strategy outlines a target to increase access to formal savings and credit products at 60% and 40% respectively.

[3]GSMA. "Distribution 2.0: The Future of Mobile Money Agent Distribution Networks Report 2018"
[4] Working-Paper-Supervision-of-Banks-and-Nonbanks-Operating-through-Agents-August-2015.pdf

Agent banking is recognised as one of the key drivers in this agenda and has been identified as one of the key drivers of financial inclusion.

## 2.0 About this Study

This research aims to understand the important factors and trends impacting agent networks in Nigeria. The research findings are intended to be used by key stakeholders such as policy-makers, regulators, and financial service providers in driving the rollout of sustainable Agent Networks in Nigeria.

The overarching focus areas of the study involved the following:

- ✓ Providing stakeholder opinions on factors and trends influencing Agent Networks in Nigeria
- ✓ Reviewing regulatory frameworks related to Agent Networks in Nigeria
- ✓ Conducting analysis on the EFInA Financial Services Agents Survey 2017 data to identify key influencing factors and trends
- ✓ Identifying any consumer protection issues arising within the Agent Networks
- ✓ Analysing other landscapes – six other countries, on the context of Agent Networks
- ✓ Highlighting lessons learnt and recommendations for various stakeholders including providers, regulators, Agent Network managers (Super Agents), among others

### 2.1 Scope and Methodology

The Approach used for data collection for this study comprised of two main activities;

1. Extensive and intensive literature review of various existing publications. The literature review involved a delve into six (6) identified research themes which comprise critical success factors for both the sprouting and maturity of agent distribution networks. These components included a review of; the agent network structures, agent network operational efficiency, agent business viability, liquidity management structures, quality of customer service and agent network control and compliance activities. In addition, the guidelines (Agent Banking, Mobile Money and Super Agents Guidelines) released by the CBN were reviewed to deduce the implications of the guidelines in relation to enabling or inhibiting the growth of Agent Networks in Nigeria.

2. Telephonic interviews with leading providers in Nigeria who have the experience in the deployment of agent distribution networks. The objectives of the telephonic interviews were to deepen the understanding of the current trends and opportunity areas as observed by providers.

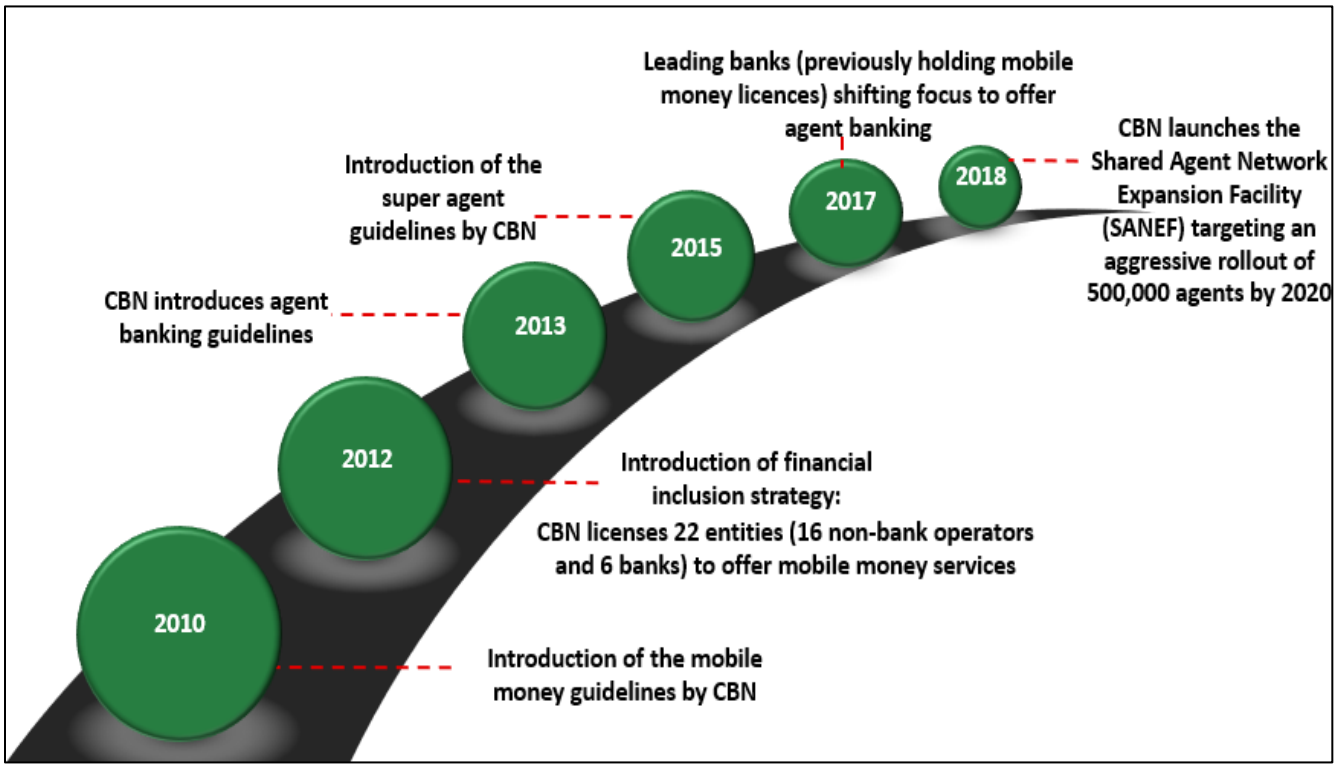
## 3.0 Factors impacting the Development and Scaling of Agent Networks in Nigeria and Key Opportunity Areas

Even though Agent Banking Guidelines were released in 2013, there has been low uptake despite the huge market potential. The second Geospatial Mapping Survey[5] in Nigeria identified various financial

[5] www.fspmaps.com

service touch points including 4,989 Commercial Banks, 3,567 Mobile Money Agents, 1,640 Microfinance Banks, 869 Offsite ATMs and only 48 Bank Agents. Most of these service points are also tethered to urban centers.

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




Several reports including the 2016 EFInA scoping study on Super Agents[6], the Agent Network Accelerator (ANA) 2017 research report[7], a country assessment report[8], among others have highlighted some key challenges inhibiting the development and scale of agent networks in Nigeria. These include; limited customer awareness and knowledge, providers' inexperience in working with low income segments, lack of mass distribution strategies by financial service providers, lack of adequate agent modelling framework and management structures, inadequate capital of potential agents, liquidity management challenges among others.

These are mostly operational challenges that have been recurrent in the last few years. The recurrence of the challenges implied underlying problems in the deployment of digital financial services and triggered the need for a probe into key causes of these operational challenges. This study focuses on detecting the underlying issues that are manifested by the consistent operational challenges over time. The issues identified by this study have been categorised into two broad brackets: the External or Market Factors and Institutional Factors. Within these two categories are also key emerging trends from the market and provider perspectives.

[6] EFInA; Scoping Study on Super Agents 2016
[7] Agent Network Accelerator (ANA) Research Nigeria Country Report December 2017
[8] Digital Financial Services in Nigeria: State of the Market Report 2017

## 3.1 External (Market) Factors Impacting Agent Networks in Nigeria

Market factors are largely static factors that would affect the long-term planning of DFS deployments in Nigeria. These are foundational and provide guidance to the strategy and operational tactics of the DFS business, including Agent Network deployment. The leading external factors affecting Agent Network deployment are poor technological infrastructure and price regulation.

