

# Innovation Forum: Deepening Financial Inclusion through Agent Banking

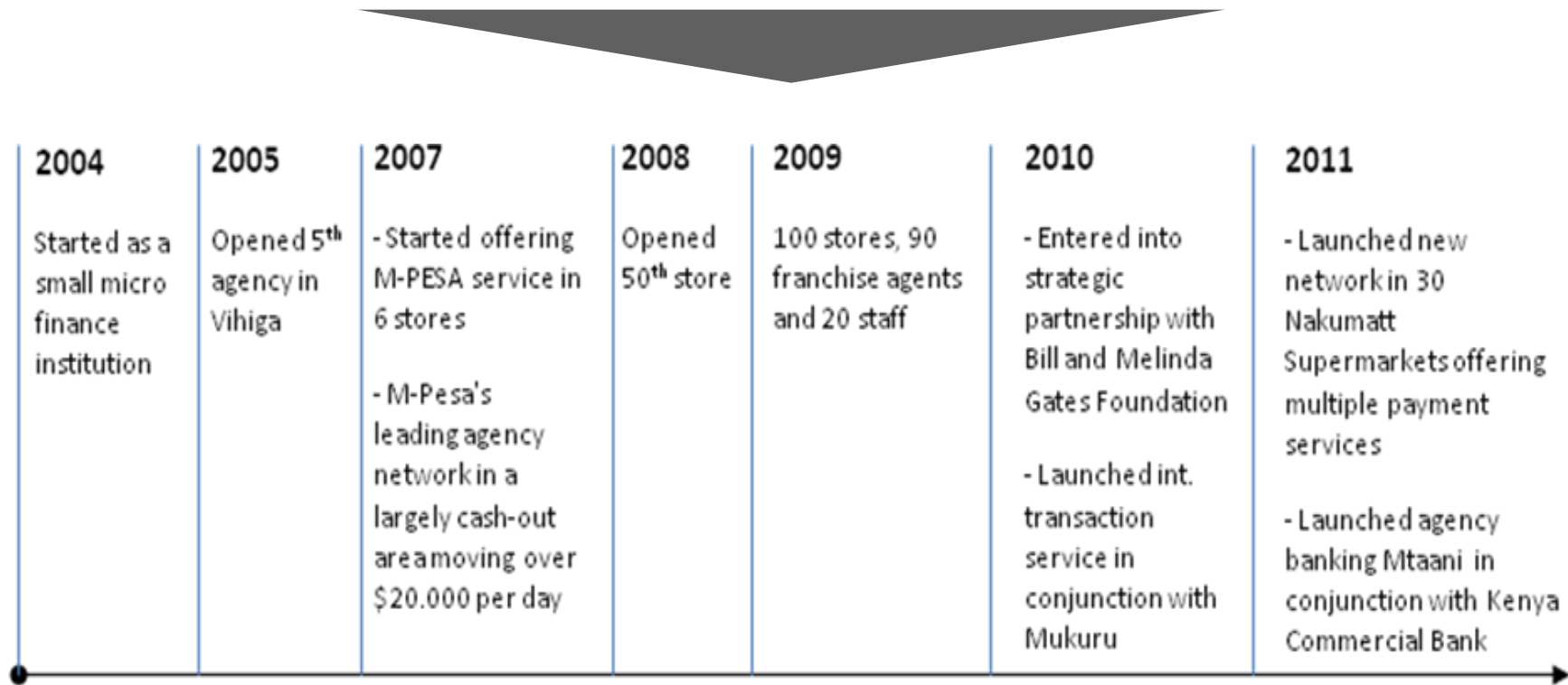
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The Success of Agent Banking in Kenya  
March 27, 2013

**Frederik Eijkman**  
Founding Director, PEP Intermedius

## Mission

*“To deliver financial services in a safe and secure environment, that help to enhance the welfare of those who have been excluded from, or have had limited access to the current providers of financial services.”*





## By March 2012:

- 12,000 transactions per day
- 750,000 USD – daily value moved
- 65 USD average transaction size

PEP currently operates 150 stores in three different formats:

**Supermarket:** 30 “shop-in-shop” outlets (15 Nairobi and 15 urban)

**PEP stores:** 7 stores (4 rural and 3 urban)

**Franchise agents:** 113 stores (80% rural and 20% urban)



## Pep Intermedius – key data, Mar 2012

	Withdrawals	Deposits
Total Transaction Volume		
Total Value (million Ksh)		

Total Transaction Volume: **356,994** Transactions  
 Total Transaction Value: **1,802 million Ksh**

### 120 PEP stores: Key Data



### 30 PEP Nakumatt stores: Key Data



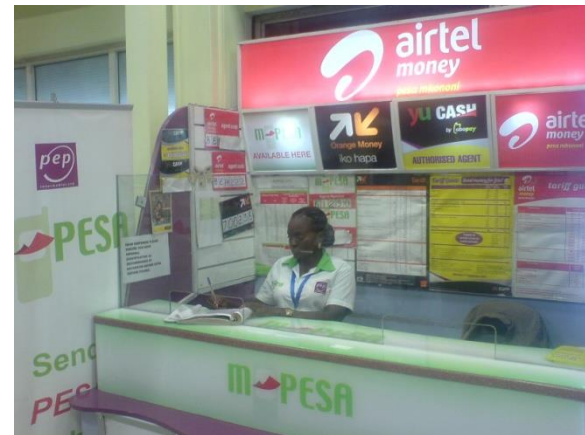
## PEP has successfully built key strategic partnerships with leading financial players



Depending on contractual arrangement PEP agents may be registered to act for single or multiple money transfer services.

PEP has partnered with leading financial players such as M-Pesa, YU Mobile, Equity Bank, Kenya Commercial Bank, Muku.com, Orange Money and Western Union/MoneyGram.

The result is that PEP currently offers a broad spectrum of payment services, making it the ideal transaction destination for both private as business customers.



