EFInA:

EVALUATION OF AGENT BANKING MODELS IN DIFFERENT COUNTRIES

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Abbreviations

AML	Anti-Money Laundering
AFI	Alliance for Financial Inclusion
Anatel	National Agency of Telecommunications (Brazil)
ATM	Automatic Teller Machines
BC	Business Correspondent
BCP	Banco de Crédito del Peru
BDO	Banca de las Oportunidades (Columbia)
CBB	Central Bank of Brazil
CBN	Central Bank of Nigeria
CBK	Central Bank of Kenya
CCT	Conditional Cash Transfers
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
CSP	Customer Service Points
DMB	Deposit Money Banks
EFInA	Enhancing Financial Innovation & Access
KYC	Know-Your-Customer
MFB	Microfinance Bank
MFI	Microfinance institutions
MNO	Mobile Network Operator
NBA	Non-bank Agent
NBC	Non-bank Correspondent
NBF	Nonbanking Financial Companies
NGO	Non-governmental Organisation
OPM	Oxford Policy Management
POS	Point-of-Sale

RBI	Reserve Bank of India
SBS	Superintendencia de Banca, Seguros y AFP (Peru)
SFC	Financial Superintendence of Colombia

Executive summary

OPM has been commissioned by Enhancing Financial Innovation & Access (EFInA) to undertake a desk study of agent banking models in five countries (Colombia, Brazil, Peru, India and Kenya) in order to make recommendations on the most effective way to develop an agent banking network in Nigeria. In particular, the study has focused on (i) the regulation and (ii) the impact of agent banking in each country. The key findings from the analysis of agent banking regulation and its impact in each country are provided on the remaining pages of this Executive Summary. The two tables and the set of bullet points have been designed to show a cross-country comparison of the current situation in the five study countries.

We recommend that the Central Bank of Nigeria (CBN) and other relevant stakeholders make use of the AFI knowledge transfer programme and seek to arrange visits to meet the key stakeholders in Kenya, Brazil and Colombia. Some of the key lessons observed by the Kenyan regulators from this programme were the importance of involving key stakeholders, both from the public and private sectors, in any further development or roll out of a mobile financial services model; and the importance of prioritising and coordinating the national financial inclusion agenda. For example, Brazil has an ongoing strategic financial inclusion project and Colombia has a designated body, the Banca de las Oportunidades (BDO), whose role is to lobby for financial inclusion. Following the programme, Kenyan stakeholders are now in discussion with the Alliance for Financial inclusion (AFI) regarding support for a strategic financial inclusion project. These lessons could also be applied to the further development and roll out of an agent banking/mobile financial services model in Nigeria.

The Regulatory Framework for Mobile Payments Services in was Nigeria issued in June 2009 and eleven mobile payments licenses were issued by the CBN in August 2011, so it is likely that a variety of different types of operators will now start to offer a range of mobile financial services. It specifically prohibits MNOs from being the lead actor in mobile financial services, however, effectively reducing them to the role of providing the network infrastructure or being the junior partner in a bank-led model.

Particular challenges to creating an effective agent banking model in Nigeria are (i) the relative lack of interest amongst DMBs in taking financial services down market; (ii) the relatively small number of installed POS machines and the lack of interoperability; and (iii) some KYC constraints. There are also some good opportunities for agent banking in Nigeria. Some deposit money banks (DMBs) have started experimenting with innovations in agent banking; and some banks are pursuing an aggressive branch expansion strategy. Finally, the CBN is driving progress towards a 'cashless society' which, among other things, is looking at introducing interoperability of POS devices and has set ambitious targets to deploy over 100,000 Point of Sales terminals by 2012 and 350,000 POS terminals by 2015.

Our findings from the countries studied suggest that there is no one, perfect, regulatory model for agent banking in Nigeria: rather particular aspects of the regulation in each country can be adopted.

We recommend that the CBN adopts the 'test-and-learn' approach[1] to developing further regulation regarding agent banking. It is also important, therefore, to ensure that it is relatively straightforward to amend regulations. A good principle to apply is 'minimum law, maximum regulation,' so that the laws on which the regulations are based do not have to be changed so often as the market

[1] This phrase was first used by the GSM Association and was then adopted by the G-20 in its 'Principles for Innovative Financial Inclusion' in June 2010 (G20, 2010)

develops, the necessary adjustments being made through changes in the regulations. We also recommend that the regulatory model applied to agent banking in Nigeria is as open as possible, in terms of who can act as an agent and the type of transactions they can undertake, in order to encourage the spread of agent banking and remote access financial services.

We recommended that there be few, if any, restrictions on who can act as an agent: both individuals and entities should be permitted and it would be particularly beneficial to ensure that organisations with large distribution networks are permitted to act as agents. We also recommend that approval from the regulator should be necessary for a principal to start using agents but that subsequent approval of each agent should not be required. Non-exclusivity of agents should be allowed and agents should be able to provide a full range of financial services, such as processing bill payments, loan applications and providing cash-in and cash-out services.

A risk-based approach to the supervision and regulation of agents should be adopted in Nigeria. The principal institution should be held fully liable for the actions of its agents and have proper risk management, consumer protection, and AML/CFT systems in place.

Agents in Nigeria will undoubtedly benefit from increased footfall in their outlets and therefore will have a financial incentive to act as an agent. We recommend that the customer should not have to pay extra fees to use an agent: the agent should receive a commission from the principal for each transaction carried out.

We present three main options for rolling out an effective agent banking network nationwide: (i) to roll out the network making use of existing infrastructure; (ii) to work through agent network management companies who may already have arrangements with existing agent networks throughout the country; or (iii) to build agent networks from scratch.

We also recommend encouraging particular banks to establish agent networks, in view of the current reluctance of many Nigerian banks to down-scale. If some banks start to see the benefits of using agents and to make a profit from doing so, other banks should be encouraged to follow suit. There may also be a good opportunity for the more dynamic and entrepreneurial microfinance banks (MFBs) to establish and make use of agent networks in Nigeria. MFBs could also consider sharing agent infrastructure among several MFBs.

Agents should not just be used by customers to access their bank accounts and transfer money: they should also offer a range of other services including payment of salaries and payment of benefits. Agents can be very effectively used to make payments to beneficiaries of conditional cash transfer programmes (such as the ‘In Care of the Poor’ (COPE) programme in Nigeria); and for other services such as the sale of insurance products, dispensing food vouchers and increasing the efficiency of agricultural value chain finance by reducing transaction costs and enabling buyers, sellers and financiers to undertake more efficient clearing and settlement.

Agent banking regulation and impact

Country	Total number of agents	Number of agents per 100,000[2]	Type of agents	Exclusivity allowed?	Roles & responsibilities (financial providers vs. agents)	Drivers facilitating agent banking
Colombia	13,296[3]	29	Bank-based: retail outlets (entities or individuals)	Not mentioned in regulations	Bank fully liable for agent's actions and responsible for AML/CFT, customer liability and consumer protection. Agent undertakes CDD. No mention of financial education.	Public institution which lobbies for regulatory change & subsidises agents; flexible regulation; confidence in agents as a result of their experience in agent banking, accumulated since 2006.
Brazil	160,943[4]	84	Bank-based: post offices, lottery outlets, retail outlets (entities or individuals)	Not mentioned in regulations	Bank fully liable for agent's actions and responsible for ensuring agent's compliance with AML/CFT, customer protection. No mention of financial education.	Regulator has refined regulations that are supportive of agent banking regularly over last decade; agents used as CCT payment channel: so volume of transactions is high and makes acting as an agent more profitable and therefore more appealing; means of cost-cutting & growth for banks.
Peru	9,204[5]	50[6]	Bank-based: retail outlets (entities or individuals)	Not mentioned in regulations	Banks fully liable for service delivery, risk management & legal compliance for all agent operations.	Cheapest means of accessing financial services.

[2] Population statistics taken from UN Data (http://data.un.org/Data.aspx?d=POP&f=tableCode%3a1)

[3] As at end of July 2011

[4] As at 2nd May 2011

[5] As at December 2010

[6] Statistic taken directly from Superintendent of Banks, Insurance Companies and Private Pension Fund Administrators (2010)

Kenya	45,449[7]	112.5	Both bank and nonbank-based: For-profit entities only: retail outlets, post offices, telco companies, hotels (entities or sole proprietorships)	Prohibited for bank-based model; not mentioned in regulations for nonbank-based model	Bank fully liable for agent's actions and responsible for ensuring agent's compliance with AML/CFT and risk management. No mention of, financial education.	Lack of restrictive regulatory framework for non bank-based model; open & flexible approach of regulator; key bank keen on down-scaling: provided example to others.
India[8]	58,351	5	Both bank and nonbank-based: post offices, technology firms, retail outlets (entities or individuals)	Bank-based: agent with multiple retail outlets may provide services to multiple banks, but each individual agent outlet may only offer services on behalf of a single bank. Nonbank-based model: not mentioned in regulations	Banks fully liable for agent's actions, customer protection, risk management, CDD & AML/CFT. Agent responsible for financial education.	Gov. commitment; refining regulations; combination of large banking sector + strong mobile phone industry + good technology providers (that can provide innovative ways of facilitating mobile financial services).

[7] As at April 2011

[8] As at March 2011

Permissible agent activities

Country	Cash-in	Cash-out	Processing bill payments	Sending/ disbursing domestic money transfers	Sending/ disbursing foreign money transfers	Conducting CDD prior to opening bank account	Processing account applications	Opening bank accounts	Disbursing credit	Accepting loan repayments
Colombia	●	●	●	●	●	●	●		●	●
Brazil	●	●	●	●	●	●	●		●	●
Peru	●	●	●	●	●					●
Kenya	●	●	●	●	Unclear		●		●	●
India	●	Unclear	●	●	Unclear	●	●	●	●	●

Volume and value of different types of activities

It has been very difficult to find reliable data per type of transaction across all the study countries. Despite extensive searching, this data is not publicly available and would need to be obtained by contacting appropriate people within each Central Bank.[9] The level of effort required to source adequate data in order to draw full cross-country comparisons by type of transaction would go beyond the scope of this assignment. We have, however, collected as much data as we could and present it here in bullet form in order to enable some cross-country comparison:

- In Colombia, from August 2010 to July 2011, collections (of utility bill payments) have made up the majority of transactions (around 1.8 million in July 2011), followed by mandatory payments, such as loan repayments and official government payments, such as tax (over 800,000 in July 2011). There have usually been more withdrawals made than deposits, but the numbers of these two transaction types are consistently close. The numbers of credit applications, money transfers and opening of savings accounts are negligible. In terms of the value of transactions, deposits and withdrawals constitute the two highest transaction types (both were around US$180,000 in July 2011), followed by mandatory payments and collections. Money transfers had the lowest value (consistently averaging around US$20,000 per month);
- In Brazil in 2008, agents transacted 75% of the volume (agents made 1.6 billion transactions) and 70% of the value (agents transacted a total of US$105 billion) of total bill payments (Banco Central, quoted in CGAP, 2010);
- In Brazil, rural agents transact more deposits and withdrawals as a percentage of total transactions (38%) than their urban counterparts (8%) (CGAP-FGV-Planet, quoted in CGAP, 2010);
- In Brazil, although permitted to offer several types of services, less than 30% of agents actually handle bank accounts. Most specialise in receiving bill payments, which account for approximately 75% of all agent transactions (47% of which are utility bill payments). Withdrawals and deposits account for 12.6% and are nearly equally divided into savings and current accounts (including simplified accounts). Only 0.16% of transactions are account opening and 7.3% are government transfers (CGAP, 2010c);
- In Peru, agents carry out approximately 3.8 million transactions per month (45 million transactions in the year);
- In Peru in 2010, less than 50% of the total financial system transactions were conducted through traditional bank branches: ATMs and POS terminals accounted for 36% of total transactions (SBS & CGAP, 2010);
- In India, an average of 8.4 deposits and 3.1 withdrawals were carried out by individual FINO (a technology firm and one of the first pioneers of agent banking in India) agents each day in 2010: with 10,000 agents nationwide we can assume that approximately 84,000 deposits and 31,000 withdrawals are carried out each day. [10] The average deposit size was Rs. 175 (US$3.50) and the average withdrawal size was Rs. 368 (US$7.39) per agent so we can assume that approximately Rs 15 million (US$301,000) worth of deposits and Rs. 11 million (US$221,000) of withdrawals are being processed each day (CGAP, 2010f); and
- In Kenya, MNOs' combined total transactions through mobile payments amounted to Ksh 2.45 billion (US$24 million) per day or Ksh 76 billion (US$75 million) per month (Central Bank of Kenya, 2011).

[9] We have attempted to identify such information on the relevant central bank and other websites and through contacts with agent banking experts at CGAP, but it is largely publicly unavailable.

[10] This number only includes FINO agents. While FINO has the largest agent network, other agent networks are also developing.

Introduction

In the last decade, there has been an explosion of different forms of remote access financial services, i.e., beyond branches. These have been provided through a variety of different channels, including mobile phones, automatic teller machines (ATMs), point-of-sale (POS) devices and banking correspondents. In many countries, these branchless channels have made an important contribution to enhancing financial inclusion by reaching people that traditional, branch-based structures would have been unable to reach. One of the main obstacles to financial inclusion is cost: both the cost to banks involved in servicing low-value accounts and extending physical infrastructure to remote rural areas, and the cost (in money and time) incurred by customers in remote areas to reach bank branches. Agent banking is rapidly evolving and its regulation plays a central role in enabling (or sometimes limiting) its spread. Regulators are required to strike a balance between promoting financial inclusion through profitable, lower cost delivery models, and protecting consumers and the integrity of the financial system.

OPM has been commissioned by Enhancing Financial Innovation & Access (EFInA) to undertake a desk study of agent banking models in five countries (Colombia, Brazil, Peru, India and Kenya) in order to make recommendations on the most effective way to develop an agent banking network in Nigeria.[11] In particular, the study has focused on (i) the regulation; and (ii) the impact; of agent banking in each country.

A variety of terms are used to describe remote access financial services, which should be defined and clarified. For the purposes of this study, these terms as used as follows:

- **'Agent banking'** means the provision of banking services by a third-party agent to customers on behalf of a licensed, prudentially-regulated financial institution, such as a bank or other deposit-taking institution.[12] In this model, the customer has a direct contractual relationship with a bank. This is sometimes referred to as the '**bank-based model**';
- **'Mobile banking'** means the provision of banking services via a mobile phone to bank customers. As the customer has a direct contractual relationship with a bank, mobile banking also falls under the '**bank-based model**';
- **'Mobile payments'** means the provision of financial services via a mobile phone or other technology-enabled delivery mechanism (such as a Point of Sale device), and often using a third-party agent as well. In this model, the customer does not have a direct contractual relationship with a bank; rather, the contractual relationship may be with an MNO or other payment service provider. This is sometimes referred to as the '**nonbank-based model'** or '**e-money model;'**
- **'Mobile financial services'** encompasses both '**mobile banking**' and '**mobile payments**'; and
- **'Remote access financial services'** encompasses both **'agent banking'** and **'mobile financial services'** (as well as other services such as insurance where appropriate).

Although the terms of reference for this study require us specifically to evaluate 'agent banking' models in the different countries, we have also included some analysis of 'mobile banking' and 'mobile payments' models in order to provide a more complete picture of the current status of remote access financial services in each of the study countries.

[11] The OPM team was made up of Robert Stone (project director), Jeremiah Grossman (agent banking expert and regulatory framework analyst) and Janet Hayes (researcher)

[12] Unless otherwise noted, future references in this report to 'banks' shall be deemed to refer to banks or other licensed deposit-taking institutions.

Chapter 1 of the report sets out the analysis of agent banking regulations in each of the five selected countries. In each case, the analysis is divided as follows:

1. Background and implementation of regulations
2. Definition of agent, approval by the regulator & types of entities that can be agents
3. Rules governing exclusivity/ non-exclusivity of agents
4. Permissible activities
5. Roles and responsibilities & minimum standards
6. Typical remuneration structure

Chapter 2 sets out an evaluation of the impact of agent banking, under the headings:

1. Agent activity and typology
2. Facilitating factors
3. Hindering factors
4. Benefits/drawbacks of functioning as an agent
5. Link between agent banking and provision of mobile financial services

Chapter 3 considers, in the light of the review of the five countries, the potential of agent banking in Nigeria, including the level of regulations required and the regulatory model best suited to Nigeria; recommendations on the rolling out of a nationwide agent banking network; and the use of agent banking as a tool for promoting financial inclusion.