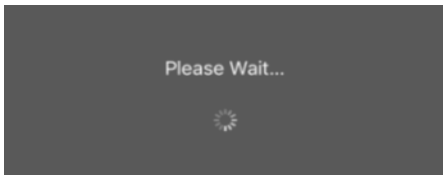
### 3.1.1 Poor Technological Infrastructure

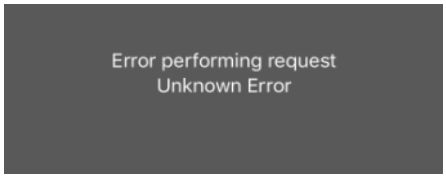
It is critical to consider the right technology choices in the deployment of digital financial services. Institutional organisational structures, front-end and back-end business processes as well as the agent distribution networks rely heavily on it. In as much as a sound business strategy is the ultimate determinant of the DFS deployment, technology plays a major role in delivering functionality based on the DFS strategy. Financial service provider technology choices should consider the customer value proposition, the intended product mix requirement, and how the services will be delivered including establishment of visionary partnerships.

Unstable networks and poor connectivity are some of the greatest challenges in the agency business in Nigeria. USSD users are the most affected due to unstable platforms and networks. In some cases, network downtimes occur almost daily and agents cope by conducting offline transactions (where agents collect cash from customers and conduct the transactions later during system uptime. It is a risky practice that can be abused by dishonest agents. This can also erode trust and demotivate agents leading to increased churn rates.

Presently, banks and licensed MMOs lack the capacity to manage issues arising from infrastructural shortfalls. There is also no communication on anticipated network downtimes to agents, enabling them to manage customer relationships during downtime incidents. In many cases, poor connectivity provided by Telcos hinders seamless completion of transactions. Some agents report that some customers fear transaction hitches, or those that are not completed in record time and that this has discouraged them to conduct digital transactions.

> "The major cause of network failure in agent banking is poor technological infrastructure and capacity issues from services that ride upon it. Most times, users and agents do not anticipate the failure and are not informed by the providers."
>
> Victor Olojo, National President. The Association of Mobile Money Agents in Nigeria



Significant investment by Telcos is imperative to promote access to base stations across the country enabling every Nigerian to effectively operate the most basic mobile phone and have access to mobile networks, promoting connectivity through different delivery channels.

A number of key platform requirements[9] should be appropriately considered by the various providers to minimise technological hitches and transaction failures, including; capacity planning, platform redundancy, service-level agreements, disaster recovery and a commercial requirement- driven technology road map.

**a. Capacity planning**

Service usage must be forecasted and included in the capacity planning for the DFS deployment and all supporting services and technology (including the physical devices, front-end applications, back-office administration modules, integration modules between systems, core platforms, communication channels and authentication modes) and vendors should be aware of the figures expected.

**b. Core platform redundancy**

The switch over from live environment to back-up node must be seamless

**c. Service-level agreements**

Contracts between financial services providers and vendors should include governing items such as functionality definitions, connectivity, user or vendor responsibilities, technical support arrangements, escalation procedures, platform availability and penalties for non-compliance. Platform availability and penalties for non-compliance provisions are important as they provide recourse for the providers whenever there are service downtimes.

**d. Disaster recovery**

In the event of service downtimes, rapid recovery is critical and must be integrated into any service design

**e. Commercial requirement-driven technology roadmap**

The implementation roadmap must be driven by commercial requirements to provide added functionality, capacity improvements and operational cost savings.

Urgent resolution of system challenges is necessary to build trust among both agents and customers. Providers will need to also invest in 24-hour customer support, specifically for agents and mobile money customers, to provide guidance and reassurance during downtimes.

### 3.1.2 Price Regulation

Regulatory decisions can impact the profitability of financial service providers and their ability to scale. Regulation has potential to influence key success drivers including; the ability to grow and maintain a customer base, build and sustain a high-quality agent network, develop critical capabilities and infrastructure, and offer products beyond basic cash deposits and withdrawals.

Price regulation directly impacts the economics of financial service providers. Regulation in the form of tariff caps intended to make services more affordable to low-income market segments may hinder profitability and make growing the customer base to critical mass more difficult. These tariff caps on customer charges reduce how much a provider would earn from an individual transaction and can be a

[9] Platforms for Successful Mobile Money Services by GSMA. 2013

big point of distinction between a profitable business and a loss-making one. A recent study by McKinsey & Company on the business case for financial inclusion in emerging markets[10], capping cash-out tariffs would shift overall margins for financial service providers from 35 percent to roughly -5 percent. They may also make some customer segments especially the low-income target market unappealing for providers to serve, if the expense to reach them outweighs the benefit from gaining more users.

In Nigeria, although price regulation or tariff capping is intended for consumer protection, it introduces hindrance to sustainable Agent Networks. This study identified capping of customer transactions tariffs to N100 leads to;

a. It affects financial service provider commitment in driving financial inclusion as all basic and necessary costs were not taken into consideration in setting up the price. Here, the cost to serve the low in-come segments exceeds revenues, and the expense to reach these segments outweighs the benefits from gaining more customers.

b. It also introduces a ripple effect of lower agent earnings in terms of commissions. Most providers that were engaged in this research reported to be paying a smaller proportion of the customer charges (less than 50%, unlike the typical adequate ratios of above 70% of the customer charge per transaction, at nascent stages of leading markets[11]) to agents as commissions. This is introduced by providers because of the feeling that they need to be profitable in the short-run, since they cannot control pricing. It leads to poor agency business viability and increasing agent churn rates

c. This leads to agents introducing exorbitant charges to customers. Agents charge higher and varied charges of amounts between N200 to N1,000, depending on their locations and proximity to float rebalancing points.

- **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**


[10] Mobile money in emerging markets: The business case for financial inclusion 2018
[11] Demystifying the Role of Master Agents 2016

**How can these challenges be addressed?**

It is important to consider pricing reviews, which are to be conducted in collaboration with all industry stakeholders. The reviews would involve identifying and defining customer price levels to accommodate both the financial services providers' and agents' cost to serve (supply side considerations) as well as the willingness and ability of customers to pay for convenience, in accessing different financial services touch points.

The creation of competitive and viable customer pricing begins with listening to the "voice of the customer". Customers are guided by a complex web of social, emotional, financial and psychological influences, when making decisions to pay. When deploying Agent Networks, the basis for an effective pricing strategy is recognising how customers make decisions. Or, technically, what their price elasticity is. Financial service providers should gather intelligence about how customers make decisions through robust research to. These research efforts derive the perceived value to customers and their willingness to pay.

**Some pricing determinants**

**Institutional factors**

1. Overall business strategy: whether pricing for survival, current profit maximisation, market share leadership or product quality leadership

2. Costs: Deployment and operational costs

3. Marketing mix strategy: whether for promotions, processes (standard operating procedures), performance (how well the product competes in the market), etc.

**Market factors**

1. Customer perceptions of price and value – their willingness and ability to pay for services

2. Competitor's price and as a feasibility measure

3. Country's economic position from time to time

Capacity building among institutions on the digital financial services business case and appropriate financial modelling for the evolution of agent networks is imperative. This is to drive revenue generation and to minimise the hurried need for providers to earn higher portions of the customer charges than the proportion that goes to agents at these nascent Agent Network stages.

