

The Long Road to Branchless Banking

FINCA's Experience Deploying
Agency Banking in Africa

By Nathan Were and Helen Lin



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Introduction

Denoting trust and continuity, for centuries the physical infrastructure of brick and mortar branches has been the face of banking. However, technology is rapidly disrupting this concept and bringing significant changes to the banking industry. New banking channels—such as mobile phones—have emerged, which offer a client banking experience that is more secure and convenient. Mobile phones enable customers to do their banking anywhere, anytime—saving them significant time and expense, and offering a safer method of banking, as it reduces the risks associated with carrying cash long distances. Technological innovation has become the driving force of financial inclusion, expanding access to financial services for millions of previously unbanked people by increasing convenience and reducing the cost of reaching hard-to-reach populations.

Mobile banking is often complemented by an agent network. A banking agent is contracted by a financial institution or mobile network operator to process client transactions on the institution's behalf, using devices such as point-of-sale (POS) terminals, mobile phones, barcode scanners, or computers. Some POS devices, such as those used by FINCA agents, are equipped with biometric scanning, which allows customers to identify themselves with their fingerprint, and eliminates the need for an ID card. Through agents, clients can pay bills, deposit, withdraw, or transfer funds, view their account balances, or conduct other transactions.

In 2012, FINCA carried out a pilot of a proprietary network of FINCA branded agents, called FINCA Express, starting with the Democratic Republic of Congo (DRC). Five years later, this delivery channel has been replicated and deployed in Tanzania, Zambia, Nigeria, and Malawi, and has become an integral element of FINCA's business and operating model. FINCA's agency channel currently processes more transactions than the branch network, and it continues to grow.³

¹ In partnership with Mastercard Foundation, FINCA has deployed agency and mobile banking as its digital channels to scale up financial inclusion efforts and reach more underserved communities in Sub-Saharan Africa.

² Nathan Were is the Project Manager of FINCA's Scaling up Financial Inclusion in Sub-Saharan Africa program, sponsored by Mastercard Foundation, and Helen Lin is the Manager of Digital Financial Services Strategy at FINCA Impact Finance.

³ As of March 2017, FINCA Zambia had 71 agents and was processing 80.3% of all transactions through agency banking. FINCA DRC had 1,055 and was agents processing 80% of its transactions through this channel, while FINCA Tanzania had 123 agents processing 57% of transactions. FINCA Malawi and Nigeria are currently at the initial stages of operation, but uptake and usage are growing as well. Uganda does not have regulations for agency banking at the moment.

This case study highlights FINCA's journey to deploy agency banking over the past four years, with the goal to provide strategic, operational, and technical learnings for other institutions that are considering deploying or building upon a similar channel.

FINCA's agency banking approach

FINCA's approach to developing its agency banking network has been to manage every aspect of the network's operations, allowing for close monitoring of branding standards, customer service quality, and liquidity management. This is in contrast to outsourcing the management of an agent network, where the customer experience is one step removed. The approach FINCA uses ensures that its clients always have the same quality experience at the agents as they have at a FINCA branch.



FINCA Express agent in Dar es Salaam, Tanzania. Photo Credit: Nathan Were

At FINCA, agency banking begins with account opening. Staff register customer fingerprints using a biometric scanning system, and link this information to their account details. The POS terminals that FINCA and its agents use have biometric readers to authenticate and authorize transactions, eliminating the need for a card. FINCA opted for this technology because of its simplicity and flexibility to accommodate illiterate customers, as well as customers who do not carry formal forms of identification.



Customer being enrolled on the FINCA Express channel in DRC. Photo Credit: FINCA Staff

FINCA has developed a standardized list of selection criteria for agents, which take into account country-specific regulatory requirements.⁴ Each of FINCA's subsidiaries use these criteria to identify, vet, and select their prospective agents. Once agents are selected and set up, they are supported through FINCA's sales activities that help to drive traffic to their locations.⁵ Sales drives—promotional activities carried out by FINCA's sales people in a targeted area in order to attract a crowd—are conducted weekly, and are coupled with remote account opening to drive new customer acquisition while immediately introducing these new customers to their local agent, thus cementing the tripartite relationship between FINCA, the agent, and the customer.

FINCA's customers can perform the following transactions at an agent:

- Cash deposits and withdrawals (including loan repayments and disbursements)
- Account-to-account transfers
- Mini-statements and balance inquiries
- Value-added services such as utility payments, television airtime, and mobile airtime top-ups

⁴ FINCA's selection criteria for agents is discussed further in lesson 5.

⁵ FINCA express agents are normally small to medium businesses, sometimes drawn from existing FINCA clients who are already operating a business and are looking to expand their revenue stream by offering an additional service to their own clientele. Before starting, agents receive a one day training from FINCA's agent representative, covering topics such as a general overview of FINCA, FINCA's clients and their needs and expectations, managing liquidity, providing customer and agent support, troubleshooting technology issues with the POS device, among others.



