

Innovation Forum: Deepening Financial Inclusion through Agent Banking

The Success of Agent Banking in Kenya March 27, 2013

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PEP traces its roots to the developmental needs of the Under-Banked



Mission

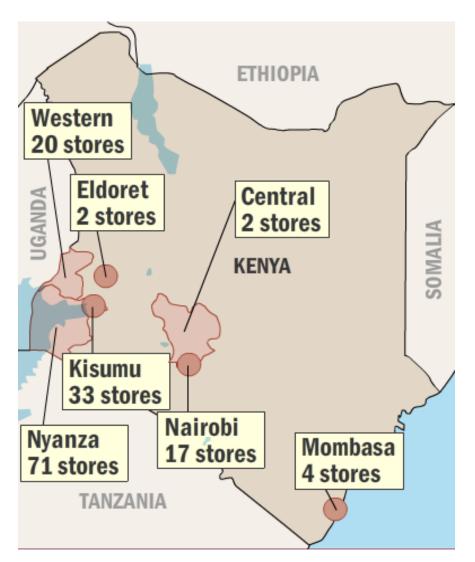
"To deliver financial services in a safe and secure environment, that help to enhance the welfare of those who have been excluded from, or have had limited access to the current providers of financial services."

2004	2005	2007	2008	2009	2010	2011
Started as a small micro finance institution	Opened 5 th agency in Vihiga	- Started offering M-PESA service in 6 stores - M-Pesa's leading agency network in a largely cash-out area moving over \$20.000 per day	Opened 50 th store	100 stores, 90 franchise agents and 20 staff	- Entered into strategic partnership with Bill and Melinda Gates Foundation - Launched int. transaction service in conjunction with Mukuru	- Launched new network in 30 Nakumatt Supermarkets offering multiple payment services - Launched agency banking Mtaani in conjunction with Kenya Commercial Bank



Business at PEP's Network Of Agents has experienced strong growth since inception





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)



Overview of PEP Intermidius





Pep Intermedius - key data, Mar 2012

Total Value (million Ksh)

Withdrawals Deposits

Total Value (million Ksh)

Total Transaction Volume: **356,994** Transactions

Total Transaction Value: 1,802 million Ksh

120 PEP stores: Key Data						
189,491 transactions						
244	279					
30 PEP Nakumatt stores: Key Data						
167,503 transactions						
453	8	27				



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, Mukuru.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.























Agency Banking – Regulatory Framework

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.