It is important for financial service providers to understand that they must achieve scale to be profitable. Profitability cannot be achieved in the short-run upon deployment of digital financial services. Scale enables profitability but requires a significant up-front spend. Insights from the McKinsey & Company study on the business case for financial inclusion in emerging markets[12] provide estimates that above scale, digital financial services can be a 35 percent-margin business. However, smaller providers may need to spend over two times what they earn just to maintain their size at start. The following is an illustration on set-up costs for DFS deployment.[13]

Illustration on Set-Up Costs for DFS Deployment

| | | As a % of total costs |
|---|---|---|
| People - Recruitment | • **Implementation team (temporary staff)** - Product/marketing, technology, business processes<br>• **Operations team (permanent staff)** - Distribution/sales manager and team, call centre, product/marketing manager and team, training manager | 10% |
| Training | • Development of training material adjusted to local content<br>• Training of agents<br>• Training of customers | 7% |
| Marketing | • Marketing campaigns<br>• Signage/equipment | 20% |
| Product design and network build-up | • Market research<br>• Product design<br>• Customer test<br>• Agent recruitment | 20% |
| Technology | • Technology solution purchase<br>• Or in-house development<br>• Recurring maintenance fees | 25% or revenue share |
| Transmission costs | • Communication channel costs | 18% |

## 3.2 Institutional Factors Impacting Agent Networks in Nigeria

The leading institutional factors are strategic in nature and are brought about by the lack of rationale in the introduction of Agent Networks to support the core businesses of the financial service providers. These are also as a result of misaligned expectations in the business case for the digital financial services.

These include the following:

- **Financial service providers mostly developing competition-based Agent Network deployment strategies that do not take customer development into consideration.** Most financial service providers have not identified or defined their primary agent deployment rationale which

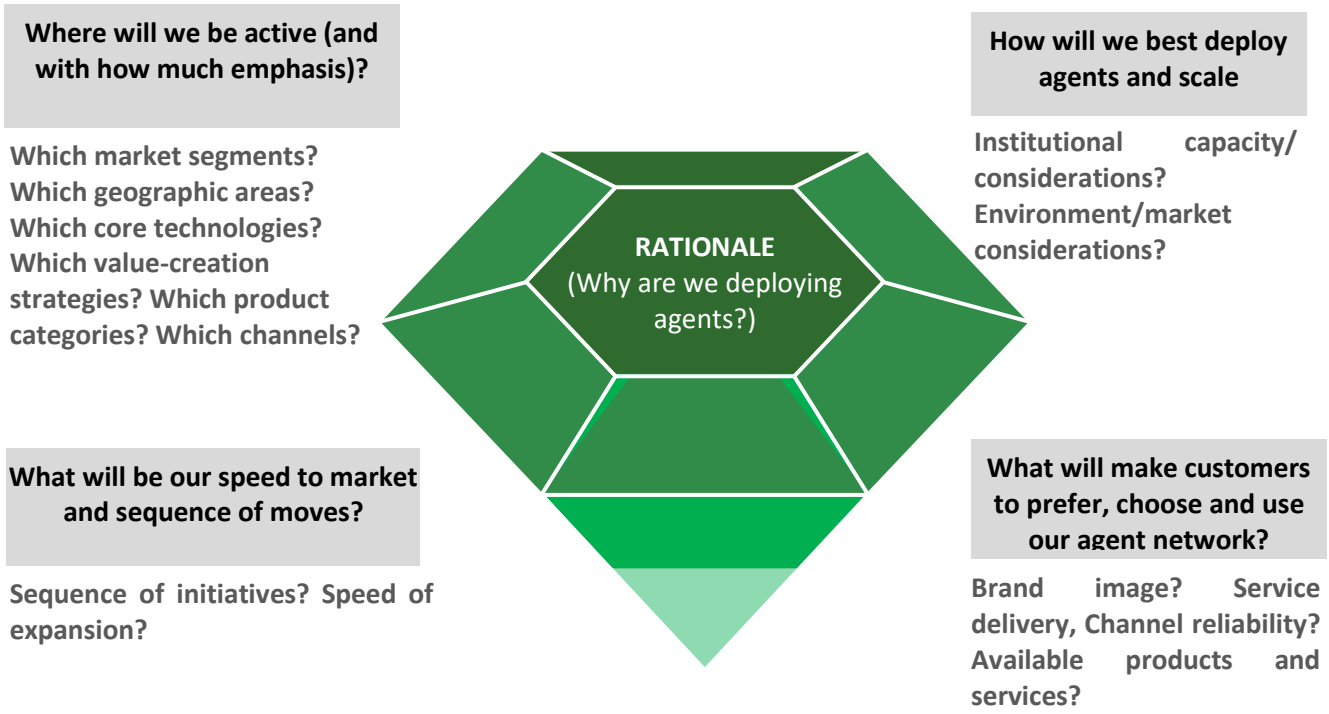
[12] Mobile money in emerging markets: The business case for financial inclusion 2018
[13] IFC Mobile Financial Report 2014

sometimes is misaligned with their business goals and product offering. This therefore creates confusion and low buy-in among staff members on the need for agents

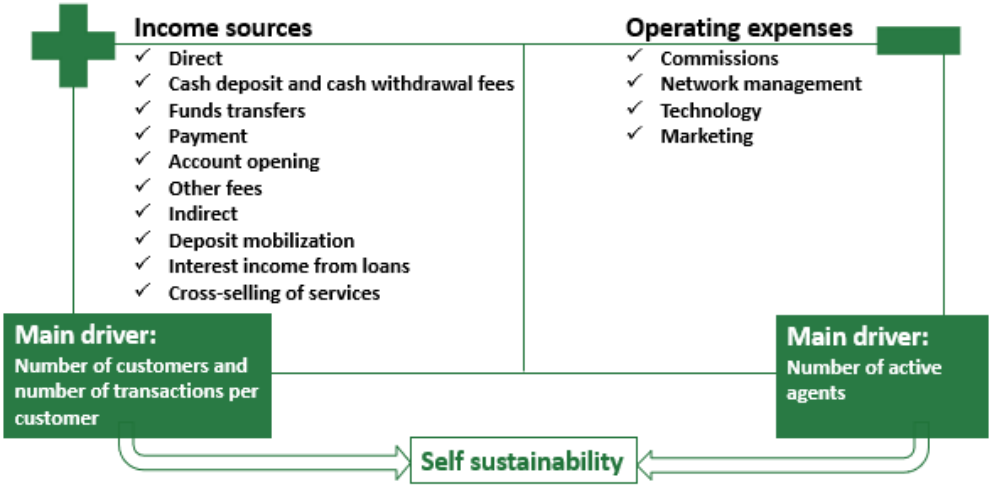
- **Prevalence of top-down strategies instead of bottom-up strategies.** Strategies developed at executive level, instead of bottom-up market-led strategies that take into consideration on-ground operational realities. These are cases where the understanding of the need to deploy Agent Networks is understood but the modus operandi of the institutions are not flexible enough to promote and support agents. For example, operational staff member KPI's are not adjusted to allow for business transition or change management programmes are not implemented to prepare teams on how to serve differentiated market segments (mostly low-income segments)
- **Poorly defined KPIs related to the development and scaling of agent networks from misunderstanding the DFS business case**. Such as the use of inadequate network management teams or inefficient support technology, confusing Agent Network management roles (combining agent network management roles with customer relationship building), staff targets based on agent numbers and initial deposits into bank accounts or wallets only and a lack of strategies to keep agents and customers active through increased subsequent transactions.

These challenges can be addressed through introducing predominant institutional rationales, understanding the business case in the deployment of Agent Networks and building robust route-to-market strategies, including adequate teams, well-defined roles and responsibilities[14] and the necessary supporting technology.

### 3.2.1 Introducing Institutional Rationales




[14] Typical agent network management roles and KPIs have been included in the last section of this report.