FINCA DRC Staff Members. Photo Credit: FINCA Staff

Ten lessons for deploying a successful agency banking network

FINCA has gained valuable insights throughout its process of building and managing agent networks across five countries:

1. Ensure institutional buy-in and align strategic goals
2. Invest in robust and scalable technology systems and select vendors carefully
3. Gain customer confidence and trust in the service to drive uptake and usage
4. Conduct sales drives and remote account opening to drive new client acquisition
5. Carefully select agents and build good relationships with them
6. Align incentive structures between the agents and the institution
7. Develop real-time reporting and monitoring capabilities to track agent activity
8. Keep abreast of technological changes
9. Be ready for disruptions to your current business operations
10. Be patient: Cost savings will not translate into immediate benefits

1. Ensure institutional buy-in and align institutional goals



FINCA Malawi staff members. Photo Credit: FINCA Staff

The success of any new product or service is anchored in the buy-in from top levels of management, and the subsequent alignment across the whole organization—particularly when it is disruptive to an institution’s existing operations. FINCA initially experienced resistance to agent banking from its staff, who feared that the agents would take away their jobs or create additional workload. This resistance led to some loan officers actively discouraging clients from using the service.

When this came to light, FINCA made a deliberate effort to highlight the benefits that come with digital channels to gain staff trust and buy-in, and this eventually led to higher uptake and usage. The benefits—including the ability to collect low cost savings so that FINCA can bring the cost of funding down, the ability to improve FINCA’s branch level portfolio at risk by making it convenient for its customers to make payments, and the ability to offer an improved customer experience, among other things—were communicated through staff meetings at the branch from the pilot through the rollout phase.

FINCA has come to appreciate the importance of recognizing that alignment must start at the management board level, and trickle down to all staff involved in the implementation of the channel. Alignment can be achieved by integrating key performance indicators (KPIs) for the channel into the business. These KPIs should be incorporated, tracked, and report on in the same manner as those

of regular credit and savings operations. By doing so, it helps to drive ownership and accountability among the staff responsible for the channel, which is critical for success.

Furthermore, to guard against the channel being perceived as a “head office project,” it is essential to ensure branch level participation in the process of agent identification, vetting, selection, monitoring, and support. Branch management and staff have an on-the-ground understanding of the economic dynamics in their markets, and can therefore advise on the best potential locations to set up agents. In addition to engaging the existing branch team, FINCA has recruited Channels Business Officers at the branches that are completely dedicated to agent management, monitoring, and support, and who have a direct reporting line to the branch manager.



Spy, FINCA Malawi's first agent. Photo Credit: FINCA Staff

2. Invest in robust and scalable technology systems and select vendors carefully

Agency banking, like other digital channels, can only thrive under robust and efficient IT systems. In this context, we refer to the end-to-end technology solutions that must be considered in a holistic manner, and not in isolation. Each component of the channel's solution should be assessed for interoperability for both current and future components such as hardware, software, applications, network infrastructure, and connections. As technology evolves continuously, an institution must ensure that the solution that is deployed today can easily be integrated into its core systems with ease. A lack of robustness and scalability, as well as frequent downtime in any of these components, can significantly impact the performance of the channel and customer experience. Data protection and

information security are critical, and related controls must be brought to the forefront to manage this channel. FINCA has identified several important factors for successfully deploying this channel:

- **Carefully select technology vendors.** It is extremely important to invest adequate time in selecting the best vendor. It is good practice to hold a request for proposals and competitively identify those vendors that meet the specific requirements of the institution. If the capacity to assess vendors is not available in-house, identify a consultant to help with the process.

As part of its vendor evaluation and assessment process, FINCA considered the following selection criteria: (1) geographic fit, focusing on the vendor's presence within Africa, for ease of support, (2) the functionalities offered by the vendor, based on the business requirements shared during the request for information process, (3) the cost of implementing the solution, including integration costs, (4) the vendor's implementation capabilities and experience interfacing with core banking systems, (5) the proposed technical architecture detailing how the technology works and fits into FINCA's existing infrastructure, (6) scalability and overall running costs, (7) the vendor's core business, focusing on their core competencies and strengths, and (8) turnaround times for implementation. Site visits to reference clients, who implemented similar or related solutions, also help to confirm the integrity of the vendor, and provides insight into the vendor's experience and ability to deliver the channels solutions.

- **Adhere to good project management practices and rigorous testing.** In general, the implementation of new technological solutions is rarely without setbacks. Various factors can misalign to create challenges for a smooth delivery, including poor coordination between the vendor and the client, unclear business requirements, and poor project planning, which can lead to a rushed delivery of the platform to meet unreasonable timelines.