In 2009 Central Bank of Kenya commenced measures to open up banking channels to non-bank-agents. An amendment to the Banking Act allowed banks to start using agents to deliver financial services.

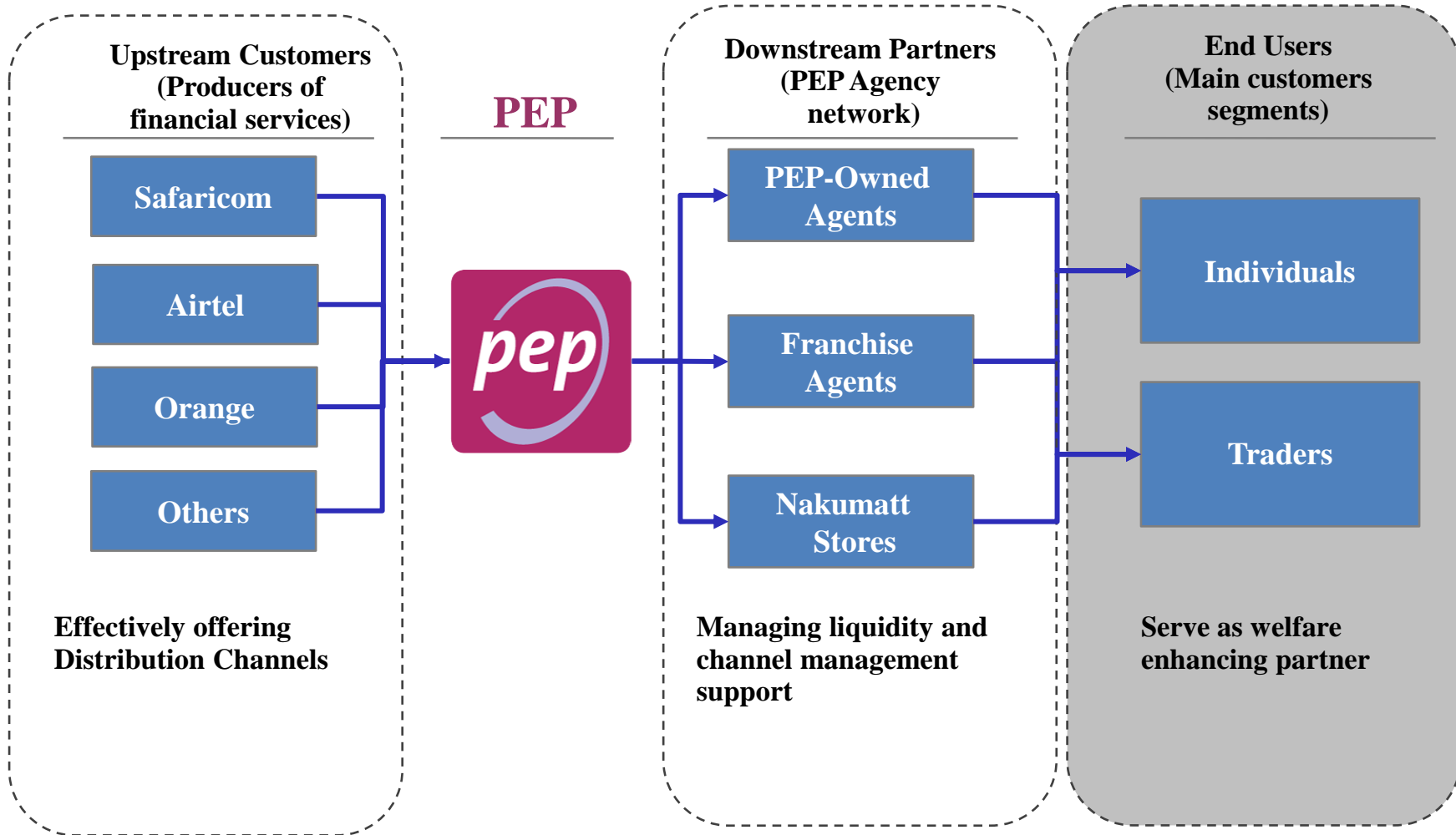
### Additional Regulation:

#### **Retail Transfers Regulation**

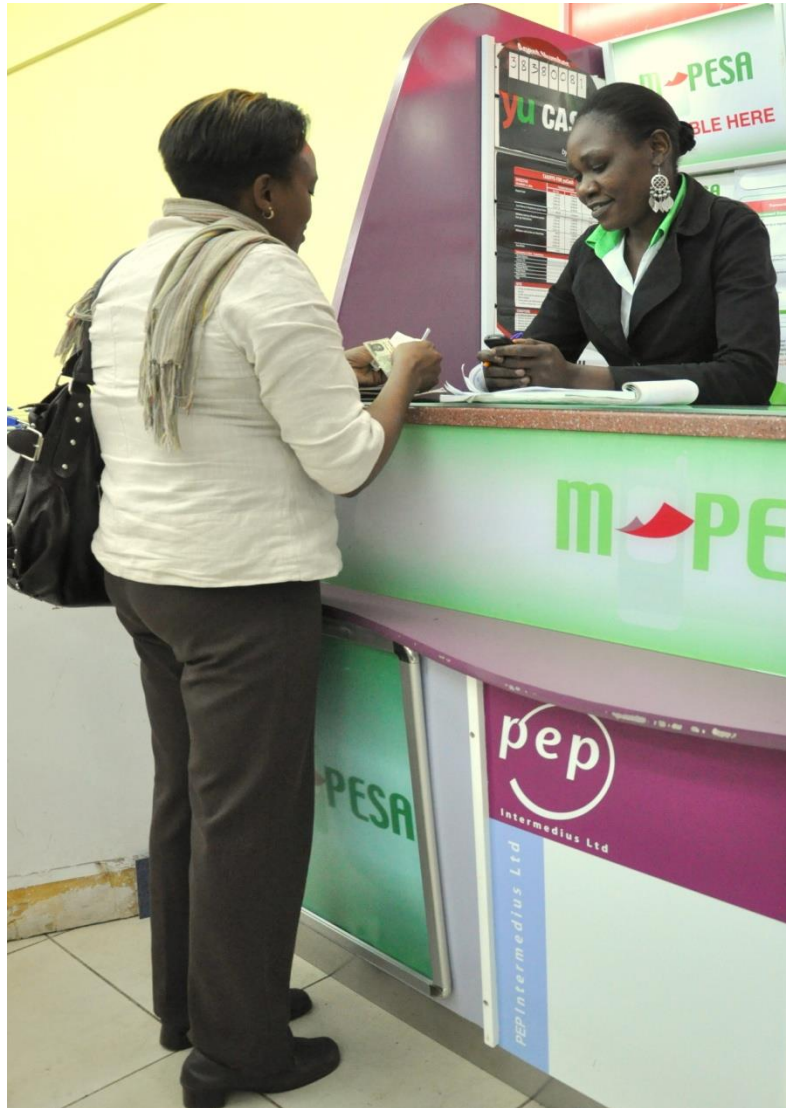
- To define retail transfers and provide for the delivery of retail transfers by banks and financial institutions as well as persons who are not banks or financial institutions
- To facilitate the provision of electronic payment service without compromising the safety and efficiency of the national payment system
- To provide minimum standards for consumer protection and risk management