1 Analysis of agent banking regulations

1.1 Colombia

1.1.1 Background & implementation of regulations

Since the adoption of the National Development Plan 2006-2010, the Colombian government has shown commitment to increasing financial access and, to this end, has undertaken a number of regulatory reforms. Colombia's financial system is regulated by three institutions: the Financial Superintendence of Colombia (SFC), the Congress and the Ministry of Finance. Recent regulatory reforms include: (i) the creation of a relatively open regulatory framework for financial institutions to use agents; (ii) the use of financial incentives for banks to offer low-value savings accounts; (iii) regulation of electronic and mobile bank accounts; (iv) exemptions from the financial transaction tax imposed on bank customers; and (v) improvements to the regulatory definition of microcredit (CGAP, 2010a). Colombia has relatively widespread bank-based agent banking but has not embarked on the non bank-based model, which is not permitted by the regulations.

In 2006, the government created Banca de las Oportunidades (BDO). This is a long-term policy programme which aims to enhance access to financial services by: (i) promoting regulatory changes; (ii) coordinating financial capability initiatives; and (iii) providing incentives for financial institutions to meet the unmet demand for banking services. BDO has been instrumental in several recent regulatory changes, including the creation of agents, called 'non-bank correspondents' (NBCs), and low-value savings accounts. These accounts feature (i) simplified Know-Your-Customer (KYC) requirements as the SFC considers these accounts low-risk in terms of money laundering and terrorist financing (customers need only present their official identification card at a bank branch or agent in order to open an account: for other accounts they would need to complete an application form and have an interview with a bank employee); (ii) fee exemption on a specified number of monthly transactions; and (iii) exemption from directed lending provisions.[13] BDO also pushed for exemption from the financial transaction tax (0.4%) for monthly debits of up to US$3,500 from all types of savings accounts (including electronic and mobile accounts). . Finally, BDO successfully lobbied for a change in the regulatory definition of microcredit to make this market more attractive to banks (CGAP, 2010a). [14] The regulations were adjusted in 2006 and had an effect on microcredit interest rates from January 2007, when the annual effective interest rate for microcredit was set at 21.39% (compared to 13.83% for commercial and consumer credit). It has since gradually risen to 33.45% (compared to 19.39% for commercial and consumer credit) in September 2011.[15]

The key regulation for agent banking in Colombia is Decree 2233 of 2006 on Use of Banking Correspondents. This was amended in 2009 (Decree 1121 of 2009) and the regulations were consolidated under Unified Decree 2255 of 2010 (as modified by Decree 4802 of 2010). A circular relevant to agent banking was also issued in 2011 (Chapter 15 of the Basic Legal Circular, added by External Circular 026 of June 30, 2011). Decree 2233 created NBCs. It was felt that by not allowing NBCs to open accounts for customers, thereby forcing them to travel to a branch to open an account, the 2006 regulation was restricting access to finance. Therefore, Decree 1121

[13] These are compulsory investments in loans for certain sectors: these are imposed on approximately 10% of demand deposit balances of banks (BRC external circular 03/2000; quoted in CGAP, 2010a)

[14] Under the previous definition, many microcredit operations were classified as commercial loans in bank books and were therefore subject to lower interest rate ceilings. The new definition should increase the interest rate ceiling, making microcredit a more profitable option for banks (CGAP, 2010a)

[15] Data taken from www.superfinanciera.gov.co/Cifras/informacion/mensual/interes.xls.

modified Decree 2233, allowing NBCs to perform the mandatory interview that financial institutions must conduct to comply with KYC requirements. The 2009 modification also allowed NBCs to send information regarding transactions not only in a printed document, but also by other means, such as a mobile phone text message. Decree 1119 of 2008 also allowed for the creation of low-value savings accounts (IDLO, 2010).

The regulations do not yet permit the delivery of financial services through mobile phones. Mobile phone penetration in Colombia is very high, with around 92% of the population having a mobile phone subscription.[16] Three mobile network operators (MNOs) cover around 90% of the country and all municipalities. Both SFC and the Telecommunications Regulatory Commission (CRT) have shown interest in the delivery of financial services through mobile phones, as long as the delivery ensures customer data security and can be scrutinised by the respective regulator (CGAP, 2010a). It is, therefore, likely that mobile financial services will emerge in Colombia in the near future.

1.1.2 Definition of agent, approval by the regulator & types of entities that can be agents

In Colombia, agents are called 'non-bank correspondents'. These are commercial businesses that can provide financial services on behalf of formal financial institutions.

Any type of legal entity or individual can become an agent, but individuals must conduct some business activity in a fixed establishment. Agents must be approved by the regulator, the SFC, which reserves the right to establish conditions. The principal institution must send model agent contracts to the SFC for approval: it is, however, unclear whether this is required for all subsequent agents or only for the initial contract and any modifications (Unified Decree 2555 of 2010, Title 6, Art. 2.1.6.1.7, as amended through Decree 4802 of 2010). The principal financial institution is required to assess an agent's moral integrity, physical and technical infrastructure and human resources (Unified Decree 2555, Title 6, Art. 2.1.6.1.5, 2010).

1.1.3 Rules governing exclusivity/non-exclusivity of agents

Although not specifically mentioned in the regulations, exclusivity arrangements exist in practice in Colombia (CGAP, 2011a).

1.1.4 Permissible activities

Agents are permitted to provide most banking services, including bill payments, transfers, deposits and withdrawals, disbursement and repayment of loans, receiving and forwarding account opening and loan applications for approval by the bank, and national wires (CGAP, 2010a). Specifically, agents can carry out the following (Unified Decree 2555, Title 6, Art. 2.1.6.1.2, 2010), (Superintendencia Financiera de Colombia, 2011):

- Collection, payment, and transfer of funds;
- Sending or receiving funds denominated in Colombian legal tender within the country (domestically);
- Receiving or providing funds denominated in Colombia legal tender for the purpose of foreign exchange transactions;
- Deposits and cash withdrawals from current accounts, savings accounts, and time deposits, as well as transfers involving such accounts;

[16] International Telecommunication Union, ICT Statistics 2010 (2008 estimate): quoted in CGAP, 2010a

- Balance inquiries;
- Issuing of account statements;
- Loan disbursements and repayments;
- Conducting the necessary Customer Due Diligence (CDD) prior to opening a bank account;
- Processing bank account applications without requiring the customer to go to a bank branch;
- Promoting and advertising available services on behalf of the principal financial institution;
- Promotion/management of the operations of other entities under the principal financial institution's control, as well as users of the principal institution's network of offices;
- Collection and delivery of documentation and information related to opening of accounts, credit applications, and other services; and
- Delivery of cards and other payment instruments.

1.1.5 Roles and responsibilities & minimum standards[17]

In Colombia, the principal financial institution is held completely liable for the agent's actions and is directly and fully responsible to the customer (Unified Decree 2555 of 2010, Art. 2.1.6.1.1, Art. 2.1.6.1.3, and Art. 2.1.6.1.4; Chapter 15 of the Basic Legal Circular, Art. 2.1.2, added by External Circular 026 of June 30, 2011). Every agency contract must contain reference to the financial institution's full liability with respect to customers, and it must also specify the obligations of both the financial institution and the agent (Unified Decree 2555 of 2010, Art. 2.1.6.1.3). The principal is allowed to use a third party (e.g. a network manager) to manage its agent network.

The principal institution must set up adequate internal controls to monitor its agents/network managers. The principal must keep all documentation related to agent activities, and SFC reserves the right to inspect agents. Every agency contract must include a description of risk mitigation measures (anti-money laundering and combating the financing of terrorism (AML/CFT), transactional limits, financial settlement, and insurance). All agent transactions must be authorised online via dedicated terminals. Agents are not allowed to: operate if communication with the principal fails; grant loans without the prior authorisation of the principal; charge any extra fees; offer guarantees to bank clients; or offer any financial services without an agency contract with a financial institution. The customer must be given an automatically generated receipt for each transaction which contains the name of the bank. Lead banks must design their marketing and visual publicity for agents so that it is clear to the customer that the service is being provided on behalf of a licensed financial institution. The bank must also install mechanisms to receive customer complaints against agents.

SFC has regulatory and supervisory authority over financial entities regarding AML/CFT, including payment service providers. All licensed financial institutions are required by law to implement AML/CFT systems known as SARLAFT (Sistema de Administración del Riesgo de Lavado de Activos y de la Financiación del Terrorismo). These require all financial institutions to report certain large transactions to the Financial Intelligence Unit (FIU). If account opening is undertaken by an agent, the bank must outline the reasons for exception in its AML/CFT policy and implement more rigorous ex-post monitoring. SFC classifies different levels of risk for AML/CFT in different regions: in high-risk regions, the interview can only be carried out by a bank employee. In 2009, a modification was made to the SFC Basic Banking Circular to simplify AML/CFT procedures for low-value electronic accounts and mobile accounts opened via agents. For these accounts, customers are neither required to complete an application form nor have an interview with a bank employee.

[17] Much of the material in this sub-section is drawn from CGAP (2010a)

Agents must meet certain minimum standards with respect to moral fitness, physical and technical infrastructure, and human resource capacity. Principal financial institutions must provide agents with proper training and all necessary operating manuals, and must supplement such training and manuals as needed. Principal institutions are also encouraged to provide support to agents during the initial stages of the agent being in operation. In addition, agent contracts must describe measures to be taken to mitigate risks associated with the provision of financial services by agents (Unified Decree 2555 of 2010, Title 6, Art. 2.1.6.1.3; Chapter 15 of the Basic Legal Circular, Art. 2.2-2.3, added by External Circular 026 of June 30, 2011).

1.1.6 Typical remuneration structure

The regulations state that remuneration is determined contractually between the principal institution and agent. Agents are not permitted to charge extra fees to their clients for financial services provided (Unified Decree 2555 of 2010, Title 6, Art. 2.1.6.1.3, as amended through December 31, 2010). However, in order to try to increase the number of agents, particularly in municipalities with no bank branch, BDO offers businesses an incentive to become agents: a guaranteed commission based on a minimum level of transactions. This incentive decreases by 50% in the 2nd year and disappears by the 3rd year, with the expectation that the agent business would have become sustainable by this point (CGAP, 2011).

Despite extensive research and questioning of various stakeholders, including a key contact at the BDO, it has been impossible to establish the typical remuneration structure of banking agents in Colombia. The only information the BDO could provide was that normally banks pay banking agents per transaction, but the specific details are confidential between the bank and its agent.

1.2 Brazil

1.2.1 Background & implementation of regulations

The government's policy for financial inclusion has two main delivery mechanisms: microfinance and retail agents. Regulations related to agent banking in Brazil were originally developed in 1979, but agent banking did not really take off until 1999-2000, when the Central Bank of Brazil's (CBB) regulations were relaxed to allow a wider variety of services to be offered by agents, notably receiving account opening applications, performing deposits and withdrawals, and effecting bill payments. These adjustments prompted Caixa Econômica Federal to partner with more than 9,000 lottery outlets to offer agent banking: this became the first large-scale retail agent scheme in Brazil. In 2000, further regulatory changes allowed banks to use agents in locations without bank branches. Caixa Econômica Federal was quick to cover all municipalities in the country, signing up other types of retail agents beyond lottery outlets. By the end of 2000, the total number of agents had reached 64,000. In 2003, new regulations were issued which permitted any financial institution to hire any type of agent. The regulations were revised in 2008 and 2011 and there are now over 160,000 agents (see section 2.2.1).

Electronic branchless banking channels are widely used in Brazil. Over 90% of the total non-cash bank retail payment transactions in 2008 were processed via electronic channels, with increased use of cards to make payments. The numbers of ATMs and POS devices per 100,000 inhabitants (40.5 and 1,667, respectively) are much higher than in other Latin American countries, but the number of POS devices relative to the total population is still below the average in industrialised economies. The CBB has made slow progress, using persuasion rather than regulation, in pushing for interoperability of POS devices and ATM networks to increase coverage. A hindrance to the growth of the POS network is thought to be non-competitive pricing. The CBB has, therefore, led a joint study with the competition authorities to investigate pricing practices in the card industry. The report was published in March 2009 but does not recommend any specific regulatory action. The dominance of large banks and the inefficiency created by the lack of interoperability in POS devices and ATMs have driven small and medium banks to create an independent automated clearinghouse for low-value electronic transactions, including mobile banking (CGAP, 2010c).

All of the main banks provide mobile banking, yet interoperability is hindered by disagreements between banks and MNOs regarding both technology and profit-sharing. Going forward, there are three options regarding the use of technology: (i) MNOs using a common platform; (ii) banks having to purchase and install different platforms for different MNOs; and (iii) banks having to use third-party switch services. The profit-sharing discussion revolves around whether an MNO will receive anything beyond the charge for telecommunications services. Banks and MNOs, without CBB involvement, are currently discussing interoperability in mobile banking. CBB has had talks with the National Agency of Telecommunications (Anatel) about the entrance of MNOs into mobile payments but there is a lack of coordination on this subject among the various departments of CBB or between CBB and Anatel. In 2006, Anatel conducted research that analysed mobile payments models in other countries. Its conclusions for Brazil were: (i) there are no technological barriers for micropayments and airtime transfers between users; (ii) these services are highly desirable in terms of social impact; and (iii) the lack of interoperability of mobile phone services poses challenges in the long run (CGAP, 2010c).

Nonbank-based agent banking is only in its incipient stage in Brazil due to a lack of regulatory clarity regarding the permissibility of a nonbank-based model. Mobile payment mechanisms are, however, starting to emerge. For further details see section 2.2.5.

1.2.2 Definition of agent, approval by the regulator & types of entities that can be agents

There is no specific definition of an agent provided in the regulations or in other materials we have reviewed. The following types of entities can act as agents: companies, entrepreneurs, and associations; providers of notary and registration services; and state-owned companies (Resolution 3,954, 2011).

In the past, prior approval by the regulator was required for agents that were to conduct certain transactions, including bank account opening. Today, however, no such requirement exists, except in the following cases: (i) if a potential agent is not a member of the National Financial System (SFN), yet its name suggests that it might be a regulated financial institution; or (ii) if the principal financial services provider proves unable to ensure that agents comply with all requirements (Resolution 3,954, Art. 5, 2011). All agents must be registered on CBB's online system (CGAP, 2010c).

1.2.3 Rules governing exclusivity/non-exclusivity of agents

Although not specifically mentioned in the regulations, exclusivity arrangements exist in practice between banks and agents. The large banks (such as Banco do Brasil, Caixa Econômica Federal and Bradesco) sign exclusivity agreements with their agents and agent managers. Agent managers also appear to be happy to deal with one, albeit large, bank. Banco do Brasil has relationships with more than 50 agent companies and those companies are apparently happy to work with just one bank. These banks, however, share infrastructure, have agreed to share their ATM networks and have created a shared card brand (Elo) so it is possible that they may start to share agents too in future. The small and medium banks, like Banco Cacique and Banco BMG, which often do not have bank branches and specialise in offering payroll-consigned loans, have started to share agents. The 2011 regulations (resolution 3,954, 2011) have recently restricted tiering for these types of agents — banks can now only outsource one level — but that should not stop banks sharing agents (it should decrease however, the actual number of agents). The regulations have also prohibited banks from branding transactional agents, thus removing any physical signs of exclusivity. Transactional agents, while exclusively branded and contracted with one bank can handle transactions for multiple banks. But apart from these arrangements, there has been no interest or movement from banks, agent companies or retailers to have co-branded agents (CGAP, 2011b).

1.2.4 Permissible activities

Payments, transfers and deposits are made in real time using POS devices and bank cards. Agents are used to distribute welfare payments and other public services, and services such as pre-approved credit lines, simplified current accounts, and international remittances (AFI, 2011). Specifically, agents can carry out the following activities (Resolution 3,954, Art. 8-9, 2011):

- Receiving, reviewing and forwarding applications to open bank accounts;
- Acceptance of funds;
- Payments and money transfers;
- Effecting payment orders;
- Receiving and forwarding applications for loans, leases, or credit cards;
- Receiving funds and paying out drafts;
- Loan collection;
- Receiving and forwarding credit cards;
- Preliminary credit analysis;
- Prepaid mobile phone top-ups; and
- Certain foreign exchange activities, with a maximum of US$3,000 per transaction (depending upon the type of agent, these may include purchase/sale of foreign exchange, cross-border money transfer, and receiving and forwarding proposals for foreign exchange operations).