<u>Additional Regulation:</u>

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

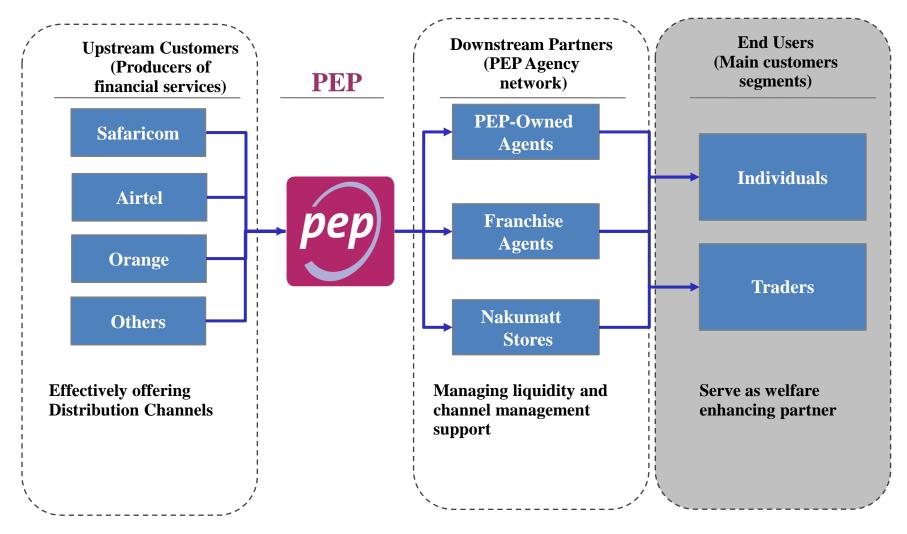
E-Money Regulation

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



PEP Value Chain - End Users

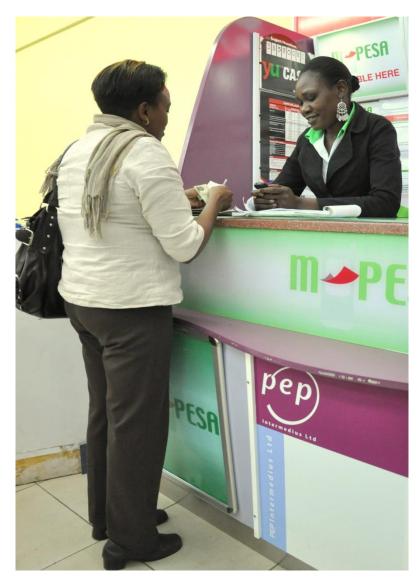






Level 1: End Users





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

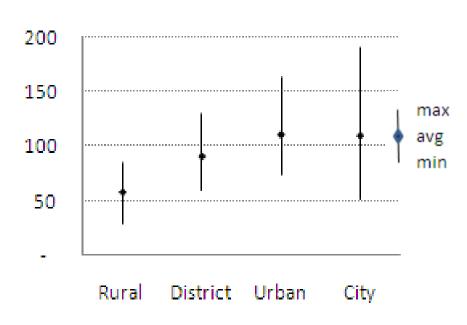


Rural clients do fewer and smaller transactions

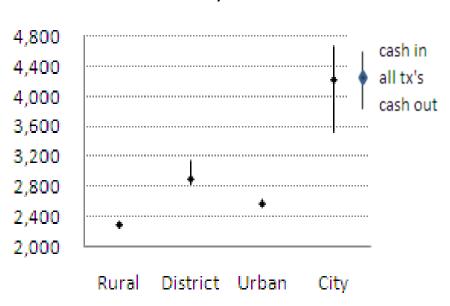


Transactions are much larger In the city centre

Average number of client transactions per store per trading day



Average client transaction size per store, in Kshs



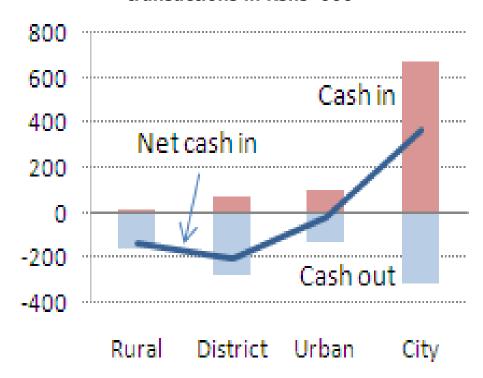


Different domestic remittance patterns



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

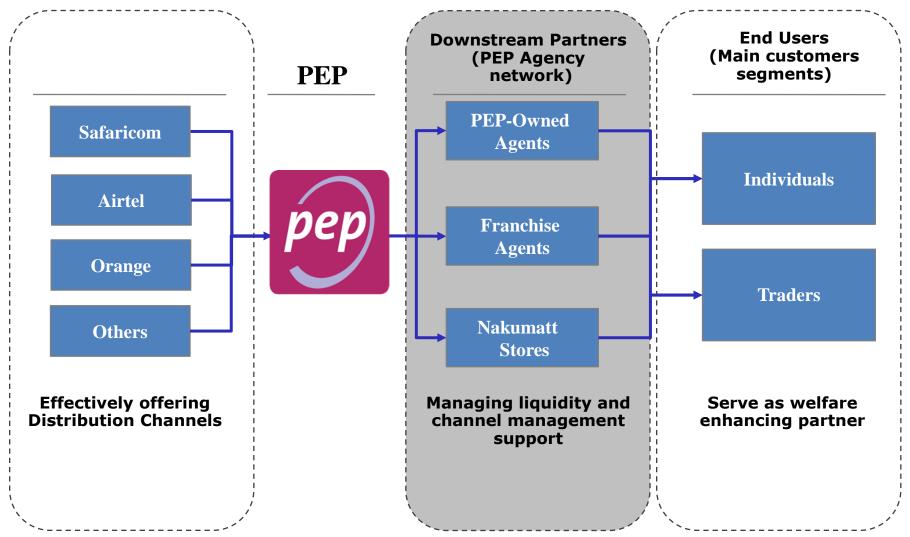
Average daily net value of client transactions in Kshs '000