#### **E-Money Regulation**

- Authorisation of e-money issuers
- Appointment agents by e-money issuers
- Appropriate measures to protect interests clients of e-money







360,000 transactions per month (+/- 80 transactions per day per store)

Over \$ 22M monthly value moved (+/- \$60 per transaction)

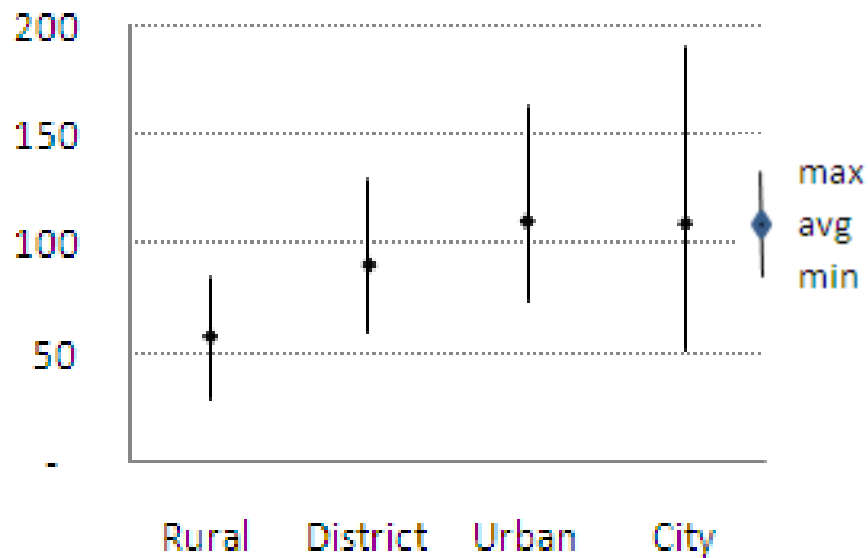
Private clients (household) and commercial clients (traders)

