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Enhancing Financial Innovation & Access

Financial Services Agent Survey

Key Findings

June 2020

UKaid from the British people

About EFInA

Enhancing Financial Innovation & Access (EFInA) is a financial sector development organisation that promotes financial inclusion in Nigeria. Established in late 2007, our mission is to make the Nigerian financial system work better, especially for the poor. EFInA works through four pillars:

- Research
- Innovation
- Digital Finance
- Capacity Building & Advocacy

EFInA is funded by UK Government's Department for International Development (DFID) and the Bill & Melinda Gates Foundation.

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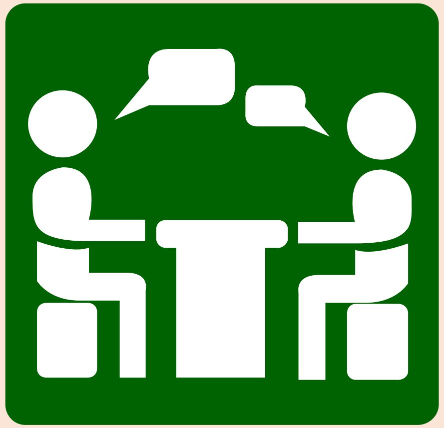
BACKGROUND & METHODOLOGY

Research Objectives

- ❑ Understand and highlight some of the operational determinants of a sustainable financial services agent network
- ❑ Understand what agents are charging, price determination mechanism, compliance with price regulation
- ❑ Identify some of the factors driving the uptake of or hampering agent services in Nigeria,
- ❑ Identify agents' motivation
- ❑ Capture agent perceptions on how to increase the uptake and usage of agent services

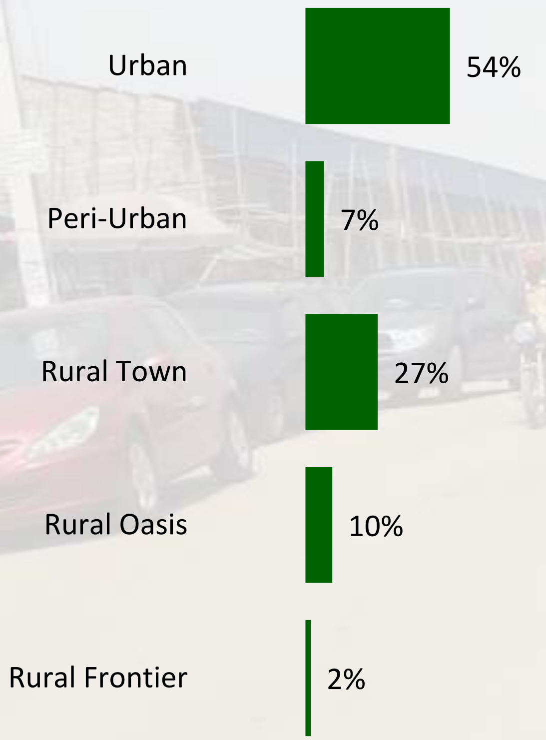
Research Methodology



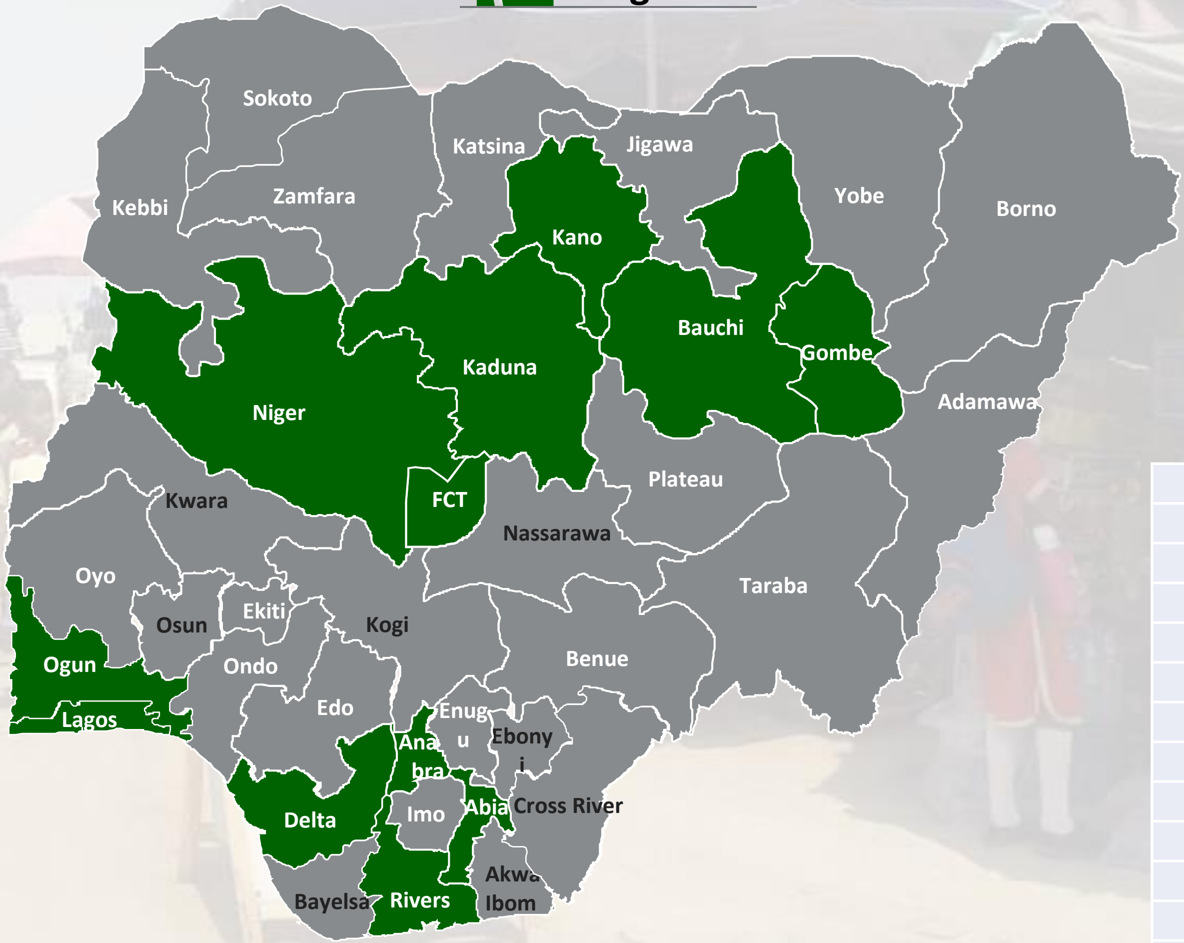
- ❑ Face to Face interviews with financial services agents
- ❑ Agents were located through their branding materials and based on referrals
- ❑ 1618 financial service agents were randomly selected (based on proportion of agents per region and by provider type in the SANEF database) and interviewed by Nielsen.
- ❑ Interviews were conducted in February 2020

Spread across the regions but mostly found in the urban areas.

Location Classification (FSAS)



Region



Sample

Location	FSAS
Abuja	182
Niger	84
Bauchi	84
Gombe	72
Kaduna	123
Kano	203
Abia	66
Anambra	57
Delta	117
Rivers	78
Lagos	452
Ogun	100
Total sample	1618

Base: 1618

Rural Town – rural area with population ≥ 150/km², ≤ 5km to road, area ≥ 10km²; rural oasis - rural area with population ≥ 150/km², ≤ 5km to road, area ≤ 10km² OR rural area with population ≤ 150/km², ≥ 5km to road, but with the presence of industry or commercial activity; rural frontier - rural area with population ≤ 150/km², ≥ 5km to road, and no presence of industry or commercial activity

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- Methodology

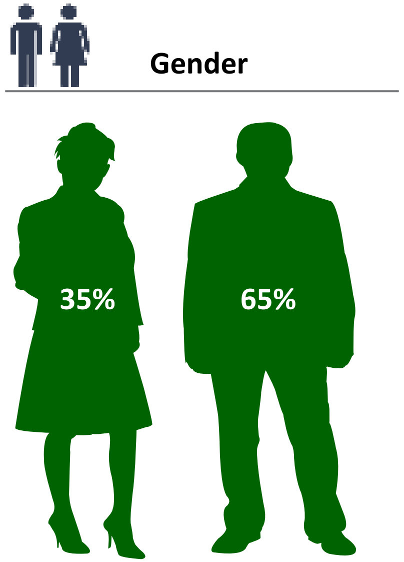
Detailed Findings 2

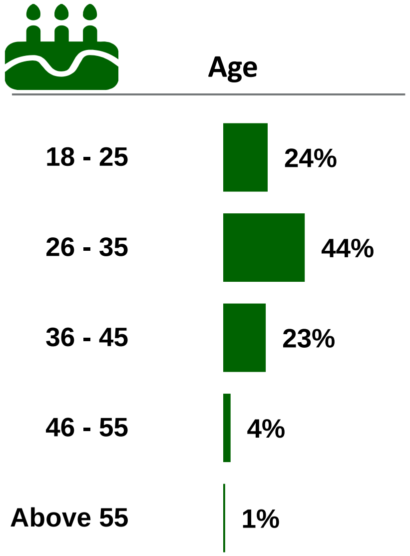
- Agents profile
- Business operations
- Agent Pricing & Economics
- Float Management
- Challenges Experienced
- Possible Solutions

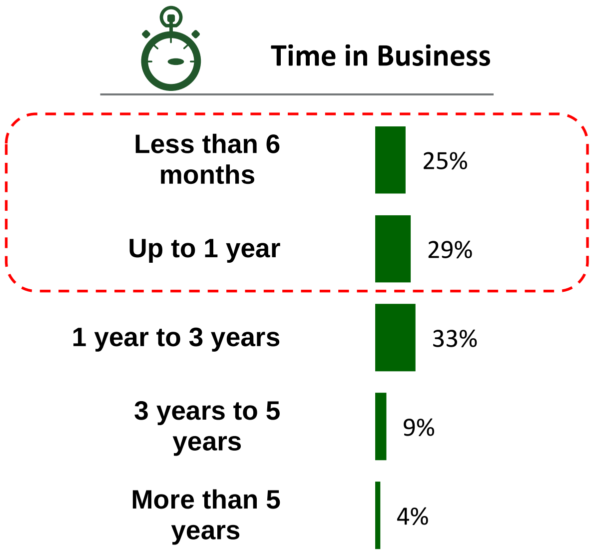
Summary & Recommendations 3

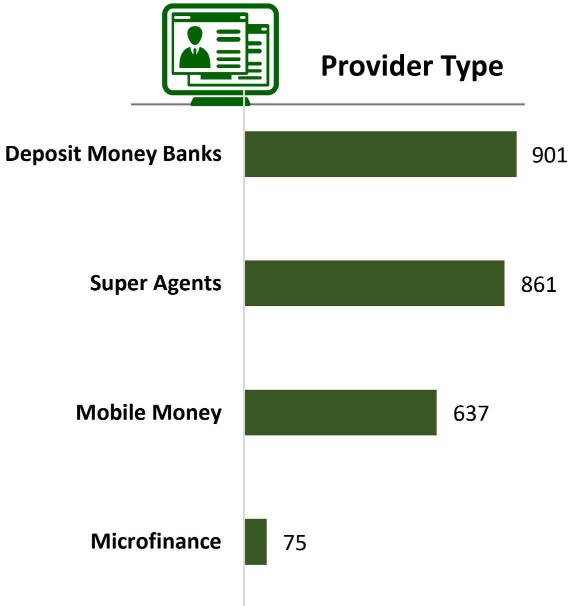
- Recommendations

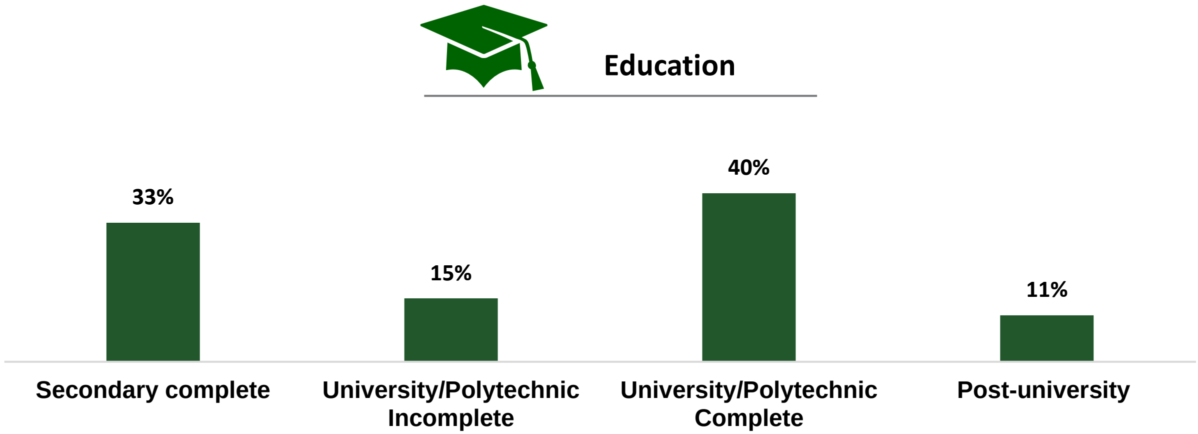
Agents surveyed are predominantly male, youthful and new to the business. Nearly one-third of agents are dedicated