In particular, the regulations prohibit agents that provide agent banking services as their sole or primary activity from providing a number of important agent banking services, such as receiving and forwarding applications to open bank accounts; receiving funds and/or facilitating transfers or payments that are connected to a bank account; and processing payment orders and drafts on behalf of the principal banking institution (Resolution 3,954, 2011).

1.2.5 Roles and responsibilities & minimum standards

The principal credit institution is completely responsible and liable for the activities of the agent (Resolution 3,954, Art. 2, 2011). The principal institution must control its agents' activities by setting transaction limits and putting in place mechanisms to block transactions remotely where needed. An agent must post a notice in its establishment indicating that it acts on behalf of the bank. The principal institution is responsible for ensuring the agents' legal and regulatory compliance, including AML/CFT, customer protection and data privacy (CGAP, 2010c).

Agent networks can be managed directly by the bank or outsourced to a third party (e.g. a network manager). The CBB considers network managers to be agents. Network managers provide a wide range of services and often communicate directly with the bank on behalf of the agents in their network. Network managers often provide training related to AML/CFT, maintenance of POS, software development, cash handling, and marketing (CGAP, 2010c).

Specific minimum standards that agents must meet are not detailed in the regulation. However, the regulation states that the principal institution is responsible for ensuring the 'integrity, reliability, safety, and secrecy' of transactions conducted by agents (Resolution 3,954, Art. 2, 2011).

In general, the CBB considers agent banking to be low risk. Although it has unrestricted access to all information and documents related to agents and sub-agents it only collects information from the main agent networks on an *ad hoc* basis. CBB focuses on the bank's internal controls, information technology infrastructure, and policies and procedures for hiring and managing agents. Through its supervision of agent banking, the CBB has identified some breaches by agents of consumer protection rules: examples include charging extra fees or not disclosing fees; not disclosing their agent status; advancing cash to clients and guaranteeing loans; selling clients' information to third parties; and committing fraud. In all cases identified so far, the banks have assumed responsibility for the wrongdoings of their agents. Although CBB does not consider these problems to be widespread, it has tightened requirements related to agent operations on banks' internal controls and has issued additional consumer protection rules, such as requiring agents to display the bank ombudsman's and the bank's customer care representative's contact details on its signage. Agents must also display signage indicating that they are service providers for the bank and must make available details of the fees charged for their services. Other risk management measures include the stipulation that financial settlement between the bank and the agent must occur at least every two business days and that agents cannot guarantee transactions or give cash advances to clients (CGAP, 2010c).

1.2.6 Typical remuneration structure

According to the regulations, agents are not permitted to charge fees for providing financial services. Agents can negotiate commissions with the principal bank: most agents only make around US$5 profit per day, but the post office bank, Banco Postal, has negotiated more attractive commissions from Bradesco, so its agents make around US$122 profit per day.[18] In contrast, agents for Banco do Brazil typically make around US$0.39 per day (see table). However, agents are predominantly incentivised by an increase in foot traffic: 73% of agents say that banking correspondent business has increased foot traffic, with an average increase of 37% (CGAP, 2010b).

Table 1.1 Examples of remuneration of Brazilian agents

Provider	Transactions per day for agent	Agent revenue per transaction (USD)	Cost per day for agent (USD)	Agent profit per day (USD)
Banco do Brasil – Telecom Svcs	63	0.09	5.28	0.39
Banco Postal	200	0.97	72.4	121.6

Source: CGAP Agent Management Toolkit, Table 2 (2011)

1.3 Peru

1.3.1 Background & implementation of regulations

Agent banking regulations in Peru were first developed in 2005 (Circular No. B 2147, 2005) and then superseded by a new resolution in 2008 (Resolution SBS Nº 775, 2008). In 2011 this has again been amended (SBS 2108, 2011). The regulator is Superintendencia de Banca, Seguros y

[18] Banco Postal agents comprise 13% of the total of deposit-handling agents (CGAP, 2010b)

AFP[19] (SBS). SBS recognises financial access as a policy priority and has therefore aimed to improve the regulatory and supervisory framework through these amendments. Currently no nonbank-based agent banking is taking place in Peru (SBS & CGAP, 2010).

There are several other branchless banking channels found in Peru. Some banks have been offering services through mini branches inside retail establishments. The mini branches are usually no more than a counter staffed by bank employees, an ATM, or an internet kiosk, and their main purpose is to acquire new credit card customers. Some banks also use temporary and mobile branches and consider these the main way to reach the rural poor. Another type of channel that is staffed by bank employees is the shared locale, where two or more licensed financial institutions share the same facility and information systems, thereby pooling costs (SBS & CGAP, 2010).

The ATM market is relatively fragmented in Peru. There are 12 ATM networks managed by different companies or banks, with a total of 3,541 ATMs. The ATM networks are not fully interoperable, although Visa and MasterCard are accepted in most ATMs. Most bank account holders have a debit card and are familiar with card transactions. The POS network in Peru is not widespread, particularly outside major cities and in smaller commercial establishments (SBS & CGAP, 2010).

There is very limited mobile banking in Peru. Some banks provide access to internet banking through mobile phones for pre-existing customers, but this usually targets high-end clients, since the current technological platform being used by banks requires the more expensive sophisticated handsets. Under current regulations, mobile phones cannot be used as a channel for account opening, as remote account opening is not allowed (SBS & CGAP, 2010).

1.3.2 Definition of agent, approval by the regulator & types of entities that can be agents

Agents are known as 'cajeros corresponsales' and can be legal entities or individuals that offer certain permitted services under an agreement with and on behalf of a licensed financial institution. They can be operating on their own premises or the premises of a third party that are outside the financial system. This means that a financial institution may not act as an agent of another financial institution. The regulation does not impose any significant constraints on the type of agents financial institutions may choose, only requiring that agents do not have any delinquent or non-performing loans and have access to the necessary physical and human resources (Resolution S.B.S. Nº 775, section 3, 2008). Agents are usually staffed by the retailer's employees, but the regulations do permit outsourcing of staffing. Some banks hire cash-handling companies to supply staff and handle cash for some of their agents. Sometimes a bank employee is placed with an agent to open accounts on behalf of the bank (SBS & CGAP, 2010).

The principal institution must obtain initial authorisation from the regulator to use agents. Once this authorisation has been granted, prior approval for all subsequent agents is not required (Resolution S.B.S. Nº 775, section 6.2, 2008).

1.3.3 Rules governing exclusivity/non-exclusivity of agents

The regulations do not include any reference to agent exclusivity.

[19] Superintendent of Banks, Insurance Companies and Private Pension Fund Administrators

1.3.4 Permissible activities

Agents are permitted to provide the following financial services on behalf of a licensed financial institution (Resolution S.B.S. Nº 775, Annex C, Section I.3, 2008):

- Loan collection;
- Withdrawal of funds;
- Transfer of funds;
- Cash deposits (into a customer's account or that of a third party);
- Opening and closing of 'basic accounts' (low-value accounts subject to strict transaction and maximum balance limits);
- Provision of information about account opening and how to obtain loans (but applying for such services through an agent is not permitted);
- Payment for good and services;
- General collections; and
- Other permitted financial services, with the approval of the regulator.

Current regulation does not allow agents to open bank accounts (except 'basic accounts') or offer new loans. This restriction is due to consumer protection and AML concerns, but may be the reasons for the relatively low volume of transactions made through banking agents in Peru. It also means that agents are not playing the role that they could be in terms of improving access to finance, as they are primarily only serving those who are already 'banked' (SBS & CGAP, 2010).

1.3.5 Roles and responsibilities & minimum standards

The principal institution is fully responsible – both to customers and to the regulator – for service delivery, risk management, and legal compliance, of all operations conducted through agents (Resolution S.B.S. Nº 775, Annex C, Section I.8, 2008).

The regulations are clear on the roles and responsibilities of the principal and the agents. They state that the principal institution must provide agents with adequate training on customer identification, customer service, confidentiality, and data privacy. Principals are also required to provide agents with operating manuals that aim to help them offer high quality and prompt service. These manuals must include limits for clients and transactions i.e. size and frequency of transactions, (Resolution S.B.S. Nº 775, Annex C, Section I.4-6, 2008). These limits should be consistent with the cash movements of the agent and risk factors identified for each agent, such as location and incidence of robberies. The principal's systems should be set up to immediately block transactions that are above the limits set. This should help to reduce the accumulation of cash at the agent's premises and therefore lessen the risk of robbery. Furthermore, agent operations must adhere to the same accounting rules as any other banking transaction. Ideally, accounting settlement is in real time, to protect the customer's funds and avoid excessive operational risk in the financial institution. Although not explicitly written in the regulation, bank secrecy and privacy rules apply to all bank transactions, regardless of the channel through which the transactions were conducted (SBS & CGAP, 2010).

The regulations require agents to display signs indicating that there are service providers for a financial institution and detailing the services that they provide. In practice, agents in Peru are usually identified by a sub-brand created by the financial institution, which does not necessarily include the word 'agent' or 'cajero corresponsale' as required by the regulation. Agents are usually provided with printed material containing small print and standardised information by the bank. The regulations do not require agents to provide details to their clients about customer complaint procedures (SBS & CGAP, 2010).

1.3.6 Typical remuneration structure

The regulations do not make provisions for the pricing of agent transactions. However, competition and the need to attract customers to use agents for low-value transactions mean that most banks avoid charging an additional fee for customers to use agents, and agents do not charge customers for the provision of financial services. Therefore, transacting in a bank branch costs either the same as or more than using an agent (SBS & CGAP, 2010).

Agents in Peru agents can typically earn around US$45 to US$200 per month in commissions and report that acting as an agent also results in increased footfall. 70% of Banco de Credito (BCP) agents claim to have increased their sales by around 12% due to the increased foot traffic generated from their work as an agent (CGAP, 2007).

1.4 Kenya

1.4.1 Background & implementation of regulations

The Central Bank of Kenya (CBK) recognises the financial inclusion challenges which the country faces. These include the cost of financial services[20] and the distance to bank branches in remote areas. Part of their approach to addressing these challenges is to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010a).

In contrast to the South American countries studied, Kenya has experience with both bank-based and nonbank-based agent banking models. With respect to the bank-based model, Parliament gave approval for banking legislation to be amended to enable the use of agents in June 2009, and the regulations for agent banking were published by the CBK in May 2010 (Guideline on Agent Banking - CBK/PG/15, 2010). Prior to the 2010 Guidelines on Agent Banking, the Banking Act did not address the issue of banks using agents to deliver financial services, so the CBK approved such arrangements on a case-by-case basis. Other relevant regulations which have enabled branchless banking are (i) a 2008 regulation allowing microfinance deposit-taking institutions to use agents; (ii) a 2009 amendment to the Banking Act that allows banks to appoint agents to take deposits and perform other activities; and (iii) a 2009 AML/CFT bill which applies to both bank and non-bank institutions (CGAP, 2010d). The draft regulations for the Provision of Electronic Retail Transfers were launched by the CBK in February 2011. These will provide a full legal framework for nonbank-based models when they are enacted.

In order to speed up the development of the agent banking regulatory framework, the CBK made use of a knowledge exchange programme supported by the Alliance for Financial Inclusion (AFI). In October 2009, six representatives from the CBK, Kenya Bankers Association, and the Ministry of Finance visited Brazil and Colombia, as these countries were identified as 'champions' of agent banking. The particular learning points gained from this knowledge exchange and subsequently applied to the agent banking guidelines were:

[20] Banking is relatively expensive in Kenya: a 2007 survey of barriers to banking, using data from 62 countries, indicates that minimum balances required by Kenyan banks are quite high, equaling 44% of GDP per capita, compared with an average of 8%. Annual fees in Kenya are also high at 2% of GDP per capita compared to an average of 0.38% (Beck, 2007)

- The importance of a risk-based approach to the supervision and regulation of agents: in Brazil and Colombia, the banks are responsible for managing the risks associated with using agents;
- The need to focus on the demand side: both countries ensure consumer protection and financial education of customers;
- The importance of public-private partnerships: the need to involve key stakeholders in the development of an agent banking model;
- The importance of prioritising and co-ordinating the national financial inclusion agenda; and
- The need to discourage uncompetitive behaviour by banks, for example by promoting interoperability and non-exclusivity of agents.

The CBK also had a chance to share information on the development of mobile financial services in Kenya with the BDO and SFC (Colombia) and the CBB (Brazil) and have established an on-going engagement with all three institutions (Central Bank of Kenya, 2010a).

The Microfinance (Deposit-Taking Microfinance Institutions) Regulations of 2008 govern the use of agents by deposit-taking MFIs. The related guidelines state that deposit-taking microfinance institutions (MFIs) can engage agents to provide microfinance services as long as they have prior written approval from the CBK. These applications must provide the reasons for opening the agency, a copy of the agency agreement, and security features of the location (The Microfinance (Deposit-Taking Microfinance Institutions) Regulations, 2008). Credit-only MFIs are not covered by the Microfinance Regulations of 2008. Therefore, responsibility for regulating these institutions falls to the Ministry of Finance, and the ability of these MFIs to use agents depends on the common law of agency. There are no specific restrictions under applicable Kenyan law regarding other financial institutions' use of agents (CGAP, 2010d).

The main payment service providers in Kenya, apart from MNOs, which we explore further below, are banks and other licensed financial institutions. Many banks have their own ATM switch and there are also two ATM networks, Kenswitch and PesaPoint.

The National Payments System Bill 2011 is about to be launched in Kenya.[21] This should improve the mobile payment system for consumers, as operators will be made more accountable and subject to clear regulation. Also, if a mobile payment service is declared insolvent, the new legislation will ensure that individual customers do not lose their funds. Additionally, the cost of factors such as risk management and recruitment will be met by service and network providers (Making Finance Work for Africa, 2011a).

In terms of branchless banking, Kenya is probably best known for its M-PESA mobile phone-based payment service. M-PESA was launched in March 2007 by Safaricom, a joint venture of the Kenyan government and Vodafone. This service started before there was any legislation related to agent banking, mobile payments, payment systems, consumer protection, or AML/CFT. However, before M-PESA's launch, the Ministry of Information and Communications, the Ministry of Finance, and the CBK met to discuss the legal and policy implications of the M-PESA model. This demonstrated (i) the need for coordination between policy makers to ensure that regulations do not restrict innovation and growth; and (ii) that regulators need to maintain sufficient oversight to ensure the safe and healthy development of branchless banking. CBK did not formally approve M-PESA but sent a private letter to Safaricom stating that M-PESA would be subject to the National Payment Systems Bill once it became law and that they should establish a full audit trail for all transactions and adhere to the draft AML bill. Three other MNOs have since been approved by the regulator to offer mobile payments services (CGAP, 2010d).

[21] This bill was gazetted on 2 September 2011, according to the Central Bank of Kenya's website

The 2010 agent banking guidelines allowed banks to start working in partnership with nonbank-based models. In March 2010, Safaricom and Equity Bank launched a full savings account. This is issued by Equity Bank but marketed as an ‘M-PESA Equity account’ called M-KESHO. Like M-PESA accounts, M-KESHO accounts have no account opening fees, minimum balances or monthly charges. But unlike M-PESA accounts, M-KESHO accounts pay interest, do not have a limit on account balances, and are linked to limited emergency credit and insurance facilities. And unlike its regular Equity account holders who can only transact at the bank’s 140 branches, Equity’s M-KESHO customers can transact at any of the 28,000 retail outlets that accept M-PESA. M-KESHO is fully integrated into the M-PESA user interface on customers’ mobile phone, and is also accessible through Equity Bank’s mobile phone banking service. Customers can deposit and withdraw money from their M-KESHO account by transferring value to/from their M-PESA account, which they can in turn cash into or cash out from at any M-PESA outlet. Deposits into M-KESHO are free but a small fee is payable for withdrawals. By the end of 2010, 600,000 M-KESHO accounts had been opened but there are some indications of friction between Safaricom and Equity bank about the operation and financial structure of the facility: the final outcome of this collaboration has yet to be determined.