Client transaction profiles differ significantly by geographic location

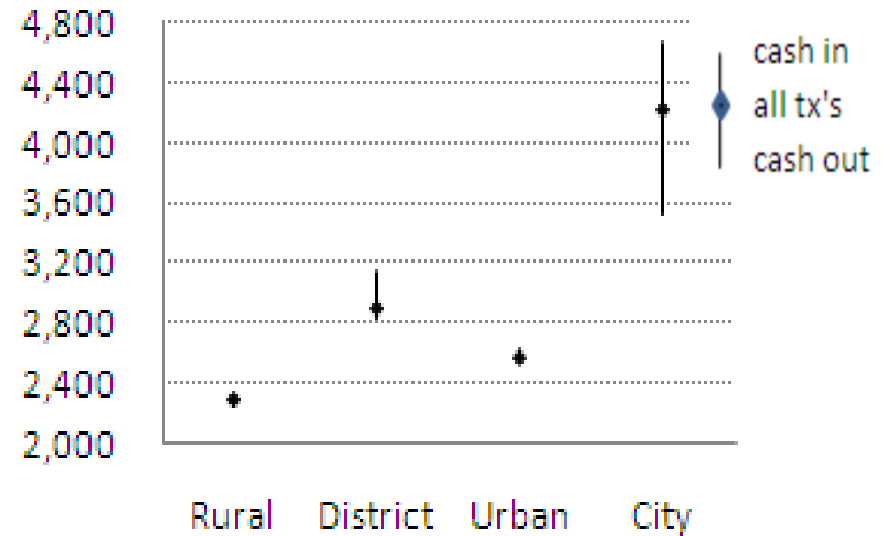


## Transactions are much larger In the city centre

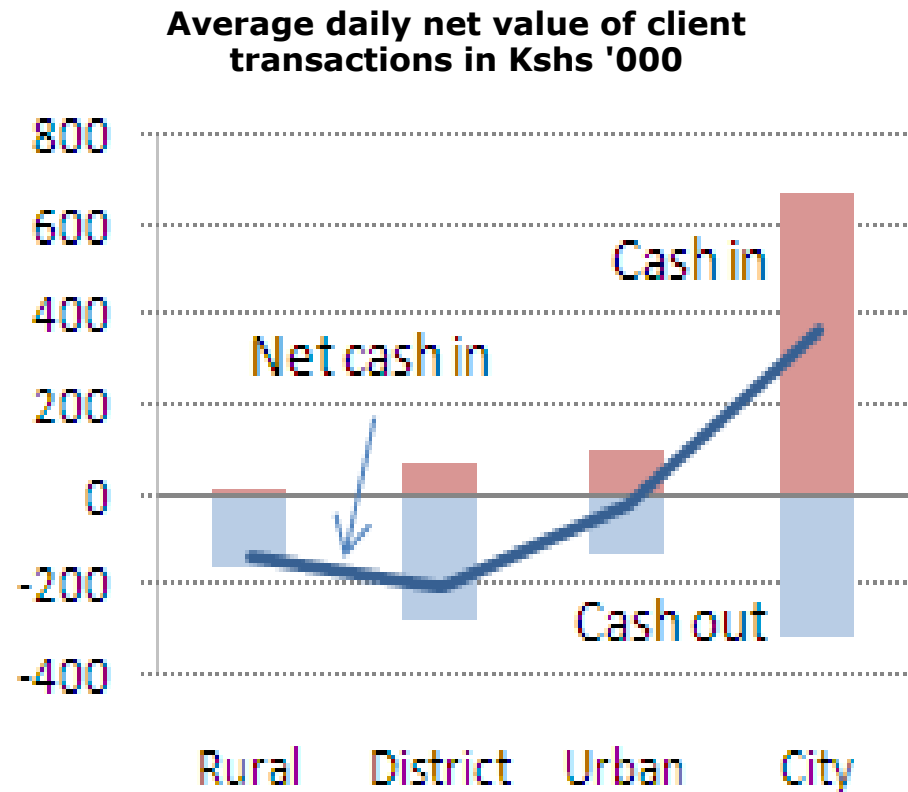
**Average number of client transactions per store per trading day**

