Nepal

Selecting Agents for Financial Services in Nepal

2015

Facts and figures

27.8 million
Total population

34%
Financial inclusion rate

US$694
GDP per capita

88%
Mobile phone penetration rate

Check out our website www.uncdf.org/mm4p

@UNCDFMM4P

LinkedIn group MOBILE MONEY FOR THE POOR

Who should be an agent?

By Jaspreet Singh

Agent banking has been considered around the world as an additional channel for delivering financial services. However, deployments are challenged with keeping agents motivated, reducing attrition and making the model sustainable. Agent selection has not happened frequently by design but has basically occurred by default, based on a strategy of expansion in which anyone interested has been selected as an agent.

To develop a robust agent-based model, it is important for financial and non-bank institutions alike to recognise that agents are their first customers. As with any business, it is important to identify the right customers and to offer services and a value proposition that ensure the customers remain loyal to the business.

Using the same analogy, it is also important to understand the profile of agents who can offer financial services, the end-customer segments in which they operate and their motivations for becoming banking agents, including their aspirations and their expectations.

Any mismatch between agents' expectations and the value proposition offered by institutions will only lead to dissatisfaction of agents in the medium and long term, thus impacting profitability and increasing cost of operations.

This brings us to the question, Who should be an agent? Can a value proposition be developed for a particular type of agent to keep him/her motivated and to ensure that he/she maintains a long-term relationship with the institution?

The Mobile Money for the Poor (MM4P) programme in Nepal undertook a study[1] to understand what forms of business exist in rural areas, how the supply chains work and how they could be integrated for delivering financial services. The study focused on customer preferences, potential agents' capability and potential agents' interest.

1 http://www.uncdf.org/sites/default/files/Documents/nepal_report3_vfinal.pdf

Agent selection framework

Customers prioritised attributes such as trustworthiness, honesty and good conduct as key behaviour traits they look for when seeking an agent bank for accessing financial services. Drawing on these customer preferences and looking at common elements amongst successful agents, this briefing note lists factors that could be considered when developing a framework for agent selection. The framework (see table 1) could be deployed as a scientific tool that works on scores and weightages.

Table 1

Agent selection framework

Customer preferences	Factors that relate to the business and that may affect service uptake in the agent bank
OPERATING HOURS	One of the foremost factors is customers' ability to conduct transactions when they have time available. This factor depends on the types of customers and economic activities in the agent bank's area. For example, low-income customers, especially those living on daily wages as well as farmers, would not want to waste their working hours. Similarly, an agent bank located near a factory outlet would be best used during break hours.
PRIVACY	It is important that the agent bank provide privacy for customers while they are conducting transactions (i.e., a separate enclosure or space). Conducting transactions in a crowded area creates unwanted attention for customers and risks their personal information (e.g., income) becoming public knowledge.
TEAM SIZE AT AGENT BANK	Typically having a bigger team size (more than one person) assures that services are not disrupted. Only depending on the owner to handle the activities is not prudent, unless the owner has a family member or other individual to help. This factor, however, is based on geographical location and the client base at that location.
VARIANCE IN BUSINESS LEVELS BY DAY, DAYS AND SEASONS	Financial-service customers prefer businesses that are likely to be able to facilitate their transactions at all times. Businesses that experience variance, such as restaurants that have high variance within the day or agri-input shops that have seasonal variance, might see that their time available for financial-service customers is affected and that they might not be able to facilitate those customers' transactions. This factor needs to be examined in conjunction with customer footfall and potential to cross sell.
LENGTH OF CUSTOMER INTERACTION	This factor refers to the amount of time a shopkeeper spends with a customer to service his/her requests. To attend to financial-service customers, it is imperative that the shopkeeper be willing to dedicate sufficient time to the customer who has come in to conduct a transaction. For example, the amount of time medicine shopkeepers typically take is higher than the amount of time exclusive telecom recharge shopkeepers take. The latter tend to get impatient if they have to spend too long interacting with customers.
CUSTOMER FOOTFALL	This factor has three different aspects. First, relatively good footfall reflects dependence of the shopkeeper on his/her current business but also positive customer perceptions (e.g., trust). Second, a crowded shop throughout the day is a negative incentive for financial-service customers in terms of privacy; however, if footfall is spread throughout the day, the agent could possibly attend to those customer properly. Third, low or heavy footfall may affect liquidity to honour transactions accordingly. In sum, it is important to keep in mind that there may be negative effects of both very low footfall (i.e., agent has few agent banking opportunities) and very high footfall (i.e., agent cannot give sufficient time to agent banking services).
LOCATION	Customers invariably prefer locations that are easily accessible—those that see continuous movement of people and traffic rather than those that stand alone.