### 3.2.2 Strategy and Business Case Determination

Digital financial services expand outreach in a cost-effective manner and provide opportunities to introduce additional solutions to customers. However, the investment required for launching and scaling products or channels can be large. Business investment decisions when implementing digital financial services should build on comprehensive project planning, including well considered financial projections on how the operations will progress over a given period. Initial financial planning that does not adequately account for factors such as income sources of the implementation, expenses, customer acquisition and adoption, among others, may result in financial service providers having unrealistic expectations for the agent channel's performance.

Poor planning puts providers at risk of making uninformed investment decisions, leading to bad decisions about budget allocation and team structures. Realistic expectations for a DFS solution are built from the strategy to guide the development of the business case and a financial model to assess the long-term viability of the deployment.

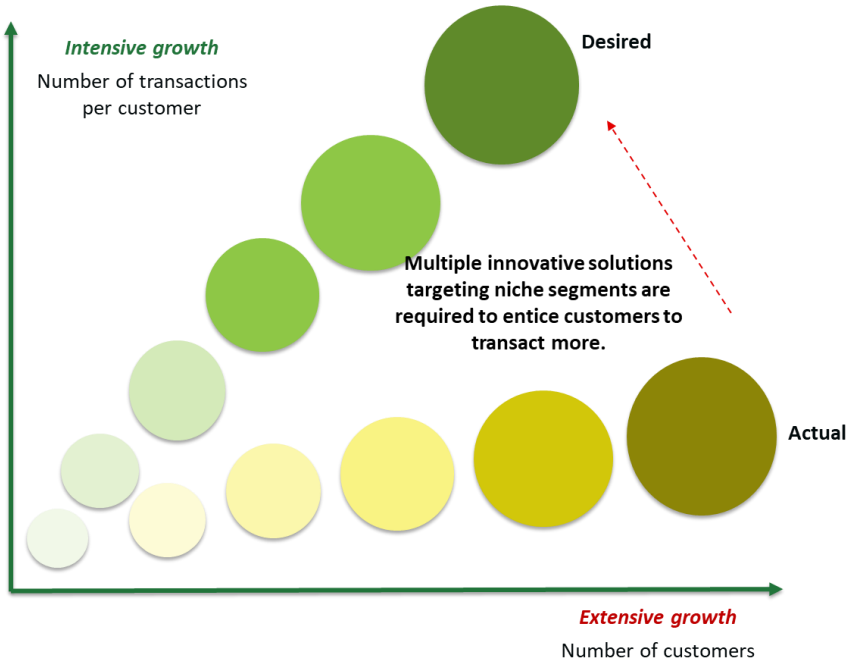
At the nascent stages, one of the main challenges for building the business case and financial model for aggressive agent network deployments is the lack of sufficient information on workable benchmarks. Benchmarks are important to craft assumptions about the eventual performance of the agent channels.

### 3.2.3 Customer Development for Sustainability and Commercially Viable Business Models

For agent deployment self-sustainability, providers should put together a financial model to cover the following aspects; income sources, expenses and customer acquisition as well as development rates – introducing a focus to drive average revenue per customer[15]. This is as in the illustration below:

[15] Aligning Expectations: The Business Case for Digital Financial Services by IFC and Mastercard Foundation 2018

Key customer development considerations are important to strengthen agent deployment sustainability. Although more deployments are improving on activity rates[16], there is a lot of focus on the success of a transaction rather than on the user experience that drives adoption and long-term use. Providers often focus on the number of customers rather than the value per customer, which requires innovation. Industry growth is currently primarily characterised by growing customer numbers rather than more transactions per customer[17] as illustrated below.




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

Financial service providers can create value for agents and customers if they are to benefit from increased transactions. By providing superior digital solutions than the existing informal alternatives and by enhancing the user experience, financial service providers would be able to increase usage per customer.

In Nigeria, Financial service providers have been doing little to promote the uptake and usage of products and services. Rather, innovative agents have themselves developed mechanisms to promote uptake and usage.[18] Typically, these mechanisms are built around digitising locally accepted cash-management practices and can be fully leveraged by financial service providers to improve the DFS business commercial viability. Some of these customer development opportunities include:

i. Optimising the use of information or data available on the agent channel to reduce the risk of micro-lending. The options available to financial service providers include lending to the agents for on-lending or adopting agents into micro-lending processes given that pure digital lending carries significant risks of non-recovery. This is so because currently, some agents provide customers with loans.

[16] GSMA. "State of the Industry Report 2017"
[17] Open APIs in Digital Financial Services 2017 report by CGAP

[18] DFS Customer Development Opportunities in Nigeria blog 2018

ii. Developing field-based applications to digitise and improve the Esusu or Ajo activities, thereby improving the agent business-case and enhancing agent loyalty from increased transaction volumes and deposits mobilised. Digital tools, such as tablets and smartphones that offer other intuitive interfaces could be used during these Esusu or Ajo sessions to improve the interactions and ensure prompt data collection and reporting.

iii. Financial service providers could design solutions to curb the frequent service down-times, to facilitate off-line transactions and the float reconciliation between agents in such a way as to provide transparency. Currently funds are held by agents without posting deposit transactions until when there is service up-time. This is risky and requires intervention, to conform to Anti Money Laundering/Combating the Financing of Terrorism (AML/CFT) requirements, and to ensure consumer protection. These solutions could enhance services delivery, especially in rural areas where access to agent rebalancing points is a challenge.

### 3.2.3 Incorporating Realistic Assumptions and Expectations for Effective DFS Business Performance

Key financial projections and analysis should consider a number of attributes including; cost savings and other indirect benefits (for example cash handling, lower branch operations for banks and a lower cost of serving customers), making realistic assumptions on partnerships and product offering, developing scenario-based financial models (inclusive of base case, best case and worst case) and factor in short-term and long-term objectives (consideration of initial and subsequent value propositions to customers)

Research has established that DFS performance expectations are often higher than what reality can deliver. More realistic agent network projections can help to correct misperceptions and improve project planning. An analysis by the IFC and the Mastercard Foundation[19] used the most commonly projected agent banking indicators, such as outreach, agent and customer activity, business size and direct revenue and cost factors of the agent banking channel as benchmarks. The benchmarks were compared against the actual performance of a number of institutions involved in the research as of December 2017, or against the performance at the end of their projection period. Some evidence-based insights relating to the expectations and realities of business cases were identified and the following conclusions drawn from the analysis:

i. Registrations do not translate into customer activity and the conversion of registered customers to active customers is not as high as mostly expected.

ii. Agent recruitment and activity targets deserve very close continuous monitoring against initially projected targets. Neglecting agent inactivity may lead to unexpected resource requirements for agent on-boarding and management, and also to misleading expectations for transaction volumes and revenue streams.

iii. A viable agent business case requires agents to achieve specific customer traffic levels.

iv. Assumptions around the cash deposit and cash withdrawal proportions for agent transactions are important for two reasons. First, agent cash deposit transactions are usually free for customers but generate operating costs in the form of agent commissions and agent liquidity management on the side of the financial service provider. Second, unbalanced cash flows (from mostly cash deposits and withdrawals) require higher efforts to support agents in their float rebalancing.

v. The main operational costs are agent commissions and network management costs. However, the commissions necessary to incentivise agents to drive transactions are always underestimated due

[19] Aligning Expectations: The Business Case for Digital Financial Services by IFC and Mastercard Foundation 2018

to increasing competition around agent on-boarding, which drives up the commissions offered to agents.

From the analysis in the study, agent banking was usually costlier than expected and its usage lower than forecasted by the different providers involved. Hence, the providers sought alternative revenue sources than originally planned, for example by offering new products through the agent channel. These insights on key assumptions and realities can help providers to effectively design and implement commercially viable DFS deployments.