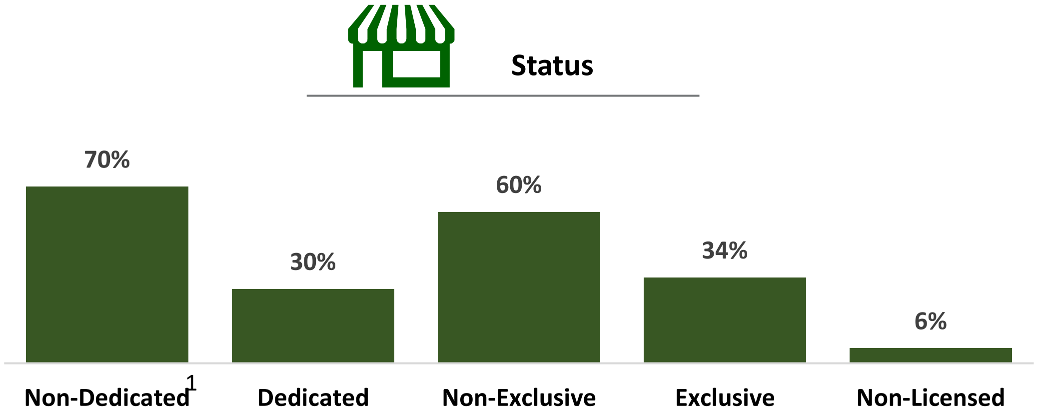












Base: 1618

The sample includes agents who had performed at least one transaction in the past 30 days. 1. Non-Dedicated financial service agents run their agency business alongside another business in the same location.

Opportunity to make additional income is the major motivation for becoming an agent. Others are anticipated marketing activities from principals, increased footfall for pre-existing business and customer request.

69%
To make additional income

29%
Principal/Aggregator sold the idea to me

24%
Increase the number of customers that visit my business

23%
Customers were asking for the service

10%
Because others were doing it

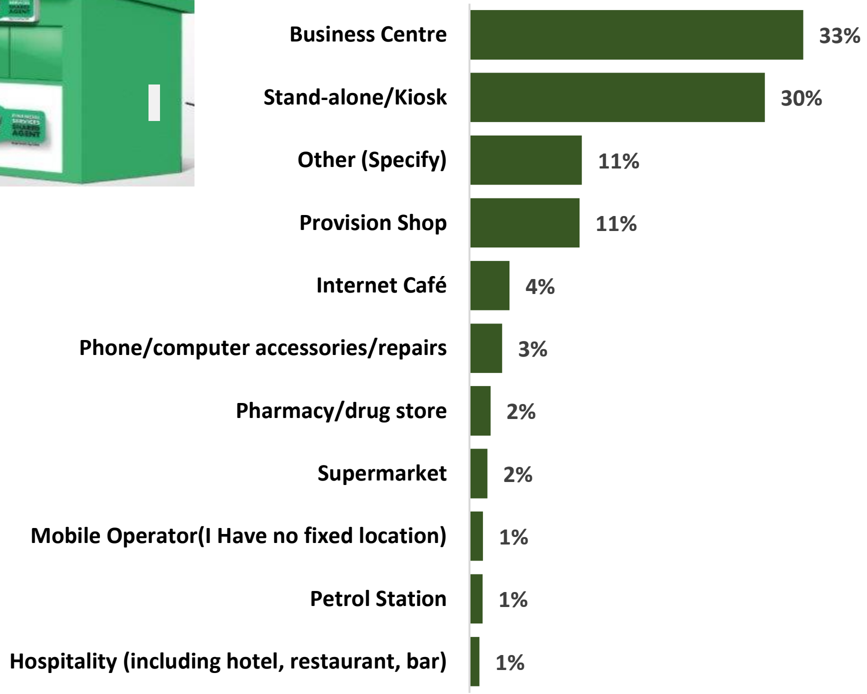
9%
Family/friend asked me to start it

5%
To be gainfully employed

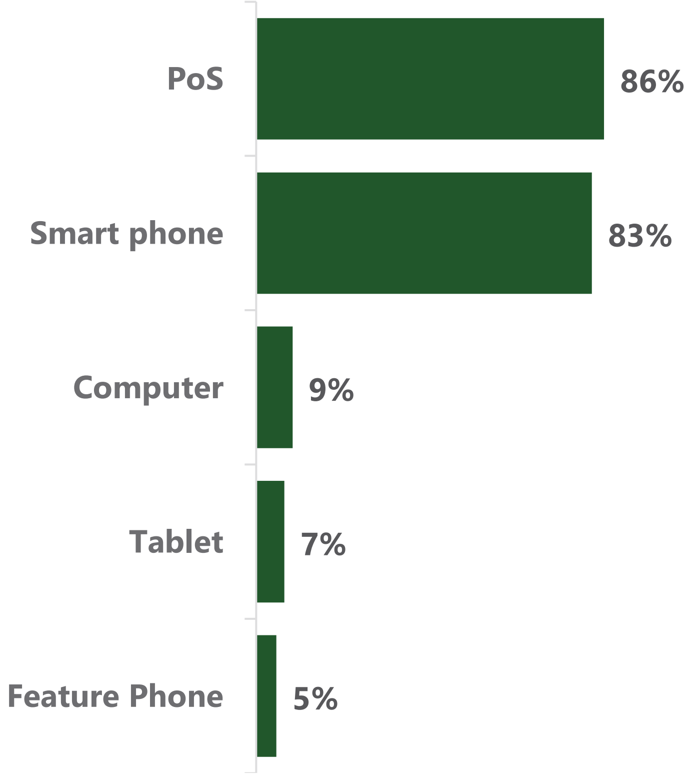
CONTENT

Agents mostly operate from business centres and kiosks. POS and Smartphones are the most used delivery channels for running the business.

Place of Operation



Devices Used



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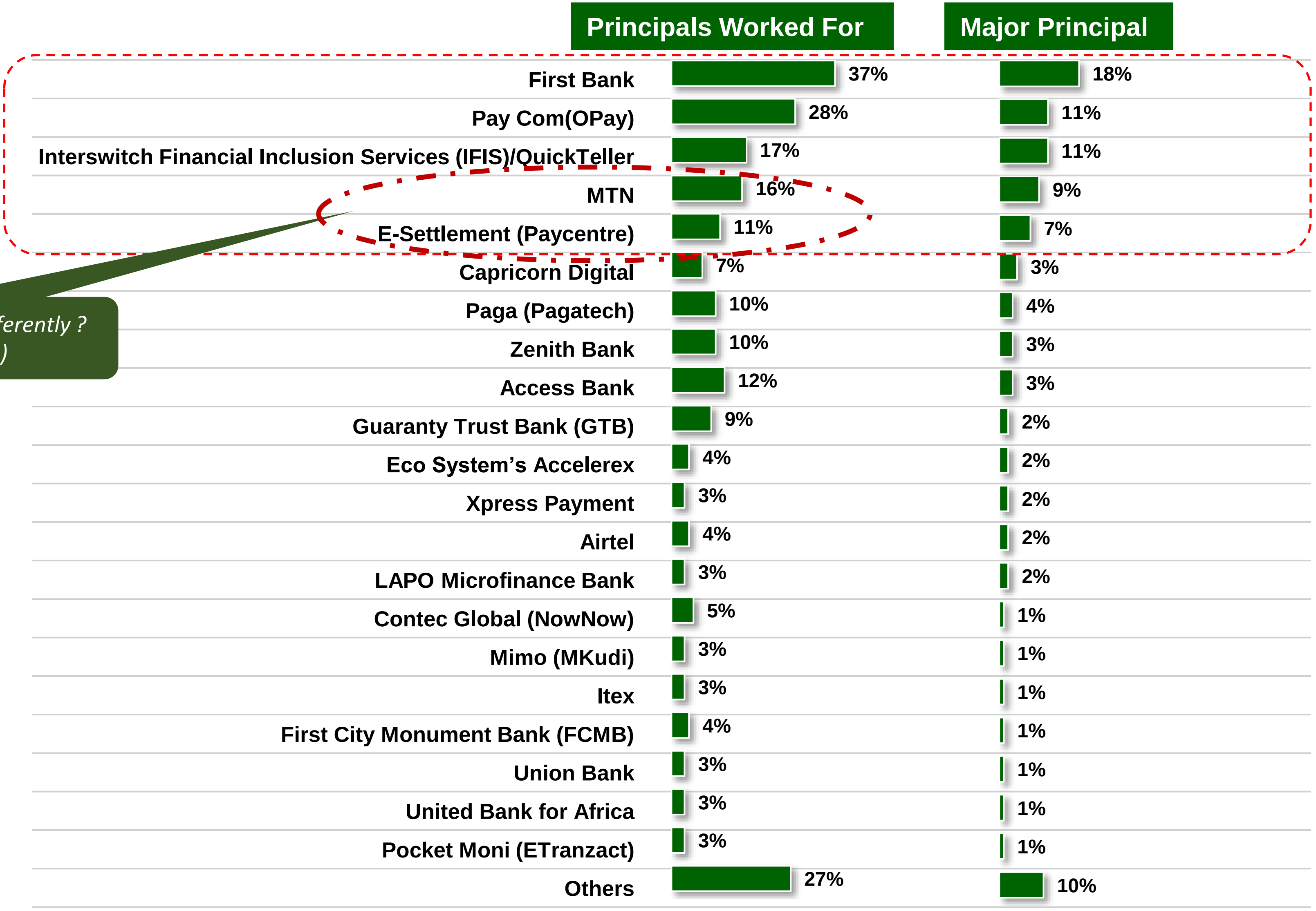
Agents surveyed are signed up by different principals/service providers. Nevertheless, First Bank (First Monie), OPay, QuickTeller, and MTN top the list of principals with a majority share of agents.



