

OVERVIEW OF THE GUIDELINES FOR THE REGULATION OF AGENT BANKING AND AGENT BANKING RELATIONSHIPS IN NIGERIA

**Presented by
Mr. Dipo Fatokun**

**Director, Department of Banking and Payments
System
Central Bank of Nigeria**

March 27, 2013



Outline



- Introduction
- Key aspects of the Agent Banking Guidelines
- What the guidelines mean for key stakeholders (including banks, mobile money operators and independent agent network providers)
- The National Financial Inclusion Strategy targets for Agent network
- Roadmap and next steps

Introduction



- Agent banking is the provision of financial services to customers by a third party (agent) on behalf of a licensed deposit taking financial institution and/or mobile money operator (principal).
- Where the **Principal** is a deposit taking Financial Institution and/or Mobile Money Operator (MMO) and the **Agent** is an entity that is engaged by a financial institution to provide specific financial services on its behalf using the agent's premises.
- Agent banking is an additional delivery channel that can enhance the convenience and outreach of quality and affordable financial services, particularly to the underserved, in a more cost-efficient manner

Introduction



- In countries across the globe, FIs are increasingly using agents to provide financial services to customers. It has the potential to significantly increase financial access by the poor and underserved populations to a range of formal financial services, including savings, payments, transfers, insurance and micro credit.
- Agents, who may be individuals, small retail shops, post offices, or large retailers can offer customers a convenient and affordable opportunity to cash-in and cash-out of an electronic payments system

Key aspects of the Agent Banking Guidelines



- The Guidelines for the Regulation of Agent Banking and Agent Banking relationships in Nigeria outlines the minimum expectations to be observed by FIs that intend to undertake agent banking. Broadly, the Guidelines aim to facilitate the implementation of agent banking in un-served/under-served areas, in a reliable, safe and sustainable manner whilst safeguarding consumer interest and confidentiality.
- The Guidelines operate on the premise that FIs retain the ultimate responsibility and accountability of all agent banking activities

Key aspects of the Agent Banking Guidelines



Other aspects of the document include:

- **Application and Approval Requirements:** Documentary requirements, Agent Structure, Information requirements for agent structure, Renewal of engagement and Monitoring of Agent Banking relationships
- **Minimum Requirements of Agent Banking Contract:** Amongst other things it states the FIs full liability with respect to customers, obligation of the FI and the agent, services the agent can conduct on the principal's behalf, fees & charges to be stated in the contract, etc
- **Establishment of agent Banking relationship:** Agent eligibility
- **Assessment of Agents:** Suitability assessment of an agent, Moral and professional suitability of a prospective agent, Agent due diligence
- **Key Roles & Responsibilities of the Financial Institution:** Management of agent banking business, Permissible activities, Prohibited activities, Operational and Transactional Limits

Key aspects of the Agent Banking Guidelines



- **Rules on exclusivity of agents:** No exclusivity of agent banking contracts between FIs and agents
- **Supervision of agents:** FIs shall put in place prudential and operational risk measures for monitoring the activities of agents
- **Settlement of transactions and the technology requirement:** Real time transactions, Minimum IT requirements for the operation of agent banking, Data and Network Security Requirements
- **Money Laundering:** Put in place customer due diligence (daily and transaction limits, minimum IT security requirements, authentication of each customer's transaction), Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements,
- **Consumer protection measures:** Ensure appropriate consumer protection systems against risks of fraud, loss of privacy and loss of service

What the Guidelines mean for key stakeholders



- The Guidelines provide minimum standards for the operation of Agent banking in Nigeria.
- Banking agents help financial institutions to divert existing customers from crowded branches, providing a complementary and more convenient channel.
- Financial institutions, can utilize agents to reach an additional customer segment or geography. Reaching poor customer in rural areas is often prohibitively expensive for financial institutions, since transaction numbers and volumes do not cover the cost of a branch. In such environments banking agents that take advantage of an existing retail infrastructure and lower set up and running cost, can play a vital role in offering many low-income people their first-time access to a range of financial services. Also, low-income customers often feel more comfortable banking in their immediate environment than walking into a FI's branch