Safaricom is also connecting M-PESA with the accounts of other banks, enabling customers to cash in/out of their bank accounts through M-PESA. Other MNO/bank partnerships are also emerging. Standard Chartered, Airtel Africa and MasterCard have recently launched a virtual shopping card into the Kenyan market, which they intend to spread throughout Africa. This card will enable users to access a range of banking services through their mobile phones. Airtel clients will be able to purchase online goods from a wide range of MasterCard merchants after requesting a single-use card with the amount of their purchase. When the transaction has been completed, the user will receive a confirmation SMS. This new payment system is compatible with all mobile phones and any operating system (Making Finance Work for Africa, 2011).

1.4.2 Definition of agent, approval by the regulator & types of entities that can be agents

The CBK defines an agent as ‘an entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution’ (Guideline on Agent Banking - CBK/PG/15, 2010). The types of entities which can act as agents are:

- Limited liability partnerships;
- Sole proprietorships;
- Partnerships;
- Societies;
- Cooperative societies;
- State corporations;
- Trusts;
- Public entities; and
- Any other entity which the CBK may prescribe.

Faith-based organisations, not-for-profit organisations, non-governmental organisations (NGOs), educational institutions, and forex bureaus cannot be agents. Individuals are not expressly permitted to be agents but are often approved as informal sole proprietorships. An agent must have had well-established business activity for at least 18 months and not been 'classified as a deficient, doubtful, or non-performing borrower by an institution in the last 18 months'. The principal institution must assess the moral, business, and professional suitability of agent (Guideline on Agent Banking - CBK/PG/15, 2010).

After receiving general approval from the CBK to implement agent banking, banks must apply for approval of each agent. They are required to submit the following information: names, locations, and contact information; description of agents' business activity over the previous 18 months; any variations to the terms of standard contract; the services to be provided by each agent, and transaction/balance limits; and the CEO's declaration of agent suitability (Guideline on Agent Banking - CBK/PG/15, 2010).

1.4.3 Rules governing exclusivity/non-exclusivity of agents

The regulations state that contracts between an agent and the principal institution cannot be exclusive. Agents can provide services for multiple institutions as long as they: (i) have contracts with each; and (ii) the agent has the capacity to manage transactions for each institution (Guideline on Agent Banking - CBK/PG/15, 2010).

1.4.4 Permissible activities

An agent is allowed to carry out the following activities on behalf of the principal institution (Guideline on Agent Banking - CBK/PG/15, 2010):

- Cash deposit and cash withdrawal;
- Cash disbursement and cash repayment of loans;
- Cash payment of bills;
- Cash payment of retirement and social benefits;
- Cash payment of salaries;
- Transfer of funds;
- Balance enquiries;
- Generation and issuance of mini bank statements;
- Collection of documents in relation to account opening, loan application, credit and debit card application;
- Credit and debit card collection;
- Agent mobile banking services;
- Cheque book request and collection; and
- Any other activity prescribed by CBK.

Agents are not allowed to open accounts, grant loans, or appraise account or loan applications. Nor are they permitted to carry out customer due diligence (CDD). The principal institution is responsible for deciding on a case-by-case basis, based on a risk assessment of the agent, which of the services listed above a particular agent should provide (Guideline on Agent Banking - CBK/PG/15, 2010).

1.4.5 Roles and responsibilities & minimum standards

The principal institution is held completely liable for all actions and omissions of agents when providing financial services on their behalf. The principal must also maintain an effective system of internal control and oversight of the agent’s functions. Furthermore, it must make sure it has proper controls in place to safeguard information, communication and technology systems. The principal must carry out risk-based reviews of critical agent banking processes to make sure the agent is following the policies, rules, regulations, and operational guidelines. The principal must also provide agents with operational manuals and risk management policy documents (Guideline on Agent Banking - CBK/PG/15, 2010).

The principal institution must ensure that sound AML/CFT monitoring processes are in place for agent banking and must train agents on AML/CFT compliance. As agents of a financial institution, agents are indirectly subject to AML/CFT law. Agents are required to use two-factor authentication (such as IDs, PINs, passwords and ATM cards) with customers if performing a transaction which requires identification. They must also report any suspicious activities to the principal institution within 24 hours and adhere to transactional limits prescribed by the principal institution (Guideline on Agent Banking - CBK/PG/15, 2010).

The regulations stipulate certain minimum standards which the agent and principal institution must meet. Agents must possess 'appropriate' physical infrastructure and human resources and meet certain moral, professional, and business suitability requirements. Agent banking systems must meet data and network security concerns, and banks must meet certain technical criteria for the electronic operating systems used at agents. The respective roles and responsibilities of the agent and principal must be communicated to the customer. The costs of services must be clearly described, and customers must be provided with information on how to resolve problems and file complaints. There are strict limitations on the size/frequency of transactions by an agent and a maximum daily balance that may be held by an agent (Guideline on Agent Banking - CBK/PG/15, 2010).

The contract between the agent and the principal institution must include certain information regarding risk management and consumer protection. This required information includes: measures taken to mitigate risks associated with agent banking services (including limits, customer transactions, cash management, cash security, security of agent premises, and insurance policies); AML/CFT requirements; confidentiality of customer information; and data management by the agent. Banks must also engage in risk management, addressing a variety of issues touching on credit risk, operational risk, liquidity risk, legal risk, AML/CFT risk, and reputation risk. Furthermore, appropriate consumer protection systems (against risks of fraud, loss of privacy or loss of service) must be in place. These include the issuance of receipts for all transactions undertaken by agents, channels for customer complaints, and clear signage indicating that the agent is providing services on behalf of a particular institution (Guideline on Agent Banking - CBK/PG/15, 2010).

1.4.6 Typical remuneration structure

Agents are not permitted to charge any fees directly to customers, and details of remuneration for the agent must be specified in the contract between the agent and the principal institution (Guideline on Agent Banking - CBK/PG/15, 2010). As the bank-based agent model is quite new in Kenya, available information on typical remuneration practices is limited. However, most agents receive tiered commissions from the principal depending on the amount of the transaction made by the customer.

Equity Bank is using agents to make cash transfer payments in rural areas of northern Kenya (for further details see section 2.4.1). These agents receive a commission from the bank but also gain additional business from the beneficiaries who often buy goods from their shops (CGAP, 2011c).

M-PESA agents are generally making healthy profits. An M-PESA agent gets KSh 40 ($US0.50) when a customer signs up and another KSh 40 when the customer makes the first cash deposit. From then on agents receive a commission for each M-PESA transaction they handle. A CGAP study in 2009 found that being an M-PESA agent is, on average, 3.2 times more profitable (US$5.01/day) than selling airtime (US$1.55/day). Also, particularly in rural areas, M-PESA brings cash into the village, where it is spent locally, often in the agent's shop. However, there are high costs (for liquidity management and the cost of capital) involved in being an M-PESA agent. Their profitability is mainly due to a high volume of transactions (the agents studied did an average of 86 transactions per day) and would be unlikely to be attractive if the number of transactions was lower than around 30 per day. Furthermore, some M-PESA agents interviewed by the CGAP team are not making a profit and were unable to keep a sufficient float to maintain service continuity (CGAP, 2009). Data from CGAP's 2011 Agent Management Toolkit indicates that M-PESA agents average profit per day had fallen to US$3.86, based on an average of 61 transactions.

Zain Zap agents have a slightly better deal than M-PESA agents as Zain allow the agent to keep 100% of the fee charged to the customer for making a transaction and they also allow the agent to negotiate different tariffs with different customers, depending on their supply of e-money/cash and customer demand (GSMA, 2010).[22]

1.5 India

1.5.1 Background & implementation of regulations

The Reserve Bank of India (RBI) issued a circular in 2006 (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, 2006) which, for the first time ever, allowed banks to use agents (business correspondents, or BCs) to deliver financial services outside bank branches. This did not lead, as hoped, to the emergence of widespread agent banking models because banks' interest in using BCs was limited as a result of certain restrictions detailed in the circular. Some of these restrictions (such as restrictions on the types of entities which could serve as BCs and the prohibition to charge customers fees for using BCs) were therefore removed in subsequent revisions to the circular in 2008, 2009, and 2010. India has been the most progressive country in South Asia in terms of allowing agent banking to develop through regulation, yet the BC model is still not as widespread as hoped. We explore the reasons for this in section 2.5.3. RBI and some of the major banks are investing in a new national payments switch (NPCI). It is hoped that this will be used to enable BCs to work with a larger number of banks (CGAP, 2010e).

Nonbank-based agent banking in India has not yet taken off due to certain regulatory restrictions. These are nonbanks' inability to accept funds from the public and the prohibition on electronic money (e-money) issuance and transfer by nonbanks. However, there are indications that this may change: a 2008 Payment and Settlement System Act led the RBI to publish guidelines for the issuance of 'prepaid payment instruments' (Policy Guidelines for Issuance and Operation of Prepaid Payment Instruments in India, 2009). These guidelines allow for a very limited fully nonbank-based model, where MNOs do not need an explicit partnership with banks. This is, however, very limited in scope of services offered and maximum permitted balances on the mobile wallet: agents can only offer semi-closed payment systems where the maximum value is Rs 5,000 (approximately US$100) and can only be used for purchasing goods and services, not for money transfers (RBI, 2009). Also, MNOs may not intermediate or earn interest on the funds collection. Although these guidelines are a step in the right direction, there has been slow uptake of this opportunity by MNOs and many are waiting until the regulations are relaxed further to allow them to offer a greater range and value of services. In a speech made after the guidelines had been published, the RBI General Manager encouraged MNOs to grasp this new opportunity and hinted at a possible future role of MNOs if banks did not make progress towards financial inclusion targets through the BC model (CGAP, 2010e).

[22] Some concern has been expressed by consumer protection groups that this arrangement may reduce the transparency of pricing, by making it possible to negotiate tariffs on a case by case basis

1.5.2 Definition of agent, approval by the regulator & types of entities that can be agents

A definition of ‘agent’ (or BC) is not provided in the regulations. Approval of BCs by the regulator is not required.

The 2006 circular (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, 2006) initially stated that the following entities could act as BCs:

- NGOs/MFIs set up under Societies/Trust Acts;
- Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States;
- Section 25 companies; and
- Post Offices.

The 2006 regulations also stated that the principal institution must conduct thorough due diligence on the agent and should ensure they are well established, have a good reputation, and are trusted by local people (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, 2006).

A 2008 circular added the following individuals to the list of eligible BCs:

- Retired bank employees;
- Ex-servicemen; and
- Retired government employees.

It also stated that banks must make sure that these individuals (i) are permanent residents of the area where they will operate as BCs; and (ii) must have appropriate additional safeguards in place to minimise risk. Furthermore, the circular stated that, in order to ensure adequate supervision, the distance between the place of business of a BC and the bank branch which supervises the BC (the ‘base branch’) must be no more than 15km in rural, semi-urban and urban areas, and no more than 5 km in metropolitan centres[23] (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators (BFs) and Business Correspondents (BCs), 2008). This distance limit was raised to 30km in a 2009 amendment to the 2008 circular, in an attempt to try to encourage the scaling up of the BC model (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators (BFs) and Business Correspondents (BCs), 2009).

In November 2009 a further circular added the following to the list of permitted BCs (Financial Inclusion by Extension of Banking Services - Use of Business Correspondents, November 2009):

- Individual kirana/medical/fair price shop owners;
- Individual Public Call Office (PCO) operators;
- Agents of small savings schemes of Government of India/Insurance companies;
- Individuals who own petrol pumps;
- Retired teachers; and
- Authorised functionaries of well-run self-help groups linked to banks.

[23] Banks can apply to the District Consultative Committee if they would like the distance limit relaxed (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators (BFs) and Business Correspondents (BCs), 2008)

In 2010, banks were further permitted to use 'any individual, including those operating Common Service Centres (CSCs)' as BCs and 'companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets, excluding Non Banking Financial Companies' (Financial Inclusion by Extension of Banking Services - Use of Business Correspondents (BCs), 2010).

1.5.3 Rules governing exclusivity/non-exclusivity of agents

The regulations state that BCs can act as agents for more than one bank. However, at the point of customer interface, a retail outlet or sub-agent can only represent and provide banking services on behalf of one bank (Guidelines for engaging of Business Correspondents (BCs), 2010).

1.5.4 Permissible activities

The 2006 circular (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, 2006) states that agents can offer the following financial services on behalf of principals:

- Identification of borrowers;
- Collection and preliminary processing of loan applications, including verification of primary information/data;
- Financial education of customers;
- Processing and submission of applications to banks;
- Promotion and nurturing of self-help groups/joint liability groups;
- Post-sanction monitoring;
- Monitoring of self-help groups/joint liability groups/credit groups/others;
- Follow-up for recovery;
- Disbursal of small-value credit;
- Recovery of principal and collection of interest;
- Collection of small-value deposits;
- Sale of micro insurance/mutual fund products/pension products/other third party products; and
- Receipt and delivery of small-value remittances/other payment instruments.

In practice, many banks use BCs to open no-frills accounts and to process National Rural Employment Guarantee (NREGA) payments (CGAP, 2010e).

1.5.5 Roles and responsibilities & minimum standards

The principal institution is held responsible for all actions of the agent undertaken on its behalf, and this information should be included in all agreements with customers. BCs can undertake the preliminary work relating to account opening formalities, but responsibility for ensuring compliance with KYC and AML norms rests with the banks. Non-face-to-face customer identification is permitted (e.g. through the submission of forms by post or via a third party), although such accounts are viewed as higher-risk and may be subject to more stringent identification and verification requirements (such as the need for certification of all documents required to open an account). BCs also aim to create awareness about savings and other products and provide education and advice on managing money and debt counselling (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, 2006).

The 2006 circular states that banks should publicise their use of an agent/BC in the locality in which it is operating and take measures to ensure they are not misrepresented. The principal institution is also responsible for adopting technology-based solutions for risk management. Limits on cash holding and on individual customer payments and receipts should be set by the bank, and all transactions carried out by BCs must be accounted for and shown in the bank's books by the end of the next working day (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, 2006).

The regulations stipulate that customer disclosure requirements must be in place that clarify the roles and responsibilities of the principal institution and BC, clearly describe the costs of services, and provide customers with information on how to resolve problems and file complaints. Banks must have clear mechanisms for receiving and promptly addressing customer complaints about BCs. Banks should ensure that the name and contact details of the designated 'Grievance Redressal Officer' are made known to BCs' customers and published on the bank's website. If a customer does not receive a satisfactory response from the bank within 60 days, he/she can contact the Banking Ombudsman (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, 2006).

Most responsibilities remain with the banks and are laid out in the contract between the bank and its agent. Issues such as limits on cash holding by BCs and maximum amount of funds that individual customers may send/receive must be addressed in the contract between the bank and its agents. Furthermore, banks must ensure the confidentiality and security of any customer information in the BC's possession. Contracts with BCs must address outsourcing risks, and banks should conduct full due diligence on all potential agents. Other issues to be covered in the contract are: limits on cash holding by BCs and customer transactions; the requirement that customers receive a receipt for each transaction; the requirement that offline transactions be reflected on the bank's books by end of day; and the bank's responsibility to customer for all acts and omissions of the agent. Finally, the regulations state that banks should make efforts to educate customers on banking and financial literacy (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, 2006).

1.5.6 Typical remuneration structure

From 2006 to 2009, BCs could not charge any fees to customers for services provided on behalf of the bank (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, 2006). Banks could, however, pay a 'reasonable' commission/fee to their BCs, the 'rate and quantum' of which should be regularly reviewed. This restriction was removed in 2009 to try to encourage uptake of the BC model. Now banks, and therefore BCs, can 'collect reasonable service charges from the customer'. (Financial Inclusion by Extension of Banking Services - Use of Business Facilitators (BFs) and Business Correspondents (BCs), 2009).

According to CGAP research, in 2008, the average monthly profit for FINO agents (see section 2.5.1 for further details of FINO) was US$23.42. However, this dropped to US$8.08 in 2010, as a result of new account opening being stopped in November 2009 (CGAP, 2010f). According to 2011 data from CGAP, the average daily profit is US$3.99 (based on an average of 19 transactions) for Eko agents and US$0.69 (based on an average of 28 transactions) for FINO agents (CGAP, 2011c).