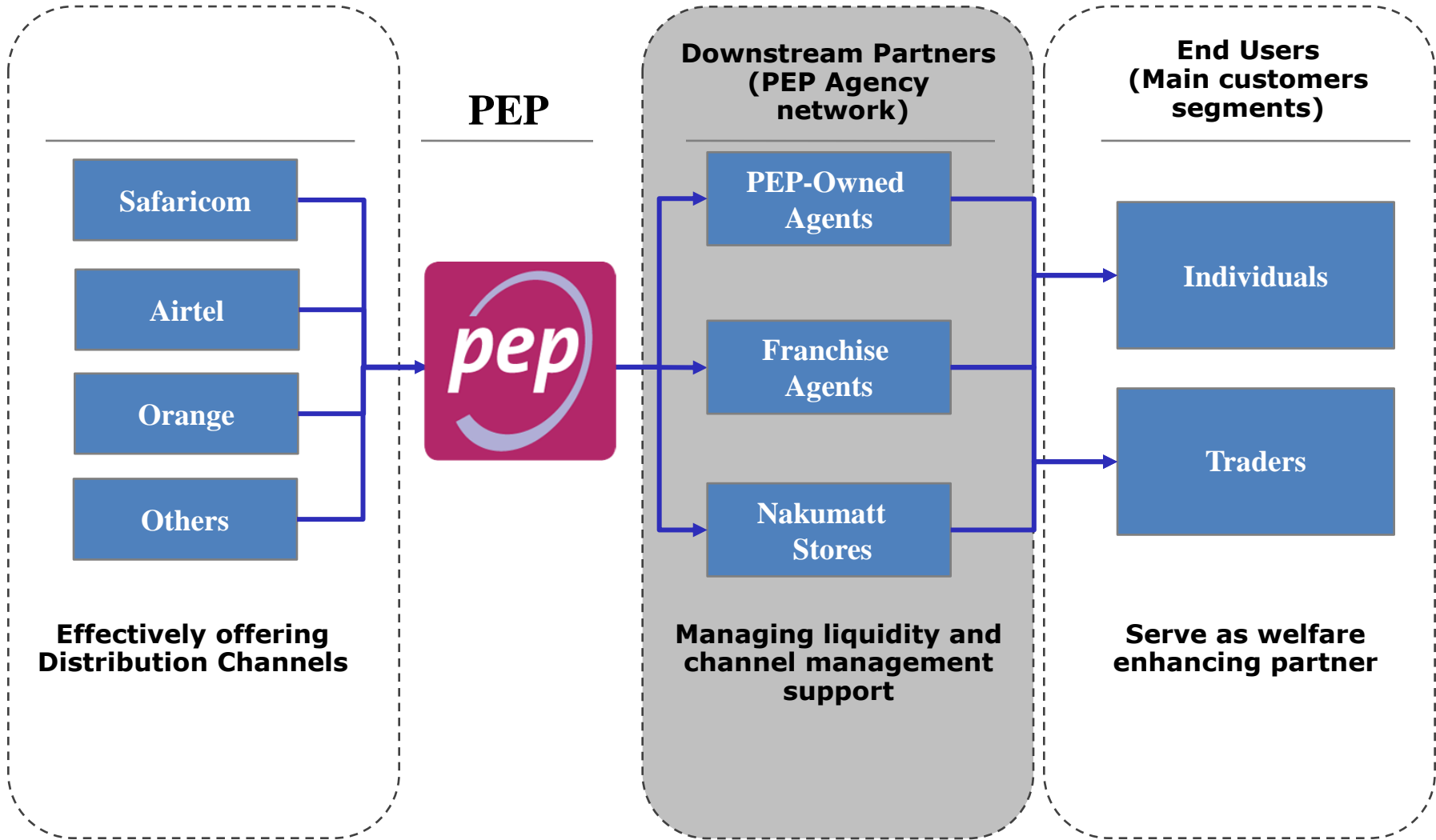


**Average client transaction size per store, in Kshs**



Rural areas are strongly cash out, whereas  
Urban areas tend to be more cash in





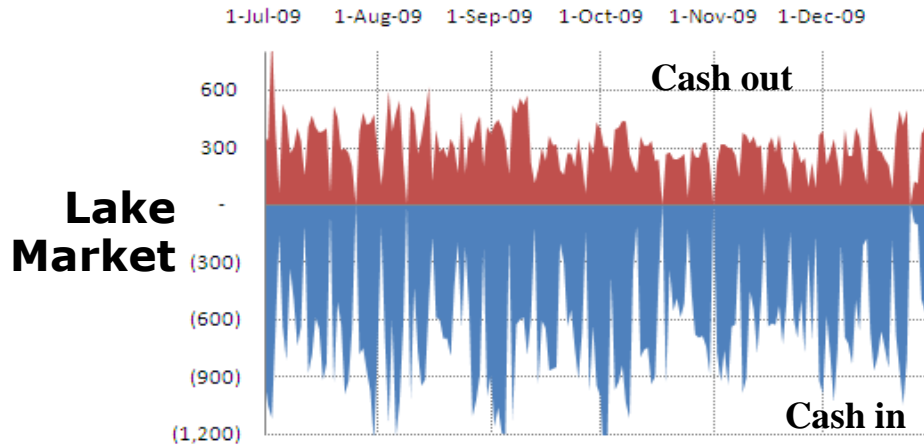


120 agents doing 50 – 200 transactions per day

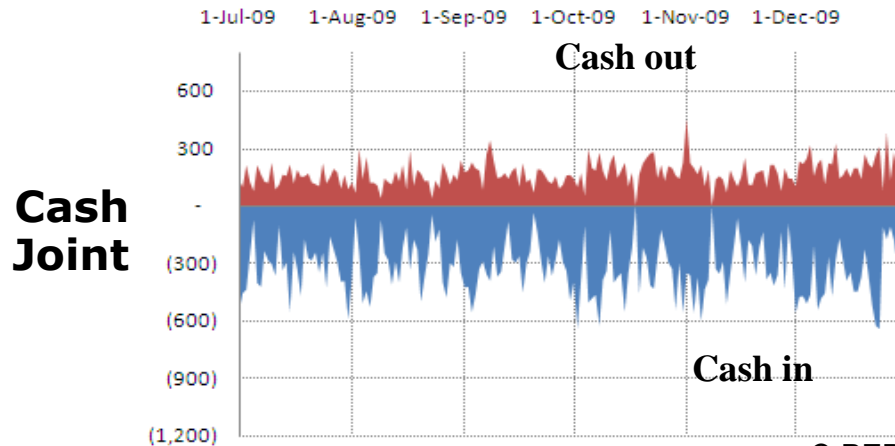
\$200 – \$1600 commission revenue an agent takes home every month

4000 rebalancing transactions per month between \$1000 - \$1250

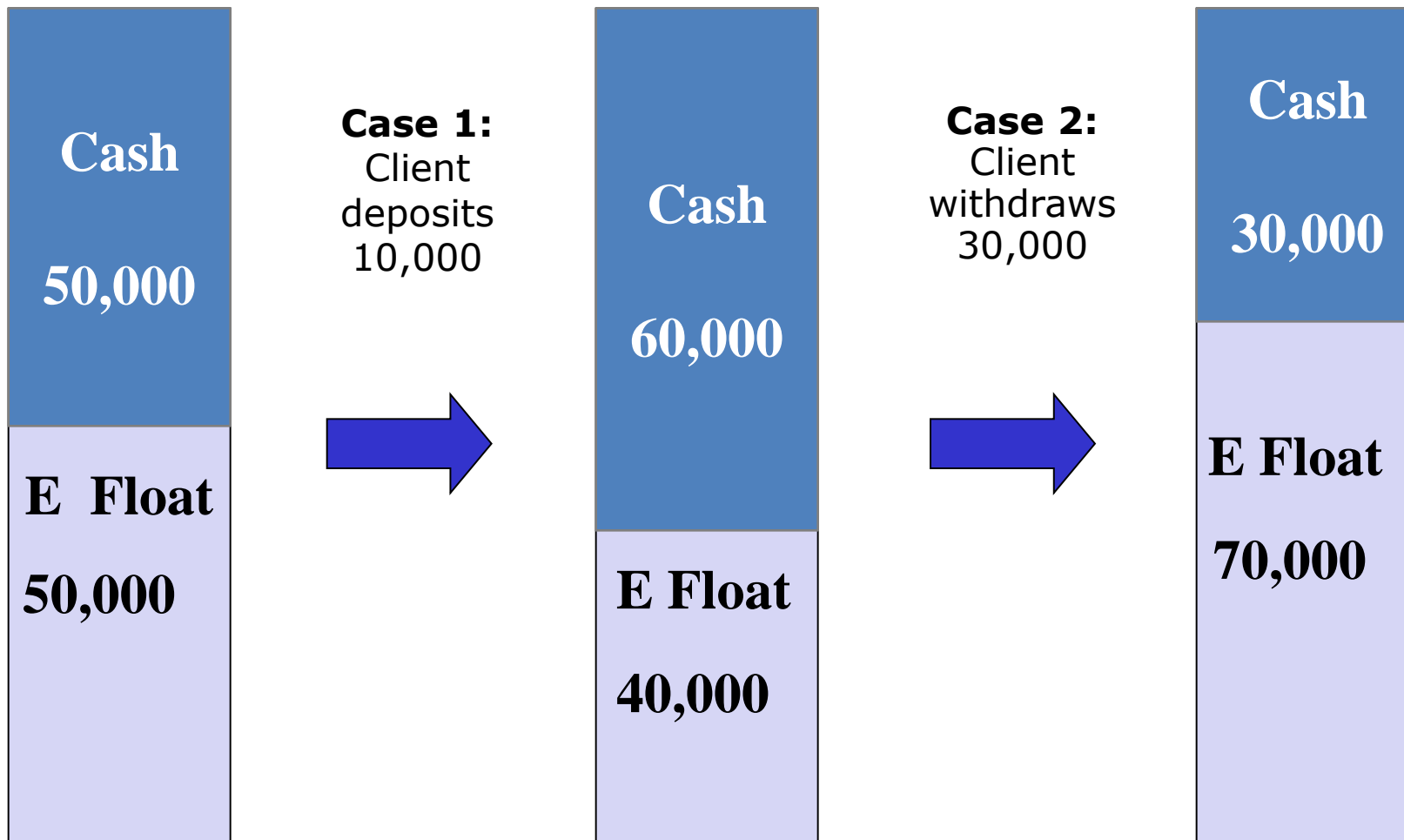
Two nearby M-PESA stores and their daily cash transactions with clients, in Ksh '000 over a period of 6 months



