HELIX
INSTITUTE OF DIGITAL FINANCE

DESIGNING SUCCESSFUL DISTRIBUTION STRATEGIES FOR DIGITAL MONEY

By Ignacio Mas and Mike McCaffrey[1]
May 2015

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[1] Ignacio Mas is a Senior Research Fellow at the Saïd Business School at the University of Oxford, and has drawn on generous funding from the Bill & Melinda Gates Foundation for this work. Mike McCaffrey is The Principal Consultant for Strategic Operations in Digital Finance at *MicroSave*. He manages both the Agent Network Accelerator (ANA) project and The *Helix* Institute of Digital Finance, which is a joint partnership between *MicroSave*, the Bill & Melinda Gates Foundation, the IFC and UNCDF with funding from Financial Sector Deepening Africa (FSDA).

Abstract: *We document the variety of ways in which digital financial service providers in developing countries have assembled and managed networks of retail stores as their agents for cash in/cash out payments and for account and product sales. We use seven case studies to illustrate how optimal channel structures differ and develop in changing markets in order to meet the strategic objectives of diverse institutions. This paper aims to help providers understand the strategic considerations involved in the design of an agent network and the different models that are currently being used in the market. It also demonstrates the dynamic nature of agent networks, and illustrates how others have augmented them over time.*

Introduction

In this paper we document the variety of ways in which digital finance service providers (banks, telecoms and third-parties) have assembled and then managed networks of third-party retail agents. Agent networks are critical to the customer experience because they represent the first and most tangible service touch points for most customers. They are also probably the most operationally burdensome and costly element of the digital financial service value chain, which has been shown to cost between 40 - 80% of the revenue generated from the business.[2] Providers therefore need to approach agent network development with a high degree of strategic clarity in order to maintain a sufficiently tight operational focus.

There was significant research and analysis on this issue in the early years of the development of mobile money, between 2009 and 2011. In terms of manuals for providers, major publications include: The GSMA Mobile Money for the Unbanked Handbook (January 2010), The IFC Mobile Money Toolkit (June 2010), CGAP Agent Network Management Toolkit (January 2011), and *MicroSave's* Designing & Implementing Agent Networks (September, 2011). There have also been very helpful regulations for agent networks, such as Regulating Banking Agents (March, 2011), and of operating environments for agent networks in different countries, such as the Agent Banking Study (October, 2011). There have also been detailed case studies of operations in Kenya at both the M-PESA provider level, i.e. *Three Keys to M-PESA's Success: Branding, Channel Management and Pricing* (January, 2010) as well as the master agent retail level, i.e. *Bridges to Cash: The Retail End of M-PESA* (May, 2009).

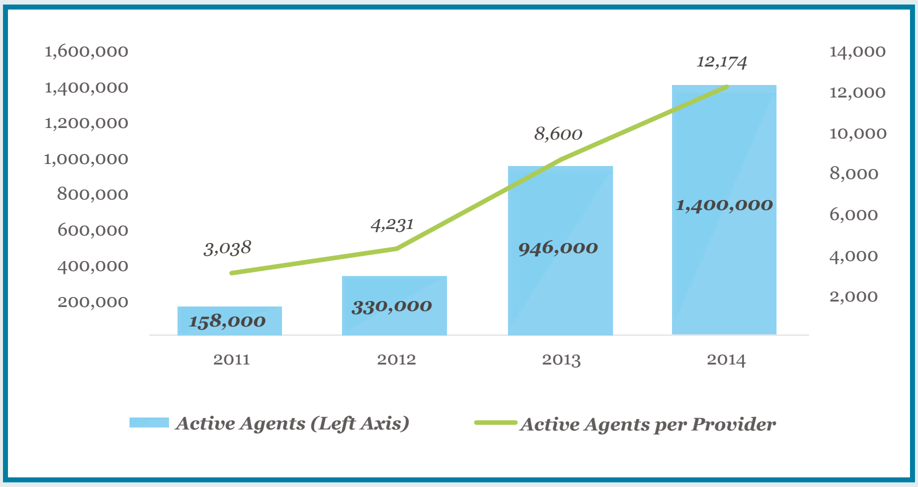
However, in recent years interest has waned. The assumption is that the roadmaps have been drawn and it is now the responsibility of providers to follow them. Most current literature focuses on specific country implementations, notably *MicroSave*'s documentation of India's struggle to develop agent networks, such as State of Business Correspondent Industry in India – The Supply Side Story, Payments Workshop - Building Viable Agent Models (2013) and Business Correspondent Models in Bihar - Constraints and Way Forward (2014); the study of emerging success in Peru by the Consultative Group to Assist the Poor (CGAP) Driving Scale and Density of Agent Networks in Perú (2015); and The *Helix* Institute of Digital Finance's analyses of the strategic operations of agent networks in Uganda (2013), Tanzania (2013), Kenya (2013), Nigeria (2014), Bangladesh (2014), Indonesia (2014) and Pakistan (2014).

[2] Almazán, M. & Vonthron, N. (November, 2014). Mobile money profitability: A digital ecosystem to drive healthy margins. GSMA Mobile Money for the Unbanked.

The Groupe Speciale Mobile Association's (GSMA's) Mobile Money for the Unbanked team publishes a yearly State of the Industry report which shows that since 2011, the amount of active agents providing digital finance services has grown by almost 800% (represented by the blue bars in Figure 1), while the average number of agents per participating provider has increased by over 260% (shown by the green line in Figure 1). Hence, providers now have bigger, more mature networks of agents, and there are more providers with agent networks in the industry.

These gains were undoubtedly guided by the burgeoning body of literature. However no one had anticipated the numerous ways in which these networks would evolve. Providers developed diverse methods to grow and organise their operations. These methods changed in character as they developed. We can now document additional strategies for building agent networks while understanding how they morph as they mature. These insights are crucial as currently around 240 providers are seeking to join the 21 that have managed to register over a million active customers[3].

Figure 1: Total number of active agents and active agents per provider, 2011-14 [4]



Note: Figures from 2011 are likely inflated due to the lack of a standard definition of agent activity. They are also underestimated for 2012, when M-PESA in Kenya did not report figures. In 2013 and 2014 agent activity is reported on a 30-day basis. Lastly, while data for 2011 and 2012 was collected in June, in 2013 and 2014 the figures are from December, making the temporal gap between 2012 and 2013 in the above graph inconsistently large.

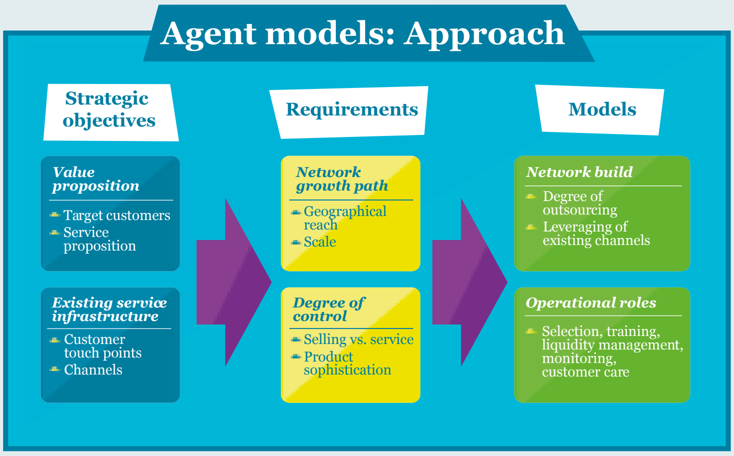
[3] Scharwatt, C. et al. (2014). State of the Industry 2014. GSMA Mobile Money for the Unbanked.