What are these firms doing differently ? (new entrants playing catch up)

Base: 1618

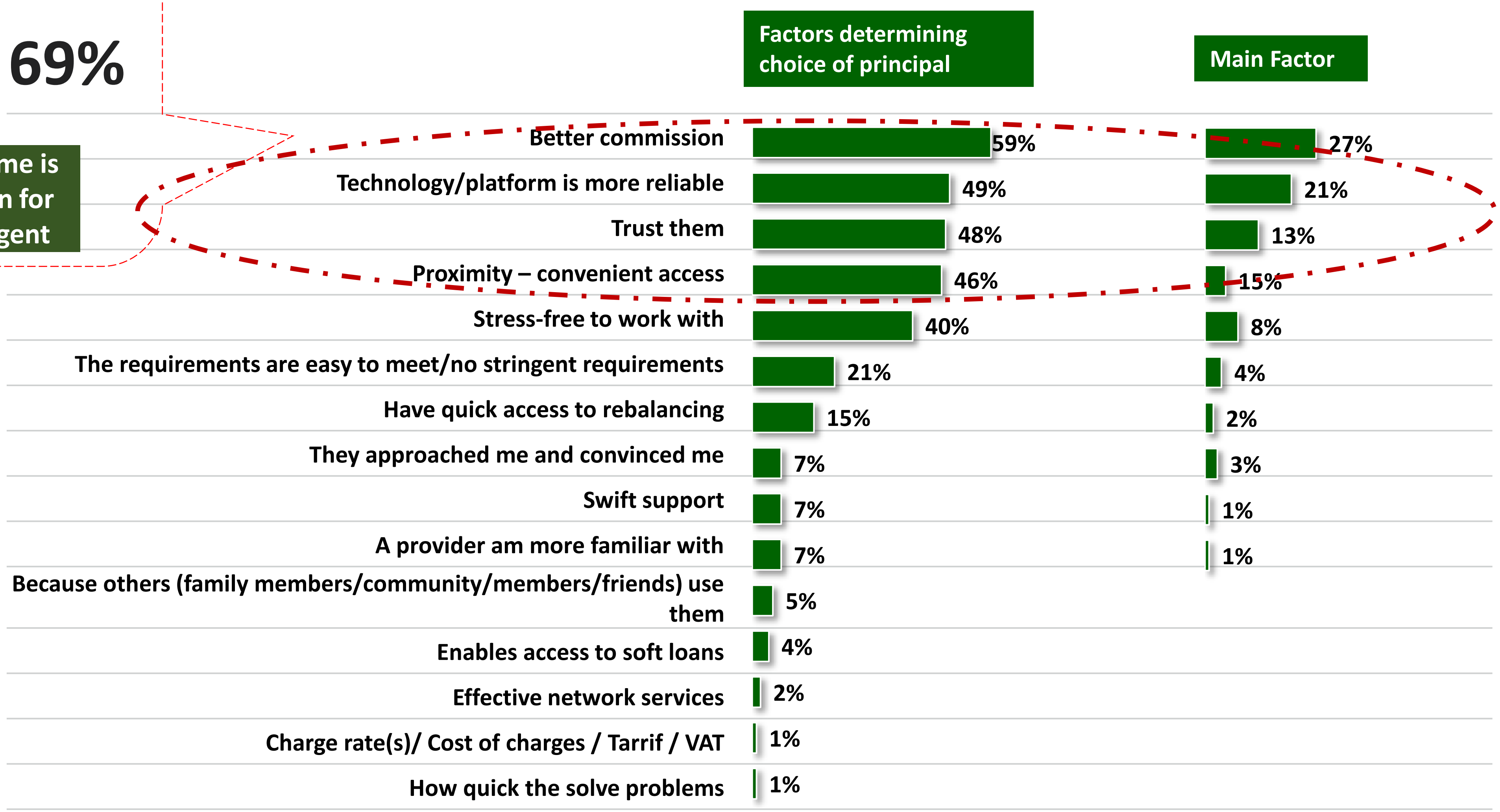
A8a. Please mention all the providers you are registered with?

A9. Which of these providers platform do you process most transaction on?

Agents choose principals based on some critical business model considerations, including remuneration, platform reliability, bestowed trust and level of convenience attributed to access.

69%

Additional income is the main reason for becoming an agent

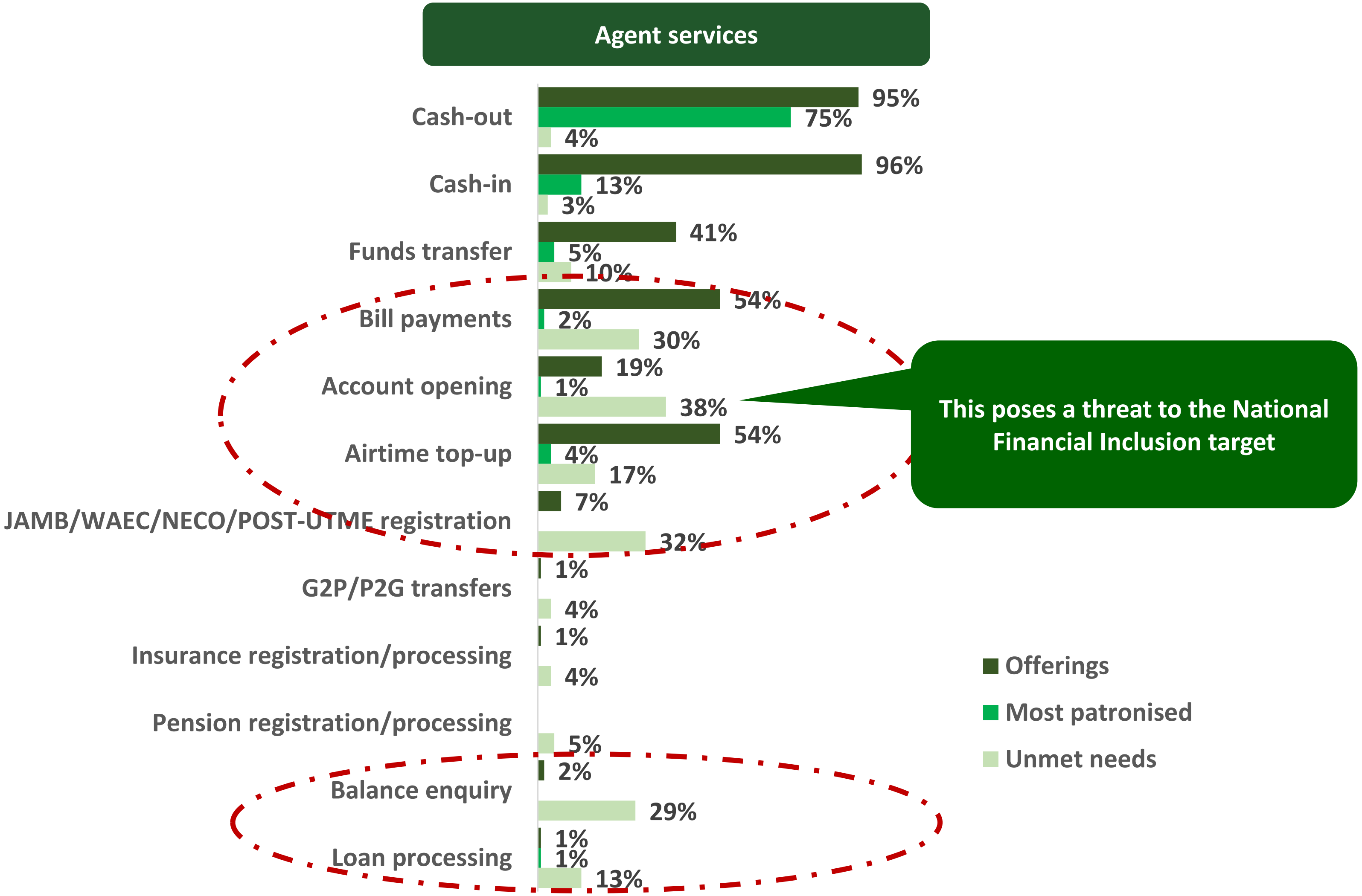


Base: 1618

A8a. Please mention all the providers you are registered with?

A9. Which of these providers platform do you process most transaction on?

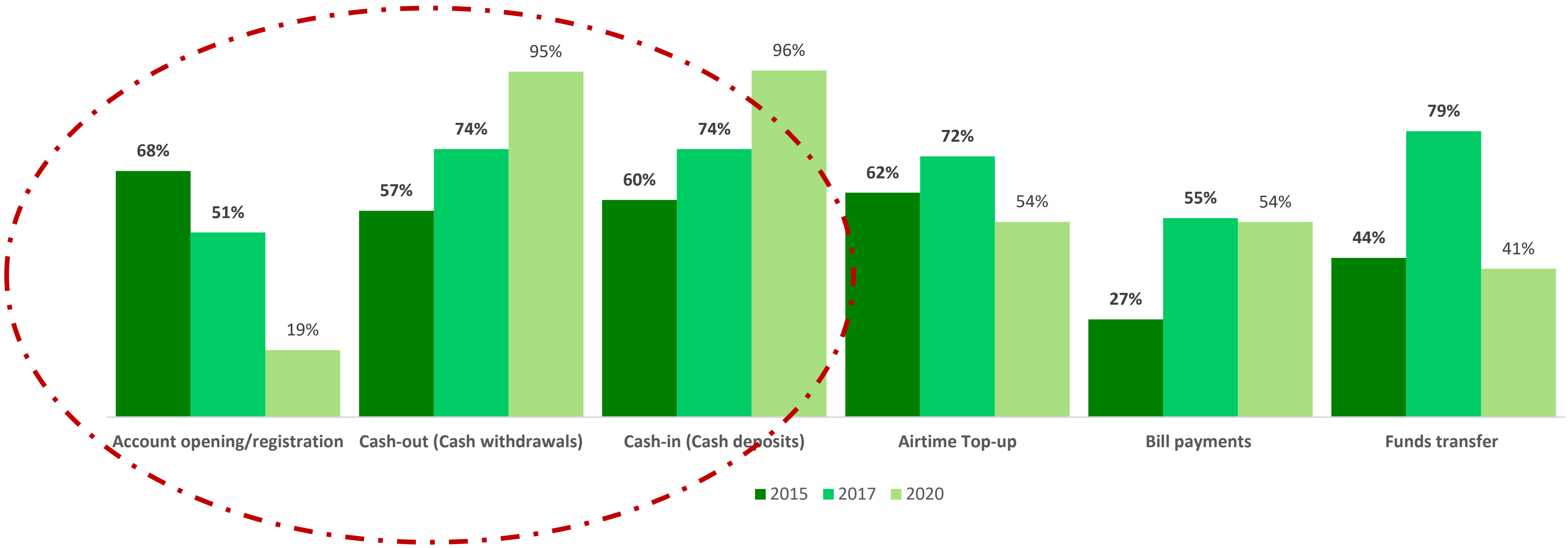
Account opening, institutional registration, bill payments and balance enquiry top the list of sought-after transactions by customers although not commonly offered by agents



Base: 1618
A16. Which of the following services did you offer to your customers?
A17. Which of the service did your customers use the most?
A18. Which services do customers demand for that you do not currently offer?

The percentage of agents who offer account opening services has decreased significantly since 2015. Over the same period, the percentage of agents who offer CICO transactions has increased significantly

% of agents who provide these services



Base: 1618

A6a. Which of the following services did you offer to your customers?

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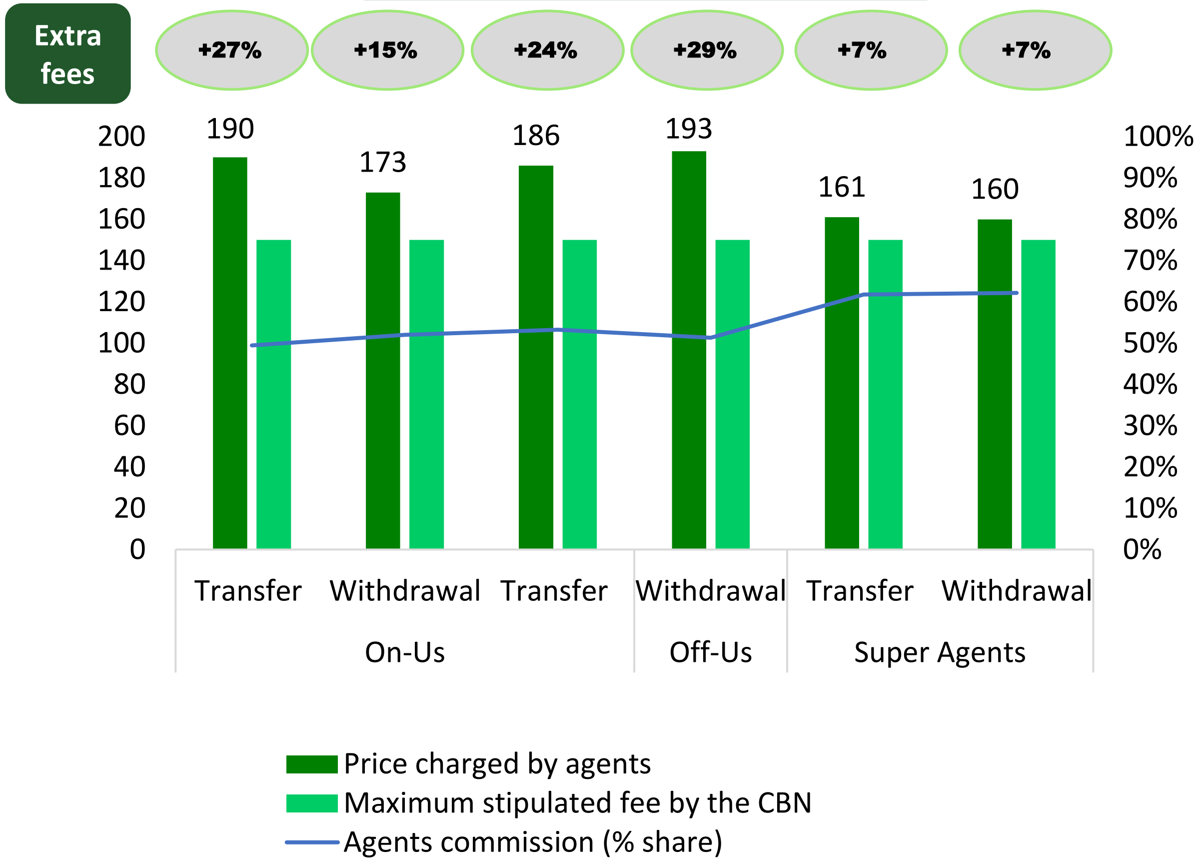
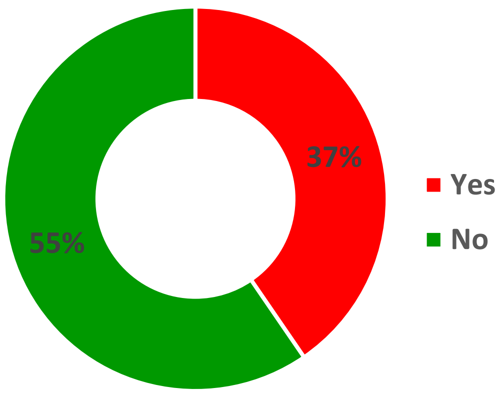
Nearly 2 out of 5 agents charge above the maximum fees stipulated by CBN, and report charging extra fees to make more money and on average. Their commissions make up 55% of the customer charges.