Table 1 continued

Potential agents' capability	Factors that relate to an individual's capability for agent banking
CAPITAL INVESTMENT AND PROFITS MADE	Capital investment is an important consideration so that the capacity to invest in a new business can be assessed (working capital + fixed assets). With the business of agent banking requiring investment in patience capital, aspects of investment in the existing business provide perspective on capability to invest in the new business and to serve customers. However, investment should not be examined as a standalone factor, and needs to be considered along with profits made in the business and rotation of money.
FAMILIARITY WITH BANKING AND TECHNOLOGY	If the potential agent is familiar with banking operations and technology, it is easier to get him/her on board.
CASH HANDLING	There should be enough cash handled by the business on a daily basis to honour maximum transactions. This factor can be drawn from the calculation of customer footfall and based on the business activity.
ROTI (CURRENT BUSINESS) (Nr PER HOUR)	Return on time invested is a crucial component for those undertaking agent banking as an additional business. During the early phase of a deployment, a large amount of time is invested by the agent in educating and acquiring customers and then handling customer queries. Agents' motivation to continue with the banking business is greatly affected by how they are able to handle their customers from their existing business.

Potential agents' interest	Factors that assess the motivation and interest of potential agents in the new business
PERCENTAGE INCREASE IN INCOME	While building the value proposition, it would be useful to make rough, comparative calculations informing agents of how much money they would make when undertaking the agent banking business. The scenarios for customer acquisition and transactions should be as realistic as possible.
RELATED DIVERSIFICATION	This factor reflects the degree of diversification in the current business. The lower the degree, the easier it will be to enter the agent banking business. For example, a restaurant business might be completely unrelated to branchless banking whereas remittances might be highly related.
POTENTIAL FOR CROSS SELLING	The potential to cross sell existing business products/services is an important incentive. For example, a grocer might find that someone who comes in to make a financial transaction ends up buying a cold drink, which adds to his/her income. On the other hand, it is highly unlikely that someone who goes to an agri-input shop to make a financial transaction will end up buying agri-input products.

Who could be an agent?

The framework provides a clear set of factors on which agent selection criteria could be developed and a means to rank potential agents using the factors to provide a clear go or no-go answer at an individual level for the deployment. The study also applied these parameters to different forms of business at a consolidated level in Nepal, revealing six forms of business that could play a key role as agents: saving and credit cooperatives, remittance agents, agri-input shops, grocery shops, medicine shops and readymade garment shops.

It was evident from the study that each of these businesses would add its own unique qualities to increase the perceived value of agent banking. However, not every form of business could play every role. The roles that each could or could not play are highlighted in table 2.

Table 2
Comparison of roles in agent banking

	Grocery shops	Medicine shops	Readymade garment shops	Agri-input shops	Remittance agents	Savings and credit cooperatives
Customer acquisition/ Account opening	X	√	√	√	√	X
Cash-in/ Cash-out	√	√	√	√	√	√
Loan initiation	√	X	X	√	√	√
Loan recovery	√	X	X	√	√	√
Third-party products	√	X	√	√	√	√

Therefore, businesses need to be chosen appropriately to work as agents. The following factors must also be considered: geographical location, demographic position (i.e., rural or semi-urban), target client base, bank's capability in terms of outreach (in the case of direct linkage), technological requirements, etc. Careful selection would not only help the agents but also the customers to access financial services with ease in neighbourhood markets, so they would no longer need to travel miles to banks or other financial institutions.

While the process of identifying the right agents is important, the value proposition offered to the agents needs to go beyond a transaction relationship. Institutions need to look at alternatives like offering additional banking facilities (either as a standalone offering or through arrangements with larger supply chain players), which would in turn assist the agents to grow their existing business line.

Agent banking has great potential to ensure financial services can be accessed in all parts of the country. It is imperative then that agent networks become permanent structures, which can only happen if agents are offered business propositions that are appropriate for them. Doing so means designing a commission and benefits structure for each value chain, which addresses the pain points and limitations of the business involved.

Key stakeholders

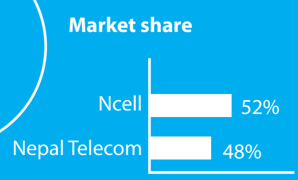
Regulator

- Nepal Rastra Bank

Main banks

- Citizens Bank International
- Everest Bank
- Global IME Bank
- Himalayan Bank
- Nabil Bank
- Nepal Investment Bank
- Prabhu Bank
- Rastriya Banijya Bank
- Standard Chartered Bank

Mobile network operators



Digital financial service providers

- Citizens Bank International
- eSewa
- Everest Bank
- Global IME Bank
- MEGA Bank Nepal
- Mobile Khata (Laxmi Bank)
- Nepal Investment Bank
- Siddhartha Bank

For more information, contact UNCDF-MM4P Technical Advisor François Coupienne at francois.coupienne@uncdf.org.

This briefing note is brought to you by MM4P, a UNCDF programme funded by

Australian Aid · MetLife Foundation — Ensuring Access. Empowering Communities. · Sida · Nepal-Denmark Development Cooperation UNNATI Inclusive Growth Programme in Nepal · UNCDF