Agent Pricing across Different Landscapes

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Contents

1.0 Introduction

Following the launch of National Financial Inclusion Strategy in October, 2012 aimed at reducing the exclusion rate to 20% by 2020, the Central Bank of Nigeria (CBN) began a campaign that targeted the financially excluded with the introduction of agent banking. Agent banking is aimed at enhancing financial inclusion, as banking agents are expected to act as delivery channels and offer financial services in a cost effective manner.

In 2013, CBN issued guidelines on agent banking and agent banking relationships with the aim to provide minimum standards and requirements for agent banking operations, enhance financial inclusion and promote agent banking as a delivery channel for offering banking services. Despite the efforts of the CBN to expand the proliferation of agent networks in Nigeria, the channel is still struggling to gain traction. It was against this backdrop, the CBN in 2015 released the Regulatory Framework for Licensing Super Agents in Nigeria, introducing a new set of players called Super Agents. A Super Agent is to take on agent management as its core business and provide a shared Agent Network to all Financial Services Providers, while these providers focus on their core business of providing financial services. However, Nigeria is still far behind at 16.6 active financial access points per 100,000 adults with only 3,567 mobile money agent locations and 48 Deposit money bank (DMB) agent locations according to FSP Maps 2015[1],

Among the several challenges hindering the development of agent networks in Nigeria, high pricing of agent services is a key barrier to the use of financial services. While the CBN in the guidelines issued for agent banking (Regulatory Framework for licensing Super Agents in Nigeria 2015) regulated charges for various agent services, the experience at agent locations is that customers are frequently charged higher, sometimes more than the regulated price. Furthermore, in October 2017, EFInA conducted a Financial Services Agents Survey which revealed that 45.1% of the agents surveyed set the prices they charge customers. This may be due to the various costs involved in running agent businesses, which may not cover agent's overhead costs as well as unscrupulous behaviours by agents to earn more money. In addition, regulatory arbitrage exists in agent pricing as agents charge fees higher than the pricing stipulated for mobile money and agency banking to both classes of customers.

Table 1: Current Charges as stipulated by CBN

Service	Details	Fee
Cash in	On-Us Agent (borne by customer)	N100
	Off-Us Agent (borne by customer)	Minimum of N50 subject to 1.5% of transaction value or N500, whichever is lower
Intra-Scheme Money Transfer	Sending to Account Holder	Minimum of N50 subject to 1% of transaction value or N300, whichever is lower

[1] FSP Maps 2015

	Sending to Non-Account Holder	Minimum of N50 subject to 1.5% of transaction value or N500, whichever is lower
Inter-Scheme Money Transfer	From one mobile money operator to another mobile money operator or financial institution	Minimum of N50 subject to 1.5% of transaction value or N500, whichever is lower
Bill Payment		N100
Cash-out		No charge
Account opening		No charge
BVN Verification		Cost recovery

To better understand the best pricing model of agent services that can be adopted in Nigeria, EFInA conducted this study to review the pricing structures and models in other landscapes, identify and apply relevant lessons to the Nigeria market.

2.0 Learnings from other Landscapes

This section evaluates pricing structures and models in five countries, assessing the models deployed and highlighting the success factors and key takeaways/implications for Nigeria. The countries to be analysed are Bangladesh, Tanzania, India, Uganda and Mexico. These countries have been selected because they have successfully introduced and implemented agent networks, with resulting positive impacts on the uptake and usage of formal financial products.

2.1 Bangladesh

In 2011, Guidelines on Mobile Financial Services were released by Bangladesh Bank, introducing mobile money (bank-led model) to the financial industry. To further promote financial inclusion by allowing banks offer a range of banking services from agent locations, the Bangladesh Bank issued the guidelines for agent banking in 2013[2]. Agents provide services such as cash deposits, withdrawals, remittance disbursement, small value loan disbursement with recovery of loans and cash payments under the government's social safety net programmes. As regards agent pricing, it is stipulated in the guidelines that all financial institutions (banks) engaged in agent banking must establish fees, charges and commission structure for agent banking services and ensure that the agent collects fees, charges and commission payable to the bank as specified in the schedule of charges only[3]. However, there is no specified amount given by the regulators to the financial services providers as they are allowed to fix their own fee structure (pricing). This gives room for healthy competition among agent banking providers as most do not charge for cash-out transactions.

[2] Guidelines on Agent Banking for the Banks
[3] Prudential Guidelines for Agent Banking Operation in Bangladesh

This among other factors such as regulatory relaxation in terms of product innovation contributed to the growth of agent banking in Bangladesh as there were about 773,283 agents as at September 2017 compared to 190,000 agents at the end of 2013. Also, the number of registered clients as at September 2017 increased to 58 million compared to 25 million in February 2015 and 5 million in January 2013[4].

2.2 Tanzania

Following the introduction of mobile financial services and agent banking in Tanzania, there has been unprecedented growth in the uptake of formal financial services as 65.3% of the adult population now have access to formal financial services as at 2017[5] compared to 12.4% as at 2009[6]. These encouraging results have emerged from a conducive regulatory environment created by the Bank of Tanzania (BOT) utilising the "test and learn" approach rather than the dictatorial approach. The BoT released the agent banking guidelines in 2013[7] and these comprehensive guidelines permitted licensed banks and financial institutions to appoint retail agents as a delivery channel for their banking services. In Tanzania, an agent may carry out the following activities: taking cash deposits and withdrawals; facilitating cash disbursements and loan repayments; cash payment of utility bills, social security and retirement benefits; funds transfer; provide mini-bank statements; and collect customer documentation relating to account opening, loan and bank card applications.