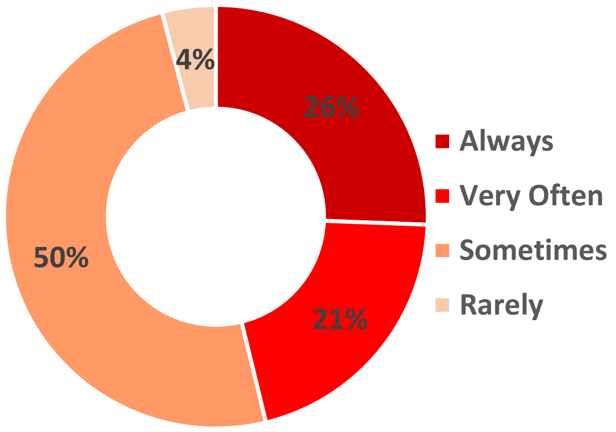
Median price charged for a transaction of N10,000



Ever charged higher prices than stipulated by Provider?

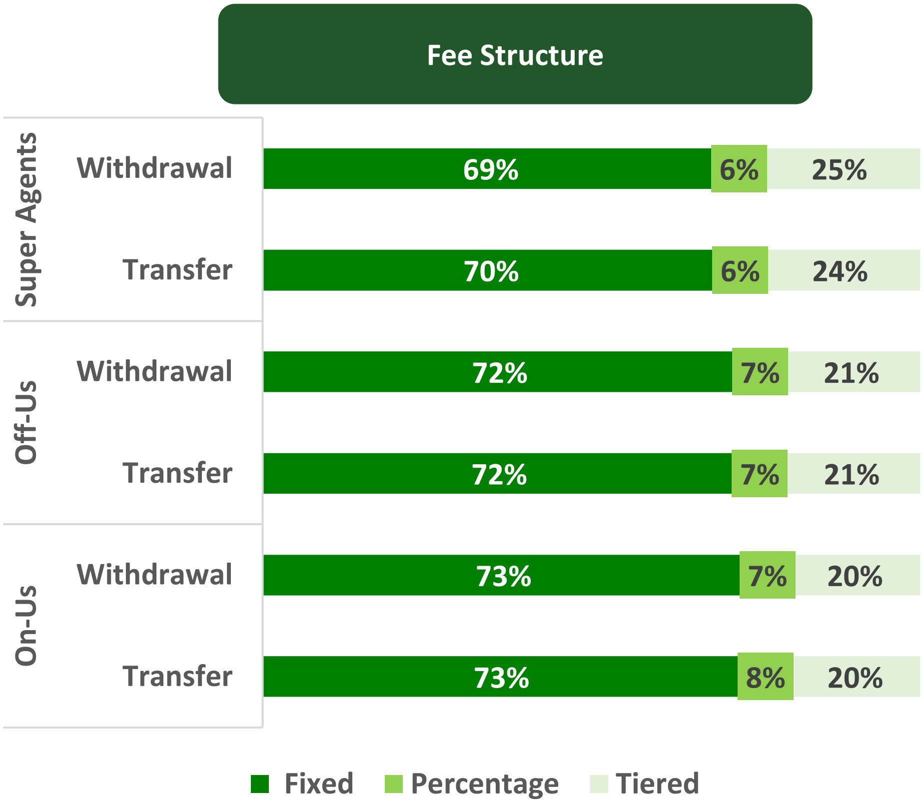


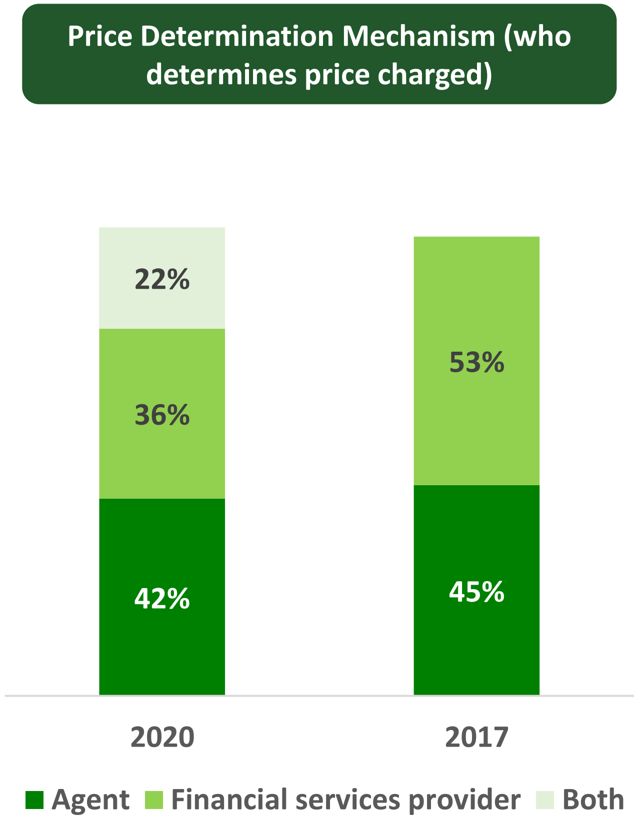
How often do you charge higher fees (% of those who charge higher fees)



P1: What is the typical price charged?
Price cap based on regulation:1.5% of transaction value or N500, whichever is lower

Most agents charge customers based on fixed fee structures

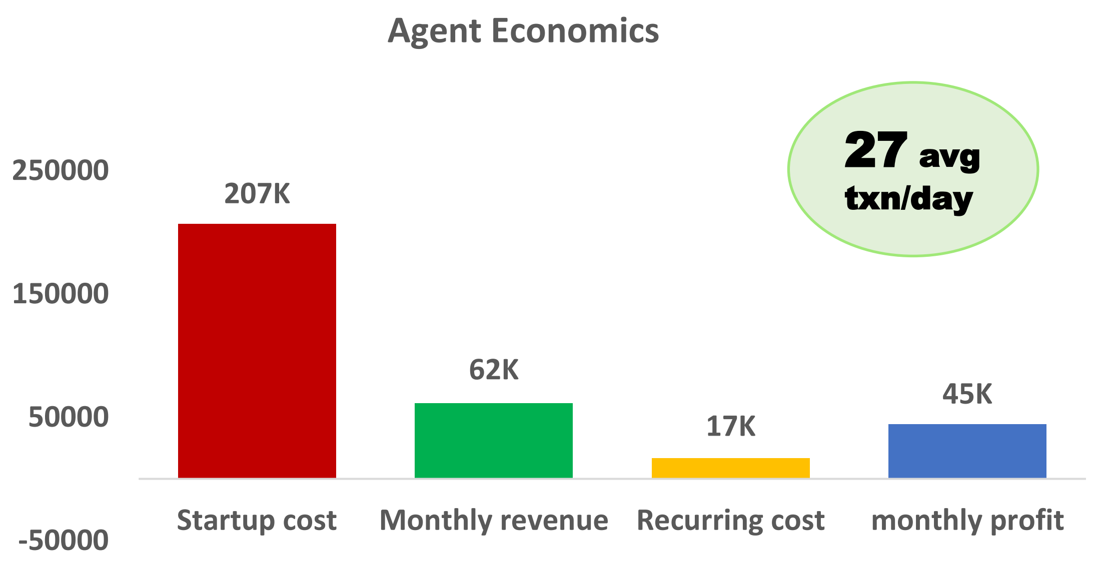


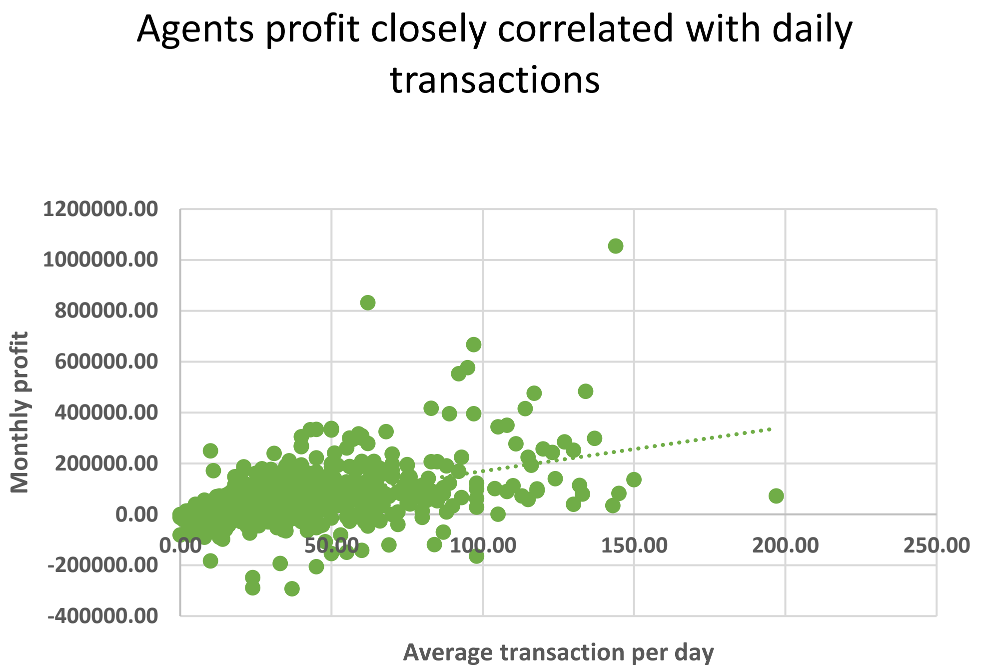


P2: How do you arrive at the typical price charged?

P4: Are the charges set by you or the Financial Service Provider you work for?