[4] Figures are cited from the GSMA State of the Industry Reports from 2011, 2012, 2013, 2014. Published by GSMA Mobile Money for the Unbanked.

This paper begins by discussing the strategic considerations providers need to take into account when determining how to build and grow their agent networks. We then introduce seven distinctive agent network models, and describe their unique characteristics, illustrating each one with a prototypical example of a specific real-world mobile money or agent banking provider. In each case, we will seek to understand the strategic considerations that have shaped the agent network structure, and how those considerations drive the chosen operational model and affect the allocation of roles and responsibilities connected with it.

We follow the process for building up the models shown schematically in Figure 2.

Figure 2: Schematic process for agent model development



However, reality is more complex than the models we use in order to understand it. Providers do not usually adopt a single, monolithic model, but tend to mix models over time as their strategic objectives evolve. The case studies in the second, more descriptive part of the paper highlight the complexity with which these models develop, blurring the lines between our conceptual descriptions of prototypical examples. The drivers and types of these shifts are then discussed briefly in a third section on the evolution and hybridisation of agent networks.

Part One: Stylised models of agent network development

Characterising the strategic objectives

Agents can be thought of as extensions of a provider's service distribution network. Providers aspire to offer specific services to targeted customers through their agents. Therefore, the strategic starting point for an agent network development strategy must incorporate these two ideas:

- ***The Value Proposition.*** The channel must be designed to deliver a value proposition to a specific group of ***target customers.*** Therefore it is vital to consider the following questions. How many customers do you expect to have, and how fast do you expect to grow to that number? What are the key demographics they represent (e.g. gender, education-level, etc.) and what might have to be tailored because of this? In which geographical areas or environments are they located, and how close to each other or dispersed do customers tend to be within those areas? What is the balance of existing customers versus potential customers?

  It is also important to predict how the target customers will interact with the ***desired service proposition.*** What are the main digital financial services you expect customers to be drawn to and use? What usage patterns are likely to emerge as a result (frequency, size and volatility of transactions, ratio of cash in to cash out, etc.) For payment services, what is the likely geographical distribution of senders and recipients? How complex is the service, and the registration process, and therefore how much time and effort are needed, and who will be willing to execute these activities?

- ***Existing service infrastructure.*** What are the gaps and deficiencies in your existing physical footprint of ***customer touch points***, in terms of geography (unserved areas), volume (points of congestion), culture (affinity with various customer segments), and capabilities? What resources do you have in the field and which potential partners could be leveraged to support agents and scale up your operations?

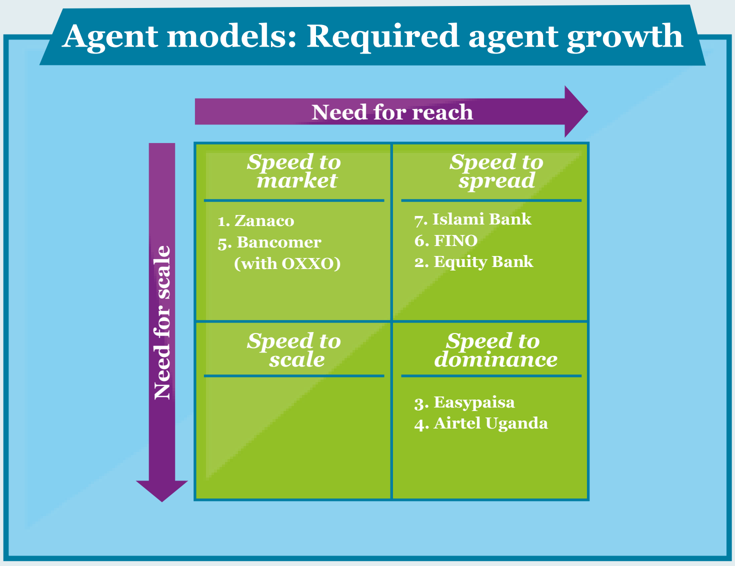
  Furthermore, what ***channels*** are available to provide these services and which ones will be most appropriate for the target market? Will USSD short codes be too complex, will wifi provide the necessary connectivity in rural areas? How will channel choice affect the geographies in which agents can be placed, and the level of dependency customers will have on them?

The agent network must, in the first instance, fill gaps and deficiencies in the existing service infrastructure of the provider, to deliver the value proposition the provider wishes to present to the targeted market.

Characterising the network growth requirements

These factors combine to place certain requirements on providers in terms of the required size and speed of an agent network rollout. It is important to distinguish between two key aspects, as depicted in Figure 3. One aspect is the perceived need for geographical coverage: do agents need to be distributed evenly across the entire territory as quickly as possible? This is represented on the right-hand side of Figure 3. Or can they be initially concentrated in particular areas, perhaps starting in urban areas or in specific remittance corridors and then extending outwards over time? This is represented on the left-hand side of Figure 3.

Figure 3: How the need for scale and reach drives agent model selection



The other aspect is the need for scale in terms of total transactional volumes: is there an imperative to generate large transactional volumes as quickly as possible? This is represented by the bottom half of Figure 3. Or could the volume be allowed to grow incrementally over time? This is represented by the upper half of Figure 3.

This creates four basic agent network rollout scenarios, represented by the four quadrants in Figure 3:

- The ***speed to market*** quadrant is one of controlled growth: the important thing is to be in the market with agents, but there is no driving size or outreach imperative. This will be the position of banks aiming to support the existing branch footprint with agents that help decongest branches and offer more choice and convenience to existing customers. It might also be the position of a bank that wants to develop new business in specific locations, either to establish a presence in remote districts or to test the market before a potential branch opening. The main function of these agents would be to support customers' personal banking transactions e.g. deposits, withdrawals and loan repayments. Agent network rollout is likely to be focused on a relatively short-term business case perspective.

- The ***speed to spread*** quadrant is one of fast coverage in specific territories, for banks wishing to break out from the stricture of their current branches. The agency strategy would be focused on achieving targeted geographical coverage, as this can confer a strong and sustainable competitive advantage. This is likely to be particularly important for providers who want to offer strong distributed payment services, either on the back of governments' social welfare schemes (G2P payments), agricultural value chains (B2P payments), or urban-rural remittances (P2P payments) in specific corridors.

- The ***speed to scale*** quadrant is one where the provider concentrates on high transaction volume opportunities. The focus is on achieving the lowest-cost network as a key differentiator; for banks, this would drive a strong branchless strategy. Geographical coverage is likely to be limited to denser urban areas, at least initially. Bill payment is likely to be a key anchor service as it does not require so much presence in rural areas and transactional volume confers strong advantages in negotiating terms with the billing companies.

- The ***speed to dominance*** quadrant is one where the provider seeks to maximise both scale and reach in order to build an unassailable cost and geographical advantage. This would be important for institutions aiming to concentrate on money transfers (P2P payments) across vast geographies, which require density of agents in both sending (more urban) and receiving (more rural) markets.