2 Evaluation of the impact of agent banking

2.1 Colombia

2.1.1 Agent activity and typology

Although some progress has been made in increasing access to finance in Colombia, with 62% of the population having access to formal financial services as at August 2011,[24] there is still much to be done. Most of the major banks in Colombia are using bank-based agent banking channels to deliver services and reach new clients, such as through retail outlets, using a card/POS-based agent network. However, the users of these financial services are not the poorest segments of the population and the adoption of the agent model has been slower than in other countries in Latin America, most notably Brazil (CGAP, 2010a). Nonbank-based agents are not allowed under the current regulations.

There has been tremendous growth in the number of agents offering bank-based financial services in Colombia during 2011. In January there were 6,104 agents but this had grown to 13,296 by the end of July 2011. 78% of these agents were operating in urban areas and 22% in rural areas.[25] Three banks have large agent networks: Citibank has the largest with 4,275 agents, Red Mulitbanca Colpatria S.A. has 3,963 agents and AV Villas has 3,064. The other ten banks that use agents all have fewer than 1,000 agents each. In total, agents in Colombia handled 78 million transactions with a total value of 15 billion pesos (approximately US$80 million) from June 2007 to July 2011 (BDO, 2011a). Most agents are located in the capital, Bogota, although 903 municipalities (out of a total of 1,119) now have at least one agent (BDO, 2011b). The only bank which has shown willingness to expand its agent network to remote locations is Banco Agrario[26] (CGAP, 2011c), although it still has a relatively small agent network (298) at present (BDO, 2011a).

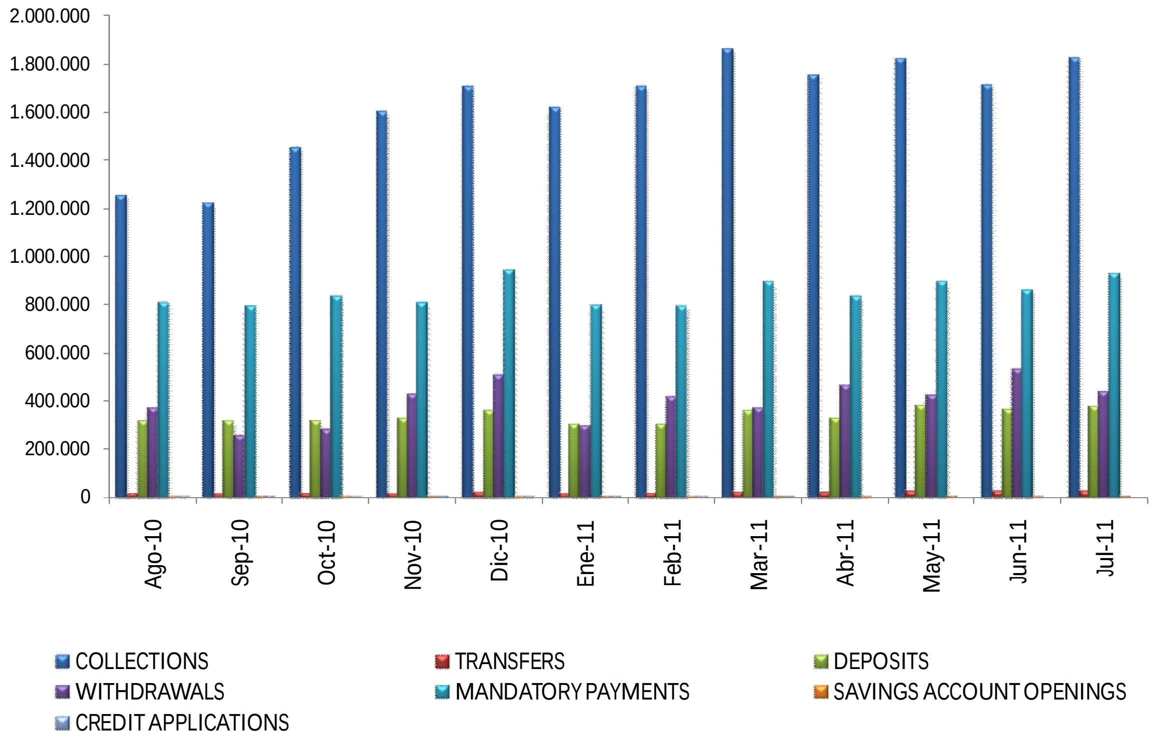
Figure 2.1 shows the volume, and Figure 2.2 the value, of the different types of transactions carried out by agents in Colombia from August 2010 to July 2011. In terms of the number of transactions, collections (of utility bill payments) have made up the majority of transactions (around 1.8 million in July 2011), followed by mandatory payments, such as loan repayments and official government payments, such as tax (over 800,000 in July 2011). There have usually been more withdrawals made than deposits, but the numbers of these two transaction types are consistently close. The numbers of credit applications, transfers and opening of savings accounts are negligible. In terms of the value of transactions, deposits and withdrawals constitute the two highest transaction types (both were around US$180,000 in July 2011), followed by mandatory payments and collections. Transfers had the lowest value (consistently averaging around US$20,000 per month).

[24] Asobancaria (2011): www.asobancaria.com/portal/pls/portal/docs/1/1584047.PDF

[25] BDO (2011) – statistics taken from BDO's website at: http://www.bancadelasoportunidades.gov.co/contenido/contenido.aspx?conID=690&catID=300&pagID=376

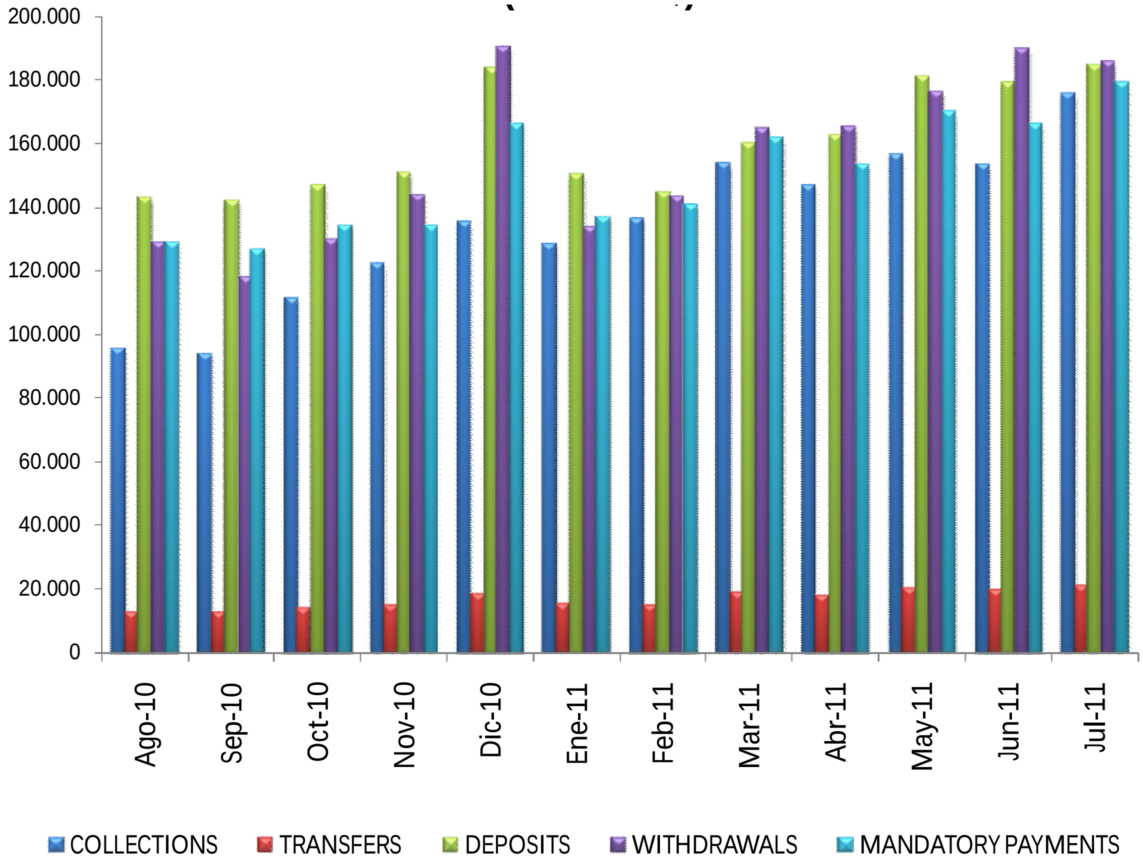
[26] a government bank with the largest bank network in the country

Figure 2.1 Volume of transactions carried out by agents in Colombia



Source: Non-Banking Agents (presentation), Banca de las Oportunidades, 2011

Figure 2.2 Value of transactions carried out by agents (US$)



Source: Non-Banking Agents (presentation), Banca de las Oportunidades, 2011

2.1.2 Facilitating factors

A variety of factors have facilitated the development of agent banking in Colombia. Firstly, the dedication of a specific public institution, the BDO, which lobbies the SFC for regulatory changes and subsidises the creation of agents in unserved/unbanked areas, has had a dramatic impact on financial inclusion. Secondly, agents have now acquired experience in agent banking and this has led to increased confidence in agents and use of their services, as shown in Figures 2.1 and 2.2. Finally, Colombia has flexible agent banking regulations which (i) allow any type of legal entity to act as an agent and deliver financial services on its own premises; and (ii) allow agents to deliver a wide variety of financial services, including account opening: this should, in theory have meant that banks would be keen to engage agents which in turn would dramatically increase the number of places where people could access financial services and therefore the proportion of banked Colombians. However, this ripple effect has not taken place to the extent hoped for, as explained in the next paragraph.

2.1.3 Hindering factors

The future expansion of Colombia's agent banking model is hampered by challenges related to costs and profitability. Two of the recent regulatory initiatives (allowing banks to use agents (effected in 2006), and the introduction of low-value accounts (effected in 2008)) were expected to produce an increased uptake of mobile financial services but have not had as much impact in this area as anticipated. This is partly because the existing agent banking model is neither appealing for banks nor agents. The Colombian banking sector has never been very keen to target low-income customers and has little experience with agents, especially in terms of managing agent liquidity and mitigating the risk of fraud. Banks fear that selecting, equipping and training agents will require too much time, money and equipment. Acting as an agent for a bank is also not very appealing as banks offer limited marketing support to their agents and the systems connecting banks and agents often fail. In order to try to mitigate these challenges, since 2008, BDO has provided subsidies for banks to help them fund agent operations in some municipalities which lack financial services (CGAP, 2010a). Furthermore, the regulations themselves are, in some ways, hindering the growth of the agent banking model in Colombia. They only allow for bank-based agent banking models, not non-bank based models: this means there is a limited number of potential providers and a lack of competition amongst them (CGAP, 2010a).

According to CGAP, Banco Agrario's experience of using agents to process conditional cash transfer (CCT) payments has revealed the following challenges:

- **Lack of liquidity on payment days**: since the CCT programme has a payment cycle concentrated on certain days, there is huge demand for cash-out transactions at agents and ATMs for one or two days every two months. It is virtually impossible for a typical agent to use its normal cash supply to meet this demand. Banco Agrario has therefore been forced to provide cash to agents in armoured vehicles. This is the same expensive process they used when beneficiaries were previously paid directly in cash so therefore there is little benefit to the bank in using agents; and
- **Lack of willingness of the beneficiaries**: although beneficiaries have been informed about the services and benefits of using their new accounts (to either deposit their own money or save part of their CCT payment), most of them withdraw the full amount as soon as it is deposited.

This second challenge suggests that lack of financial education is a further hindering factor. Many CCT beneficiaries still do not completely understand that they actually have a savings account at their disposal. Both beneficiaries and bank employees tend to think that leaving part of the CCT payment in the account may result in losing the grant in the future because they might no longer be considered 'poor'. Another reason may be that beneficiaries prefer cash to savings because they often already owe the money to someone else (CGAP, 2011).

2.1.4 Benefits/drawbacks of functioning as an agent

As mentioned in section 1.1.6, BDO gives financial incentives to agents, offering a guaranteed commission based on a minimum level of transactions (CGAP, 2011c). Other than this, no tangible information is available as to the benefits of functioning as an agent. We assume that the main benefit is the increased footfall in agents' outlets, resulting in increased business.

The main drawback to functioning as an agent in Colombia is the high cost of liquidity management. The threat of robbery is high in Colombia, and the economy is largely cash-based: in 2009, around 77% of all agent transactions were cash-in transactions. Therefore, in remote areas where there are no commercial banks, agents are forced to deposit their excess liquidity in Banco Agrario. The bank charges high fees for this service, adding substantially to the costs of agents. In urban areas, agents are forced to hire expensive cash transport companies to manage their excess cash (CGAP, 2010a).

2.1.5 Link between agent banking and provision of mobile financial services

At the moment there are not clear links between agent banking and the provision of mobile financial services. Most banks offer internet banking and some offer mobile banking to existing customers for payments, transfers and account enquiries. Mobile banking has the lowest transactional volume compared with other branchless banking channels (internet banking, POS terminals, ATMs, and agents). Banks, MNOs and the bank switches are in disagreement about the possible technological platforms for mobile banking and mobile payments and potential profit sharing arrangements, so the development of mobile financial services has stalled. BDO is conducting several studies in collaboration with international organisations to identify the business opportunities and regulatory challenges for mobile financial services being used to target the unbanked population (CGAP, 2010a)

2.2 Brazil

2.2.1 Agent activity and typology

In comparison to the other countries in this study, a relatively large proportion of the Brazilian population is 'banked' (43%).[27] This can partly be attributed to the fact that Brazil has the largest agent network in the world and is widely cited as a country where banking agents have been successfully used to expand financial access. An extra 13 million unbanked people have been reached (AFI, 2011) and more than 160,000[28] retail outlets turned into correspondents since 1999. These agents can be found in all municipalities in Brazil. Most agents are commercial establishments, such as grocery stores, post offices, notaries and lottery outlets. More than 47,000 of these outlets are authorised to handle deposits and open accounts (CGAP, 2010g).

Between them, Caixa Federal, Banco Bradesco, and Banco Popular have created the largest example of POS-enabled agent networks worldwide. In particular, Bradesco has set up a successful postal bank as a joint venture with the post offices (IDLO, 2010). As of December 2007, Banco Postal had opened more than 5 million new current accounts since 2002 through over 5,460 postal points. Four of the largest banks transact extensively with agents, but some banks (notably Banco Itau, the largest private bank) have not included the use of agents in their commercial strategy. Banco do Brasil entered a partnership with Lemon Bank in July 2009 in which all Lemon Bank agents provide services on behalf of Banco do Brazil and its Banco Popular brand (used by Banco do Brasil for its low income market). This will allow Banco do Brazil to expand its agent network by 70% (CGAP, 2010b).

Although permitted to offer several types of services, fewer than 30% of agents actually handle bank accounts. Most specialise in receiving bill payments, which account for approximately 75% of all agent transactions (47% of which are utility bill payments). Withdrawals and deposits account for 12.6% and are nearly equally divided into savings and current accounts (including simplified accounts). Only 0.16% of transactions are account opening and 7.3% are government transfers (CGAP, 2010c).

Brazilian agents handle around 3 billion transactions per year.[29] This comprises just 7% of transactions flowing through the Brazilian banking system but it includes large flows of transactions which are particularly interesting for financial inclusion (CGAP, 2010g). Some key statistics are:

[27] CGAP (2010f). However, it is interesting to note that 115,187 million have a 'relationship with a financial institution' : this constitutes 79% of the total adult (over 15) population of 145,382 million February (2011)

[28] 160,943 as at 2nd May 2011 (Banco Central do Brasil: TOTAL DE CORRESPONDENTES SEDIADOS EM CADA UNIDADE DA FEDERAÇÃO)

[29] 2010: 3,097 million transactions; compared to 1,845 million in 2006: this constitutes a 67% increase (February, 2011)

- In 2008, agents transacted 75% of the volume (1.6 billion) and 70% of the value (US$105 billion) of total bill payments (Banco Central, quoted in CGAP, 2010b);
- Every municipality in Brazil (of which there are 5,564) is now reached by banks: 1 in 4 municipalities are served only by agents (Kumar 2007, quoted in CGAP 2010b);
- Rural agents transact more deposits and withdrawals as a percentage of total transactions (38%) than their urban counterparts (8%): this implies that agents are playing an important role in enhancing rural access to bank accounts (CGAP-FGV-Planet, quoted in CGAP, 2010b);
- Credit to consumers in Brazil has increased by 500% in the last 5 years, going from US$54 billion in 2003 to US$252 billion in 2009: much of this expansion is due to agents, through which the majority of the mass market make repayments (CGAP, 2010b);
- Banco Postal was one of the early pioneers of agent banking in Brazil, starting its agent banking network in 2002. By 2008, it had 1,461,850 active branchless banking clients who had previously been unbanked (CGAP, 2010f);
- At least 75% of Brazilians use banking agents, compared to 43% with a bank account (CGAP, 2010f); and
- In 2010, Caixa Economica migrated 12 million Bolsa Familia[30] recipients to simplified accounts: the majority of these accounts are operated via agents (CGAP, 2010).