PEP Value Chain - Downstream Partners







Level 2: Downstream Partners





120 agents doing 50 – 200 transactions per day

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

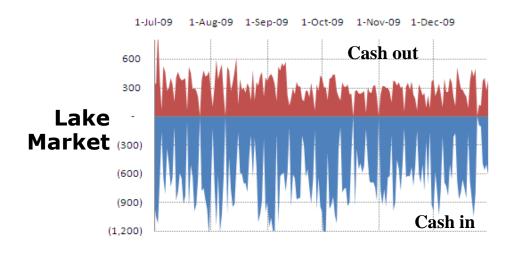
4000 rebalancing transactions per month between \$1000 - \$1250

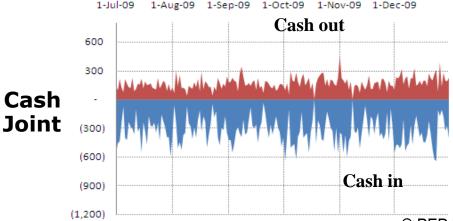


Customer Service is a strong determinant of Profitability Of Outlets



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





Agencies offset their customers' transactions with their own cash or e-float



Composition of agent working capital balances

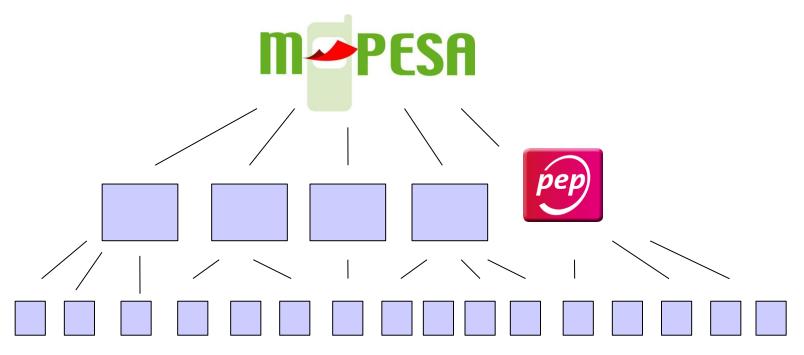
Cash Case 2: Case 1: Cash Client Client Cash withdraws deposits 30,000 30,000 10,000 50,000 60,000 E Float E Float 70,000 E Float 50,000 40,000



Managing liquidity is the central aspect of the Agent's business



- 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



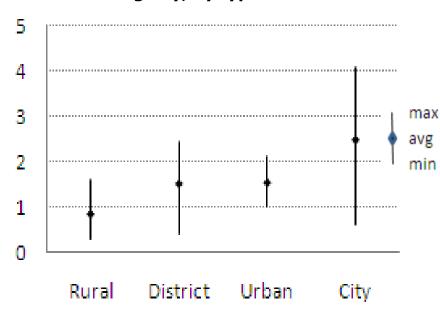


Agent liquidity management is costly

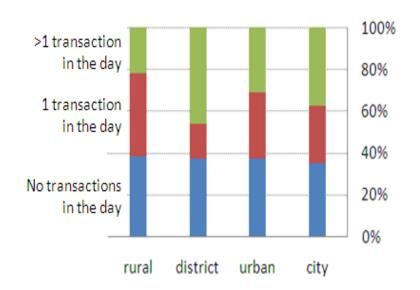


Stores need to rebalance their liquidity holdings daily

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





How do we rebalance/distribute cash?