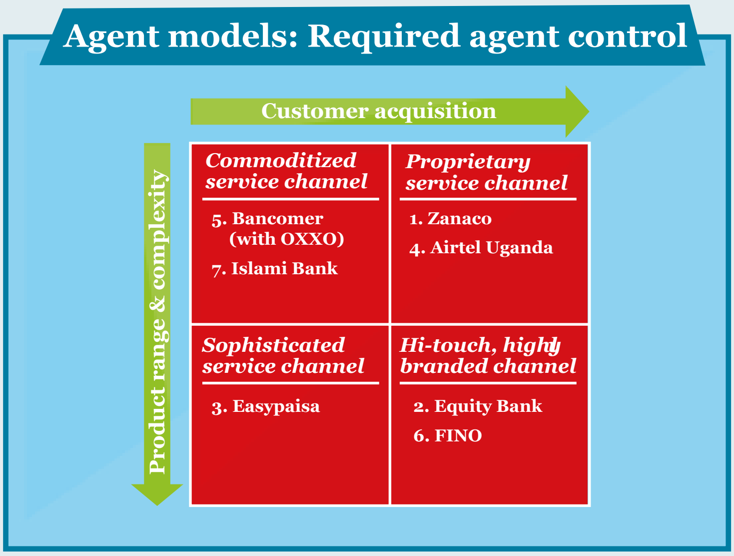
Characterising the network control requirements

In addition to the requirements for size and growth, the value proposition considerations we began with also place certain conditions on the degree of control that the provider ought to exert over its agents. This has to do with two key aspects, as shown in Figure 4. The first one, shown on the horizontal axis, refers to the degree to which the agent channel will be charged with acquiring new customers, as opposed to merely servicing existing customers.

Intense competition in the market will increase the importance of both acquiring and retaining customers at the agent level, and may drive providers to assert agent exclusivity and brand visibility. Therefore, providers who use strategies that require high levels of customer acquisition or who operate in highly competitive markets will favour a higher degree of control over their agents (represented on the right-hand side of the figure).

The second aspect, shown on the vertical axis, is the breadth and complexity of the product range. The broader and more complex the product range, the more the provider will need to invest in the ongoing training and monitoring of agents. This is to ensure that products are serviced or sold appropriately and that all products and services are consistent with brand promises and values. The training and monitoring costs incurred by a provider will be influenced by that provider's market entry sequence. First movers will need to invest the most in this, while subsequent movers might leverage the investments the previous providers made in similar products offered through the same agents. This has occurred in both Pakistan and Tanzania.

Figure 4: How the need for control drives agent model selection



This creates four basic agent control scenarios, represented by the four quadrants in Figure 4:

- The ***commoditised service channel*** quadrant is where agents are expected to perform fairly routine and undifferentiated transactions, without much of a role in either selling to new customers or up selling to existing ones. This might be the case with banks who merely want to offer alternative deposit and withdrawal points close to their own branches in order to make such transactions more convenient for their existing customers as those customers would be directed to the branches or to a self-service electronic channel for all higher-touch activities.

- The ***proprietary service channel*** quadrant is where agents perform limited, low-touch transactions. However these agents are more heavily branded. This will be the preferred position of dominant mobile operators that expect agents to make sales (e.g. open accounts) and maintain a high volume of transactions or gain early mover advantages in order to achieve a certain degree of agent exclusivity. This may also be the preferred position for banks that place their agents further away from their branches and wish to acquire customers by establishing a distinct brand presence.

- The ***sophisticated service channel*** quadrant is where agents are asked to support existing customers with a broader, and likely evolving, set of transactions. However those agents are not heavily involved with new sales. Mobile money organisations offering over-the-counter (i.e. not account-based) services will tend towards this quadrant, as agents are responsible for a larger portion of the activities related to such transactions. Banks that offer a complex suite of their products to existing customers through agents would also build a network of this character.

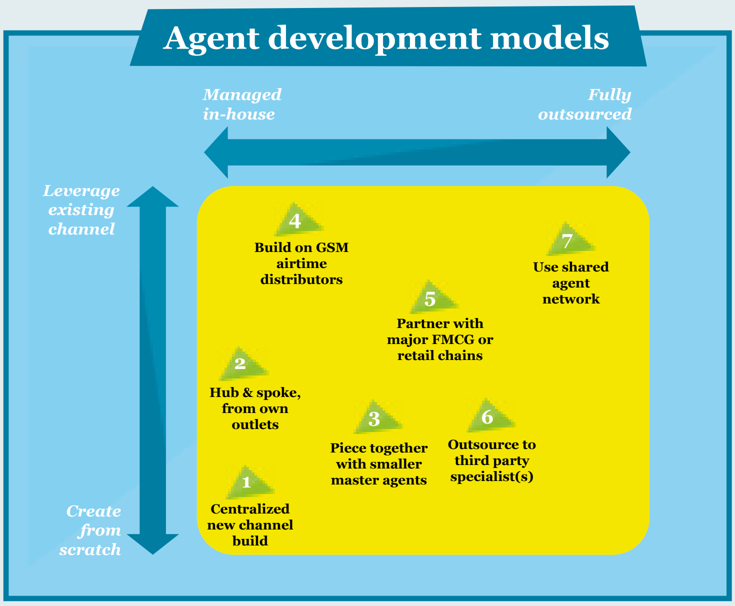
- The ***hi-touch, highly branded channel*** quadrant is where the agents perform a wide variety of transactions, both selling and servicing. This would be the preferred position of those banks that see an agent point as the equivalent of a low-end branch and are embarking on an aggressive long term strategy to sell sophisticated financial services to the mass market. Significant investment is made in branding these outlets and in training these agents so they are well-equipped to acquire customers and sell complex products.

Characterising the network build model

Having established the required network growth path and level of agent control, the next logical step is to develop the strategy for building the agent network. Figure 5 lists seven different agent network development models that are used by various financial institutions around the globe. They differ fundamentally on two key dimensions.

The horizontal dimension represents the extent to which the channel is managed in-house (on the far left of the figure) instead of being outsourced to third parties (on the far right). The cases in the middle represent outsourcing of the lower tiers of the channel but not the top level, which remains in-house. If the channel partners are fragmented, the higher-level channel management roles will need to be retained in-house.

Figure 5: Agent network build models



The vertical dimension in Figure 5 represents the extent to which the agent channel is riding on channels that are already structured and actively managed (top of the figure) rather than being assembled from scratch. The cases in the middle use existing channels but still require a bespoke layer of channel management either on top or below the existing channels.

We now briefly review each of the seven agent development models listed in Figure 5, starting at the left of the figure and moving to the right.

There are two models to develop an agent channel that is fully managed in-house. The ***centralised build*** model puts responsibility for all agents on a single, central team. This is the current model of Zanaco in Zambia, consistent with its strategy of using agents for outreach in areas where the bank does not have branches. The central team needs to have representatives in the regions where agents are present in order to manage them. These models are generally used when the amount of time taken to grow the financial organisation to full scale is not a key consideration. They are useful when control is vital, as it allows for a provider's own staff to conduct a more sophisticated agent selection process.