All of the above successes have been achieved through bank based agents. Nonbank-based branchless banking is just starting to emerge and there is therefore great potential for this channel to compete for customers with low-value accounts (CGAP, 2010c).

2.2.2 Facilitating factors

A combination of factors has contributed to the success of the agent banking model in Brazil. Firstly, the Central Bank has, for more than a decade, introduced and refined regulations which have been supportive of the use of agents. Secondly, agents have played a vital role in the distribution of a monthly CCT payment, which one in four households throughout the country receive; this has meant a high volume of business for agents, making the prospect of becoming an agent more attractive. Agents have provided the banks with a useful channel for distributing these payments to remote areas. In general, banks have been keen to use agents as a means of cost-cutting (agents have become the cheapest way to reduce congestion in branches and avoid the fines that are imposed when customers are left waiting in line for more than a certain amount of time) and to increase their client base through geographic expansion (CGAP, 2010c).

In general, agents provide cheaper and more convenient financial services for clients: they are therefore popular amongst the population, increasing demand for their services. The agent model has not only brought convenience and safety for low-income families that receive government benefits through it - and for others accessing basic bank services such as bill payments - but it has also brought greater economic development to isolated communities. Instead of shopping in the cities where they would have previously travelled to receive their benefits, benefit recipients now withdraw cash, pay bills, and shop locally (CGAP, 2010g).

2.2.3 Hindering factors

Despite the marked success of the agent banking model in Brazil there are still obstacles to its further expansion. First, the combination of a lack of regulatory framework for non-banks and the particular dynamics of the Brazilian market has so far hindered the development of nonbank-based

[30] Bolsa Familia is a conditional cash transfer programme which is part of the government's social policy programme

branchless banking models, although these are just starting to emerge (despite the lack of specific regulatory framework). Second, there have been some unintended consequences of the widespread outsourcing of financial services: for example there have been a variety of legal demands such as unions seeking wage equality between bank employees and agents and other government agencies. Most rulings so far have been in favour of the banks, but the continuity of the agent model is threatened by these demands, since the model's core feature—low cost—is potentially under threat. The CBB is analysing the potential impact of such demands but has not yet implemented regulatory changes to address these. Third, there is a lack of credit information available on low-income borrowers, increasing the risk to both banks and agents: although the volume of credit has grown significantly in the last five years this is an area where improvements could be made to increase interest in offering agent banking services. Fourth, the 'simplified accounts' (which can be handled by agents) are subject to transaction limits that restrict profitability, potentially reducing the motivation to become an agent: the number of agents has grown significantly in Brazil, but could have grown even more were these limits not in place (CGAP, 2010c).

Furthermore, the agent banking model has not yet been particularly successful in channelling microcredit and savings. Interest rate caps and other account-related costs render microcredit unprofitable for banks. A few banks, notably ABN Amro and Banco Popular, are experimenting with microcredit through agents but the results of the main provider (Banco Popular) so far have been poor, particularly in terms of default rates. Banks claim that the reasons behind this slow move toward credit include the regulatory limitations applicable to simplified accounts and microcredit mentioned earlier (CGAP, 2010c).

Finally, the dominance of a cash-based culture in the Brazilian financial sector is hampering the further expansion of the agent banking model. According to CBB's Department of Banking Operations and Payments System this is a sign of inefficiencies and lack of innovation in the retail payment system. Since cash handling is the main cost of agents in remote areas, the evolution of the agent banking model will require CBB to push for innovation, efficiency, and interoperability of electronic payment systems to reduce the use of cash. The banks with large agent networks are aware that going cashless is essential to being able to provide a wider array of services at agents (CGAP, 2010c).

2.2.4 Benefits/drawbacks of functioning as an agent

The main benefit of functioning as an agent is the increased footfall they experience as a result of offering financial services. 73% of agents say that banking correspondent business has increased foot traffic, with an average increase of 37% (CGAP, 2010b).

Liquidity management and a heightened threat of robbery are the main challenges facing agents.[31] Moving and protecting cash is costly, risky and time-consuming. According to research conducted by CGAP and the Fundação Getulio Vargas business school, 41% of agents have been robbed in the past three years. To protect against this mishap, banks have instituted very low limits for cash that agents may have on hand. Not only does this restrict profitability for the agents but it also means they have to go to the bank several times per day (CGAP, 2010b).

2.2.5 Link between agent banking and provision of mobile financial services

Mobile financial services are starting to emerge in Brazil. Several companies outside the banking and the mobile phone sectors are offering virtual wallets in mobile phones that substitute for plastic

[31] 41% of agents have been robbed (CGAP, 2010)

cards and POS terminals. An example is OiPaggo, a joint venture between Paggo, a technology provider, and Oi (an MNO) that services credit card companies. Once a credit card issuer enters into an agreement with Paggo, the credit card is put into a virtual wallet that is stored in the SIM card of customers' mobile phones. Although designed to process prepaid accounts and e-money, Paggo currently does not issue prepaid cards because of the lack of clarity about whether a prepaid scheme constitutes deposit-taking (which may be undertaken only by CBB-licensed banks and credit cooperatives). However, OiPaggo agents need to have a bank account as this is the only means through which Paggo will pay its agents: this means that much of the informal urban economy (which is largely unbanked) is excluded. However, other mobile payments businesses are emerging that could cater to informal merchants, such as the one led by Sebrae/RJ, which provides a mobile phone-based payment platform for (informal) merchants working on the beaches of Rio de Janeiro (CGAP, 2010c).

2.3 Peru

2.3.1 Agent activity and typology

Financial inclusion is a big issue in Peru, where, as at 2007, only 26% of the adult population has a bank account.[32] The agent network in Peru is growing rapidly: there were 1,689 agents in 2006 and 9,204 agents by December 2010.[33] These agents are mainly pharmacies, grocery stores and other retail establishments. These tend to be small retail establishments, although there are some larger agents, such as La Curacao, a large retail chain. Roughly 8% of districts, accounting for 16% of the population, now have access to bank services exclusively through agents. These agents carried out approximately 3.8 million transactions per month (45 million transactions in the year). However, 3 times this amount of transactions per month were performed at ATMs, and the total value through ATMs was at least 2 times larger than agent transactions. In 2010, less than 50% of the total financial system transactions were conducted inside traditional bank branches and ATMs; POS terminals accounted for 36% of total transactions (SBS & CGAP, 2010).

As of 2008, the four largest banks accounted for most of the agents. Banco de Crédito del Peru (BCP) has almost half the agents in the country (2,433); Interbank comes second (with 1,019). According to these two banks, agents account for about 80% of their total points of services (i.e. branches and agents) (SBS & CGAP, 2010).

Agent networks in Peru are concentrated in urban areas. In 2008, on average, 51% of agents were in the Lima metropolitan area, and a further 31% were in the other 24 cities. Among the four largest banks, Interbank had a higher relative proportion of agents in Lima (74%), whereas BBVA Continental had a higher relative proportion in other regional capital cities (50%). BCP has the highest proportion in other non-capital cities (24%) and Interbank had the lowest (5%). Also, 58% of BCP's agents were in districts where there is no BCP branch. In summary, BCP is relatively more focused on rural areas than the other banks using agents. It has created sales support channels for agents using business development officers to promote and sell credit to customers within a certain radius of an agent's outlet (CGAP, 2008). Further information on the distribution of agents is provided in Table 2.2.

[32] Honohan Indicators 2007, quoted in FSD Kenya (2010)

[33] Superintendencia de Banca, Seguros y AFP (2010)

Table 2.2 Geographic distribution of branches and agents in Peru (2008)

	BCP	BBVA	INTERBANK	SCOTIABANK	TRBJO	MI BANCO	TOTAL
Total	1,220	268	586	299	39	3	2,415
In metropolitan Lima	549	75	423	155	34	1	1,237
In other departmental capital cities	382	133	131	98	4	2	750
In smaller towns/rural areas	289	60	32	46	1	0	428
Population in districts with agents, as % of total population	64%	45%	46%	44%	18%	5%	

Source: SBS & CGAP, 2010 (based on data collected by CGAP in 2008)

The concentration of agents in urban areas provides an indication of how banks tend to use agents in Peru. Their main role is to reduce congestion in bank branches, by moving low-value transactions away from costly branches. Therefore, many agents are located within a block or two of a branch of the same bank. Agents are also seen as a relatively cheap way of diversifying geographically and tend to be used in better off districts as a way of reaching already banked clients, rather than as a way of reaching poorer, unbanked clients. Therefore, it does not necessarily follow that expanded network coverage translates into increased take-up of banking services by the previously unbanked (CGAP, 2008).

2.3.2 Facilitating factors

The main incentive for customers to use agents, and therefore drive the expansion of the agent network, is the fact that agents are the cheapest means of accessing financial services. Banks neither charge customers to use agents nor allow agents to charge customers, thus positioning agent banking as the lowest cost channel (CGAP, 2008).

2.3.3 Hindering factors

A key hindering factor to the growth of agent banking in Peru is its regulations. Despite the relatively high number of agents in operation, the volume of transactions conducted through agents remains fairly low. . Interviews carried out by CGAP researchers with the Peruvian banks and the SBS revealed that this is partly because of the way in which the banks use banking agents and partly as a result of the regulation of agent banking. The regulation does not allow banks to acquire new clients through agents, i.e., open bank accounts (except ‘basic accounts’) or offer new loans. This prohibition is based on consumer protection and AML concerns but is also restricting the number of new, previously unbanked, clients using agent banking services (SBS & CGAP, 2010).

A second hindering factor is the lack of efficiency and interoperability in Peruvian retail payment systems. An improvement in this area would facilitate the use of agents and the ease of access to payment services by users from all income levels. If there is interoperability of agents, POS devices, and ATM networks, a client can use any POS, to pay different bills irrespective of the creditor bank. Considerations regarding the efficiency of retail payment systems in the country and possible measures to address weaknesses are a necessary step for faster and more effective financial inclusion (SBS & CGAP, 2010).

Finally, banks’ use of agents as a way to reduce congestion in branches and shift low-value accounts to a less costly channel has led to little expansion of the agent network into rural areas.

As a result there is still a general lack of awareness/understanding of agent banking and the services that agents can offer (CGAP, 2008).

2.3.4 Benefits/drawbacks of functioning as an agent

The main benefit of functioning as an agent is the commission that agents earn from the transactions undertaken on behalf of the bank and the increased footfall that they experience as a result of offering financial services. As explained in section 1.3.6, agents in Peru can typically earn around US$45 to US$200 per month in commissions and 70% of Banco de Credito (BCP) agents claim to have increased their sales by around 12% due to the increased foot traffic generated from their work as an agent (CGAP, 2007).

2.3.5 Link between agent banking and provision of mobile financial services

At the moment there are no clear links between agent banking and the provision of mobile financial services. Currently only banks are authorised to offer these mobile financial services and, as explained in section 1.3.1, there is very limited mobile banking in Peru (SBS & CGAP, 2010).

2.4 Kenya

2.4.1 Agent activity and typology

Financial inclusion is a big challenge in Kenya: only 22.6% of the adult population has a bank account.[34] There are, however, more than 45,500 agents offering financial services. In terms of branchless banking, Kenya is probably best known for nonbank-based models, specifically those launched by MNOs. M-PESA was the first and is the most famous of these models. This service was launched in 2007 and by April 2011 had more than 14 million[35] users and 27,988 agent outlets (Safaricom, 2011).

Since the launch of M-PESA, three other MNOs have started offering mobile payments services. Zain Kenya launched its mobile money service Zap in March 2009. By January 2010, it reported a customer base of approximately 400,000 and a network of 6,000 agents. From its launch in March 2009 to January 2010, its total person-to-person transaction volume was around KSh 1 billion (US$9.8 million). In January 2010, Zain announced its intention to partner with mortgage lender Housing Finance. Zap customers will be able to withdraw and deposit at Housing Finance's ten branch locations, while Housing Finance benefits from an income stream from an increasingly diversified range of business activities as well as the opportunity to cross-sell its existing products (CGAP, 2010d). Essar Telecom Kenya Limited launched its yu mobile phone service in mid-2009 and its yuCash mobile money transfer service in December 2009. Essar is implementing yuCash through its agent partnerships with Equity Bank. The infrastructure is provided by Obopay, which is active globally in mobile banking and payments technology. By February 2011, these 4 providers had over 15.4 million customers and 39,449 agents. Their combined total transactions amounted to KSh 2.45 billion (US$24 million) per day or KSh 76 billion (US$75 million) per month (Central Bank of Kenya, 2011).

On paper, M-PESA has had a massive impact on financial inclusion in Kenya. The usage of semi-formal financial services in Kenya (including m-banking platforms such as M-PESA) increased from 8.1% in 2006 to 17.9% in 2009, while the proportion of the population with access to only informal financial services decreased from 35% to 26.8%. The share of the population excluded from any

[34] FinAccess 2009

[35] 14,008,319 (Safaricom 2011)

financial service decreased from 38.3% to 32.7%: these statistics suggest strong gains in financial inclusion coinciding with the introduction of M-PESA.[36] However, there is evidence to suggest that M-PESA is not actually serving the very poorest or previously unbanked. 72% of M-PESA clients live in households with at least one account with a formal financial institution, indicating significant overlap between the user base of M-PESA and banks (CGAP, 2010f).

The success of M-PESA also led to an interesting partnership between Safaricom and Equity Bank, as explained in section 1.4.1. These key players in the Kenyan financial sector developed a bank-based model called M-KESHO which was launched in May 2010. M-KESHO account opening can be undertaken by M-PESA agents and by the end of 2010 more than 600,000 M-KESHO accounts had been opened, with a total value of over US$5 million (Central Bank of Kenya, 2010a). Other partnerships between banks and MNOs have also emerged recently (see section 1.4.1 for further details).

The impact of these developments on financial inclusion, however, appears so far to have been less significant than has been claimed by some observers. There have been innovations, such as M-KESHO; the Prepay Safari Card a prepaid VISA card issued through M-PESA by I&M Bank; the use by Musoni MFI of its own middleware to service clients through M-PESA; and a Pre-Paid Health Card issued by Changamka. But most financial institutions are offering their existing products through the M-PESA channel, mainly for existing client or to attract new clients with a similar profile; in other words, they are adapting their existing products and services for use through M-PESA rather than using the M-PESA platform to develop innovative products and services that would appeal to lower-income customer and thus to extend financial inclusion (MicroSave #93, 2011). Most financial institutions have encountered difficulties in the attempt to extend their products and services through M-PESA – including technical difficulties arising from their inability to adapt their own operating software to the M-PESA platform and difficulties in agreeing pricing structures (MicroSave #94, 2011). As a result, a substantial proportion of the population is using M-PESA as an addition to bank savings accounts and, less frequently, as a full-scale substitute. While this does offer a great opportunity for un- or under-banked people to build up a useful lump sum, which therefore facilitates savings, the concern in relation to financial inclusion is that poor people will use M-PESA as a full scale substitute for financial inclusion. One expert calls this “low equilibrium financial inclusion” – or put simply, “poor quality, high cost and potentially high risk[37] financial inclusion.” (MicroSave #95, 2011) On the other hand, evidence is emerging of unexpected benefits of M-PESA in facilitating the use of traditional, informal networks of financial entrustment and reciprocity that can be of considerable benefit to poorer people. M-PESA extends the reach, reduces the cost and improves the security of such transactions. Dr Susan Johnson, who had been undertaking research in this area, concludes that ‘the formal sector needs to understand what the informal sector does so effectively if formal inclusion is to become a reality’ (Johnson, 2011).