## 3.3 Key Factors in other Emerging Markets: Agent Networks Enablers, Inhibitors and Trends

This study also highlights leading factors and trends impacting Agent Networks across six countries: Kenya, Ghana, Tanzania, Uganda, Bangladesh and India as illustrated in the table below.

| 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 Enablers** | ✓ Superior agent rebalancing services e.g. door-step liquidity/float delivery<br>✓ Superior agent network management services through multiple partnerships with third party ANMs | ✓ New players (Payments Banks) have emerged creating vast agent networks<br>✓ G2P facilitation is a major driver of agent transactions in rural and non-metro urban areas |
| **Leading Agent Network Development Inhibitors** | ✓ High fraud cases<br>✓ Limited product offering beyond CICO<br>✓ The leading challenge among agents is a long period of time taken to register customers | ✓ High operating costs clubbed with dedication have had an impact on profitability and requires solutions.<br>✓ Increased instances of fraud |
| **DFS Trends** | ✓ Increased use of technology to monitor and support agents<br>✓ 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.<br>✓ Agent recruitment has slowed, providers increasingly looking to maintain existing operations in preference to further expanding footprints. |

| Country | Ghana | Kenya | Tanzania | Uganda |
|---|---|---|---|---|
| **Authorised Business Operating Models (e-money issuance)** | Banks are authorised as EMIs, nonbanks licensed as dedicated EMIs (DEMIs). | Banks, PSPs, and other financial institutions authorised 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 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<br>✓ Decreased cost of liquidity management | ✓ High quality agent support<br>✓ High transaction levels and low operational costs meaning on average almost all agents are profitable. | ✓ Higher agent profitability from low operating costs<br>✓ Agents have more float rebalancing options |
| **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 |
| **DFS Trends** | ✓ Payment of interest on balances on e-money float accounts | ✓ Increased use of technology to manage and support agents<br>✓ Banks aggressively expanding their agent networks, which is increasing the diversity of services offered at the agent level | ✓ The exuberance of FSPs, 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 |

## 4.0 The Consumer Protection Implication

Digital financial services (DFS) have over time evolved across markets and show great potential to advance financial inclusion. However, the demand and adoption of these services by customers is largely driven by perceptions about the value proposition and knowledge about technology and mobile services in general. Having effective consumer protection guidelines for DFS in place can help to build customer trust and confidence, leading to improved uptake and usage of products and services.

In recent years, there has been increasing interest in consumer protection in financial services. Consumer protection regulations tend to; ensure that customers have enough information to make informed financial decisions, prevent unfair practices by financial service providers and to ensure that customers have access to recourse mechanisms to dispute resolution. In delivering these requirements a state of balance should be considered such as not to enforce heavy restrictions on the provision of the products and services and the delivery channels. This is particularly critical when providing solutions for

the low-income or disadvantaged segments, and may easily interfere with trust levels for formal financial services.

In this study, three key intersection points of consumer protection issues with the Agent Networks in Nigeria were identified. These are:

- ✓ Lack of effective complaints and other dispute resolution processes
- ✓ The extortion of customers from high and varied pricing fixed by agents
- ✓ Agent and super-agent incentives are not aligned with a good customer experience hence increased poor service levels at agent locations

## 4.1 Lack of Effective Complaints and Other Dispute Resolution Processes

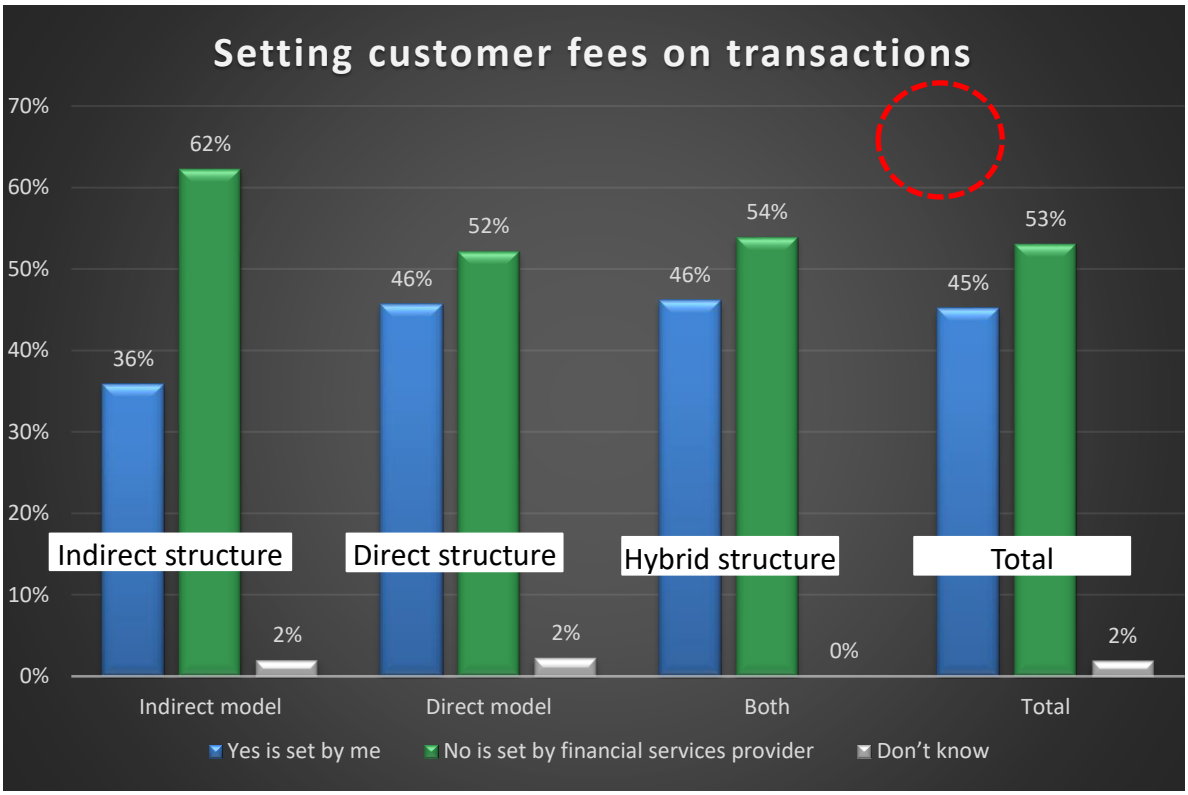
Most providers lack effective complaints and other dispute resolution processes and channels, leading to mistrust within different categories of customers, hence eroded agent business viability. The dispute resolution processes and channels are not well defined and the staff teams are not adequately trained to effectively manage dispute issues. Some existing coping mechanisms involve directing agents and customers to the back-office IT departments to elaborate on their concerns.

Some four broad customer profiles have emerged from ineffective dispute resolution mechanisms as below:

| | |
|---|---|
| *Customers who are most concerned about the lack of clarity about where to complain – whether to agents or to the providers.* | *Customers who complain to the police if they have a problem with an agent, rather than first complaining to the financial service providers.* |
| *Those few who do not complain at all and spread uneasy experiences about agents* | *Those who have accepted poor experiences when contacting providers or agents but heavily influence non-users from taking up formal financial services* |

## 4.2 The Extortion of Customers from High and Varied Pricing Fixed By Agents

The EFInA Financial Services Agents survey revealed that 45% of agents decide and set customer prices, despite the set tariffs generated by financial service providers. Agents also reported that they do not display price tariffs at their locations. Customer pricing is therefore varied and exorbitant to ensure higher returns for agents. This arises from low commissions earned by agents and fewer transaction numbers from low customer footfall.