The ***hub-and-spoke*** model leverages the provider's existing outlets (e.g. branches, in the case of banks), and pushes responsibility for agent management to each outlet or branch. This is the approach that Equity Bank follows, since it has branches throughout the country. Equity Bank branch managers' key performance indicators (KPIs) include the performance of the agents in their catchment area, which ensures that agents are actively managed by the branches. The model can work well for creating a network of high quality agents, as the provider has a great deal of control over the network, but it is not ideal for scaling up quickly unless the provider starts with a large amount of 'hubs'.

Providers who want to retain substantial control over the agent channel but do not want to bear the full brunt of channel building can rely on a fragmented base of ***master agents***, each of whom is responsible for a set of sub-agents, sometimes within assigned geographical territories. This is the model popularised by M-PESA in Kenya, and now followed by most mobile operators in Africa including Airtel Money in Uganda. Introducing master agents makes the channel model more scalable, and gives responsibility for operational matters to partners who are closer to the ground. It is also a common strategy for expanding the reach of networks into new areas where the provider or potential retail partners do not already have a footprint, like rural or low-income areas. Providers prioritising control over 'speed-to-scale' in their network usually choose one of the above three models as a start.

Mobile operators have typically built a highly granular network of airtime resellers for their core voice business. Some telco-based mobile money providers have sought to extend the scope of their ***GSM airtime distributor***[5] channel and put mobile money under it as well. Such is the case with Easypaisa and Mobicash, both in Pakistan, as well as mobile money precursor Smart Money in the Philippines, and M-Sente in Uganda. Under this model, it becomes important to manage the incentives of airtime distributors so that they take an active role in promoting the new mobile money service. If the incentives are aligned correctly the whole operation can scale up very quickly. However the demographic data gathered about the agents in these networks often shows that they are not well suited for registering new customers or providing the high levels of service associated with sophisticated value propositions.

[5] Building on a GSM network is similar to partnering with a retail chain or FMCG in some important ways, mostly in that the demographics of the retailors might be very similar. However, we have decided to define building on GSM airtime distributors as a separate model given its popularity, especially in South Asia, and the unique ability for telecoms to integrate the channel with their existing GSM infrastructure.

These four models all are based on having to sign up stores individually, directly or indirectly through channel partners. However, where sizable retail chains are present in the target markets, an easier approach for the provider is to sign up the entire ***retail chain*** or franchise. The chain managers (or franchisers) then assume responsibility for ensuring the participation of all their stores, and for day-to-day management of the agency business. However, the chains can be expected to have more bargaining power due to their size, and hence will place stronger demands on the provider, especially with regard to store branding and operations.

Providers will therefore have less control over the channel, and while they may save money on the initial channel set-up costs, they will probably pay more channel commissions over the long run. This is the course that large banks such as Bancomer and Banamex have taken in Mexico, partnering with convenience stores such as OXXO and 7-Eleven, and pharmacies such as Farmacias del Ahorro. It is a popular choice when the value proposition being offered is aligned to the demographic of the clientele visiting the retail chain, and also when the provider's senior level management does not want to invest a lot of money upfront to build an agent network themselves.

A variant of this model is where the partner is not the retail chain but a Fast Moving Consumer Goods ***(FMCG) distributor*** who reaches into a large number of stores. Examples of such businesses are beer distributors Bavaria in Colombia and East African Breweries in Kenya, bread distributor Bimbo in Mexico, and the broad-based distributor Hindustan Unilever in India. But to this day, such distributors have not played a major role in structuring an agent channel anywhere. They are more likely to become involved in digitising the payments in their value chains to ensure faster, more secure payments from retailers.

Providers who do not wish to play a direct role in assembling their own agent network and do not find the existing retail networks appropriate, may decide to outsource the job to one or a few dedicated ***third-party specialist*** companies. Generally (though not always) the outsourced channel partners bring their own technology platform, and hence many come from a technology background. Others come from the airtime voucher industry, which also entails the conversion of cash for electronic value. The large state-owned Indian banks such as the State Bank of India and the Punjab National Bank rely on players such as FINO PayTech, A Little World, Eko, to put together dedicated agent networks for them. This can give the provider more ability to determine the locations of agents and their ideal demographics as opposed to building on an existing retail network where these attributes have already been determined.

Finally, the highest level of outsourcing is where the provider simply signs up with an existing ***shared agent network***. These are agent networks that are open to any bank or mobile money operator; the same set of agents serve all issuers through the technology platform of the shared agent network provider. In this case, the provider has practically no role in managing the agents, beyond signing-up and monitoring the performance of the shared agent network. An example of such a network is Tranza of the Solidda group in Colombia, which runs a network of around 8,000 active agents that is used by eight financial institutions, including some major banks such as Banco de Bogotá and Banco Agrario. Tranza's shareholding is totally independent of its client base: unlike many joint banking initiatives, it is not a member-based organisation servicing its own shareholders. Other emerging examples of this model are MobiCash, which offers services for five banks in Bangladesh, and Glo Xchange which has partnered with three major banks in Nigeria.

Characterising the agent network management roles

Each of the agent network development models described above results in a different division of roles and responsibilities between the provider and its channel partners. These can be expressed in the context of six key agent management functions, shown in Figure 6 as wedges of a pie. These are:

1. ***Agent selection & contracting:*** the process by which potential agents are identified, vetted (initial screening and subsequent due diligence), and signed-up (including collection of necessary documentation and legal contracting).
2. ***Training & business advice:*** ensuring that agents and their staff are fully capable of conducting the agency business (including initial training upon signing-up, regular refreshers, and one-offs when there are new store staff), and informed on business optimisation and fraud mitigation.
3. ***Liquidity management:*** the process by which agents can rebalance when they have too much or a deficit of cash as compared to float.
4. ***Branding and Service Monitoring:*** monitoring the financial performance of agents; ensuring that agents comply with all relevant brand and customer service guidelines issued by the provider.
5. ***Commissions and Reconciliations:*** Paying commissions to agents and other people in the channel like super agents and master agents, as well as ensuring that accounts are settled in a timely and accurate manner.
6. ***Customer care:*** answering customer and agent queries, and handling financial reconciliation issues that arise from transaction reversals, incomplete transactions and other exceptions.

Figure 6: Agent management functions

The interactions between the strategic decisions outlined in Figures 3 through 5 and the operational functions here are complex, and depend upon the goals, preferences and opportunities available in the ecosystem for different providers as well as how these considerations interact with each other as the business model evolves.

The relationships between big strategic decisions and the operational management of agent networks are not linear or easy. Therefore we found it most helpful to characterise the ways in which strategy has influenced operations with some key illustrative case studies from around the world. These highlight different prominent providers who have chosen one of the above different building models. Further, in summary tables following each case, we describe agent management models with reference to these six functions and note where the responsibility for each lies in the given model.

Having gone through the conceptual framework, we now dig deeper into the seven core cases we have introduced. For each financial institution, we seek to understand the strategic considerations that shaped its choice of agent network structure, and how that in turn drove its operational model. Perhaps more interestingly, we will seek to explain how these businesses have evolved their agent channel strategy over time. We will focus in particular on how each one adopted a more hybridised approach.