Financial services agents are profitable at an average of 27 transaction per day and a 73% profit margin





Recurring revenue is calculated assuming 25 working days in a month and is the sum of commissions received across all financial services offered. Daily revenue is estimated as the typical commission received on each financial service offered multiplied by the total number of that transaction performed on a typical day

Average revenue excludes extra fees (upcharges); Average recurring cost blends dedicated and non-dedicated agents (note: recurring costs do not include rent, utilities, or store maintenance for non-dedicated agents). When we include all costs, average recurring cost is 23k

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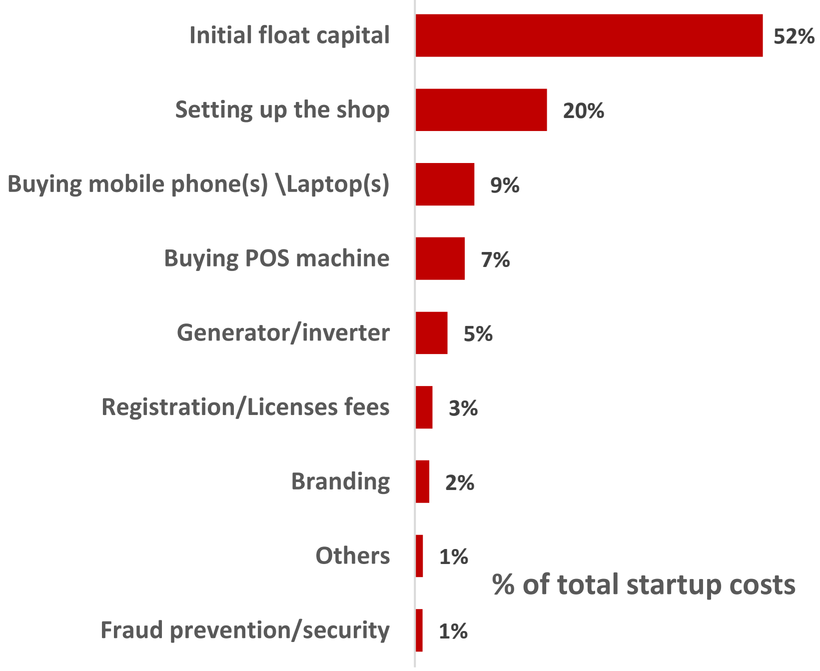
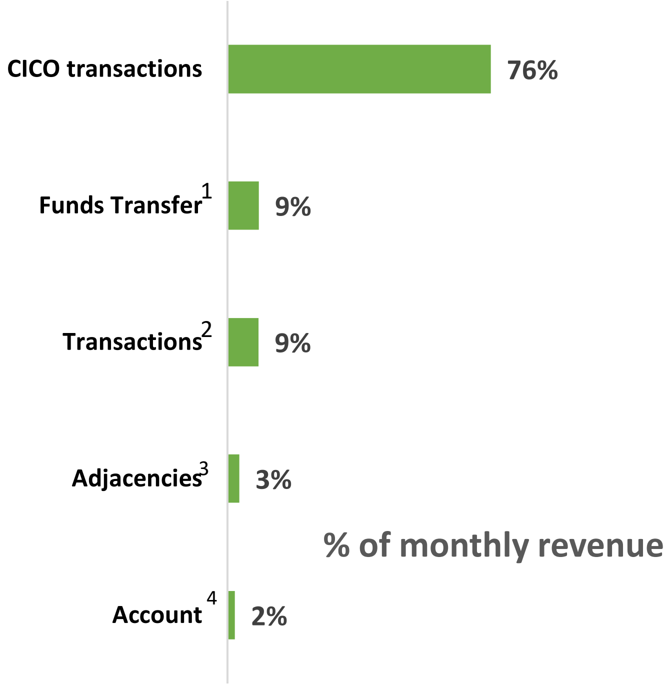
Despite being profitable, agents incur high start-up and recurring costs. About 2% of the monthly recurring costs are reported to be losses associated to fraud

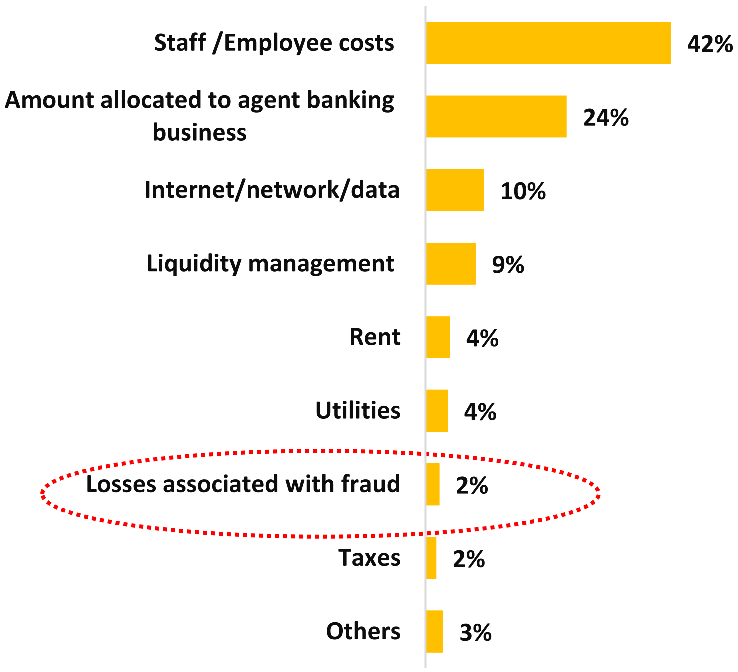
Start-up costs



Recurring revenue



Recurring cost[5]

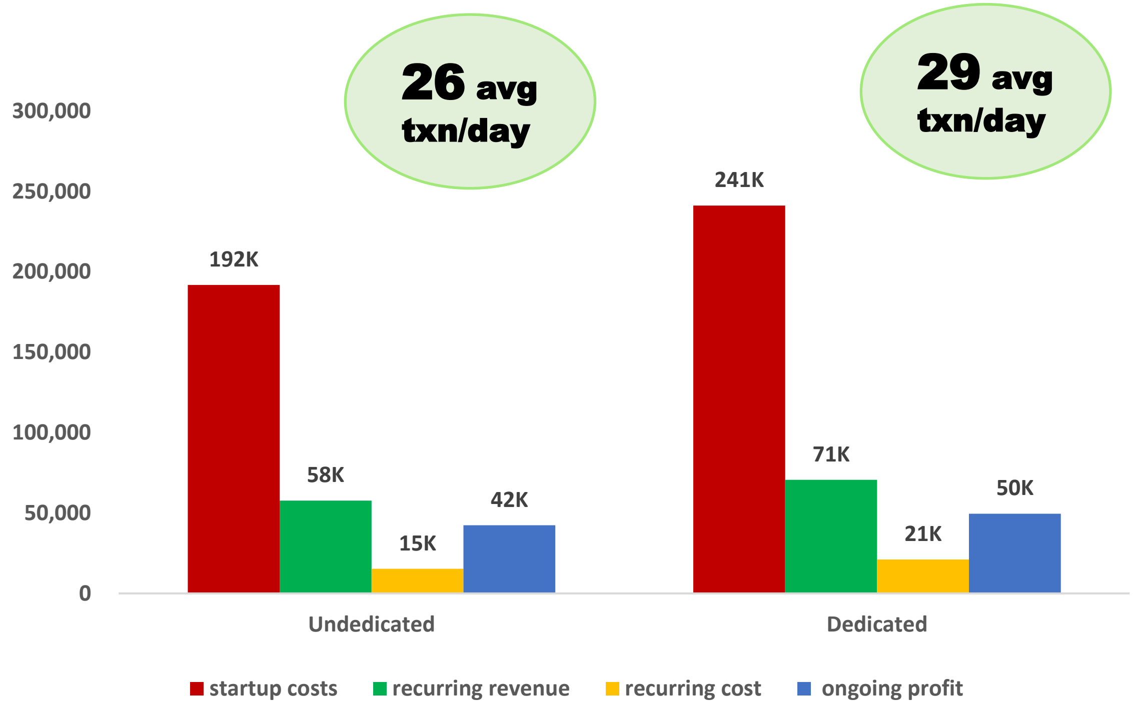


1. between people, businesses or between people/businesses and the government; 2.Bill payments and JAMB/WAEC registrations; 3. SIM registrations, SIM replacements, and airtime; 4. Account openings; 5: Recurring cost includes rent, utilities, and maintenance for all agents (excl. non-dedicated agents); 6. Utilities Electricity, water, generator (fuel & maintenance)

Non-dedicated agents have lower marginal costs (-26% start-up and -38% recurring), but lower average transaction per day (-12%) results in lower profits relative to dedicated agents

Business model	Funding costs	Startup costs	Recurring costs	Justification
Dedicated - Provide only financial service transactions	higher	higher	higher	(In)ability to borrow capital from till, leverage existing customer base and technology, and spread recurring costs for dedicated and non-dedicated agents respectively.
Non-dedicated - offer financial service transactions in addition to other business	lower	lower	lower	

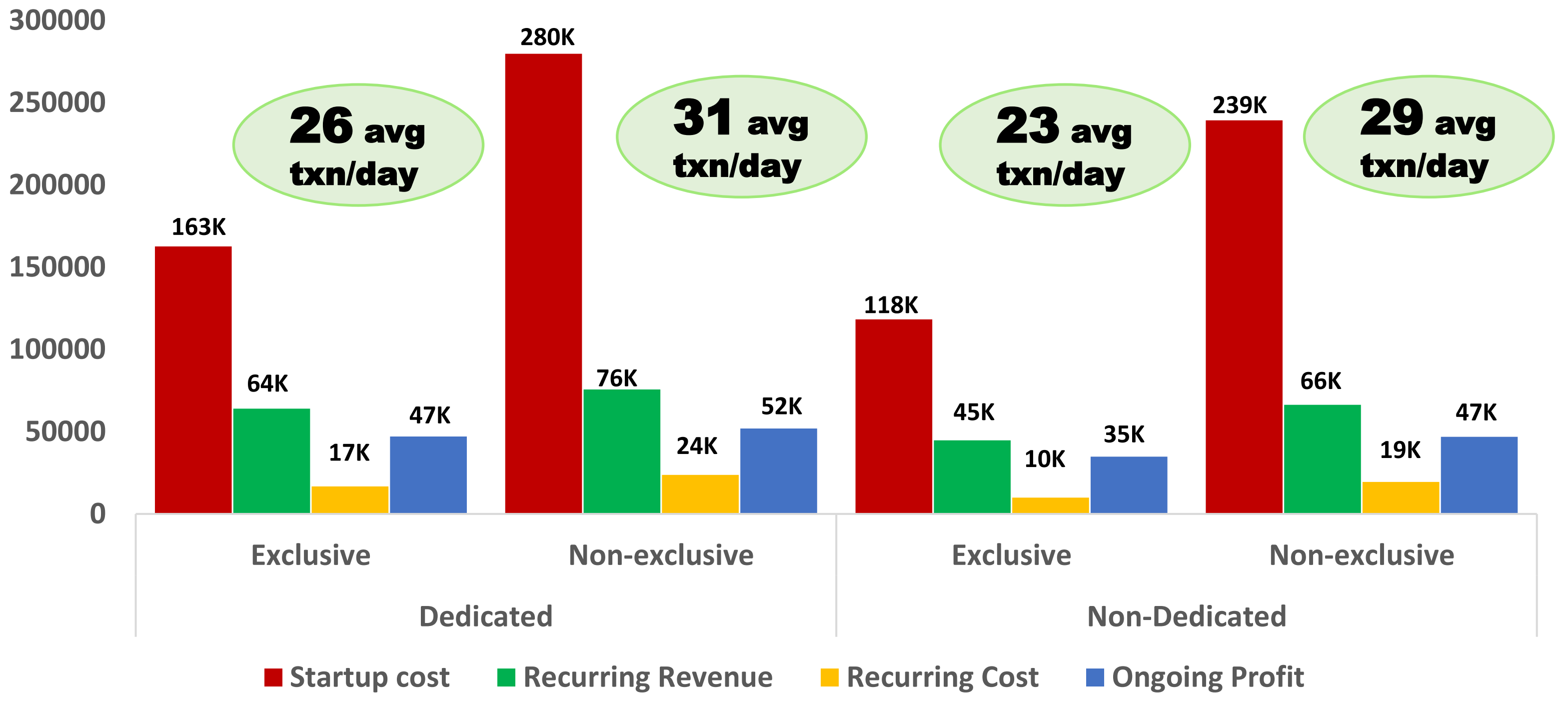
Agent economics: Dedicated vs Non-dedication



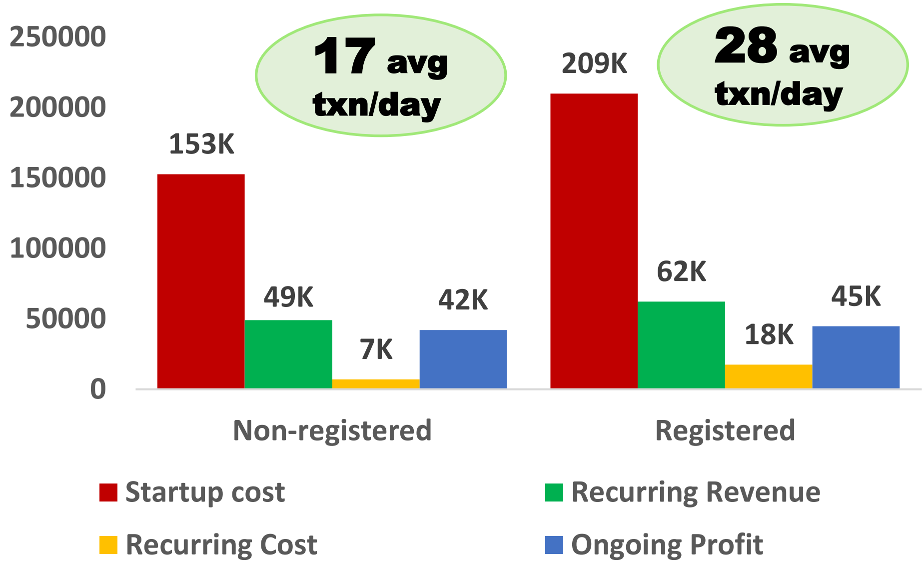
Costs and revenues vary depending on agents being dedicated or non-dedicated