FINCA is aligned with the Project Management Institute's methodology which follows a five-stage project implementation approach. This approach underscores the importance of system testing during the project execution phase. One of the biggest mistakes an institution can make is to ignore the test phase(s) and go straight into roll out. Testing is critical for identifying any technical glitches and correcting them—or at least, mitigating the risk—prior to going live and launching the channel. When designing the pilot, it is important to define pilot phase test assumptions and identify good test cases and plans, and to ensure all critical technical glitches are resolved before commercial launch. Management should sign off on the successful completion of user acceptance testing.

- **Think life cycle, and budget accordingly.** Every single technology that is adopted will eventually need to be replaced. For FINCA, this became apparent when the hardware devices being used reached their end of life. Technological life cycles must be budgeted for accordingly: If an organization invests in 300 new POS terminals in a given year, it should ensure it has set aside a budget to replace every one of those units in four years' time.

- **Put in place service level agreements (SLAs).** As part of the service readiness checklist prior to going live, it is critical that SLAs are executed among all parties involved to help manage the relationship between the financial institution and service providers, particularly when engaging third-party vendors, or when the project involves multiple service providers for different systems and networks. SLAs should include the following elements: (1) stipulate the service level standards agreed upon by the parties, such as expectations for systems' uptime and an acceptable turnaround time for resolving issues, (2) describe the allocation of key resources to manage the relationship, (3) define the bonuses and penalties for performance or non-compliance to the agreed service level standards. Even with an SLA in place, challenges may arise from the ability to enforce these contracts, particularly in countries with limited service provider options, but the formalization of the requirements and expectations is nonetheless a crucial first step, as it will bring all parties to the negotiating table in the event of non-compliance. Vendor service review meetings are also very important for keeping the vendors in check on any open production issues and to track the SLA turnaround times for resolving issues.⁶ It is important to note that SLAs will always be a reference document, and the real success behind managing such services lies in building a good working relationship with the vendors.

3. Gain customer confidence and trust to drive uptake and usage

Uptake and usage of new delivery channels can be slow, particularly when the transaction is a deposit or a payment, as clients may initially mistrust the technology and prefer to rely on traditional branches. FINCA has learned that it is critical to build customer confidence in the delivery channels and encourage usage early in to ensure it succeeds.

A couple of key factors can assist with building customer trust:

- **Locate the first agents close to the branch.** FINCA's strategy has been to place its first agents just a few meters from a FINCA branch. This strategy aims to ease FINCA customers' transition from banking at a branch to using agents. Even with these nearby locations, some of FINCA's customers continued to follow their normal routines and go to the branch, rather than the agents. To further encourage its customers to use the agents, FINCA recruited temporary staff to literally walk the customers from the branch to an agent, explain to them again the concept of agency banking, and help them perform their first transaction with the agent. In the initial stages, FINCA had customers who would make a deposit at the agent and then quickly run to the branch to check their account to confirm that the transaction had occurred.

Once clients have successfully performed their first agent transaction under the guidance of FINCA staff, they are much more likely to return to the agent later to perform their transactions

⁶ Vendor service review meetings are forums for reviewing a vendor's performance, based on the service level agreement. It is usually attended by the vendor's relationship manager, a technical specialist from the vendor's side, and the service delivery team from the FINCA subsidiary. The forum meets at least once a month.

on their own. Progressively, customer uptake of agency banking increases as their confidence in the channel grows, and this allows us to expand the agent network further from the branch, with customers naturally going to agents that are located closer to where they live and work.

- **Customer education.** Clients must be educated on how agency banking works, their rights and responsibilities as customers, and how to resolve issues. In addition to making the first introduction to the agent to cement the relationship between FINCA, the agent, and the customer, FINCA also set up call centers to support customer inquiries and resolve complaints. FINCA also continues to educate customers through its process guides on how to use the service, and invites them to agency forums—quarterly meetings that bring together FINCA staff, agents, and clients to discuss and understand key challenges within FINCA’s agency banking network—giving customers a voice to share experiences and feedback with FINCA and its agents.



FINCA Express Sales Drive in DRC. Photo Credit: FINCA Staff

4. Conduct sales drives and remote account opening to drive new client acquisition

Sales drives, coupled with remote account opening activities, promote the sustainability of the channel through new client acquisition. Sales drives are marketing activities that create awareness about the channel and the products and services offered by the financial institution. They are normally conducted at an agent location, business centers, or busy highways to create buzz about the new

agent—with the goal of driving traffic to that location.⁷

To encourage new client acquisition, these activities are complemented by remote account opening—the opening of accounts in the field, in real time. For a sales drive to be effective, it is important to:

- Have a functional remote account opening process. The process must be “one touch,”⁸ allowing clients to open a new account in one step, seamlessly and instantly, without having to go to a branch afterwards to activate their accounts. This gives newly recruited customers a chance to experience the channel by making their first transaction at the agent. It is therefore important to test the technical components and the institution’s internal processes end to end to ensure this activity can be completed in just a few minutes.
- Adapt the Know Your Customer (KYC) process to account opening in the field. It is important to study and fully understand the local KYC requirements, processes, and procedures for field remote account opening to ensure that the same quality of KYC data is obtained as it would be at the branch.
- Plan sales drives with agents. At FINCA, sales activities are organized in collaboration with agents. Once a customer’s savings account is opened, they are directed to make their first transaction at an agent location. This helps to secure the customer’s adoption of the channel. If customers are required to wait for a day or two before they can use the account, there is a high chance that they will never use that account.
- Engage a dedicated sales drive team. It is important to have a dedicated team of sales staff whose responsibility is to sell the value proposition of your products and services. The team should be well trained, have set KPIs for the volume of sales activities they are expected to conduct, and be assigned to specific agents that they routinely visit, to monitor transaction activity levels and to plan sales drives accordingly.

5. Carefully select agents and build good relationships with them

Agents act as a financial institution’s representative to their customers. It is therefore important to invest time in agent identification, selection, onboarding, and support. While many central banks have regulations for agency banking which lay out guidelines on who qualifies to be an agent, the financial institution should also develop its own criteria. FINCA’s selection criteria for agents is as follows: (1) has the ability to maintain permanently sufficient cash and float balances, (2) has at least one physical location and a secure place to store liquidity; has a lawful commercial activity, (3) has strategic locations that add value to the agent network, (4) is close enough (within 3-10 km) to a FINCA

⁷ For new agents, FINCA normally conduct a sales drive one week after the agent has been set up, primarily to create client awareness.

⁸ Clients are able to open an account and cash in without back and forth. The process is done in real time. This is important, as it enhances FINCA customers’ experience.

branch for ease of liquidity management, (5) has a customer profile that is suitable to FINCA's target clients, (6) is a trusted member of the community, and (7) is literate, and has a literate staff.

The financial institution should be looking out for businesses that will advance its brand values, be ready and willing to create a partnership, and can provide an exceptional customer experience to its customers on the financial institution's behalf. In selecting agents, the following points should be noted:



FINCA Express Sales Agent in DRC. Photo Credit: FINCA Staff

- The business profile of the agent. An agent should have a profile that aligns with the key expectations of being a bank's agent—e.g. they have a business mindset, they are ready to create a partnership, and they are willing to invest in the business. This is a capital-intensive venture that requires that merchants have liquidity and are able to continuously invest in the agent operations. Specifically, select agents that are:
 - **Not too big:** The value proposition would be insufficient to keep the agent motivated.
 - **Not too small:** The community might not trust them to perform financial transactions.
 - **Not too busy:** They might not have time to transact (resulting in queues and a poor customer experience).
 - **Not too rich:** They may look seek out more profitable investments and not be committed to the partnership.
 - **Not too poor:** They might lack sufficient capital to sustain their agency banking operations.
 - **Not too noisy:** Customers may be discouraged from going there to do their banking.
 - **Not too remote:** Customers would find it difficult to access the agent.

- **Support systems for agents.** While selecting and onboarding good agents are essential for success, the support systems are what help maintain the momentum. Frequent monitoring and spot checks of agents is important, as it helps troubleshoot operational constraints and weed out agents with fraudulent and unscrupulous practices. To this end, FINCA created the Channels Business Officer position, a full-time resource based at the branch, whose responsibility is to vet, recruit, and onboard agents and provide them with front line support. FINCA also set up a call center that provides additional customer support⁹ on an ongoing basis.
- FINCA has equipped its agents with simple toll free phones that they can use to call the Channels Business Officers in case they need support. Through a closed user group, agents can connect easily with the Channels Business Officers and other FINCA staff at a low cost, and whenever they need to. This has enabled us to resolve customer issues in a timely manner, sometimes even on the spot.
- **Agent training.** Building the capacity of agents and their operators (i.e. their staff) is critical. Training should not be a one-off activity, but an ongoing process. Agents need to gain a good understanding of the institution's products, services, and target clients. FINCA also trains its agents on how to maintain the log book, which their operators must balance at the end of each day. This also helps the agents to plan and manage their liquidity. Other areas of training FINCA offers include customer service and handling of complaints, the value proposition for the channel and how it works, and operational and technical aspects associated with using the POS device or tablet to perform transactions. Furthermore, agents often face a high turnover rate among their operators; it is therefore important to be vigilant of any staff changes at the agents', and continually train new operators as they are hired. FINCA's Channel Business Officers train the operators, and they are always notified by the agents once new operators are recruited.
- **Agent forums.** Agent forums bring agents together on a quarterly basis to discuss their performance and areas of improvement, and to accept new suggestions to improve operations. At FINCA, these forums have been very helpful in continuously identifying operational weaknesses and improvements. These forums are also an opportunity for the financial institution to recognize the best performing agents in various categories that the bank is trying to improve—such as agent support processes and technical improvements. The rewards are normally non-monetary, such as a certificate of excellence, but they have continued to motivate agents and drive performance improvements. These forums also help improve the working relationship between agents and the financial institution, and connect the agents with each other for peer to peer support.