Figure 7: Table of Agent Typology Case Studies

Agent Network Typology	Provider Example
Centralised Build	Zanaco in Zambia
Hub-and-Spoke	Equity Bank in Kenya
Master Agent Model	Airtel Money in Uganda
Build on GSM	Easypaisa in Pakistan
Partner with Retail Chain	BBVA Bancomer in Mexico
Third-party Specialist	FINO Paytech India
Use a Shared Network	Islami Bank Bangladesh Limited (IBBL)

Note: Many more case studies were completed than are actually presented here. The additional case studies can be found at: *www.helix-institute.com*

Zanaco in Zambia (Model 1: centralised new channel build)

Zanaco was the first bank in Zambia to experiment with agents, starting with a pilot scheme in 2009 and launching its nation-wide agent strategy in 2011. As the largest bank in Zambia (in terms of customers and branches), Zanaco wanted to increase its presence in more rural districts in the country. It had little choice: the Bank of Zambia at the time conceived the agent model as one focused on rural areas and discouraged banks from setting up agents in urban centres. Zanaco mainly expected agents to support their transactional savings product through cash in/out, intra-bank account transfers and bill payment.

Zanaco's original approach was to partner with the state-owned Zambian Postal Service Corporation (Zampost), through which Zanaco acquired an agency foothold at over 120 post offices. Zampost was chosen because it was the retail network with the broadest distribution in the country, and it already managed cash at its post offices because it operated the leading domestic money transfer service at the time (Swiftcash). Through its partnership with Zampost, Zanaco was able to claim agents in every district in the country.

However, the operational relationship between Zanaco and Zampost proved challenging. Zanaco started hedging its agency strategy in 2011 by directly signing-up independent stores as direct agents. In 2013, the partnership came to an end due to insufficient strategic alignment between Zanaco and Zampost: Zanaco's financial services could become a threat to Zampost's, and eventually Zampost established its own microfinance subsidiary (Zampost Microfinance Ltd).

Thus, over time Zanaco shifted to a ***centralised build*** agency development model, with the overall responsibility for enrolling agents vested in a small core central team. The central team relied on bank branches to identify stores that could act as agents within their catchment area. Bank branches were also expected to collect due diligence material on prospective agents. The central team vetted all agency applications and was responsible for the installation and training of new agents.

Zanaco currently has 290 agents and is establishing about 30 new agents a month, with a core agency team of seven staff. All agents have a bank account with Zanaco through which all their agency transactions flow, and agents perform their rebalancing at any of the 63 Zanaco branches. Some agents, who are located further away from Zanaco branches, have arrangements with other local traders or businessmen who have a Zanaco account. Those agents go to bank branches or into town more often to rebalance their accounts through their professional contacts.

Over time, Zanaco's branches have become more engaged in the day-to-day operations of the agents' businesses. Each branch must nominate one of its existing staff members to liase with its agents (with an alternative employee to cover in this person's absence), but this is as an additional responsibility and not a full-time position. Therefore, the level of support that branches are able to offer their agents varies from one branch to the next.

Nowadays, the vetting of agents and agent training is still performed by the central team, but agent instatement and monitoring are carried out by the branches. Branch staff visit all the agents in their area at least once a month. The central team shares transaction reports with branches so that they can take marketing actions to support their agents, and branches offer first-line support to the agents within their area. Branches' key performance indicators (KPIs) include the number of agents in their area and agent transaction volumes.

Zanaco felt that the centralised model was important, as that enabled it to assimilate the learning from its agency program and to assess and mitigate the attendant risks. But now that it has become more familiar with the intricacy of agent operations, Zanaco is gradually shifting to a more decentralised model, taking advantage of its branch footprint. Moving to a full ***hub-and-spoke model*** would require creating specialised staff positions in each branch to service the agency business.

Zanaco discarded the option of outsourcing the agency development to a third party because it felt that, as the largest bank in the country and the first one to implement agents, it had the distribution capacity and experience to handle its own channel. It was also reluctant to build up the capability of third parties, which other banks might then seek to leverage as well. So far Zanaco does not use master agents, preferring a direct model under which it retains direct control of its agents. Zanaco has opted for a gradual growth in its agent numbers, and hence the scalability of its agency operations has not been a driving issue. Zanaco does, however, use retail organisations with multiple sites as agents, such as PostNet which has 20 electronic top-up and bill payment outlets.

Thus, Zanaco has used a shifting combination of the centralized model and the retail chain model, though it is evolving towards a hub-and-spoke model with greater reliance on its branches to manage agent operations.

Who they are & what they do	**ZANACO IN ZAMBIA**	
	Central team	***Branches***
Description of who they are	*Core team of 7.*	*One staff member (plus one alternative) per branch nominated to support agents.*
Agent selection & contracting	• Set targets & policies. • Approve individual agents.	• Identify candidates for agents. • Collect documents for agent due diligence.
Training & business advice	• Conduct all trainings.	
Liquidity management		• Agents rebalance at branches.
Brand & service monitoring	• Create marketing materials & brand guidelines. • Supervise agents on ad hoc basis.	
Commissions & reconciliations	• Provider did not want to publish this information.	
Customer care	• General bank call centre is used.	

Equity Bank in Kenya (Model 2: hub-and-spoke from own outlets)

Equity Bank started agency operations in 2010 on a ***hub-and-spoke model***. The bank has traditionally placed a lot of decision-making power on branch managers and invested heavily in building up the human capacity at its branches. Equity Bank therefore wished to engage the entrepreneurial spirit of the high calibre staff already present at its branches to help build a strong agent base which could compete on a par with Safaricom's M-PESA agents. This model has served Equity Bank well: it currently manages 14,000 active agents on a 30-day basis, and the agent channel has become the single largest channel in terms of number of transactions for Equity Bank.

Branches are supported by a centralised agency team, which sets all policies and serves as the interface with the central technology, finance and legal functions. The central team consists of 40 staff at headquarters and 12 embedded in the regions. At branch level, there is an agency relationship manager, plus one or more agent supervisors who hold the primary relationship with the agents within their area. Agent supervisors are assigned an agent case load of up to 50 agents; thus, branches with more than 50 agents have more than one agent supervisor. Agent supervisors may be supported by agency trainees, which tend to be temporary staff drawn from local universities who perform a variety of operational functions.

The central agency team sets targets for agent growth on a branch-by-branch basis. Branch managers have clear key performance indicators (KPIs) on the number of agents in their area and the number of transactions performed through their agents. This gives branch staff a strong incentive to support their agents well.

Branch staff are responsible for identifying potential new agents and for collecting the necessary documentation on them for due diligence purposes. The central team reviews the applications in conjunction with the bank's legal team, and can reject them when they are not compliant with its policies. Thus, the central team has final authority on new agents, though in practice the bulk of the business and contractual process involved is delegated to the branches. Training of new agents is done at branches, by the agent supervisors within the branch. The central team has a team of trainers who train the agent supervisors, on a continuous train-the-trainer basis.

All agents have a bank account with Equity Bank through which all their agency transactions flow, and agents perform their rebalancing at Equity Bank branches to which they have a special dedicated access. The agency team does not offer specific lines of credit to its agents, though agents are often chosen among some of the best Equity Bank business customers, so they usually have access to credit through the normal Equity credit products and processes. When agents need help with any of their operations, they will typically contact the branch staff. But if a customer of an agent has an issue, the agent will call (or suggest that the customer call) the central Equity customer contact team.