In terms of the bank-based agent banking model, in 2010 there were almost 6,000 agents operating on behalf of two banks, with three other bank applications being processed. These agents included telecommunications companies, shops, hotels, supermarkets and pharmacies. One telecommunications company has been approved as a third party agent network manager for a commercial bank. Two of the main bank-based agent network managers in Kenya are Paynet, which operates ATM and POS networks on behalf of banks, and PostBank, which acts as a cash collector for financial institutions that use its network to pay bills and for remittances. In turn, PostBank is also training and deploying agents, equipped with POS devices, to carry out basic

[36] Information from FSD Kenya and OPM research

[37] ‘High risk’ because of the lack of customer privacy resulting from close involvement of agents in their transactions.

transaction. Equity Bank offers cash back services at Nakumatt supermarkets (FSD Kenya, 2010) and has developed an agent network (of 120 agents) in a very remote, rural area in northern Kenya, in order to make cash transfer payments under the government's Hunger Safety Nets Programme (HSNP) (CGAP, 2011c).

2.4.2 Facilitating factors

Kenya's regulators at the CBK have been much lauded for their open and flexible approach to regulating agent banking. Many believe that Safaricom benefited from the lack of a formal regulatory framework, arguing that regulations imposed without any prior experience of branchless banking would have been too strict and confining (CGAP, 2010d). Recognising this, the CBK issued only a letter of no objection, permitting the launch of M-PESA under certain conditions, and they monitored its evolution very closely indeed (OPM, 2011). Once they were confident that the MNO transfer services could work on the basis of sound principle, and that they knew how to regulate them, the CBK launched the draft Electronic Retail Traders and Electronic Money Issuers Regulations in February 2011. This was a classic case of the 'test-and-learn' approach to developing the regulation of innovative financial products, as endorsed by the G20 in 2010.[38]

Prior to its launch and in its first year, the Kenyan government was the majority owner of Safaricom while Vodafone, an international MNO, was the minority owner (with 40%): this doubtless assisted Safaricom in its initial stages and also provided the CBK with some comfort (CGAP, 2010d).

The growth of Equity Bank and its transformation from a building society to a bank has had a major impact on the financial market in Kenya, both in terms of its actual direct outreach and through the demonstration effect this has also had in the market, locally and internationally. Equity Bank has deliberately targeted low-income clients, including through its agent network, and its growth has reflected a shift to a client- and market-driven approach rather than a product-driven approach.[39] This has had a wider impact on the market structure, as other banks have attempted to replicate Equity's approach. This has occurred through innovation – especially the introduction of transactions accounts with no ledger fees – and demonstration effects. One banker reported that 'people have seen the value at the bottom of the pyramid … [the] magic of Equity Bank is that it has shown that geographically, by product, by different customer profile that you can build a market there' (OPM, 2010a).

Finally, the role of the donors and the World Bank in facilitating the development of agent banking in Kenya should not be underestimated. AFI's support, through its Knowledge Transfer Programme (see section 1.4.1), to the CBK in drafting the Agent Banking Guidelines meant that the regulations drew on the extensive experience of Brazil and Colombia of agent banking. The multi-donor Financial Sector Deepening Kenya trust provided considerable support to both Equity Bank and M-PESA, both directly and through their support to MicroSave, an important early adviser to both, while Safaricom's original pilot for M-PESA was supported by a £1 million grant from DFID's Financial Deepening Challenge Fund (OPM, 2010a).

[38] This phrase was first used by the GSM Association and was then adopted by the G-20 in its 'Principles for Innovative Financial Inclusion' in June 2010 (G20, 2010)

[39] Coetzee, G., Kabbucho, K. and Mnjama, A. (2002) Understanding the Re-birth of Equity Building Society in Kenya, Nairobi, Microsave.

2.4.3 Hindering factors

It can be very difficult to ensure agent banking systems work in the very remote areas of northern Kenya. Equity Bank faced a multitude of challenges when trying to ensure agents could distribute the HSNP payments. For example, their POS devices needed to be able to work off-line in remote villages where electrical power and wireless signals were not available. Rugged geography, lawlessness, nomadic beneficiaries, and distrust among ethnic groups served to complicate payment operations. Equity Bank also realised that agents who are skilled enough to implement the payment system may also be savvy enough to manipulate it: monitoring agents is a huge challenge in such remote areas. Added to this were beneficiaries whose fingerprints could not be read or whose nomadic lifestyle meant that they were not aware of the payment schedule. All of these factors have made the operating costs of having agents in these areas very high, potentially eroding Equity Bank's interest in maintaining these structures (CGAP, 2011). In these circumstances, delivering cash transfers to remote areas inevitably involves compromise and trade-offs, which often raise difficult policy issues. A comparison of three cash transfer programmes operating in Kenya highlights a common theme of a trade-off between different aspects of the payments system. Flexibility for the recipient, in terms of allowing recipients to determine when and how much they receive according to their specific needs, often comes at the expense of predictability of cash flows and system operations for the transferring agency; providing widespread information about the timing and availability of payments may compromise the security of recipients – for example through the risk of personal attacks and other forms of violence when recipients need to spend the night at a paypoint location or when they face a long journey with their cash; measures that reduce the cost to recipients may well be costly to the programme (Barca et al, 2010).[40]

2.4.4 Benefits/drawbacks of functioning as an agent

In a 2009 CGAP study, M-PESA agents reported relatively high profits, compared to agents working in the other countries studied. On average, it is 3.2 times more profitable being an M-PESA agent (US$5.01/day) than selling airtime (US$1.55/day). This profitability is mainly due to a high volume of transactions (the agents studied performed 86 transactions per day). However, CGAP data from 2011 puts average profit levels at US$3.86, based on an average of 61 transactions.[41] However, liquidity management can be difficult and costly for agents in Kenya. Agents report a variety of expenses, including bank charges, transport costs, and fees to aggregators who advance commissions and provide easy float/ cash swaps for agents. On average, liquidity management made up 30% of total expenses. But in general, M-PESA agents were making enough profit to compensate for these costs. Second, being an M-PESA agent requires capital, a further cost. On average, agents had US$1,605 tied up in the agent business, mostly in cash and e-float. This is 12 times greater than the US$129 capital they had invested in airtime provision. Many of the agents interviewed by CGAP researchers financed their initial capital for the agent business out of proceeds from another business. But the smaller the agent, the more frequently they reported borrowing, often in sums which are large compared to their other income flows. There are also lots of M-PESA shops which were started from scratch, and these are usually financed by a loan so many of these agents are barely breaking even. One of the agent interviewed by CGAP researchers said he lost money being an M-PESA agent because he could only maintain a US$250 float, and had to pay US$1.77 for a bus to the nearest bank: this exceeded the US$1.01 he had earned in commissions for the particular transactions. Other agents

[40] The programmes were the HSNP mentioned above, delivered by Equity Bank through smartcards; the Cash Transfer Programme for Orphans and Vulnerable Children, delivered through post offices; and the Post-Election Violence Recovery Programme, delivered through M-PESA.

[41] CGAP Agent Management Toolkit (2011)

(particularly in rural areas) reported having problems keeping a sufficient float to be able to maintain business continuity. The research suggests that if Safaricom had not had such success in attracting customers it may have had difficulty attracting agents: at the commission rates and expenses agents reported, most agents would be unprofitable if they made fewer than 30 transactions per day (CGAP, 2009).

As in many other countries, a significant benefit of being an agent, whether for an MNO mobile money transfer service or a bank, is increased footfall. Indeed, for some MNO services, if the recipient of a transfer withdraws cash, then he/she pays a fee, whereas if the recipient uses the credit to purchase goods at the retail outlet run by the agent, then the agent/retailer waives the fee (or pays it to the MNO on behalf of the customer.[42]

2.4.5 Link between agent banking and provision of mobile financial services

Although the MNO money transfer agents and the banking agents are separate networks, there is increasing convergence, with telecom companies offering agency services for the banks, and agents like shops and supermarkets operating within both networks. While bank-based agent banking is just beginning to develop, agents are extensively used to deliver mobile payments services throughout Kenya on behalf of four MNOs. The partnership between M-PESA and Equity Bank, M-KESHO (as explained in section 1.4.1), now means that customers are offered access to a bank account, rather than just mobile payment services.

2.5 India

2.5.1 Agent activity and typology

An estimated 400 million Indians (52% of the adult population)[43] are unbanked, and many others are under- or poorly banked. Despite several attempts by the RBI to amend the regulations to try to encourage greater uptake by banks of the BC model, agent banking has had limited impact to date on financial inclusion in India. As shown in Table 2.4, in March 2011 there were 58,351 agents in India in total, of which 94% (54,698) were in rural areas.

Table 2.4 Number of agents (customer service points, or CSPs) in India

SR	Particulars	Mar 09	Mar 10	Mar 11
1	Total no. of CSPs	13,077	33,042	58,351
2	Total no. of rural CSPs		32,691	54,698
3	Total no. of urban CSPs		423	3,653
4	Total no. of new CSPs			25,309
5	New rural CSPs			22,079
6	New urban CSPs			3,230

Source: Reserve Bank of India, 2011

Several banks have started using post offices for lending under the BC model (CGAP, 2010e) and technology firms are also predominant in this market. FINO (a technology firm and one of the first pioneers of agent banking in India) - working together with non-profit partner Fintech Foundation, which acts as BC network manager - has opened ten million accounts on behalf of 14 banks, the

[42] Information from CBK.

[43] Honohan Indicators 2007, quoted in FSD Kenya (2010)

post office and nine government agencies. With 10,000 agents, FINO is the world's largest agent manager. In order to manage its agents effectively, FINO is developing sophisticated management tools, including an SMS-based dashboard showing the real-time status (whether they have reported for duty and if so, at what time) of their entire workforce. FINO's agents are unusual in that they are (i) mobile: they operate door-to-door and transact in customers' own homes; and (ii) sales-oriented: due to the low margins to be made from agent banking agents need to really push their products[44] (CGAP, 2010h). Another technology firm active in this market is A Little World (ALW), which works with a non-profit partner, Zero Mass Foundation. Together they have opened several million accounts (CGAP, 2010e). Table 2.5 provides details of six agent banking services operating in India in 2010.

Table 2.5 Agent banking services in India

Service	Launch	Partner(s)	Registered users	Agents & type	Product offering	Works without client mobile phone?
ALW	2007	SBI	4 million	8,000 self-help groups, Gram panchayat[45] GP employees	No frills account, with payout of G2P benefits	Yes
Mobile money services by YES bank, powered by Nokia	2010	Obopay with Yes Bank & Nokia	1,000	40 Nokia handset dealers	P2P and payments out of prepaid account at YES Bank	No
Green Mobile	2009	PayMate with Corp Bank & TATA	10,000	125 Public Call Office[46] (PCO) operators	Money transfer	Yes
Eko	2009	SBI	32,000	280	P2P out of no frills account	No
FINO	2007	25 projects	12.1 million	10,000	In Karnataka, SBI no frills account & life insurance. NREGA[47] & microloans elsewhere	Yes

Source: CGAP (2010f)

An average of 8.4 deposits and 3.1 withdrawals were carried out by individual FINO agents each day in 2010: with 10,000 agents nationwide we can assume that approximately 84,000 deposits

[44] This is in contrast to other countries, like Brazil and Kenya, where branchless banking has been a 'pull product' (CGAP, 2010h)

[45] local self-governments at the village or small town level

[46] A telephone facility located in a public place

[47] National Rural Employment Guarantee (NREGA): a job guarantee scheme that guarantees a hundred days of wage-employment in a financial year to rural households which volunteer to do unskilled manual work

and 31,000 withdrawals are carried out each day. The average deposit size made via FINO agents was Rs. 175 (US$3.50) and the average withdrawal size was Rs. 368 (US$7.39) per agent so we can assume that approximately Rs 15 million (US$301,000) worth of deposits and Rs. 11 million (US$221,000) of withdrawals are being processed each day by FINO agents (CGAP, 2010f).

2.5.2 Facilitating factors

There are several key drivers supporting the development of agent banking in India. First, the key stakeholders are interested in its development. The government appears to be committed to increasing access to finance and the RBI recognises the potential and risks posed by branchless banking models. The RBI has regularly tried to encourage the growth of the agent banking model by relaxing its regulations and in 2005 it substantially relaxed its AML/CFT requirements for banks – specifically, the identification and proof-of-residence requirements for small-value accounts – which created a favourable situation for branchless banking. Second, there is a winning combination of a large, sophisticated banking sector; a dynamic and competitive mobile phone industry; and plenty of cutting-edge technology providers (CGAP, 2010e).

2.5.3 Hindering factors

The main factor hindering the growth of agent banking in India has been the highly restrictive nature of the regulations, as well as uncertainty as to their duration and application. As described in section 1.5.2 above, there were severe restrictions in the 2006 circular on who might be a BC (initially only NGOs/MFIs set up under Societies/Trust Acts; societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States; certain companies; and post offices were allowed to act as agents) and the 2008 circular added geographical limits (stating that the distance between the place of business of a BC and the bank branch which supervises the BC must be no more than 15km in rural, semi-urban and urban areas, and no more than 5 km in metropolitan centres). The 2008, 2009 and 2010 circulars removed some of the key restrictions but it is still not clear that banks see BCs as offering a compelling opportunity to grow their businesses (CGAP, 2010e). In addition to the regulatory issues, the expense involved in setting up a BC system is also prohibitive as banks need to make significant investments in technology and the development and rollout of an effective, well trained, appropriately incentivised and tightly monitored agent management network (MicroSave, 2011).

A further hindering factor is the lack of activity of MNOs in the mobile financial services market. In other countries, particularly Kenya, MNOs have played a key role in driving the market forward. There are no partnerships between banks and MNOs which aim to offer services to the unbanked at large scale. Many MNOs (Airtel, Telenor, Vodafone) are keen on launching mobile financial services operations in India but are waiting until the regulations becomes more permissive and market conditions improve (CGAP, 2010e).

Furthermore, some large Nonbanking Financial Companies (NBFCs) are keen to use agents and the technology to offer deposit and/or remittance services but are unable to meet the regulatory requirements required to engage in deposit taking (e.g. minimum capital). Some NBFC MFIs have considered using related NGOs to act as non-profit BCs but early efforts to do so have not been successful (CGAP, 2010e).

Finally, the limited product offering of BCs has hindered the development of the agent banking model. No Frills Accounts (NFAs) are the main product offered by BCs but poor people have a variety of financial needs which cannot be met by this single product. Many potential customers need a recurring deposit account[48] to give discipline and structure to the process of saving and/ or a fixed deposit account to set aside harvest proceeds or lump sums generated from sale of assets etc. There is, therefore, a need to diversify the range of services offered by BCs to include other products such as other types of accounts, and bancassurance products (which are largely used by poor households as long-term savings mechanisms) (MicroSave, 2011).

2.5.4 Benefits/drawbacks of functioning as an agent

As the situation currently stands, it is difficult even to break even as an agent in India. There are low cash transaction limits which prevent agents from facilitating larger, more profitable, transactions (CGAP, 2010h). It also takes a long time to increase average account balances and encourage users to transact more frequently: FINO reports that account balances on average are increasing but have only surpassed Rs 100 (US$2), and that users transact about 1.5 times per month (CGAP, 2010e). FINO is currently losing money acting as an agent but they, like several other agents, are mostly motivated by a social mission and the hope that the business will grow into something bigger (CGAP, 2010h).

2.5.5 Link between agent banking and provision of mobile financial services

Some links between agent banking and the provision of mobile financial services are emerging in India, albeit relatively slowly. As explained in section 2.5.3, there are no partnerships between banks and MNOs which offer banking services to the low-income market at large scale. However, as shown in Table 2.5, two of the six agent banking services (‘Mobile Money Services by YES Bank, powered by Nokia’ and Eko), which have a total of 320 agents serving 33,000 customers, operate exclusively through mobile phones. It is likely that there will be an increase in these types of activities as MNOs are keen on launching m-banking operations in India but are waiting until the regulation becomes more permissive and market conditions improve (CGAP, 2010e).