- Privacy and security
- Friendly and speedy service
- Cash and float availability

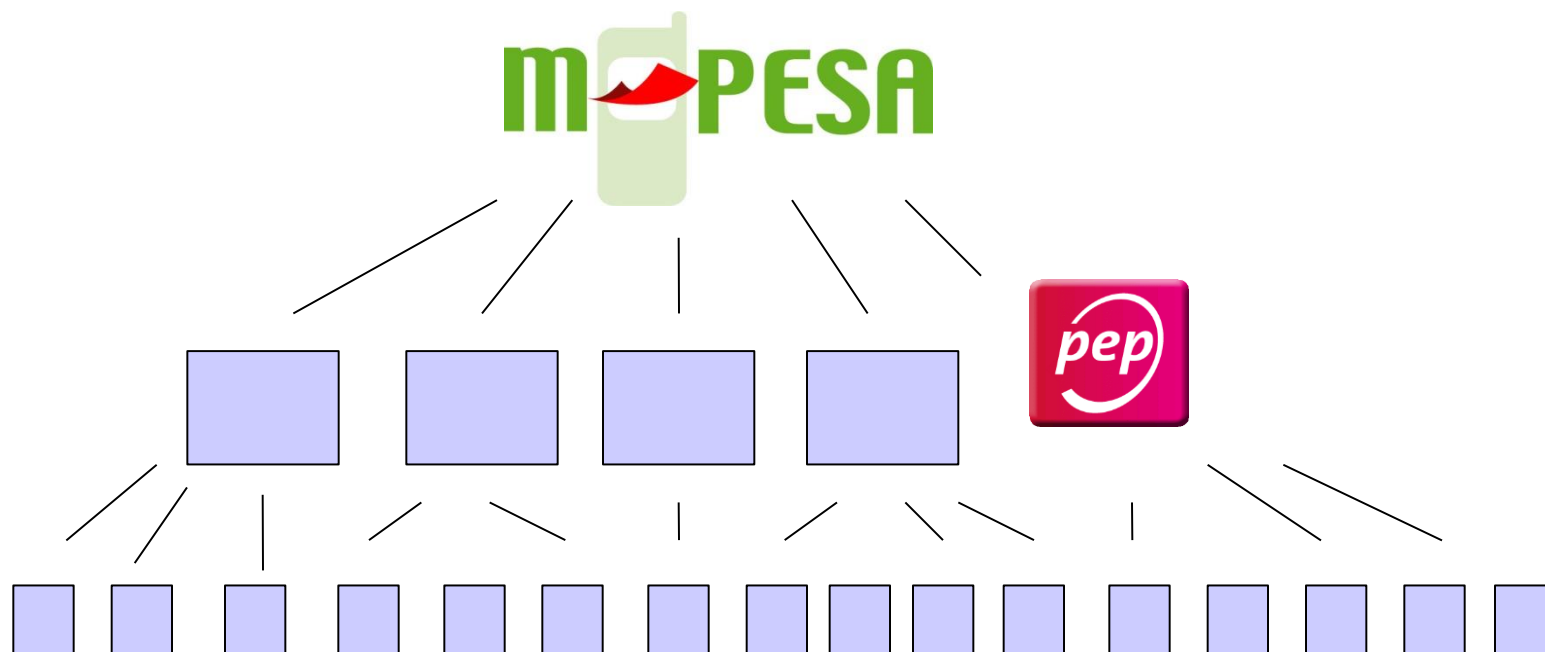


## Composition of agent working capital balances



- too many cash-in transactions: agent runs out of e-float
- too many cash-out transactions: agent runs out of cash

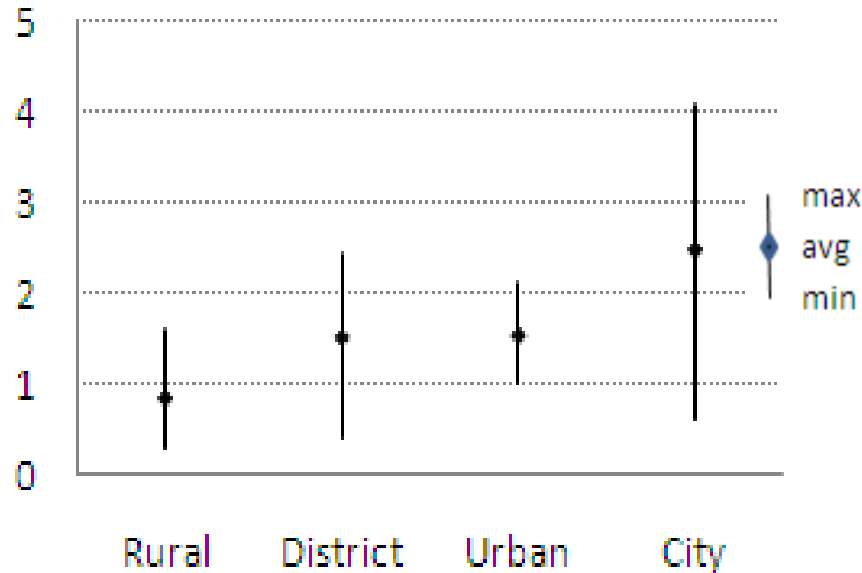
**In either case, the agent needs to rebalance its liquidity**