Equity Bank does have agency relationships with a few major retail chains. In the case of Nakumatt supermarkets, the relationship with the retailer is managed through a non-exclusive agent. The central agency team appoints a key account manager for each of these chains through which communications are channelled, but each of the chains' stores is supported by their nearest Equity Bank branch for operational matters. Equity Bank is also now beginning to experiment with other agent models, such as ***master agents***, which might over time complement – rather than replace — its core hub-and-spoke model, enabling faster 'speed to scale' and greater reach beyond the geographical areas where branch support is available.

Who they are & what they do	**EQUITY BANK IN KENYA**	
	Central team	*Branches*
Description of who they are	*Core team of 40 staff at headquarters and 12 embedded in the regions.*	*An agency relationship manager, plus one agent supervisor per 50 agents.*
Agent selection & contracting	• Set targets & policies. • Review applications for compliance.	• Identify candidates for agents. • Collect documents for agent due diligence.
Training & business advice	• Train the trainers at branches.	• Conduct trainings at branches.
Liquidity management		• Agents rebalance at branches.
Brand & service monitoring	• Create marketing materials & brand guidelines. • Limited mystery shopping.	• Supervise agents through regular visits.
Commissions & reconciliations	• Provider did not want to publish this information.	
Customer care	• General bank contact centre for customer issues.	• First point of contact for agent operational issues.

Airtel Money in Uganda (Model 3: piece together with smaller master agents)

In many ways, Airtel Money in Uganda followed a similar trajectory to M-PESA in Kenya in terms of the initial strategy it used to start building its agent network and the subsequent tools it brought in to increase the speed at which it could scale it up, and in the quality of service it provided. In essence Airtel Money began with a ***centralised build model*** but quickly outgrew that so it implemented a ***master agent model***, which it continues to evolve by augmenting the model with different components to help it grow into rural areas, stay liquid and provide a high quality of service.

Airtel Money was originally launched as Zap under the Zain brand in 2009. Airtel acquired Zain in 2010, and then Warid in 2013 to become one of the two dominant mobile money providers in Uganda. In December 2014, Airtel Money reported 21,000 active agents on a 30-day basis (32,000 on a 90-day basis) and two million active customers on a 30-day basis (2.4 million on a 90-day basis).

Airtel Money is a division of Airtel Uganda, and itself is separated into three departments: 1) Retail, 2) Corporate, 3) Back Office. While certain support functions for the agent network are managed by the latter two divisions, the retail team is the one primarily tasked with agent network management. It is run by a National Sales Manager, who has nine Zonal Managers who each run teams of 4-6 Territory Executives.

The first model Airtel Money tried was called the "Stand Alone" model (***centralised build model***), where the Territory Executives were directly in charge of recruiting agents in the towns and trading centres within their demarcated geographical zones. Airtel Money originally thought this would be the easiest way to build a network, but with hindsight realised that recruiting mobile money agents was much harder than the work it had already done to build a distribution network for its GSM business. The process of doing KYC due diligence on new agents was too cumbersome for the staff, as was the need to provide all the required support services to the ever growing number of agents in the network.

Warid had been using a ***master agent model*** (referred to as an Aggregator model in Uganda), which Airtel Money adopted (along with its platform Obopay) during acquisition. It recruited 50 master agents, and gave them targets to recruit retail agents that could offer Airtel Money. Since staff were now only doing due diligence on master agents, as opposed to each individual agent, they were able to focus more on the quality of the network. The master agents enabled the network to grow more rapidly. The master agents were also able to push Airtel Money into hard to reach rural and low income areas, as they had more bandwidth to deal with the problems that arise when agents who need educating on how to prepare the required documentation are registered.

Master agents are vetted on a couple of different dimensions. They are required to have fifty million UGX in capital (US$ 16,750), and be a registered business. Airtel Money also recommends that they have 'runner boys' and 'mobile vans' which move on regular predetermined routes to offer rebalancing services for agents.

Master agents were acquired from four major demographics:

1. Warid master agents that agreed to work for Airtel once it acquired Warid. These people were crucial because they already had experience as master agents for Warid Pesa.
2. Airtel GSM distributors. Some of the existing distributors for the Airtel GSM business also agreed to distribute for Airtel Money. However, the distributors needed to look at their existing retailers carefully as the initial capital requirements for GSM are only 20,000 UGX (US$ 6.70), while for mobile money it is one million UGX (US$ 335), meaning that only a certain sub-demographic of the GSM retailers would qualify.
3. Other FMCG distributors/stockists. This includes GSM dealers for competing telecoms companies. These were important strategically because they had existing distribution experience and an existing network of retailers that were potentially in a greater diversity of locations than the existing Airtel Money GSM dealers.
4. Successful Entrepreneurs. In some regions the existing retail networks are not strong, so the Airtel Money team identifies someone with sufficient cash and an entrepreneurial attitude, who can help it to build a network of retailers in that area. This helps Airtel Money to cover the more hard to reach places, and provide cash to smaller retailers in the area who need a source of liquidity.

Airtel Money believes there were benefits in starting with the standalone model and then transitioning to the master agent model. It allowed the Airtel Money team to go to market quickly and show the potential of the business, which the team could then use to justify more investment and make more favourable deals with master agents later. It was also much easier for the management to give approval for a small team that could build a distribution network for mobile money, as they did for GSM, since the company understood the business.

Airtel Money did initially examine the possibility of using the GSM distributors at this early stage as well, but the distributors were not willing to commit to a new product they did not understand, which had lower margins than selling airtime. However, once they saw the stand-alone model working without them, some distributors started to understand the potential and came on board.

The network of agents started growing exponentially, and master agents that were originally targeted to manage 250 agents are now managing as many as 1,000. They can only provide limited support to agents, and the Territory Executives who are supposed to regularly monitor the agents are overburdened as well, so quality of service has become an issue.

However, these FMCG-type agents were not used to taking the time to do things like register customers, and so while agent numbers climbed to around 5,000, active customers remained at between 180,000 and 240,000 on a 30-day basis which is less than 50 active customers per day. Further, their escrow bank [Standard Chartered] was the only institution agents could rebalance at, and they had to go to one of its 11 branches throughout the country.

Airtel Money tackled the liquidity issue first by augmenting its model to incorporate super agents. It then recruited nine more banks, which increased the number of points at which agents could rebalance to more than 500 bank branches around the country. Banks acting as super agents provide the service free to agents, and then collect a fee directly from Airtel Money. Promoters were also hired to roam around registering customers, so that agents would have a business case for staying liquid.

Airtel Money has shifted its focus from the quantity of agents to the quality of service they provide. It is now looking at outsourcing the monitoring and support function to a third party trade marketing firm, like M-PESA does in Kenya. This should help it to manage the quality of the existing network more effectively and also to expand out into more rural areas where it previously found it difficult to monitor agents and keep them liquid. Airtel Money understands that these rural areas may require different operational systems, so it is improving the dashboards that are made available for master agents so they can give better support remotely; it is investigating alternative rebalancing points beyond the urban constraints of the bank branches; and it is testing different value propositions that might attract customers in greater numbers in rural areas.