## 4.3 Agent and Super Agent Incentives Are Not Aligned With a Good Customer Experience Hence Increased Poor Quality of Service Challenges at the Agent Locations

The performance of agents and super agents is determined by the number of transactions they conduct. Remuneration in the form of commissions is only pegged to activity levels and the incentives to conduct every transaction as quickly as possible.

Due to the structure of their remuneration, agents are not willing to take time explaining additional product features to customers or to help them when things go wrong or in navigating through interfaces.

Super agents on the other hand only focus on training agents on core business functions and offer minimal support to agents to improve service levels when serving customers.

To curb these consumer protection issues brought about by the deployment of agents, financial services providers should ensure that appropriate standards are in place for agents to drive the uptake and usage of financial services. Contract templates for agents, as well as outsourced Agent Networks, should be reviewed to ensure that standards are defined and enforced including the following requirements:

- ✓ Financial service providers are responsible for the actions of their authorised agents in the provision of services and must provide adequate oversight, observe a minimum set of requirements (established by regulators) within agent operations and to ensure that agents act in the best interest of customers
- ✓ Financial service providers should ensure that agents can be clearly identified by customers by using appropriate signage and have clear and established customer hotline numbers in place

- ✓ Providers should ensure that consumers are provided with accurate and full disclosure of all product services, features, processes and rates at all agent locations
- ✓ Providers could introduce agent service rating by customers through SMS or USSD communication channels and in-turn provide agents with other incentives e.g. bonuses and other prizes based on these ratings.

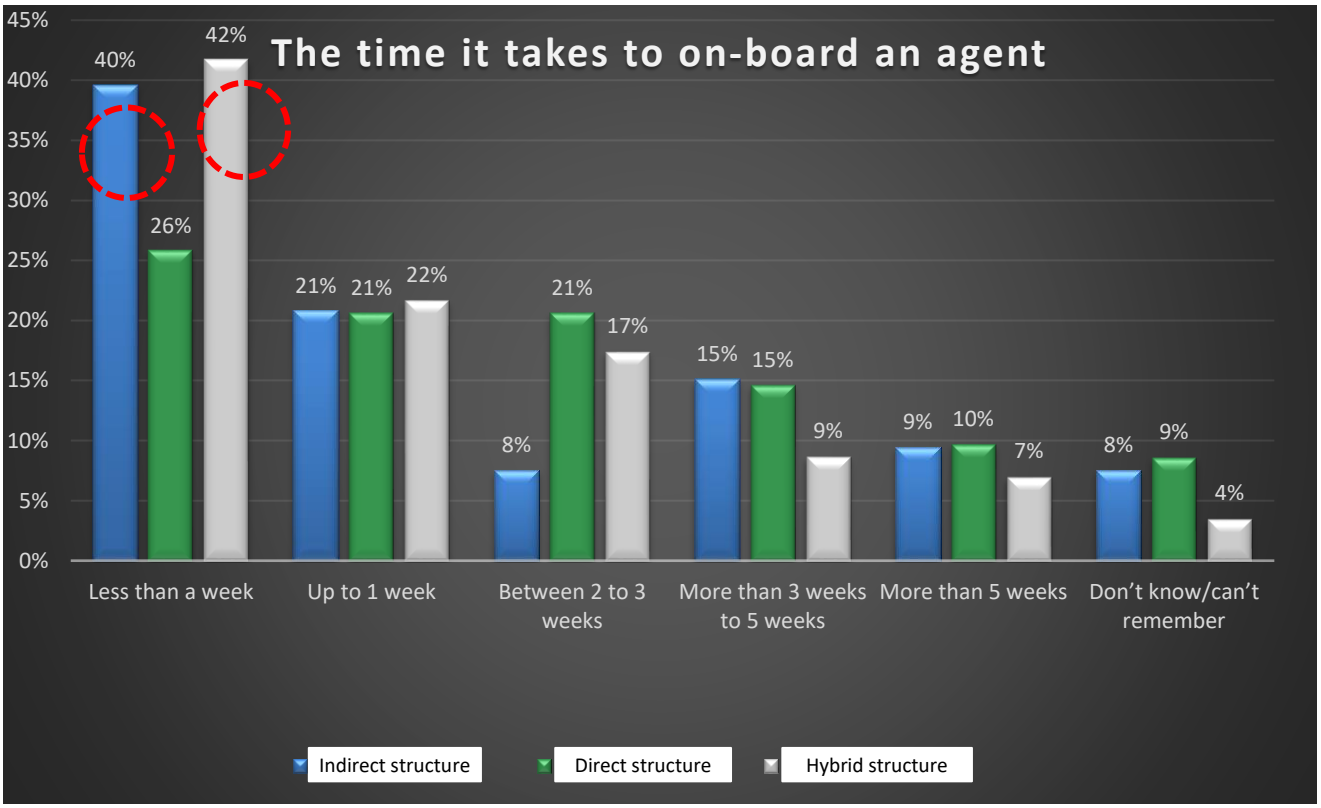
## 5.0 Agents Performance Evaluation: Direct vs Indirect Network Management Structures

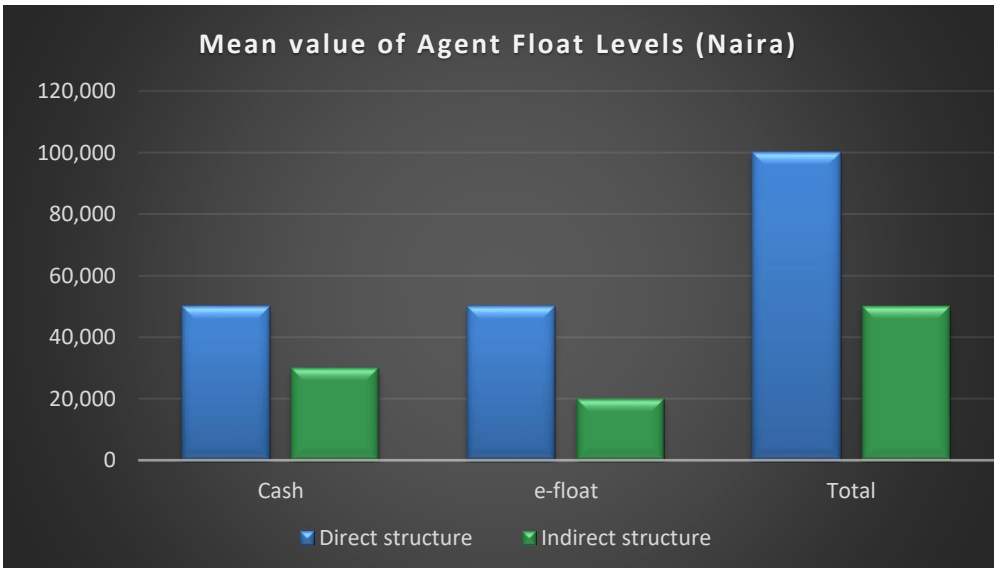
Financial service providers have varied motivations for developing Agent Networks including cost reduction, improving customer convenience, reaching out to new customers, deposit mobilisation, income diversification among other reasons. These motivations form the lens through which operators develop the Agent Network structure and related performance metrics on core functions (for example agent on-boarding, liquidity management support, etc.) which inform decision-making related to the fulfillment of these goals.

There are two broad types of Agent Network management structures – the direct and indirect structures. Direct network management structures involve only the financial service provider teams while indirect structures involve outsourced entities responsible for the management of The Agent Networks.

### 5.1 The use of super agents to on-board agents hastens the process

The EFInA Financial Services Agents survey identified some key performance consequences and characteristics in the use of direct and indirect Agent Network management structures in Nigeria to help providers achieve certain core deliberations e.g. agent on-boarding, float levels, etc.