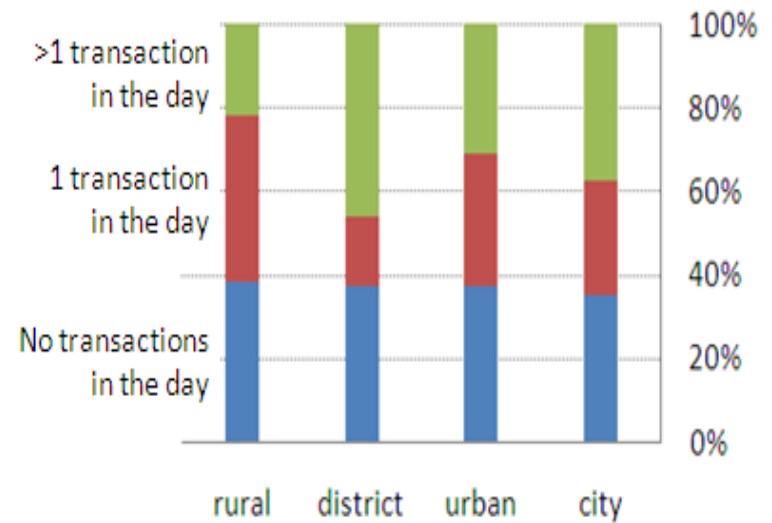


## Stores need to rebalance their liquidity holdings daily

**Number of transactions with PEP per store per trading day, by type of store**



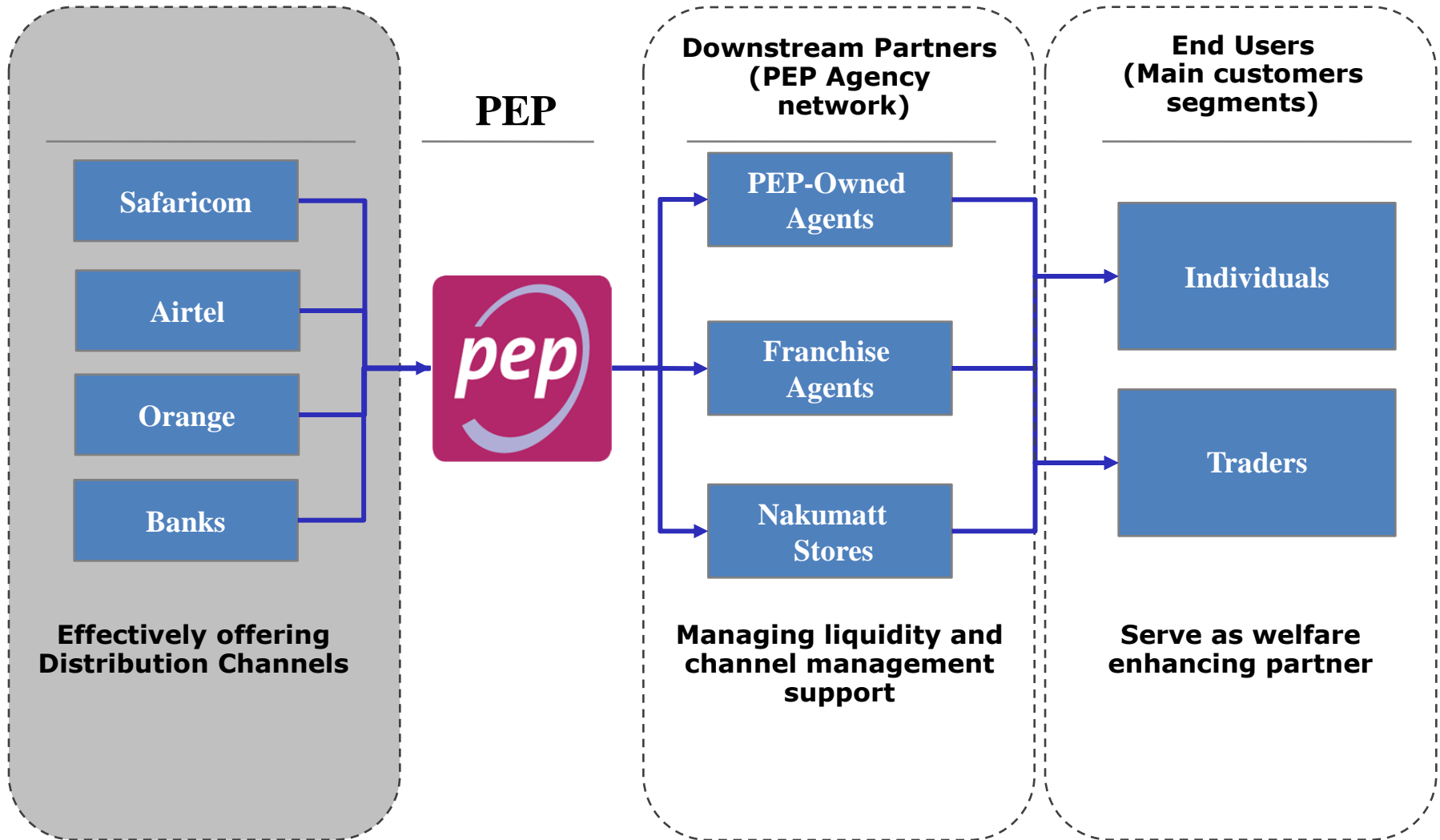
**Frequency with which stores transact with PEP per trading day, by type of store**



- Agents visit our head office or one of our own branches up country
- Using the banking system, either by physically depositing cash into agents bank account or by online banking

*Rationale: Reducing cash-in-transit risk by splitting lump-sum amount to be distributed and costs implications*