The cost of maintaining a minimum initial float capital across multiple providers as well as sign-up fees associated with operating within the regulatory framework significantly increases the start-up costs for non-exclusive and registered agents

Agent economics by geographical location



Agent economics – Registered vs Non-Registered



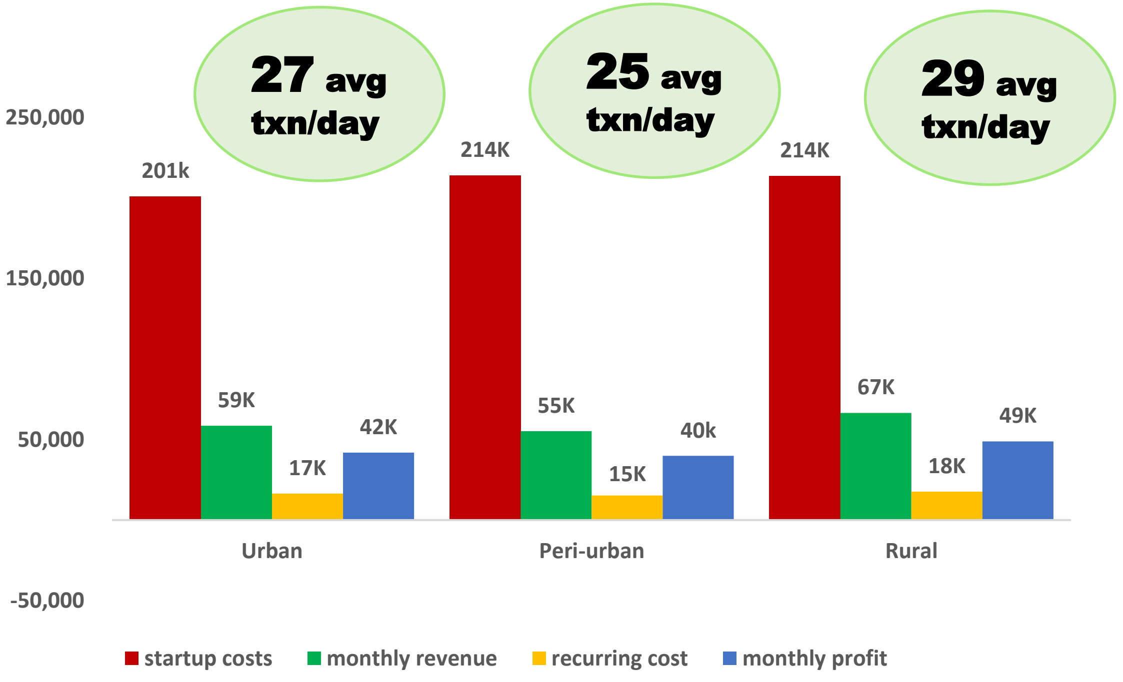
While the regulatory mandate of non-dedication and non-exclusivity is associated with agent viability, dedicated agents are also on the average profitable regardless of their exclusivity status.

Despite much lower transaction volumes, non-registered agents are on the average viable, owing to relatively lower costs

Viability of agent business across geographical zones vary, but on the average, remains profitable across all zones. Rural agents report relatively higher revenue and profits despite higher startup costs.

Geographical location	Description	Viability
Urban	Higher DFS penetration Higher banked population Higher proximity to bank branch	Viable
Peri-Urban	High DFS Penetration High banked population High proximity to bank branch	Viable
Rural	Low DFS penetration Low banked population Low proximity to bank branch	Viable

Agent economics by geographical location

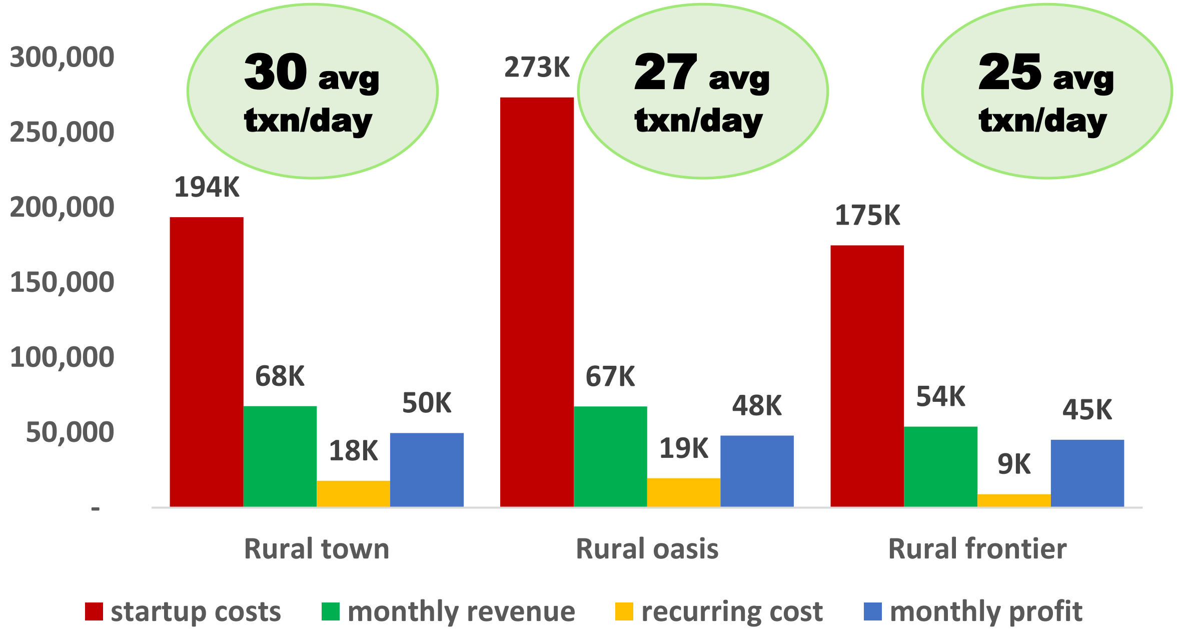


Compared to urban agents, rural agents have higher marginal costs (+6% startup and +6% recurring); but also relatively higher monthly profits (+17%) driven by CICO services and higher transaction volumes.

Average revenue excludes extra fees (upcharges); Average recurring cost blends dedicated and non-dedicated agents (note: recurring costs do not include rent, utilities, or store maintenance for non-dedicated agents). When we include all costs, average recurring cost ranges between 22-24k across geographical zones

Agent business viability extends to frontier areas. Leveraging the potential for agents in promoting financial inclusion in frontier areas, requires a concerted effort to address cost and revenue drivers both on the agent and provider side

Testing the limits of agent business viability



Frontier agents incur the least marginal costs (-15% startup and -47% recurring) compared to all agents

Agent business viability in frontier areas

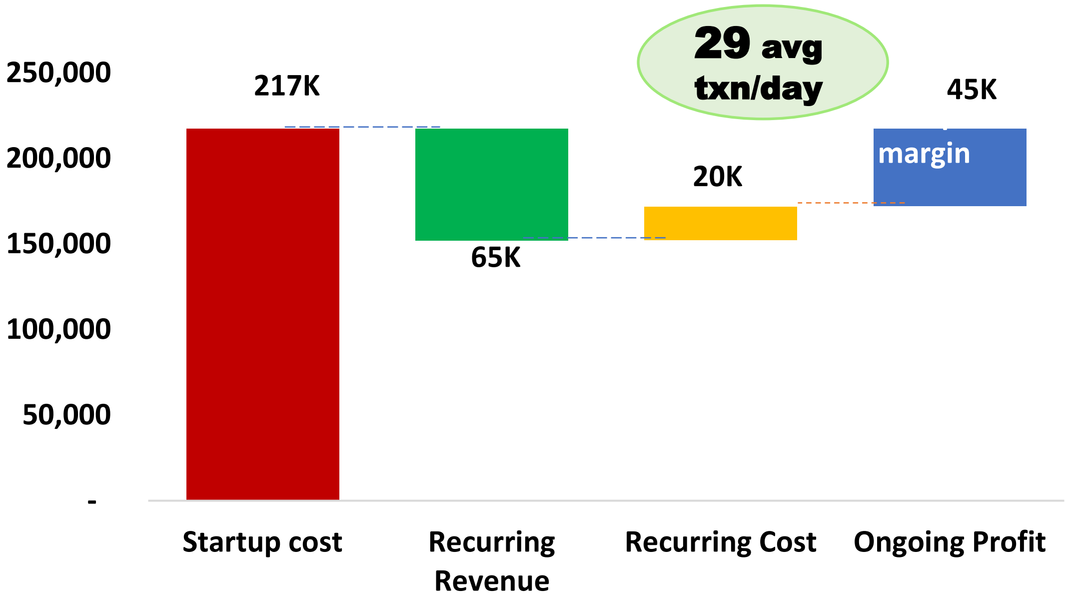
Despite lower marginal costs, start-up costs is significantly driven by initial float capital (64%) and laptop/POS costs (19%).

Revenues are mainly driven by CICO (67%), Bill payments and JAMB/WAEC/UTME registrations (21%), and SIM registrations/replacements, and airtime purchase (7%). These non-CICO transactions are critical for viability in rural areas. Less than 1% of revenues come from account openings

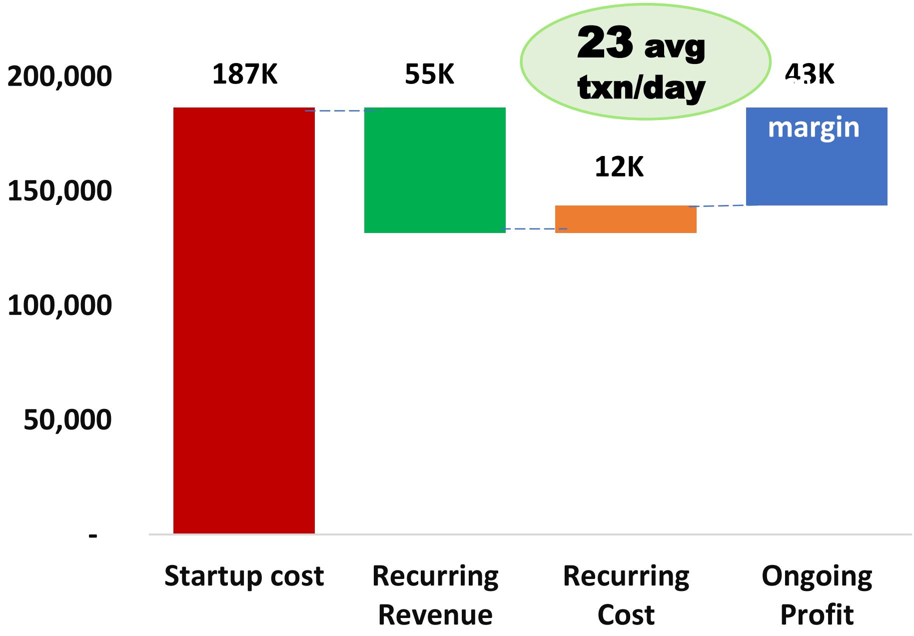
Recurring cost are mainly driven by staff costs (61%), data costs (17%) and liquidity management (11%).

While higher transaction volumes drive profitability for male agents, female agents leverage on lower marginal costs (-14% startup and -40% recurring) for profitability.

Male Agent Economics



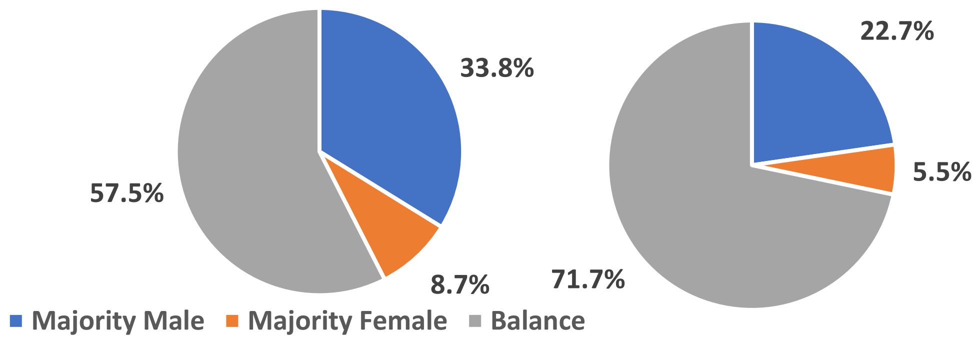
Female Agent Economics



Gender dynamics

Male Agents

Female Agents



A19. What are the gender balance of customers that come in?