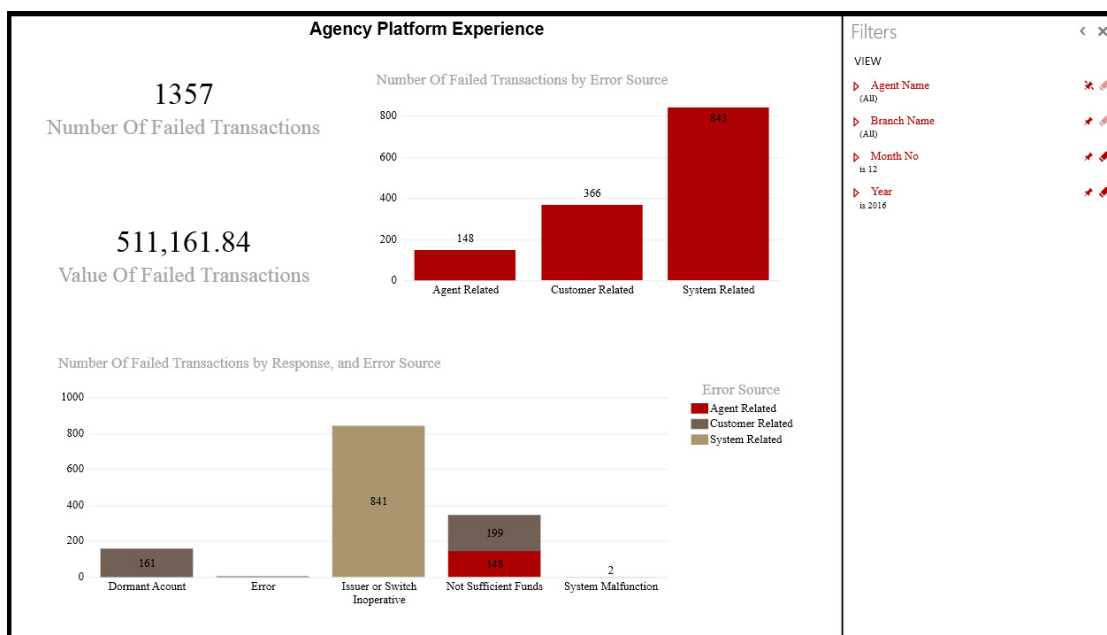
⁹ A Channels Business Officer is required to visit an agent at least once a week to provide support, plan sales drives, and monitor their performance. This close monitoring is what helps maintain a good working relationship with agents.

6. Track agent activity in real time

Monitoring the performance of any digital channel is extremely important, and must involve not only FINCA's agents, but also any mobile network operators and aggregators that have been engaged to deliver their products and services on digital platforms. Access to real-time data on the performance of the channel requires investment in business intelligence systems—whether developed internally or sourced externally—to establish whether the channel is delivering on its business case and value proposition. Monitoring the activities of all partners involved is critical to ensuring that customers receive excellent service, and that performance goals are attained. As an institution develops its monitoring systems and dashboards (see Figure 1), it is important to pay attention to the following:

- **Transforming data into measurable KPIs.** The institution must be able to analyze the information collected in line with the KPIs it tracks, in order to transform vast amounts of data into concrete and measurable actions. Defining independent and relevant KPIs, such as channel uptime/downtime and the rate of transaction successes/failures helps to monitor the impact of the actions taken and is vital to informing the business on its progress.
- **Conduct field analysis.** The monitoring tools should be complemented with additional field analysis in order to have a full understanding of the underlying elements affecting the collected data. This could be qualitative research through focus group discussions, or individual interviews to generate client feedback.

Figure 1. Snapshot of FINCA's agent monitoring dashboard



7. Be ready for disruptions to current business operations

While digital channels can bring enormous value to customers and to the institution, they also have potential tradeoffs and may bring disruptions to existing business models. For hundreds of years, the delivery of financial services has been associated with physical infrastructure—brick and mortar branches—and customers have long associated these buildings with safety, security, and stability.

As financial services providers transition to technology driven service delivery models, they need to be aware of the potential disruption to their existing models. One of such disruption relates to the solidarity group lending methodologies that have long been associated with microfinance institutions. Group lending has traditionally enabled low income earners, who represent the niche clientele of microfinance institutions, to access working capital despite their lack of collateral, due to the solidarity guarantee. One key feature of this methodology is the regular group meetings in which loan repayments are collected, the group's performance is reviewed, financial education themes are discussed, and new loans are disbursed. FINCA has learned that the introduction of digital channels must be accompanied by a robust plan to support the continuity of the solidarity-based lending methodology. The microfinance industry must reflect deeply about the following issues:

- **Will group based lending methodologies survive the digital disruption?** For many microfinance institutions, the main purpose of group meetings has become loan payment collection. As customers are introduced to more choices about how to make their loan repayments, they will increasingly favour digital channels for their convenience. As a result, they will have fewer incentives to attend their group meetings. Solidarity based methodologies are built on the idea of social cohesion, which stems from the group's regular meetings and the opportunity to lend support to one another. The absence of these meetings may erode the group's social cohesion. If the group lending methodology is to survive in the future, it will have to be re-invented. This remains an area that FINCA continues to study closely to further understand how group meetings will be sustained or re-engineered.
- **What services are offered by physical branches?** As uptake and usage of digital channels improves, the traffic to physical branches will continue to decline. FINCA Zambia has achieved a 95% usage of digital channels, leaving only 5% of total transactions to occur at the branches. This has significant implications for the staff that work at these branches, as well as the cost of the branch to the business, now that it is not processing as many transactions as before. The roll out of digital channels must be accompanied by a clear strategy on the role of branches, and must have in place an acquisition strategy for higher value customers to cover the cost of the branches, or plans to either refocus them on new niche markets, downsize them, or even close them down.

8. Keep abreast of technological changes

Technology in the digital financial services space is changing rapidly. This rapid evolution requires that FINCA constantly be on the lookout for new and better solutions that improve efficiency and drive down the costs of administering digital channels. FINCA has made several important changes in its technology infrastructure to increase efficiency:

- **General packet radio service (GPRS) versus access point name (APN) connections.** FINCA launched agency banking using internet mobile GPRS connections. It was later discovered that these connections have high latency and security gaps that could potentially expose the channel to risks such as fraud. FINCA has since moved to dedicated APN connections, as they are more reliable and less congested, giving customers greater speed and efficiency while transacting.
- **Dual SIM card capability.** FINCA previously used a single SIM provider, but due to poor network coverage in certain areas where FINCA operates, it became untenable. FINCA has since started implementing more than one SIM provider for its POS devices, to ensure 24/7 systems availability. This is particularly important as it ensures constant service availability should there be a network failure from one MNO provider to another, as the agent can switch between two sim cards.
- **Device monitoring.** FINCA has invested in device monitoring software. This will allow its centralized terminal management server to monitor the online status of all terminals, as well as launch device software updates without recalling the devices in the field, thereby saving time to travel back and forth for the agents. The deployment of the software is currently underway.
- **Interoperability.** When FINCA launched agency banking, it experienced challenges in integrating POS biometrics with its core banking system in Tanzania because of the proprietary encoding that was used by the POS hardware manufacturer. As institutions choose their suppliers for different channel software solutions, they must ensure that the solutions have the capability to integrate seamlessly with the institution's existing systems.

9. Be patient: Cost savings will not materialize immediately

In February 2015, FINCA Tanzania performed an analysis to determine the cost per transaction in each of their active delivery channels. These included tellers (at the branches), agent banking, and mobile banking. Prior to the analysis, it was believed that the branchless channels would have a lower cost per transaction, and that this would translate into operating cost efficiencies for the institution. At the time, FINCA Tanzania was executing approximately 126,000 transactions per month, of which 62% were at the tellers, 5% were at the agents, and 33% were via mobile banking. There were only 11 agents comprising the network at the time, as it had just exited its pilot phase.

At these transaction volumes, it was found that agency banking actually had a much higher cost per transaction than the teller transactions, as it had not yet achieved scale. A significant investment, both in terms of capital expenditures and operating expenses, was required to launch the agency channel, and with only 5,800 monthly transactions executed through the channel at the time, the cost per transaction was almost triple that of the tellers. Further calculations forecasted that the agency banking cost per transaction would decrease until it equaled that of the tellers, once the network reached approximately 40-50 agents.

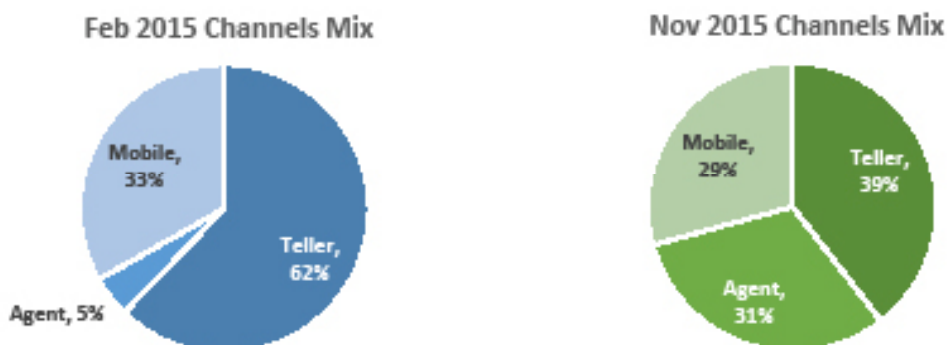
Mobile banking had the lowest cost per transaction, but it is also considered to be the “lowest touch” channel, giving FINCA the least control over its customer experience. The weighted average cost of all channels was \$1.02 per transaction (see Figure 2).