What the Guidelines mean for key stakeholders



Benefits to a customer

- lower transaction cost,
- service closer to his immediate environment and personalised service
- Longer opening hours
- Shorter lines than in branches
- More accessible for less educated and the very poor and less privileged who might feel intimidated in branches

Benefits to the Agent network Provider

- Increased sales from additional foot-traffic
- Differentiation from other businesses the agent might normally operate
- Reputation from affiliation with well-known financial institution
- Additional revenue from commissions and incentives
- Acquisition of additional skills.

What the Guidelines mean for key stakeholders



Benefit to the Financial Institution

- Increased customer base and market share
- Increased coverage with low-cost solution in areas with potentially less number and volume of transactions
- Increased revenue from additional investment, interest, and fee income, Improved indirect branch productivity by reducing congestion
- More visibility

Benefit to Mobile Money Operator (MMO)

- Provides standards and guides for engaging Agent Network providers for the provision of mobile money offerings
- Non-exclusivity of agent network provides a shared platform for customer uptake
-

What the Guidelines mean for key stakeholders



Opportunity

- For private sector to invest in and drive uptake for branchless banking projects, based on rational expectations, depending on their profit margins and returns
- For Innovations: mHealth, mAgriculture, micro-insurance, micro-savings will arise and these will have a positive impact on the economy. Innovation needs to be supported by appropriate policy and regulations to develop a stable and efficient system.

National Financial Inclusion Strategy for Agent Networks



- The Financial Inclusion strategy for Nigeria is to ensure that a clear agenda is set for increasing both access to and use of financial services within the defined timeline (2020).
- Financial Inclusion is achieved when adults have effective access to a broad range of financial products, designed according to their needs and provided at affordable costs. These products include payments, savings, credit, insurance and pensions.

Financial Inclusion is defined based on:

1. Ease of access to financial products and services
2. A broad range of financial products and services
3. Designed according to need
4. Affordable cost

National Financial Inclusion Strategy for Agent Networks



- Despite being the most populous African nation, Nigeria is a mid-level player in the Sub-Saharan banking sector and lags behind some of its peers in Africa with respect to Financial Inclusion.
- The CBN, as the guardian of the financial system in Nigeria, has identified Financial Inclusion as a key lever to achieving the objectives under its mandate. As such, the CBN has defined a Financial Inclusion strategy that is executable and achievable.
- In setting out the Financial Inclusion agenda, the Bank identified Agent Network for banking as well as mobile money services as a channel with great potential to overcome the distribution challenges and increase the use of financial services to the un/under-banked.
- Brazil introduced a framework that led to the creation of 50,000 agents and increased banking penetration significantly, generating a 500% credit increase between 2004 and 2009
- Leveraging mobile payments and agents' banking networks will allow Financial Institutions to focus on product innovation and diversification

National Financial Inclusion Strategy for Agent Networks



- It provides for microfinance agent banking that could increase the linkage of rural cooperatives to microfinance banks, as was done in Kenya.



- Licensing procedures being worked out and once completed, processing of applications will commence.
- Applications for licensing are being received.
- Successful applicants will be granted approval-in-principle to enable them do a pilot run for a specified period to be determined by the Bank.
- Final license will be issued subject to the fulfillment of conditions of the AIP and satisfactory performance.

Conclusion



- Successful Agent Banking deployments all over the world have demonstrated that an effective agent network is paramount.
- Despite the fact that it's not a 'one-size fits all' approach, agent network development and structures have certain critical aspects in common, not least of all is a clear and well understood selection & recruitment process, consistent agent monitoring and practical liquidity management procedures.
- As we begin this journey, It is worth noting that the afore mentioned will be the drivers for the increase in agent activity in Nigeria. This will be followed by growth in number of agents, increased activity of agents and increase in average number of transactions per agent.