As stipulated in the guidelines, the agency agreement between the financial services provider and the agent should contain an agreed fee or revenue sharing structure as related to the scope of work to be performed by the agent. In addition, the agents are prohibited from charging any fees directly to the customers without the knowledge of the financial services provider.

The agent banking industry is contributing tremendously to the growth of the Tanzanian financial sector as there were about 3,299 agents as at 2015 compared to 591 as at 2013[8]. Furthermore as at January 2016, the overall number of deposit transactions was 1,935,826, while the value of deposits through agents increased to Tsh950.89bn ($408.132m).

2.3 India

The Reserve Bank of India (RBI) in 2006 issued guidelines allowing banks to use Customer Service Points (CSPs) as individual agents and Business Correspondents (BCs) as companies that manage the agents on behalf of the banks. However, due to certain regulatory restrictions, banks' interests in using these agents were limited. A major restriction was that banks and BCs were not allowed to charge customers for using agents. However, banks were to pay a reasonable commission to their BCs (the rate and quantum of which should be regularly reviewed). In order to correct the adverse impact of this approach

[4] Mobile Financial Services (MFS) comparative summary statement of August, 2017 and September, 2017
[5] FinScope Tanzania 2017: Insights that Drive Innovation
[6] FinScope Tanzania 2009: Summary Report
[7] Guidelines on Agent Banking for Banking Institutions
[8] Directorate of Banking Supervision: Annual Report 2015

on the viability on agent banking, the RBI removed this restriction in 2009 thereby allowing banks (and not BCs) to charge customers reasonable fees under policies approved by the bank's board[9].

The RBI estimates the number of BCs and CSPs employed by banks to provide services to people at the bottom of the income pyramid at 221,341, 32 as at 2013[10].

2.4 Uganda

According to the UNCDR (Unlocking Public and Private Finance for the Poor), it is estimated that currently over nine million adults in Uganda need to travel more than an hour to access a bank branch[11]. Agency Banking is therefore a convenient solution for this group of people. Due to the regulatory concerns that third party agents cannot offer the delivery of financial services, the Ugandan banking sector has not fully propelled into agency banking. However, following the recommendations from a diagnostic committee to better understand options for regulating digital financial services, the Bank of Uganda (BOU) has created an enabling environment for trials within strict financial sector laws. Therefore, nonbanks were allowed to use agents however their partner bank had to get a letter of no-objection from the Central Bank and provide information about the agent network. Furthermore, the BOU issued the Mobile Money Guidelines in 2013 with the aim to provide clarity, limit fraud and facilitate full interoperability. The Guidelines made it clear that a letter of no objection will not be issued unless the provider demonstrates that its agent operations meet minimum requirements.

The FSP Map for Uganda revealed that the country has 41,794 mobile money agents as at 2015[12].

Furthermore, the BOU recently released the Financial Institutions (Agent Banking) Regulations in 2017[13] that introduced agent banking as a new delivery channel for offering banking services. Addressing the fee/revenue structure between agents, the guidelines state that all bank agents should not charge fees directly to the customers (commission would be paid to the agents by the financial service provider) based on a pre-agreed amount between the financial service provider and the bank agent.

2.5 Mexico

Mexico is one the countries that quickly recognised that agent banking is a viable strategy for extending formal financial services into poor and rural areas. Agent banking regulations were released in 2009 by the National Banking and Securities Commission (CNBV) to allow banks to hire third parties (individuals and businesses) to deliver financial services on their behalf. In Mexico, agents are allowed to perform the following transactions: payment of public services (by cash, card, or cheque from the operating institution); deposits (by cash or cheque from the operating institution) and withdrawals; payment of

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9 Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs)
10 Financial Inclusion 2.0: India's Business Correspondents
11 The Potential of Agency Banking in Uganda
12 Fspmaps.com- Uganda
13 Bank of Uganda releases Agent Banking Regulations

credit (by cash, card, or cheque from any institution); purchase of pre-paid debit cards; balance inquiries; bank statements and transfers of funds between parties. With regards to agent pricing, in Mexico, the agent banking regulations allow the banks and their agents agree on a fee structure that is binding to both parties. Furthermore, agents are prohibited from charging additional fees that were not previously set between the bank and the agent[14]. There is no stipulated amount or fee cap set by the regulators binding banks and their agents.

In addition, Condusef, the specialised financial consumer protection agency which is responsible for enforcing the financial consumer protection laws and the transparency laws, monitors all banks and agents to ensure that customers are not exploited and all basic consumer protection principles are adhered to. Banks and agents are required by law to display all price information and charges at the branches, ATM locations, on the internet and at the agent locations. Agents are forbidden from tying the provision of service to the purchase of its own products or services.

The enabling regulatory environment as well the Country's commitment to financial inclusion has provided the financial industry with a tremendous boost to enhance and monitor access to financial services. As at 2012, it was reported that there were 23,626 banking agents compared to 9,000 as at 2009[15]. This huge rise in agent banking has affected financial inclusion positively as about 56% of the adult population used at least one formal financial service[16].

3.0 Conclusion and Recommendation

With respect to the countries analysed, it can be deduced that agent services pricing models have supported the growth of agent networks and increased access to formal financial services. Therefore, having the regulators allow the financial services providers (banks) and their agents agree on a pricing structure which is transparent and in accordance with the consumer protection laws of the state to avoid undue exploitation will facilitate the uptake of agent networks in Nigeria.

[14] Regulating Banking Agents
[15] Discussion paper: Agent Banking in Latin America
[16] Retail Banking in Mexico: An industry Outlook

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