Cost per Transaction (Feb 2015)				
	Teller	Agents	Mobile	Wt Avg
Direct Cost per Txn	\$0.50	\$1.48	\$0.16	\$0.43
Indirect Cost per Txn	\$0.65	\$1.73	\$0.33	\$0.59
Total Cost per Txn	\$1.15	\$3.22	\$0.49	\$1.02

Figure 2. Analysis of costs per transaction by channel (February 2015)

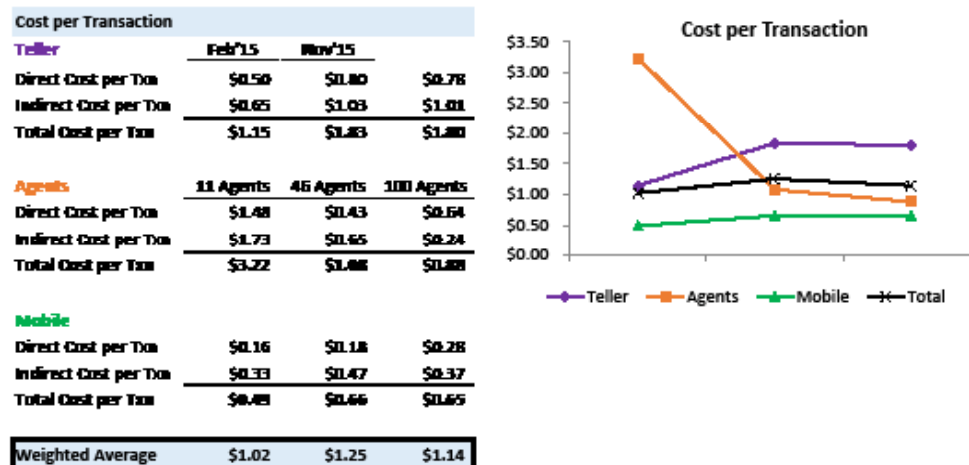
In November 2015, the analysis was updated to track the progress of the cost reductions from the branchless channels. At that time, the monthly transaction volume was roughly similar to that of February, at 124,000 per month, and the agent network had grown to 46 agents. The channels breakdown had therefore shifted to 39% tellers, 31% agents, and 29% mobile banking (see Figure 3).

Figure 3. Channels breakdown, February versus November 2015



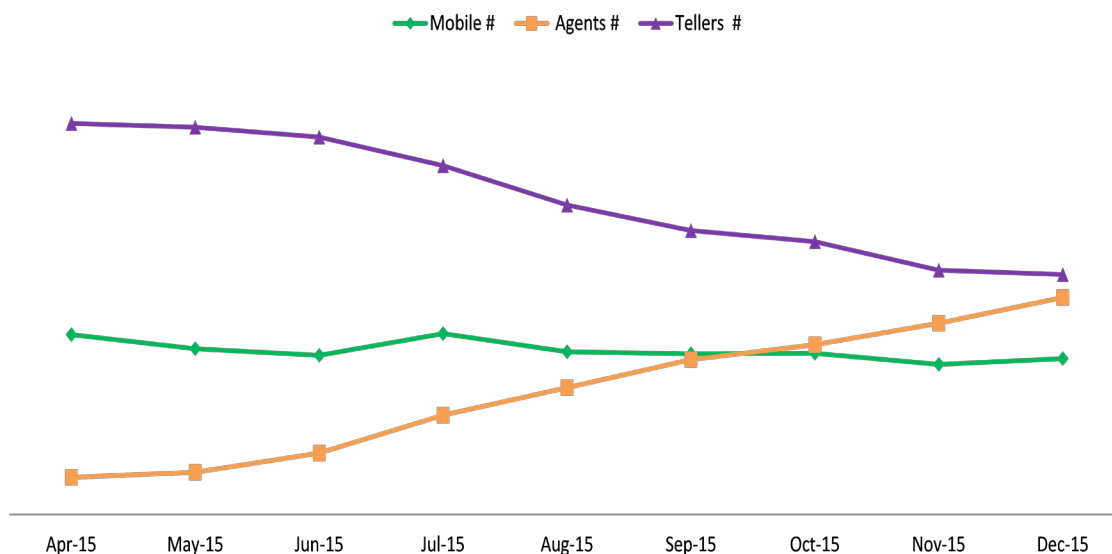
As expected, the cost per transaction for agency banking had decreased, and had become lower than the teller cost per transaction (see Figure 4).

Figure 4. Cost per transaction



However, because the overall volume of transactions for FINCA Tanzania had not increased, the agency channel had essentially cannibalized transactions from the tellers, thereby decreasing their transaction volume and increasing the cost per transaction for tellers compared to February levels. In other words, while the channels usage breakdown presented an intuitively encouraging trend towards greater use of agency banking, it was misleading. A clearer picture emerged from the absolute number of transactions in each channel, which clearly shows that agency transactions are cannibalizing teller transactions (see Figure 5).