Female agents appear to be more gender neutral in their customer reach

13% of agents report that customers prefer to engage with a specific gender or agent
- 48% opposite gender
- 34% same gender

Average recurring cost blends dedicated and non-dedicated agents (note: recurring costs do not include rent, utilities, or store maintenance for non-dedicated agents). When we include all costs, average recurring cost is 27k for men and 16k for women

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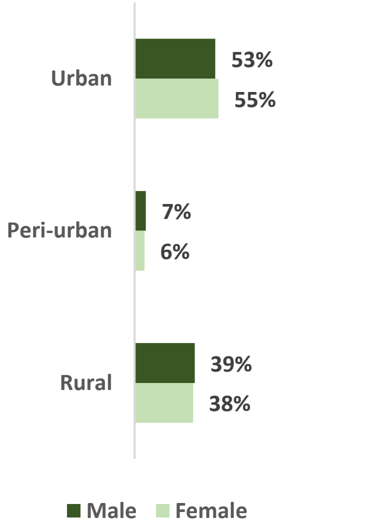
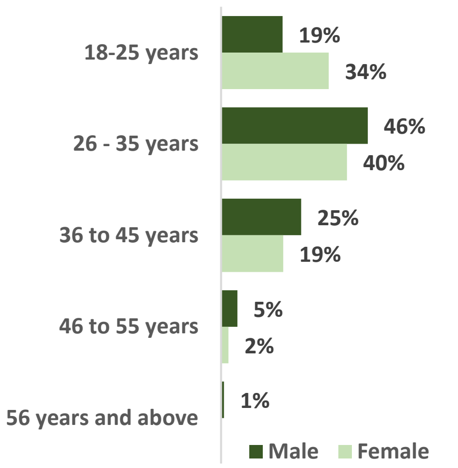
Female agents surveyed are relatively more youthful, new to the business, predominantly deposit money bank agents, less educated and more dedicated.

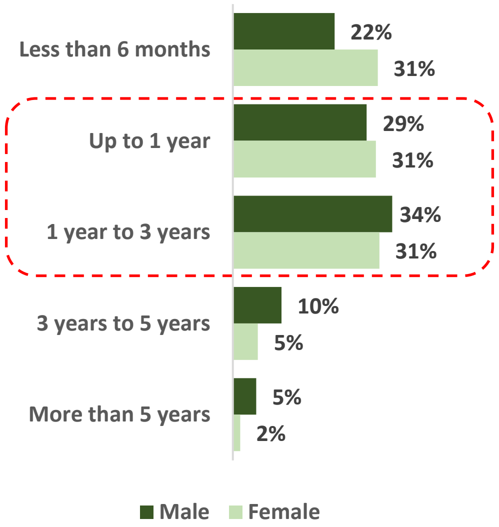
Location Classification (FSAS)



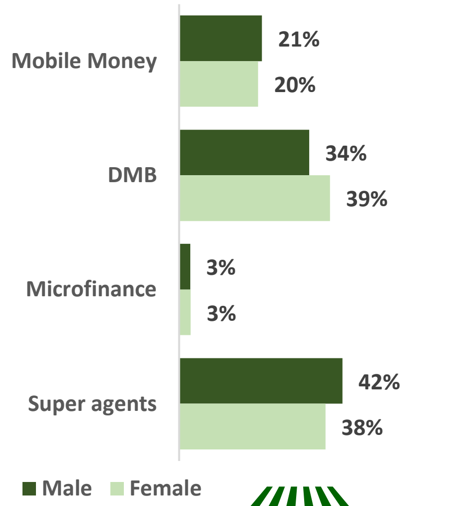
Age



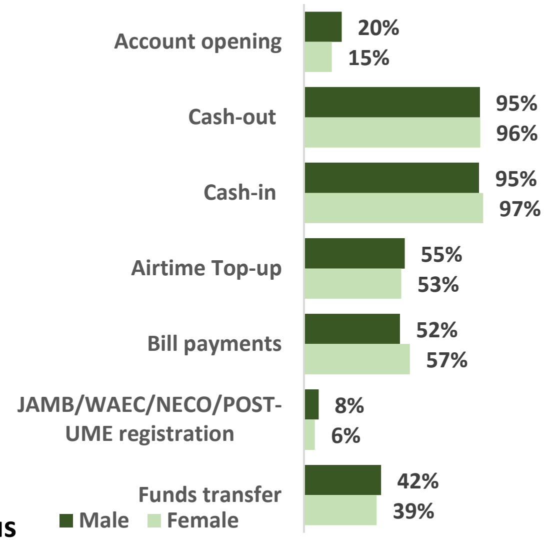
Time in Business



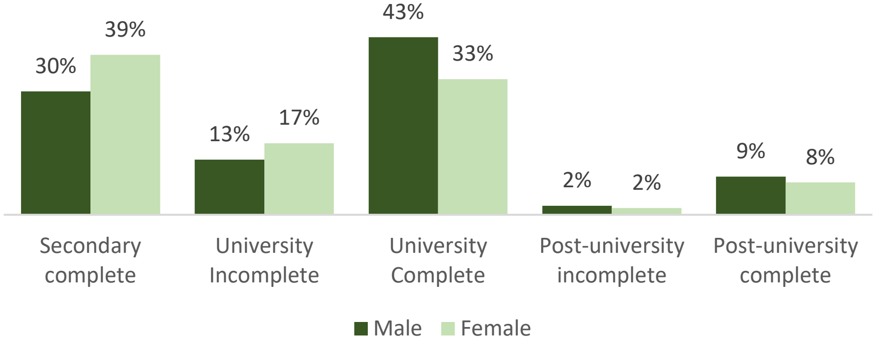
Main platform used



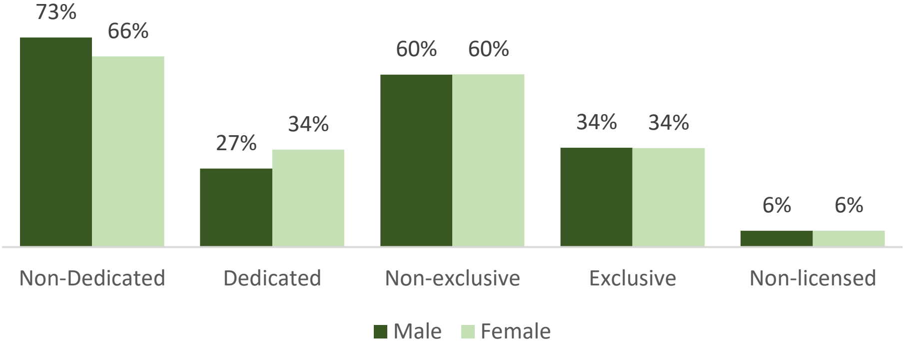
Services Provided



Education



Status



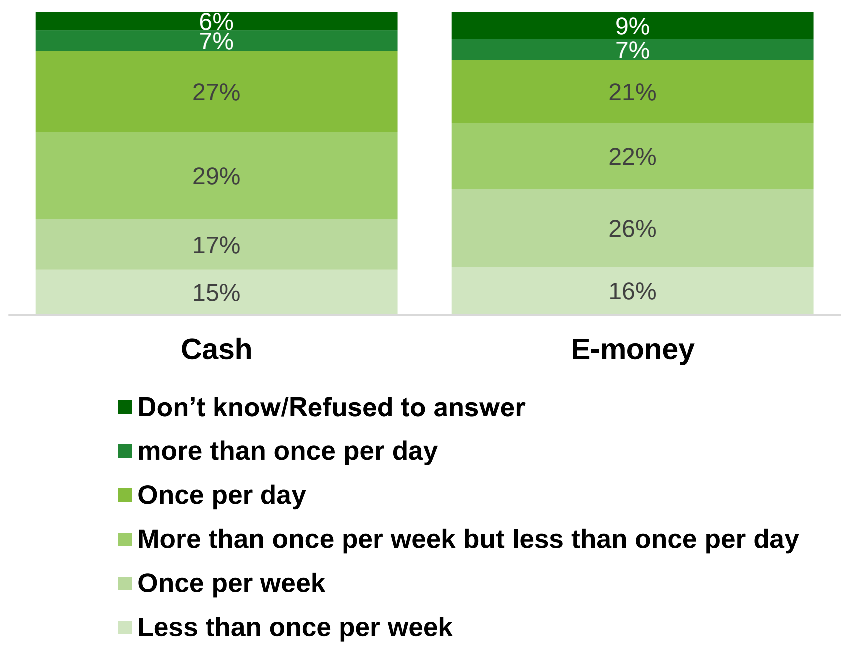
Base: 1618

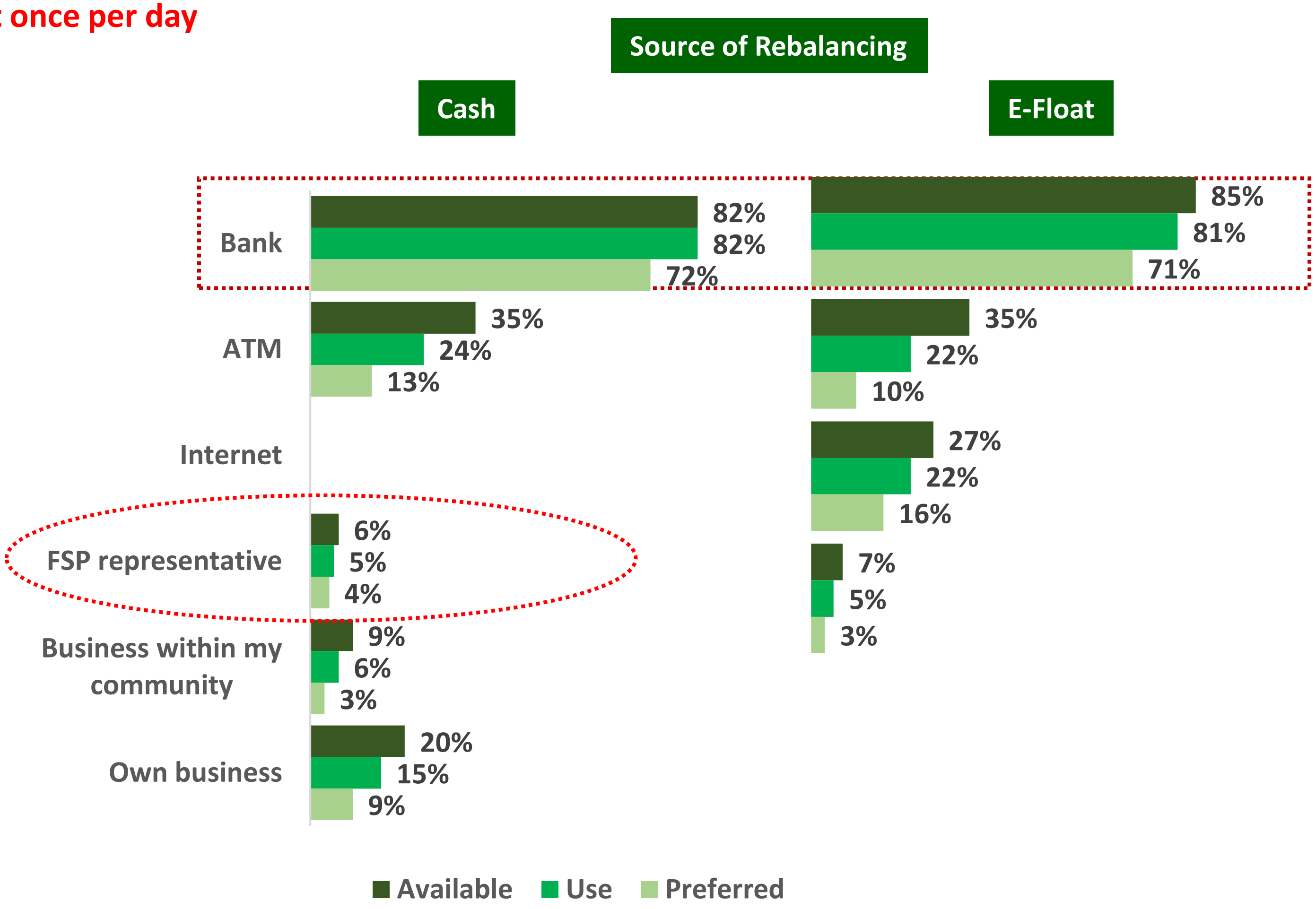
The sample includes agents who had performed at least one transaction in the past 30 days