Who they are & what they do	**AIRTEL MONEY IN UGANDA**	
	Central team	*Branches*
Description of who they are	*The retail division of Airtel Money which is separated into nine zones.*	*Mostly former master agents for Warid that was acquired by Airtel in 2013. Others were Airtel GSM distributors, FMCG stockists, and small entrepreneurs.*
Agent selection & contracting	• Zonal Managers each have 4-6 Territory Executives reporting to them who did agent selection at the beginning.	• Master agents are now in charge of selecting and on-boarding agents, according to the standards set by Airtel.
Training & business advice	• Training and support is done by Territory Executives.	
Liquidity management	• Liquidity is monitored by Territory Executives and the responsibility of the agent to rebalance.	• However master agents are also expected to play a supportive role and now there are super agents to help give agents more proximate options.
Brand & service monitoring	• Actual monitoring is done by the Territory Executive, who is supervised by the Zonal Manager.	
Commissions & reconciliations	• Paid directly to the agents.	
Customer care	• GSM call centre used and managed by the Operations Manager in the Back Office division of Airtel Money.	

Easypaisa in Pakistan (Model 4: build on GSM airtime distributors)

Telenor Pakistan entered the Pakistani mobile telephony market aggressively, leaping from the fifth largest provider to the second largest in a period of three years. In 2008 it acquired 51% of Tameer Microfinance Bank, and then in 2009 the companies jointly launched Easypaisa. Telenor really focused its staff on breaking into financial services in 2009-2010, and set about building an agent network to do so. Telenor decided to ***build its agent network on its GSM distribution network*** as it thought it would be a low cost way to scale up quickly.

Many mobile operators who have tried this run into 'channel conflict' problems, because their GSM airtime distributors refuse to offer financial services which generally offer lower margins than airtime sales, and which take more time to explain and sell to customers. However, Telenor had created a lot of goodwill amongst its franchisees (known as distributors elsewhere) because of its previous large growth rates in the voice business, so they were happy to support Telenor's new venture and had faith that it would also be successful.

Telenor also understood that the business would require a lot of financial resources, and it knew which of its franchisees were well-resourced and suited for the job. To entice these franchisees to invest heavily in the business it knew it would have to grow its customer base quickly, despite the fact that it only controlled 22% of the mobile telephony market.

Telenor decided on two strategies to catalyse customer acquisition. The first was to invest heavily in marketing to build awareness of the new brand and the service it was offering. The second was to go to market with a model called "Over-the-Counter (OTC)". OTC means that customers do not need to have mobile wallets to transact as the agents can transact for them as long as the customer who is sending the money brings a photocopy of their ID when making the transaction.

This strategy had dual benefits. The major one was that it meant anyone with a photocopy of their ID could use the service, and did not limit Easypaisa to the 22% market share that Telenor possessed in the mobile telephony market. Secondly, the types of agents that were acquired through the GSM franchisees were used to high volumes of quick and simple transactions, like those for gum and cigarettes, and not the time-consuming complicated process (especially in Pakistan) of enrolling customers. With the OTC model they did not have to worry.

The model is very simple and the franchisees handle most of it, so the Easypaisa team has remained small. It consists of about 20-30 people and focuses on policy and strategy. They use Tameer and Telenor staff to monitor agents in the field, they rely on the Telenor call centre, and they pull in people from the Telenor Sales and Distribution team to design things like marketing campaigns.

[6] For a more detailed account of Easypaisa see: McCarty, Y. M. & Bjaerum, R. (2013). Mobile Money Innovation in Pakistan, GSMA.

Depending on the number of agents they manage, franchisees have between two and seven people working for them dedicated to Easypaisa. They are tasked with recruiting agents, training them, visiting agents frequently (many are visited daily), doing some rudimentary monitoring and support, and offering rebalancing services. They walk set routes, and have a maximum amount of cash they can carry, at which point they need to go directly to a bank to deposit cash before they can continue on their route. Telenor takes out some limited cash in transit insurance for this as well.

While this model has allowed Easypaisa to grow rapidly - it now has over 45,000 active agents, it has also left the door open to its competitors to copy what it did. One of the big problems of the OTC model is that the provider does not maintain a direct relationship with the customer, only the agent does. The agent therefore holds a lot of power in the relationship and has limited loyalty to the provider when a competitor offers a higher commission rate for exactly the same service. There are now seven serious contenders in the market all engaged in commission wars, promising larger commissions to the agents to try and keep them loyal to their brand. So providers have added costs, and shrinking margins, plus a problem keeping their agents compliant with regulations given they do not hold much sway with them.

Easypaisa has hired roving agents to get customers to open mobile wallets with them, and is looking at alternative agent demographics that might be better at customer registration than their current demographic. It is also doing analytics on its agent network to assess which ones it really needs to protect from competition. It has decided that the top 10% of performing agents will receive higher commissions upon meeting set targets. The need for these sophisticated tactics means more involvement by the central Easypaisa team, as it determines how to increase control over certain key portions of their agent network.

Who they are & what they do	**EASYPAISA IN PAKISTAN**	
	Central team	***Franchisees (GSM Distributors)***
Description of who they are	*This team sits in the telecom office, and overlaps with them, but also has dedicated staff.*	*They distribute airtime scratch cards to retail stores and are structured much like an FMCG distributor. Called Franchisees.*
Agent selection & contracting	• Central team sets selection criteria. Compliance monitored and reported by third party.	• Conduct the actual selection and on-boarding of agents.
Training & business advice	• Geotag agents and do some high-level monitoring.	• Conduct trainings, and visit agents regularly.
Liquidity management	• Agents have a dedicated line they can call for rebalancing on demand.	• Employee runners who travel daily routes visiting agents, and rebalancing for them.
Brand & service monitoring	• Create marketing materials & brand guidelines.	• Are in charge of merchandising, and brand monitoring.
Commissions & reconciliations	• Send money directly to the agents and franchisees.	• They are paid a percentage of the revenues generated by the agents they manage.
Customer care	• GSM call centre is used.	

BBVA Bancomer in Mexico (Model 5: partner with major FMCG or retail chains)

With 19 million customers and 1800 branches, BBVA Bancomer is Mexico's largest bank. It has opted primarily to extend its presence outside of its branches through partnerships with larger retail networks. BBVA Bancomer has signed ***agency agreements with major chains of convenience stores (retail outlets)*** such as OXXO and 7-Eleven, grocery and department stores such as Walmart, Soriana and Chedraui, and pharmacies (chemists) such as Benavides, Guadalajara and del Ahorro. Agent regulations in Mexico made it hard for banks to enter into exclusive relationships with agents; so many banks are present at these same outlets.

Relationships with these major retail chains are handled by a fully dedicated, centralised team of five people, with support from other relevant departments within the bank. Installation of new retail outlets and training of new personnel is the responsibility of the chain headquarters, and BBVA Bancomer staff only train the trainers at these chains. Agent commissions are paid monthly to the retail chain on an aggregate basis for all their stores. Reconciliations, which run at less than 1% of agent transactions, are handled by the chain HQ working with the BBVA Bancomer core agency team. Given this highly outsourced operational model, there is no role for BBVA Bancomer branches in managing or supporting agents.