[48] This is an account where the customer deposits a fixed amount of money every month for a fixed tenure (mostly ranging from one year to five years)

3 Agent banking in Nigeria

3.1 Potential for an effective agent banking model in Nigeria

The aim of this study is to draw lessons from the experience of agent banking in the five study countries in order to make recommendations for agent banking in Nigeria. Some caution must be applied to drawing directly from these cases and applying the same strategies in Nigeria. It can be dangerous to try to replicate a model which has worked in one country in a very different context. Some key lessons can nevertheless be learned from the study countries, which we explore in this section.

As explained in section 1.4.1, the AFI knowledge transfer programme was instrumental in the development of Kenya's Agent Banking Guidelines because the regulators were able to draw on key lessons learned about agent banking from their visits to Colombia and Brazil. Kenya was also able to share its experience with mobile payments with the regulators from Colombia and Brazil. We recommend that the Central Bank of Nigeria (CBN) and other relevant stakeholders also make use of the AFI knowledge transfer programme and seek to arrange for visits to the key stakeholders in other countries, particularly Kenya, Brazil and Colombia. Some of the key lessons drawn by the Kenyan regulators from this programme were the importance of involving key stakeholders, both from the public and private sectors, (such as government officials, banks, MNOs) in any further development or roll out of a mobile financial services model; and the importance of prioritising and coordinating the national financial inclusion agenda. For example, Brazil has an ongoing strategic financial inclusion project and Colombia has a designated body, the Banca de las Oportunidades (BDO), whose role is to lobby for financial inclusion. Following the programme, Kenyan stakeholders are now in discussion with AFI regarding support for a strategic financial inclusion project. These lessons could also be applied to the further development and roll out of an agent banking/mobile financial services model in Nigeria.

These are exciting times for agent banking in Nigeria. With an adult population of 84.7 million, of which only 30% are banked[49], and with more than 88.3 million mobile phone subscriptions as at December 2010[50], there is great potential for agent banking and other remote access financial service models to increase financial inclusion. In addition to this, increasing financial inclusion is high on the agenda of the regulator, the CBN). There is, therefore, great potential for agent banking in Nigeria to increase access to finance. Eleven mobile payments licenses were issued by the CBN in August 2011, so it is likely that a variety of different types of operator will now start to offer mobile financial services.

The Regulatory Framework for Mobile Payments Services in Nigeria issued in June 2009 is relatively progressive and permits both bank-based and nonbank-based models. It specifically prohibits MNOs from being the lead actor in mobile financial services, effectively reducing them to the role of providing the network infrastructure or being the junior partner in a bank-based model.

One of the main incentives for banks to invest in establishing an agent banking network is to reach previously unbanked clients. In Nigeria, there is a lack of interest amongst DMBs in taking financial services down market so this constitutes a challenge to creating an effective agent banking model in Nigeria. Most bank lending is to government or to bigger companies in the private sector, predominantly to oil companies. The bank consolidation in 2007 created more solid financial

[49] EFInA Access to Financial Services in Nigeria 2010 survey

[50] Mobile Money Africa (http://mobilemoneyafrica.com/ghana-and-nigeria-poised-for-mobile-banking-revolution/)

institutions but access to finance has actually worsened as banks have become more risk averse and have cut down lending to small businesses and individuals.

A further challenge which should be considered in the creation of an effective agent banking model is the relatively small number of installed POS machines (estimated at over 11,000 units in December 2009[51]), which are hampered by the intermittent supply of electricity. There is also a notable lack of interoperability between POS devices which limits banks' ability to provide effective agent banking services. However, as part of its drive to create a cashless society in Nigeria, the CBN is working to increase interoperability. In August 2010, it issued a circular directing banks and other payment service providers to ensure that (i) all POS and ATM machines are configured to accept and process all payment card schemes; and (ii) that their switching systems connect to the Nigeria Central Switch and only one other switch (Interoperability and Interconnectivity of the Payments System Infrastructure in Nigeria, 2010). The CBN has also set targets to deploy over 100,000 POS terminals by 2012 and 350,000 POS terminals by 2015.

Finally, although the CBN has tried to consolidate and clarify the AML/CFT framework, it is possible that some KYC constraints, such as the need to verify customers' identity and address, may restrict the growth of an agent banking model. This is further compounded by the lack of an integrated national ID system (OPM, 2010b). In some cases DMBs that have started establishing agent banking networks have been motivated mainly or partly as a way to reduce congestion in crowded bank branches, as is also the case in Peru: this way of using agents, of course, has little effect on increasing financial inclusion because the clients who are now using agents are probably the same customers who were previously using a bank branch.

However, the current financial landscape in Nigeria may also present considerable opportunities for agent banking. Some deposit money banks (DMBs) have started experimenting with esusu-style innovations in agent banking to provide accessible savings to market traders; and some banks are currently pursuing an aggressive branch expansion strategy. There is also a small group of newer institutions which are growing rapidly and seem to have genuine enthusiasm for underserved market segments. All of these are indications that some interest in down-scaling is emerging in Nigeria.

The lack of bank and microfinance bank (MFB) branches in the northern states[52] means that it is even more important to introduce agent banking services in order to counteract the high levels of financial exclusion in these states, where physical access constraints make travelling to a bank too expensive for most low-income people. Finally, the fact that the ATM network is currently relatively small (over 11,000 machines as at December 2009) means that there is potential for agents to be used to provide cash-out services whilst the network grows to sufficient scale (OPM, 2010b).

3.2 The level of regulation required & the regulatory model best suited to Nigeria

3.2.1 Implementation of regulations

Our findings from the countries studied suggest that there is no one, perfect, regulatory model for agent banking in Nigeria: rather particular aspects of the regulation in each country can be adopted.

[51] EFInA 'Scoping Study on Payment Systems in Nigeria: supply-side key findings' (2010)

[52] States such as Niger, Nasarawa, Taraba and Bayelsa have less than 8 bank branches per million inhabitants. In rural areas, 86% of the population is unbanked, compared to 61% of the urban population (OPM, 2010b)

We recommend that the CBN adopts the 'test-and-learn'[53] approach to developing agent banking regulations. This approach recommends that regulators monitor the market and allow for private sector experimentation, ultimately developing regulations based on identified market needs. It enables flexibility and allows for frequent amendments to regulations if required. Kenya has effectively used the test-and-learn approach, allowing the nonbank-based model to evolve while monitoring it closely, and waiting until it was well developed before introducing specific regulations for it. In contrast, the way India has dealt with regulating agent banking is an interesting example of the way in which Indian regulators tend to operate generally: they usually start with an extremely restrictive framework and gradually relax it as the market develops. This approach would not necessarily work in other countries and should be treated with some caution.

It is also important to ensure that it is relatively straightforward to amend regulations. A good principle to apply is 'minimum law, maximum regulation,' such that changes to the laws on which the regulations are based do not have to be changed to allow adjustments to the regulations. India is a good example of this in practice: the RBI simply issues a Circular whenever they want to amend the regulations and the frequency of circulars related to agent banking are perhaps testament to the simplicity of amending regulations under the Indian system.

In general, we recommend that the regulatory model applied to agent banking in Nigeria be as open as possible in order to encourage the uptake of agent banking and remote access financial services. While we understand the reasons behind the decision not to allow MNOs to lead mobile financial service partnerships, we recommend that this should be reconsidered. Although there are some doubts about the extent to which M-PESA has actually led to significantly increased financial inclusion, and while the CBN appears to be cautious about the possibility of MNOs providing mobile money transfer services, there is some concern that by forcing telcos to collaborate with banks, the CBN is restricting the potential of mobile financial services (OPM, 2010b).

3.2.2 Types of entities that can be agents & approval by the regulator

We recommended that there be few, if any, restrictions on who can act as an agent (unlike the initial regulations in India): both individuals and entities should be permitted (as in all countries studied). It would be particularly beneficial to ensure that organisations with large distribution networks are permitted to act as agents, such as post offices, lottery outlets (as used in Brazil) and retail chains (as in Kenya). There should be no location-based restrictions (as there were initially in India) as this would restrict the spread of agent banking and therefore limit financial access. Potential agents that are not individuals should be established businesses with a sound track record (as in Kenya and Peru). We also recommend that approval from the regulator should be necessary for a principal institution to start using agents[54] but that subsequent approval of each agent should not be required (as in Peru).

3.2.3 Rules governing exclusivity/non-exclusivity of agents

We recommend that non-exclusivity of agents be encouraged (as in all the countries studied, with the exception of individual retail outlets in India). This helps to increase the uptake of agent banking more quickly, provides customers with a greater choice, and discourages uncompetitive behaviour between banks.

[53] As mentioned above, this phrase was first used by the GSM Association and was then adopted by the G-20 in its 'Principles for Innovative Financial Inclusion' in June 2010 (G20, 2010)

[54] And the principal institution should be required to provide model contracts, copies of policies and procedures for agents, proof of internal controls and that systems are in place for dealing with agents

3.2.4 Permissible activities

We recommend that agents should be able to provide a full range of financial services (as in Colombia). Agents should be able to provide more than just a mobile money transfer service: they should be able to offer deposit and withdrawal services, facilitate account opening, carry out CDD and perhaps be authorised to open basic accounts on behalf of the bank where access to a bank branch is particularly difficult.

3.2.5 Roles and responsibilities & minimum standards

We recommend that a risk-based approach to the supervision and regulation of agents is adopted in Nigeria. The principal institution should be held fully liable for the actions of its agents and proper risk management, consumer protection, and AML/CFT systems should be put in place (as in all the countries studied). These should all be outlined in the contract between the principal and agent. The principal institution should also be responsible for training its agents and providing them with appropriate operation manuals. There should be clear signage at the agent's outlet, showing that the agent is providing financial services on behalf of the principal institution and customers should be informed of any fees payable for the agent's services and the customer complaint mechanisms of the principal institution. Such requirements are found in Colombia, Peru, and India in order to ensure consumer protection.

3.2.6 Typical remuneration structure

As is the case in all the countries studied, agents in Nigeria will undoubtedly benefit from increased footfall in their outlets and therefore will have a financial incentive to act as an agent. We recommend that the customer should not have to pay extra fees to use an agent: the agent should receive a commission from the principal institution for each transaction carried out. The commission level should be contractually agreed between the principal institution and the agent (as in Colombia, Brazil, India and Kenya).

3.3 Recommendations on rolling out a nationwide agent banking network

In our opinion, there are three main options for rolling out an effective agent banking network nationwide in Nigeria. The first option would be to roll out the network making use of existing infrastructure, such as post offices, petrol stations or retail outlets, as has been done very successfully in Brazil (section 2.2.1). This is a quick way of rolling out the agent network as the outlets are already in place and equipped, and are likely to be spread throughout the country, and have an existing clientele. The second option is to work through agent network management companies (also known as aggregators) who may already have arrangements with existing agent networks throughout the country. India and Kenya are examples where this approach has been used successfully. Finally, agent networks could be built from scratch: this would be a much slower approach but would mean that the principal institution would have closer oversight and control over the agents' activities. This approach could be rolled out state by state, for example starting in the better banked states first, such as Lagos state. This model has been used in Peru, where agents have tended to be deliberately located close to bank branches (section 2.3.1).

Given that banks in Nigeria generally do not yet consider down-scaling to be a profitable investment[55] we also recommend encouraging particular banks to establish agent networks. If some banks start to see the financial benefits of using agents, then other banks will be encouraged

[55] OPM (2010b)

to follow suit. It would make sense to first target those banks which have applied for mobile payments services licenses (e.g. UBA, GT Bank) and those that have introduced esusu-style mechanisms.

There may be a good opportunity for the more dynamic and entrepreneurial MFBs to establish and make use of agent networks in Nigeria. This has happened successfully in Kenya and it has been suggested that it would also be the optimal model for Colombia (IDLO, 2010). Apart from LAPO[56], which was previously an MFI, Nigerian MFBs are generally very small and have tended to be located in the same areas as commercial banks. There are more than 900 MFBs in Nigeria with a combined asset base of N157.3 billion (around 1% of the asset base of the 24 banks). Their combined customer base is 3.2 million people (3.8% of the adult population).[57] Most MFBs lack the resources to create large branch networks, so agents could offer them the potential to move beyond their geographically limited customer base, thereby helping them to fulfil the traditional mandate of MFIs to provide affordable and dependable financial services to the active poor. MFBs could also consider sharing agent infrastructure among several microfinance banks; for example, a network of agents could agree to offer services on behalf of several microfinance banks. MFBs already cooperate on training and other services, which suggests that they may be willing to cooperate in sharing agent infrastructure as well.

Ultimately, agent banking and mobile payment networks will need to be interoperable in order to maximize network effects and consumer benefits of remote access financial services. If parallel services develop that are difficult or costly to interconnect, this will limit financial inclusion in the long run. In the near term, however, mandating immediate interoperability of remote access services is likely to discourage innovation and market entry, as some service providers may find it too costly or unprofitable to do so. Therefore, it is recommended that interoperability not be mandated from the start. However, regulators should require that services offered use technical standards that will allow for interoperability at low cost in the future. This will maximize flexibility to allow for market entry while also ensuring that future interoperability will be feasible, both from a technical and financial perspective.

Agents should not just be used by customers to access their bank accounts and transfer money: they should also offer a range of other services including payment of salaries and payment of benefits. Agents can be very effectively used to make payments to beneficiaries of conditional cash transfer (CCT) programmes (such as the ‘In Care of the Poor’ (COPE) programme in Nigeria). While the beneficiaries often live in remote areas and are unable to travel to the nearest bank branch: agents can provide an easy and safe way of them receiving their payments. This approach has been used successfully in Kenya, Colombia and Brazil. In the future, CCT recipients can be migrated by agents to simplified accounts and therefore become ‘banked,’ as happened to 12 million people in Brazil in 2010 (section 2.2.1). Agents could also be used for other services such as selling insurance products (as in India) and dispensing food vouchers as the World Food Programme is doing in southern Africa.[58]Agents could also be used to increase the efficiency of agricultural value chain finance by reducing transaction costs and enabling buyers, sellers and financiers to undertake more efficient clearing and settlement. Nigerian farmers currently use mobile phones to follow the market so it would be highly beneficial if banks/agents could find a way of making value chain payments for agricultural products, as is currently happening in other

[56] Which has 236 branches, 263,909 depositors and 200,115 borrowers (OPM, 2010b)

[57] EFInA Access to Financial Services in Nigeria 2010 survey

[58] See, e.g., home.**wfp**.org/stellent/groups/public/documents/.../**wfp**222730.pdf

countries, such as the use of Mobile Transactions Zambia in financing cotton purchases in Zambia.[59]

It will also be important to make provision for financial education while rolling out an agent banking network in Nigeria as financial literacy levels are low (OPM, 2010b). It is not necessary to allocate responsibility for this in the regulations, as has been done in India, but its inclusion in any strategy to roll out a mobile financial services model nationwide is important.

3.4 Use of agent banking as a tool for financial inclusion

Agent banking should provide the previously unbanked and under-banked with affordable, accessible and appropriate financial products. These criteria are particularly important in order to increase financial inclusion. Products being offered by banks, via agents, should be cheap enough for poorer people to afford them (i.e. prohibitive charges should be avoided); they should be fairly easy for people in remote areas to access (i.e. not just available in bank branches but through a variety of branchless banking mechanisms) and they should be appropriate to lower-income groups (e.g. not targeted at people with a particular salary level and offering a mixture of financial services, including savings accounts).

In all the study countries, agents have been shown to offer cheaper (particularly in Peru, less so in Kenya), more accessible (particularly in Brazil, less so in Peru), and appropriate financial products (particularly in Kenya, less so in India). As mentioned in section 3.3, agents can be a key tool for enabling large numbers of people to open bank accounts, particularly where they have been used to receive CCT payments. Agent networks can also be instrumental in feeding back important information about their customers to the banks.

In an earlier report on the landscape of financial services in Nigeria (OPM 2010b), OPM recommended the creation of a Financial Inclusion Unit within the CBN, that may (a) collect and disseminate reliable information on financial inclusion; (b) participate actively in the decision-making process of the different divisions of the CBN; (c) support evidence based policy making; (d) contribute to guaranteeing the correct implementation of measures aimed at increasing access to financial services; and (e) disseminate good practices and lessons learnt on financial inclusion. Such a unit, if established, could of course play an important role in helping to apply the lessons of other countries to Nigeria and in ensuring that the development of agent banking is undertaken in a way that maximises its impact on financial inclusion.

[59] See http://www.mtzl.net/

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