CONTENT

Banks remain the most common and preferred source of rebalancing as 7 out of 10 agents prefer to rebalance their float from banks. This method of rebalancing involves extra costs as 4 out of 5 agents report to incur costs associated to traveling to the banks

- The median amount of cash float and E-float kept as trading float is N77500 and N95000 respectively
- **Nearly 3 out of 5 agents rebalance their cash float at least once per day**



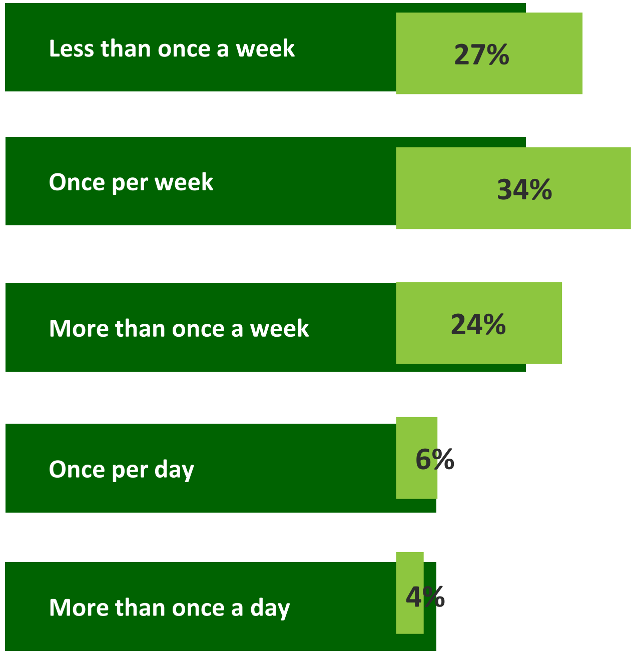


Base: 1618
L2: How regularly do you reload your trading float?
L4. Among all the reloading options available to manage your e-float/cash, which do you use?
L3: What rebalancing options are available to you to manage the money in your float?
L8: Among all the reloading options available to manage your e-float/cash, which do you prefer to use?

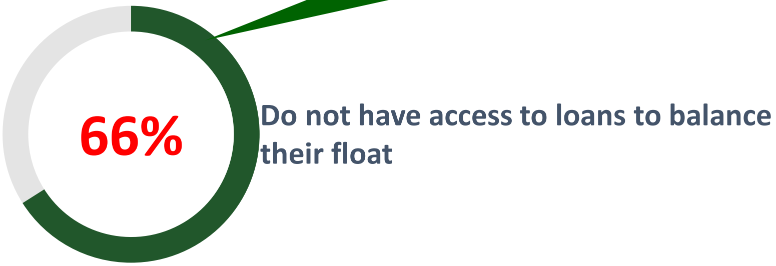
6 out of 10 agents run out of cash usually weekly. This is unsurprising given the most patronized agent service is cash withdrawal.

This underlines the important of float management training and aiding agents with cash advances/loans to prevent disruption to their services.

63%
Run out of cash



Similarly, access to loans is for a select few which again highlights importance of providing financial support for agents.



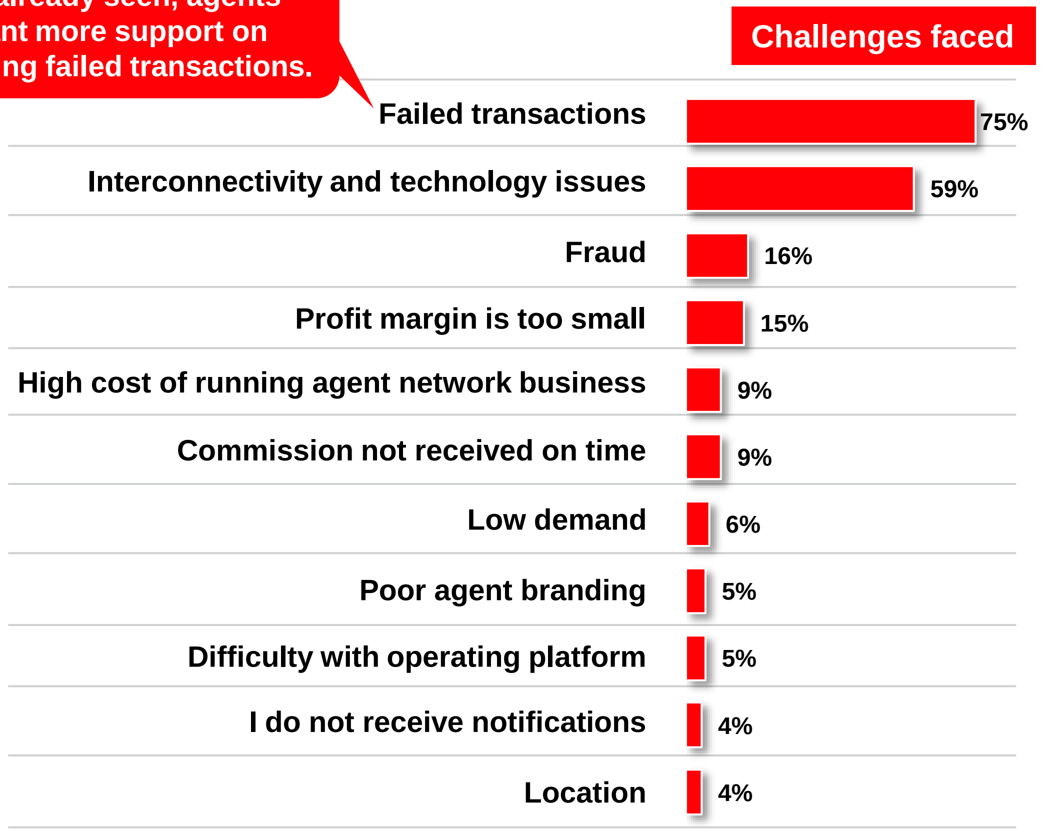
Base: 1618
L11: Do you ever run out of float?

CONTENT

Failed transactions and issues with the platform are the top challenges faced by agents. More than half are relatively new to the business (6 months up to 1 year) and may need hand-holding from principals to solve some of these challenges.

As already seen, agents want more support on handling failed transactions.

2 out of 5 agents experienced fraud issues. Of these, a little over one-third did nothing



Complaints By Customers	
Transaction failures	64%
Service being unavailable	57%
Platform is slow	24%
Do not receive notifications (e,g, SMS alerts)	20%
Cost of transaction	14%

Base: 1618
C1: What are the challenges you face as a financial service agent?

C2: What issues do customers frequently complain about?

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Principals need to provide the relevant support for agents as there seems to be a mismatch between what is needed and what is provided. Agents want more support in handling failed transactions, providing liquidity as well as liquidity management.

Support Received from Principals

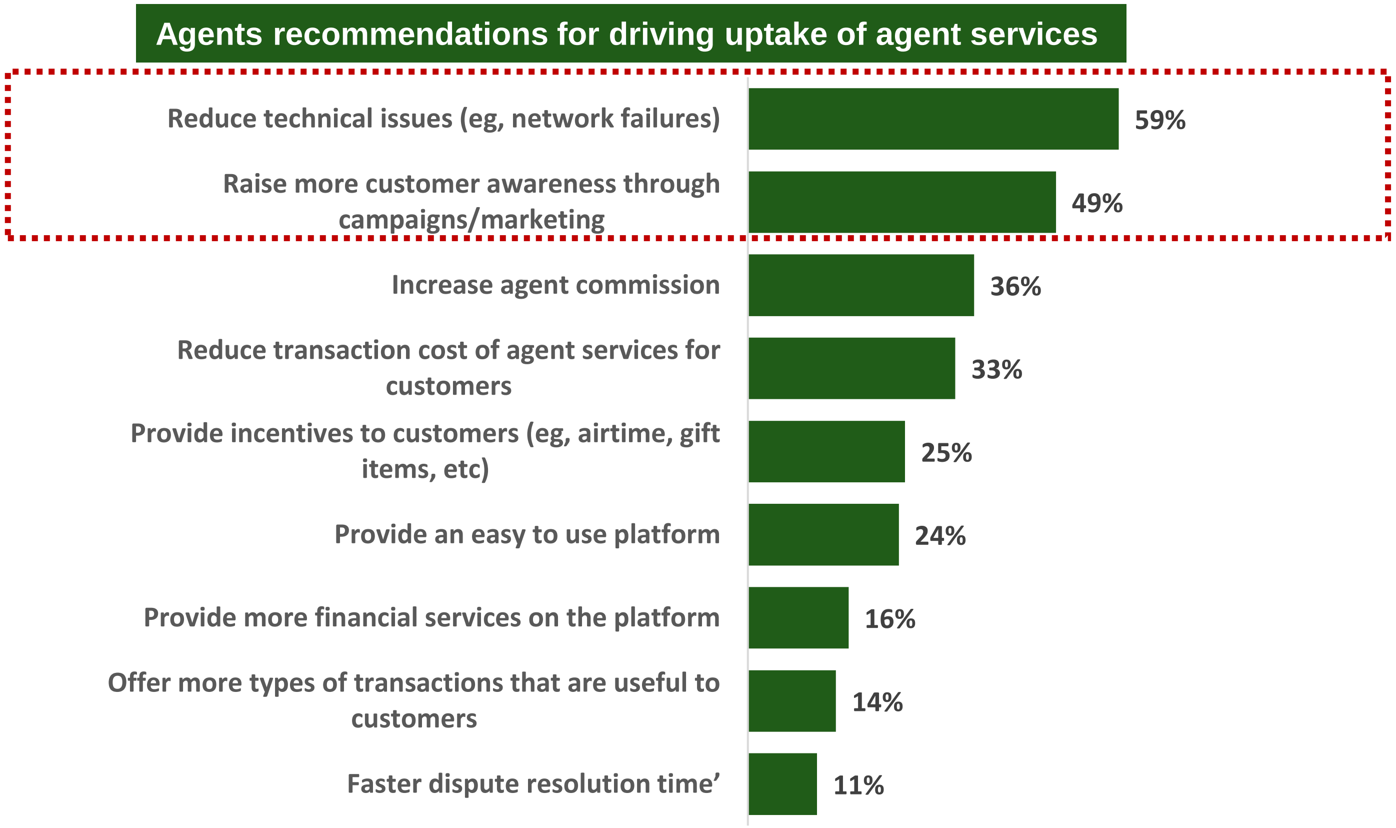
Handling failed transactions	Training	Branding material	Physical visits to business	Cash advances/credit	Liquidity management
36%	36%	43%	34%	9%	3%

Support Needed from Principals

Handling failed transactions	Cash advances/credit	Branding material	Training	Physical visits to business	Liquidity management
55%	51%	36%	27%	24%	16%

Base: 1618
S1: In the past 6 months, which of the following support services have you received from your provider?
S2: List all types of support that you want more of.

Eliminating challenges with the platform is key to driving usage and adoption of agent services. Creating awareness with customers is also important as people can only use what they are aware of.



Base: 1618
C4: In your opinion, what should be done to drive the usage and uptake of agent networks in Nigeria?

Enhancing Financial Innovation & Access

CONTENT

RECOMMENDATIONS

- The findings shows 30% of agents are standalone and profitable. This highlights the need for the regulator to consider reviewing the current guidelines for agent eligibility

- There are several unmet needs which agents have shown capacity to deliver. Financial service providers(FSPs)/stakeholders should consider exploiting the agents’ capacity to extend more financial/non-financial services to users. These non CICO transactions are particularly relevant to profitability in rural areas

- The percentage of agents who offer account opening services has decreased by about 70% since 2015. This speaks to gaps in product development and financial inclusion efforts. FSPs should offer more incentives to agents to drive account opening and push financial inclusion from commercially viable business models

- The findings revealed that agents are winning the pricing determination mechanism. This shows market maturity and the regulator should consider deregulation of agent pricing and allow market-based pricing

- Liquidity management has continued to be a huge problem for agents. The report shows that 6 out of 10 agents run out of cash usually weekly. FSPs should explore partnerships that will support agents’ liquidity management

- There is need for better alignment in support provided by principals, as the study result shows a mismatch between what is needed and what is provided

- Platform instability /failed transactions is still a big challenge hampering agents’ operation. There is need to identify these challenges and collaboratively build initiatives to address this bottleneck

Thank You