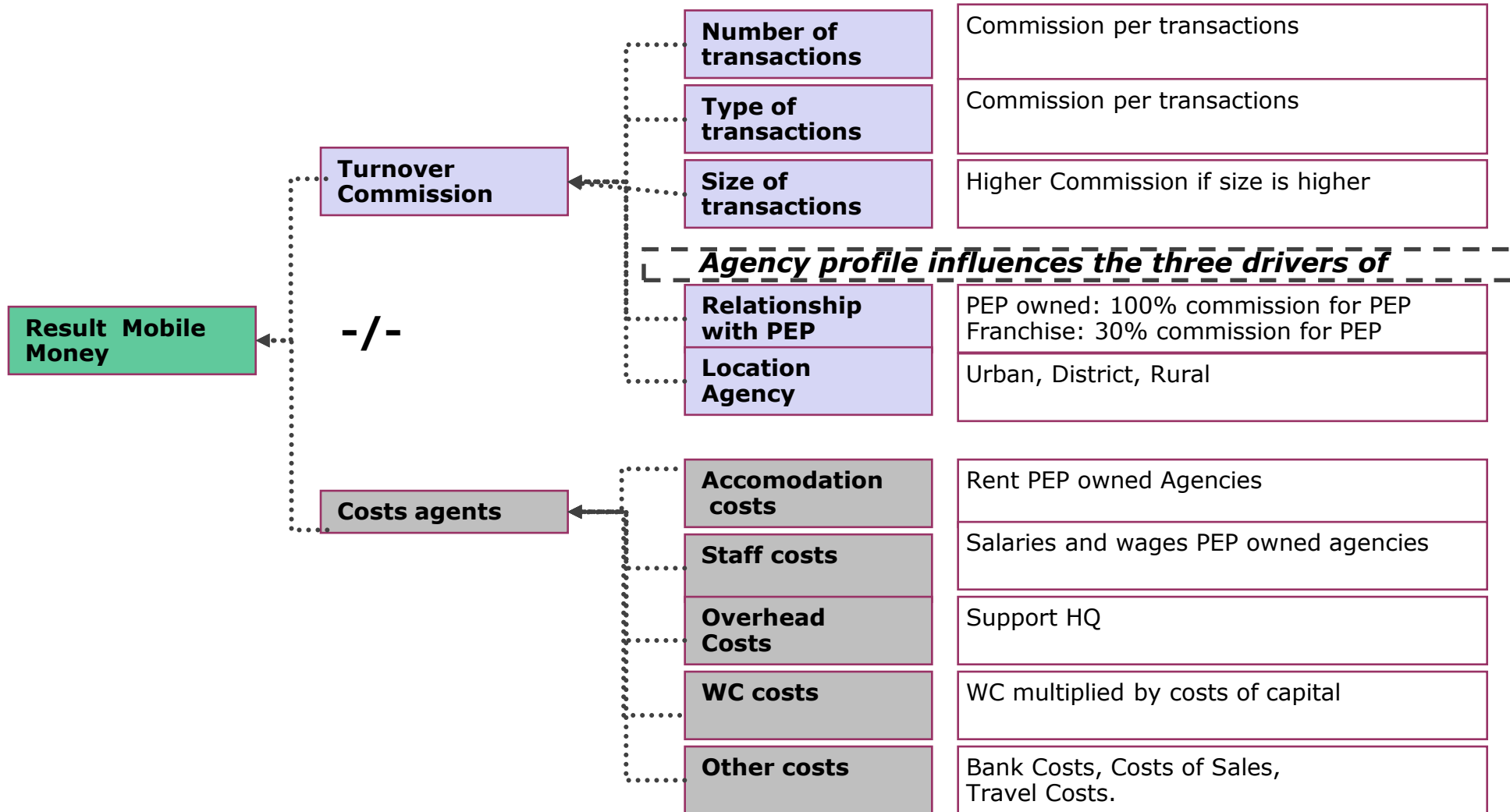
- **Stores require quite intense daily liquidity management support:** They must rebalance on at least 60% of days and often several times per day
- **Rural areas face greater difficulties:** lower commissions; transactions lopsided towards cash out; and high travel and time costs
- **There is evidence of market discipline between stores:** favouring certain stores offering exceptional service + substantial trading volumes



- Providing physical infrastructure/ transaction platform
- Cash distribution/ liquidity management
- Customer Channel and Interface; mobilising and registering

	<b>Core competences</b>	
<b>Responsible level</b>	<b>Channel management</b>	<b>Liquidity management</b>
<b>Front desks</b>	<ul style="list-style-type: none"> <li>• Customer interaction and generate repeat visits</li> <li>• Local knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Active monitoring and timely managing of float</li> <li>• Interact on basis of trust with end-users (ie in some instances provide advances)</li> </ul>
<b>Back Office (Treasury)</b>	<ul style="list-style-type: none"> <li>• Timely commission payments to agents</li> <li>• Technical support channel/back-up</li> </ul>	<ul style="list-style-type: none"> <li>• Guarantee availability of cash for agents</li> <li>• Rebalance agent accounts</li> <li>• Provide operational support and oversight</li> </ul>
<b>Management</b>	<ul style="list-style-type: none"> <li>• Network selection</li> <li>• Product development</li> <li>• Agent location</li> <li>• Seed capital provision</li> <li>• Staff training</li> </ul>	<ul style="list-style-type: none"> <li>• Manage overall cost of capital</li> </ul>

# Revenue and cost structure in the Agency model





# Agency Banking – A Low Cost Banking Channel

**1. Use existing retail infrastructures**



**2. Deliver trust through technology**



**3. Use existing deployed technology**

### Agent networks for cash-in / cash-out

- Role of agents and outsourcing
- The 'customer experience'
- Consumer protection issues
- The perspective of the retail agents: what's in it for them?
- How to set up, manage and grow agent networks
- The business case: the theory and the practice

### Mobile banking

- The role of the mobile phone in facilitating transactions
- The 'customer experience' and customer adoption issues
- Security and safety
- Online vs. offline usage
- Implementation models: bank-led vs. mobile operator-led vs. third party-led
- Partnership

- Insufficient volume of transactions
- Lack of customer awareness
- Infrastructure development and coverage
- ICT platforms and sharing arrangements
- Pricing and accessibility
- Liquidity management
- Each bank goes on his own



**Sound business proposition for agents:** Compensating them for the cash solution he/she is offering, considering the risks and resources required.

**Incorporation of Aggregator model:** Identifying institutions that have the financial cloud *and presence* to manage liquidity and quickly rebalance agencies accounts.

**When mobilising rural agents, stick to local people:** When it comes to money, the unbanked prefer to deal with people they know.



**Thank You**

*For more information: [eijkman@pepintermedius.com](mailto:eijkman@pepintermedius.com)*