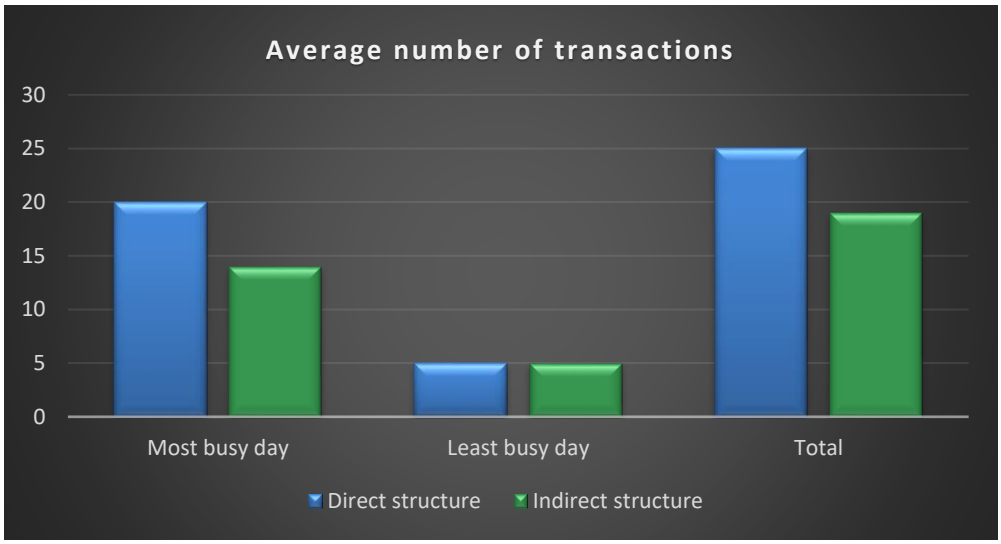





Agent on-boarding is the process by which potential agents are identified, vetted (initial screening and subsequent due diligence), and signed-up (including collection of necessary documentation and legal contracting). This finding implies that the use of Super Agents ensures speed to market as the financial service provider teams focus on conducting due diligence on the identified and selected agents, while the Super Agents focus on determining the locations of agents and their ideal demographics in relation to the operators' objectives.

## 5.2 Agents in direct network management structures maintain higher float levels and conduct more transactions than their counterparts in indirect structures

In direct network management structures, there is closer monitoring of the agent float (cash and e-float) levels than in indirect structures. In direct structures, operators often remind agents to maintain higher float levels through phone calls. It is the act of maintaining adequate float levels that provides them with the ability to facilitate more transactions than agents in indirect management structures.



Agent monitoring can be a complex and sometimes tedious process, especially with geographically dispersed Agent Networks. Data analytics and dashboards can create real-time visibility and useful benchmarks for agents, field staff, and head offices. In addition, mobile apps and conversational interfaces through social media can bridge distances by facilitating easier transmission of real time information with head office teams, and improving communication between field staff and agents as well as between agents themselves. This enables agents to share best practices, report fraud, or shop for float. It also helps operators to support agents encouraging them to maintain adequate float levels to efficiently facilitate customer transactions.

## The Way Forward

At the close of 2018, 2 years to the deadline for the attainment of the set financial inclusion targets, there is a burgeoning need for agent networks as a catalyst for success. All stakeholders are aligned in terms of the necessity of agent distribution networks and The CBN is at the forefront to facilitate successful deployment of these networks in Nigeria to promote financial inclusion.

There are some great milestones to enable the sprouting and expansion of agent distribution networks. For example, there is the collaboration among stakeholders including the apex bank, the Nigerian Bankers' Committee, super agents, among others to institute the Shared Agent Network Expansion Facility (SANEF). As highlighted in this report, there are also some road blocks which need to be reduced

**How can providers and agent network managers ensure sustainability in the deployment of agent networks in Nigeria?**

***Robust Strategy for the SANEF facility***

If the business model is appropriately structured with clearly aligned expectations, the facility would provide a great means to scale the agent network and an opportunity for innovation. Also, it is imperative to carefully tackle three likely impeding factors[20] to the success of the shared agent network. These include; sunk costs – where providers or agent network managers may not have buy-in as a result of earlier effort, time and investments into their independent distribution networks; under-investment as a result of providers hesitating to embrace further investment in the future because they anticipate long break-even periods; and lastly new risks arising from co-opetition (where providers collaborate and compete at the same time).

***Understanding the DFS business case and guided expectations***

The agent network sustainability requires out of the box thinking. This includes innovative agent network management approaches (e.g. the use of technology to bring down costs), diversified product and service offerings to improve direct agent network revenues and boost the recognition of this channel among customers. Stakeholders should avoid price perceptions from promoting consumer protection but set prices informed by thorough market assessments to establish what customers and both willing and able to pay for, and the cost-to-serve at agent level. There is also the need to think innovatively[21] and "outside the box" when preparing financial models, for example by allocating cost savings as a result of deposits mobilized by agents, or revenues from the loan business, to the agent network.

[20] A Strategic Approach to Next Generation Agent Networks blog 2017
[21] Aligning Expectations: The Business Case for Digital Financial Services by IFC and Mastercard Foundation 2018

***Significant telco infrastructure investment and consideration of the right technology choices in the deployment of digital financial services***

Consider investments for the availability and access to reliable infrastructure including power, communications, etc. A number of key platform requirements should be appropriately considered by the various providers to minimize technological hitches and transaction failures, including; capacity planning, platform redundancy, service-level agreements, disaster recovery and a commercial requirement- driven technology road map.

***Implement emerging best practices in the management of agent networks to promote scale and sustainability***

There is the need to implement emerging best practices to the core day-to-day agent network management operations, including, agent on-boarding, agent training, agent monitoring and liquidity management. This calls for increased use of technology – using transactional, geolocation, and KYC data and analytics, more partnerships and negotiations between stakeholders to support agent distribution. This is meant to improve operational efficiencies, cut costs, improve agent economics, improve customer service and expand the reach of the agent network as desired**.**

# 6.0 Annexure -Core KPIs to Support Successful Deployment of Agent Networks

Key Performance Indicators (KPIs) are critical tools that financial service providers can use to foster sustainable commercial growth because it links the strategic objectives to daily activities. KPIs also create visibility on operational issues and provide insight on what needs to be done to drive the DFS businesses. Misguided or vague KPIs can lead to inactive agents, inactive customers and DFS teams that lack accountability and motivation.

Operators need to ensure that they put in place the most effective KPIs for the different teams in the business. When creating effective KPIs, providers need to consider three core attributes namely; the daily actions necessary for the business to achieve its primary rationale, people or teams responsible for each action and suitable metrics that can be used to measure the actions.

Some common pitfalls should be avoided when creating KPIs for DFS businesses. These include using operational metrics as KPIs (for example number of customers or agents, transaction volumes, etc.), considering KPIs that result in unintended consequences (for example a Super Agent team with a KPI to onboard X number of agents) and creating too many confusing KPIs (for example KPIs that are not clear actionable).

Operational metrics such as the number of agents only provide an overview of the business, however, nobody is responsible, therefore, lack accountability. Some KPIs that risk unintended consequences do not fully take into consideration all the requirements for the actions. Using the Super Agent example above, without qualitative agent onboarding requirements, the Super Agent may end up with the right number of agents, but wrong kind of agents. Lastly, the more KPIs a team or an individual is given, the more divided the time and focus. An effective KPI should have an objective, a deliverable and appropriate measurement criterion.