- 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



Cash distribution challenges

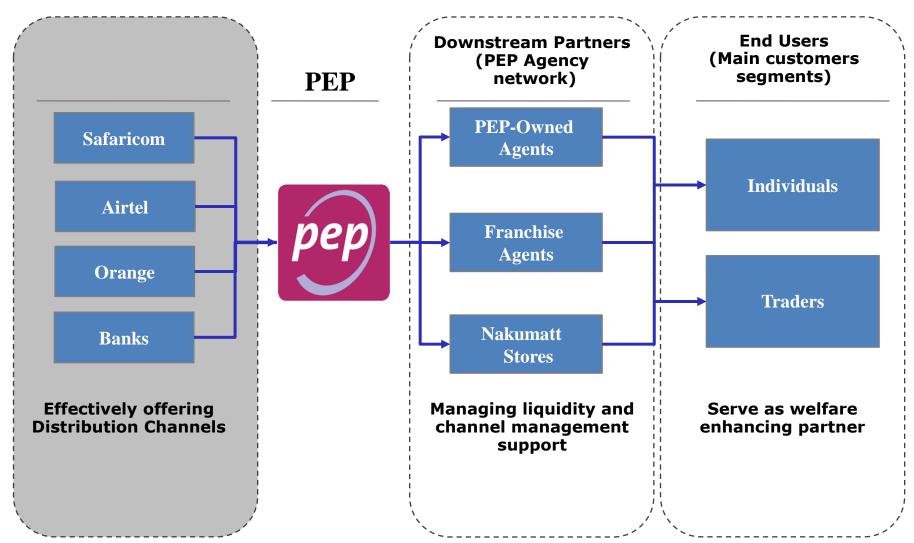


- Stores require quite intense daily liquidity management support: They must rebalance on at least 60% of days and often several times per day
- Rural areas face greater difficulties: lower commissions; transactions lopsided towards cash out; and high travel and time costs
- There is evidence of market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



PEP Value Chain – Upstream Customers







Level 3: Upstream Customers



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



EFInA PEP: Core Competencies executed at three operation levels

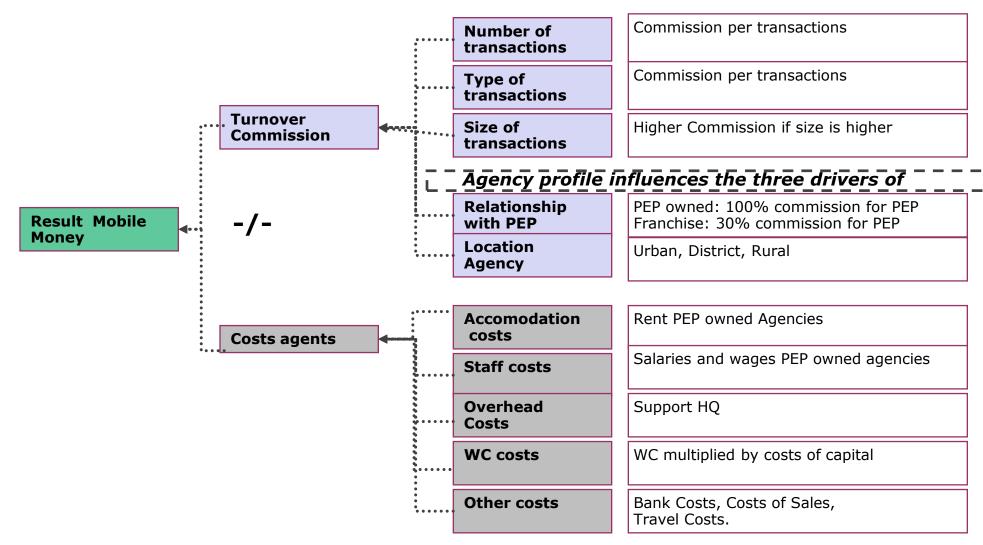


	Core competences		
Responsible level	Channel management	Liquidity management	
Front desks	 Customer interaction and generate repeat visits Local knowledge 	 Active monitoring and timely managing of float Interact on basis of trust with end-users (ie in some instances provide advances) 	
Back Office (Treasury)	 Timely commission payments to agents Technical support channel/back-up 	 Guarantee availability of cash for agents Rebalance agent accounts Provide operational support and oversight 	
Management	 Network selection Product development Agent location Seed capital provision Staff training 	Manage overall cost of capital	



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



Real-time account-toaccount transfers





3. Use existing deployed technology







Setting up and managing branchless banking channels

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



Challenges

- 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





Lessons learnt



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

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