Figure 5. Absolute number of transactions by channel



Since the cost structure of the tellers had remained the same, although the transaction volumes at the tellers had decreased, the resulting shift of transaction activity to agency banking actually represented an increase in the teller cost per transaction, as well as an increase in the overall weighted average cost per transaction. Essentially, although FINCA Tanzania had added an incremental cost structure to the business with the new channels, it was executing the same number of transactions through its various channels, therefore resulting in higher costs per transaction in the short to medium term. The weighted average cost of all channels had increased from \$1.02 to \$1.25 per transaction (see Figure 4).

From the analysis, it can be concluded that:

- The agency channel only yields a lower cost per transaction than the tellers when it achieves scale.
- The addition of branchless channels will be more successful at high growth subsidiaries, where the overall growth in transaction volumes will bolster transaction activity at the branches, despite the cannibalization of the new channels. In subsidiaries such as FINCA DRC, branches used to be very congested, and the launch of agency banking has allowed them to increase their maximum ratio of clients per branch to nearly 50% without sacrificing the quality of its customer experience.
- For financial institutions that are not in a high growth mode, a strategic shift of transaction activity from tellers to branchless channels must be accompanied by a robust plan to either refocus the branches on higher income activities to offset the higher cost per transaction, or decrease the cost structure at the branch.
- On a competitive level, traditional brick-and-mortar institutions must accept that the cost efficiencies from adding branchless channels may not be realized as quickly as they would like. With players in the market who have more focused digital operations and do not face the issue of re-engineering legacy brick-and-mortar operations, any microfinance institution considering launching branchless channels should carefully consider if they are ready to take on the level of change required to remain competitive vis-à-vis the companies that are focused solely on digital activities.

10. Align the incentive structure between the agents and the institution

Managing liquidity is often one of the biggest challenges facing mobile financial service providers. Lack of liquidity at agent locations denies customers their service, and can potentially erode customer trust in the channel. But often, liquidity is only a symptom of a much larger problem that stems from how agents are selected and incentivized. FINCA Tanzania and FINCA Zambia have learned that the following elements are critical to ensure sufficient agent liquidity:

- **Align incentive structure with customer profiles.** The right agent commission structure ensures that customers are served at all levels. FINCA has seen that agents often do not keep sufficient liquidity to service customers with large deposits and withdrawals if the incentive for larger transactions is not attractive. A financial institution would thus need to ensure that the incentive structure is graduated so that it incentivizes agents to keep sufficient liquidity to service high value transactions as well.
- **Install specific incentives for agents to maintain sufficient float.** In order to further motivate agents, FINCA pays a liquidity bonus of \$5 per day to agents if they maintain minimum liquidity requirements and reach a minimum of \$500 in transaction volumes that day. This is in addition to the regular per transaction commission that is paid to agents, giving them extra incentive to actively engage in FINCA transactions while maintaining sufficient liquidity.
- **Constantly monitor agent float levels.** As part of their routine visits to their designated agents, FINCA's Channels Business Officers must regularly check that agents are maintaining adequate float levels as part of their monitoring checklist. A process also needs to be in place for agent non-compliance, which could escalate to the eventual deactivation of the agent, in the most extreme cases.

Conclusion

In FINCA's experience, the agency banking channel can bring numerous benefits to the distribution capabilities, cost efficiency, and customer experience of a financial institution. However, institutions must not underestimate the significant investments needed to embark on a successful journey to implement an agency banking network. For the channel to succeed and achieve its intended outcomes, agency banking must become an integral part of the institution's business. Its rollout and operations must be rigorously managed and monitored on an ongoing basis, and new issues must be addressed and resolved quickly and efficiently.

While financial institutions can benefit from building an agency banking network, it is ultimately the clients that will benefit. The financial services industry continues to rapidly evolve with the advent of new digital channels, and as these technologies emerge, institutions like FINCA that stay ahead of these innovations will be able to offer a better value proposition to its clients and drive access to reach even more unbanked populations.

In the future, FINCA will continue to review the business case for agency banking and ensure the channel is sustainable and ready to deliver more products and service offerings to its clients. FINCA also plans to integrate the channel with its future digital solutions, such as field automation and credit scoring, to achieve further efficiency and drive scale, and ultimately, benefit its clients.



FINCA and Mastercard Foundation are working together to scale up financial inclusion in Sub-Saharan Africa. By leveraging the use of technologies such as mobile payments, we will significantly increase our outreach to unbanked individuals, enabling low-income microentrepreneurs and households to improve their families' lives and have a positive impact on the economic development of their communities.

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www.FINCA.org
+1.202.682.1510



www.FINCACanada.org
+1.514.419.1246



www.FINCAUK.org
+44 (0) 758.466.1825