The following are some examples of KPIs for DFS operations (Back-Office, Call Centre and Risk Management KPIs) and Agent Network management (agent onboarding, training and network management and marketing) core functions. These KPIs may enable providers and agent network managers to structure their operations in alignment with their respective objectives.

## 6.1 KPIs for DFS Operations

**Back office KPIs**

| Objective | Deliverable | Measurement Criteria |
|---|---|---|
| **Validate and active agent and customer accounts** | ✓ All accounts to be verified and activated within X hours | ✓ % of accounts validate within timeframe versus target<br>✓ Accuracy in account creation (up to 100%) |
| **Execute necessary reporting requirements** | ✓ Remote agent monitoring – monitor and report the transactions volume and number of transactions via the system<br>✓ Dashboard updates: Report monthly status and activity (active customers, active agents, etc.) | ✓ 100% of all required reporting is completed accurately on a weekly/monthly/quarterly basis |

| | | |
|---|---|---|
| **Delivery of high-quality customer service** | ✓ Execution of all escalated queries from all 1st line customer or agent contact points | ✓ % of queries closed/addressed correctly (up to 100%) |

**Call Centre KPIs**

| Objective | Deliverable | Measurement Criteria |
|---|---|---|
| **Resolution of customer questions** | ✓ Time to answer<br>✓ Call handling rate<br>✓ Abandon rate<br>✓ First call resolution | ✓ % of calls answered/ completed within time frame of x min<br>✓ % of calls abandoned (0-5%)<br>✓ % of questions/queries that can be resolved on a first call |
| **Encourage a good customer experience through positive customer service** | ✓ Phone etiquette<br>✓ Adherence to escalation procedures | Qualitative metrics including:<br>✓ Internal spot-checks or external agency review<br>✓ Satisfaction scoring via follow-up surveys |
| **Knowledge and ability to provide education on DFS** | ✓ Complete regular training on refresher courses and any new developments or products | ✓ Regular training completed every X (month, quarter, etc.)<br>✓ Successful completion evaluation of service products and service (100%) |

**Risk Management KPIs**

| Objective | Deliverable | Measurement Criteria |
|---|---|---|
| **Develop and update risk management strategy** | ✓ Defined and accessible risk management strategy, including identified key risks and controls to mitigate them<br>✓ Schedule for review of strategy versus commercial and risk appetite objectives | ✓ Completed and successful annual audit conducted by external or objective team<br>✓ 5 of high and medium risk items which were only identified during external audit versus target |
| **Maintain reliable and relevant dashboards to monitor key risks** | ✓ Regular reporting of suspicious activities versus thresholds | ✓ X% of all required reporting is completes accurately on a weekly/monthly/quarterly basis ( up to 100%)<br>✓ X% of suspicious activities are escalated via appropriate channels |

| | | |
|---|---|---|
| | | (up to 100%) |
| **Implement and review preventive and detective controls to mitigate key risks** | ✓ Defined internal processes and procedures to reduce risks including processing errors, internal fraud, business continuity failures, etc. | ✓ X% revenue loss due to fraudulent activity or human error<br>✓ Number of fraud instances identified versus target<br>✓ % of unresolved cases versus target<br>✓ Average loss per fraud incident |

## 6.2 KPIs for agent network management

### Agent onboarding KPIs

| Objective | Deliverable | Measurement Criteria |
|---|---|---|
| **Maintain clear guidelines on agent selection and onboarding** | ✓ Submission to manager on plans for prospecting.<br>✓ Schedule for updating guidelines depending on portfolio of existing<br>✓ agents | ✓ Monthly target of x agent on-boarded against guidelines |
| **Prospect & onboard the agents** | ✓ Identify and pitch to appropriate potential agents (verification of outlets before on-boarding)<br>✓ Signed contract<br>✓ Documentation submitted to the back office for validation | ✓ x target of new agents per month or per quarter<br>✓ • % of agents who are pitched and verified to start business |
| **Ensure agent launches the business** | ✓ Initial investment incorporated (float amounts)<br>✓ Training completed and delivery of business tools<br>✓ Notify the marketing department to schedule any BTL branding, where required. | ✓ 100% of agents launched within X days of account validation |

### Agent training KPIs

| Objective | Deliverable | Measurement criteria |
|---|---|---|
| **To ensure the provider or agent network manager teams and agents are adequately trained and updated on all new developments on the product.** | ✓ Develop training process and plans for the team and agents.<br>✓ Clear communication to agents and provider or agent network manager team on the training calendar | ✓ Number of agents trained vs. target (target is derived from number of agents recruited and available for training)<br>✓ Availability of detailed and documented training processes and plans |

| | | |
|---|---|---|
| | | ✓ Adherence to the developed training process<br>✓ % of staff trained & evaluated with timelines say quarterly |
| **Identification, set up & monitoring of regional training centres.** | ✓ Appoint regional trainers for each region.<br>✓ Manage regional trainers<br>✓ Attend x number of regional trainings in each region per quarter | ✓ Number of operational training centres set up vs. target<br>✓ Number of regional trainers per region vs. target<br>✓ Number of regional trainings attended vs. target<br>✓ Quarterly review of regional trainers' effectiveness |
| **Assess quality of agent training** | ✓ Visit x number of agents per month to assess quality of service offering using a predetermined template<br>✓ Continuous review of agent training curriculum to enrich with all developments<br>✓ Certification of agents | ✓ Accuracy of agent training curriculum and availability of up- to-date versions<br>✓ Relevance of agent training material<br>✓ Number of agents certified versus target |

| Objective | Deliverable | Measurement Criteria |
|---|---|---|
| **Undertake training needs analysis** | ✓ Evaluate current training gaps within the agent network and suggest improvements<br>✓ Evaluate training gaps within the provider or agent network manager team and recommend appropriate actions<br>✓ Review training needs based on the business and technology changes<br>✓ Incorporate feedback from the sales team and regional trainers. | ✓ Accuracy of training needs identified<br>✓ Alignment of training with business and technology changes<br>✓ Submission of bi-annual training needs analysis report |
| **Reporting & administration** | ✓ Monthly/weekly reports on trainings undertaken<br>✓ Monthly/weekly marketing visit reports<br>✓ Prepare training plans in advance | ✓ Accuracy of reports (up to 100%)<br>✓ Number of reports sent monthly<br>✓ Timeliness of reports<br>✓ Availability of at least |

| | | |
|---|---|---|
| | ✓ Evaluate/Assess trainees on completion of training<br>✓ Facilitate training in all the regions | one-month training plan<br>✓ Average percentage pass mark attained by agents |

**Network Management KPIs**

| Objective | Deliverable | Measurement Criteria |
|---|---|---|
| **Regular visits and interaction with agents by provider or agent network manager team as per agreed route plans.** | ✓ Submission to manager on weekly/monthly visit schedule by (the date)<br>✓ Report on agent challenges and reasons for inactivity | ✓ % success rate (weekly/monthly)<br>✓ % of active agents (weekly/monthly)<br>✓ 100% submission of route plan by (the date) |
| **Onsite monitoring of the agents** | ✓ Completion of monitoring review agent documentation on visibility, training, float vs cash balance and transaction logbook. | ✓ Completion of reports (100%) including during the monitoring process<br>✓ Identification and escalation of under-performing agents (based on transactions, float, branding, etc) |
| **Ensure agent branding and merchandising standards are maintained** | ✓ Availability of agent materials in outlets<br>✓ Implementation of set merchandising standards | ✓ % of outlets adhering to merchandising standards |
| **Consistent internal communication on agent management** | ✓ A meeting X times every month with the agent team to review status, challenges and define follow-up | ✓ Number of meetings held against targets (% rates)<br>✓ Clearly documented and agreed action plans |

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