Each chain holds a single agent account at BBVA Bancomer, through which the agent transactions from all their outlets flow. BBVA Bancomer extends a line of credit to each chain to finance the float they must hold to perform their agency business. OXXO as the biggest chain (with over 12,000 convenience stores) is given a line of credit at no charge.

The BBVA Bancomer agent footprint is therefore largely a function of where the retail chains have their outlets. The core team has begun tracking its agent footprint with a geo-referenced database, and is now more deliberate about picking smaller regional chains or placing individual direct agents where there are gaps in agent coverage. The team also conducts annual agent audits through a mystery shopping programme on a sample basis. It also tracks customer complaints on a store-by-store basis.

In general, the major chains display posters showing the range of electronic agency services available at their stores, which includes agency services for a number of banks, bill payment, airtime top-ups and other electronic voucher services. But the chains conduct little specific marketing to drive the BBVA Bancomer agency business. It is therefore up to BBVA Bancomer to promote the agency business, through their branches or mass market media, or by purchasing additional space at the chain's stores to display its own marketing materials.

In addition to offering agency services through retail chains, BBVA Bancomer is entirely comfortable with operating through networks of non-exclusive agents to help provide better service to its customers and also works with smaller shared agent networks where they are available. In total, BBVA Bancomer claims over 25,000 agents. In Peru, where retail chains are less extensive, its sister bank BBVA Continental works primarily with ***shared agent networks*** such as Globokas.

In general, the BBVA group of banks sees these two models–through existing retail chains or through shared agent networks—as essentially achieving the same purpose, and opts between them purely tactically, on the basis of their presence on the ground. Both models allow the bank to offer its customers a denser and busier (hence, healthier) network of agents. The operational burden for the bank is far less than if it operated its own agents.

However, BBVA Bancomer does not see retail chains as an effective channel for new customer acquisition, unless the chains were willing to do this for it on an exclusive basis. It fears that, without an exclusive relationship that permits a more intensive and sustained relationship for product promotion, the quality of acquired customers might not be very good and the retail chains may flip customers from one bank to another based on the customer acquisition commissions they get. BBVA Bancomer has therefore not launched a specialised product to be sold through these mass-market channels. Its rival Banamex has such a product, called Saldazo, and so far has sold over a million accounts through OXXO outlets.

In parallel with these shared agent channels, BBVA is rolling out its own exclusive agents which it signs up and manages entirely in-house. These account for about a quarter of BBVA Bancomer's agent base in Mexico, and about one-tenth of BBVA Continental's agent base in Peru. Directly managed agents therefore serve two purposes: as an exclusive sales channel for the bank's products, and as geographical in-fill where retail chains or shared agent networks are not present. Over time, BBVA might shift its emphasis more towards the direct, exclusive agents managed through a ***centralised model*** in order to acquire more customers more aggressively.

Who they are & what they do	**BBVA BANCOMER WITH OXXO IN MEXICO**	
	Central team	***Retail chain HQ staff***
Description of who they are	*Largest bank in Mexico, with a core agency team of five.*	*A chain of over 12,000 convenience stores, all of them banking agents.*
Agent selection & contracting	• Maintain a geo-referenced agent database. • Fill in agent gaps with own agents.	• Select stores within the chain that are suitable for agency business.
Training & business advice	• Train the OXXO HQ staff.	• Train individual stores.
Liquidity management		• Maintain single account with BBVA Bancomer. • Set cash policies for all stores.
Brand & service monitoring	• Promote the banking service available at OXXO stores. • Mystery shopping on a sample basis.	• Monitor all stores. • Offers signage space to BBVA Bancomer on a paid basis.
Commissions & reconciliations	• Single monthly payment to OXXO.	• Attribute the commission revenue on a per-store basis.
Customer care	• Maintains first-level call centre.	• In-store service.

FINO Paytech & 20 Indian Banks (Model 6: outsource to third-party specialists)

FINO Paytech (FINO) started its operations in India after The Reserve Bank of India (RBI) issued the Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents circular in 2006, which allowed banks to use third parties to manage agents for them. Agents are referred to as Business Correspondents in India.

FINO saw the opportunity to create a niche in managing a network of rural agents for banks that could help them to reach more customers, facilitate Government to Person (G2P) payments, and allow banks to have a presence in places where building new branches was too expensive.

In India, each bank has a specific geographical territory in which it is licensed to operate, and in 2009, RBI issued a notification titled, High Level Committee to Review Lead Bank Scheme, which advised banks to place "banking outlets" in each of the over 70,000 villages across India with populations over 2,000 by March 2011 (later revised to March 2012). Each bank was responsible for the villages in their licensed geographical areas. In many cases, there were thousands of these villages in each of those areas and that presented a great challenge.

This really catalysed demand for FINO's services, as all banks had to comply with the 2009 notification and very few had developed infrastructure in rural villages. Furthermore, there was a dearth of existing networks that could easily be tapped into at the village level, so banks either had to hire a third party like FINO to build a network for them, or to hire a large team directly to build one in-house.

At the time there was a great deal of discussion around the optimal strategy for expanding into rural areas, however, many bankers were not convinced that they would be able to generate sustainable profits from the villages, and also thought there was a possibility that RBI might relax this prescriptive policy in the future. Therefore, they did not perceive great value in building agent network management capacity in-house, and ***outsourcing to a third-party specialist*** meant they had a lower initial investment, and remained more flexible over time if this requirement was to be lifted.

RBI regulation did allow for third-parties like FINO to build agent networks for multiple banks, but the Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs) circular of 2010 stipulated that each individual retail outlet must remain exclusive to only one bank, which meant that each bank's network would have to be managed separately. FINO developed both the technology and the operational systems to manage multiple large agent networks in rural villages across the country, effectively using a ***centralized build*** model.

FINO is currently serving more than 20 banks and has built agent networks of between 100 and 9,000 agents for each of them, amounting to a total of 30,000 agents (90% of which are active on a 30-day basis), who serve 28 million active customers.

This was an enormous undertaking in a vast country of 1.2 billion people. On the technology side, FINO has a team of 150+ developers that build the agent network management software that banks and its own operations team can use to manage agents in the field. FINO also developed a smartcard that works with a Point-of-Sale (POS) device, and has updated its POS machines so that they accept the biometrics required to serve the hundreds of millions of people who registered through Aadhaar, many of whom are receiving government payments.

On the operations side, the network is managed in four different zones each with their own supervisor. Each zone is further separated into states, which have a total of 70-80 managers, who then supervise 200-250 District Heads, who administer 1,200-1500 Block Coordinators. These Block Coordinators assist with the recruitment of customers, and agents, and then each manage 20-50 agents.

FINO began by recruiting mobile agents that roamed between villages, serving demand across a region, but ran into problems with clients complaining they could never find their agents when they needed them, so now it focuses on recruiting agents that already have small stores, and consequently remain fixed in one location. Presently about 60% of the agents it manages operate from fixed locations, while 40% of its agents still travel to see clients in the villages they cover.

Over time, FINO has learned a lot about building agent networks in rural areas, and has developed a methodology to do so effectively, starting with an initial market test. This involves conducting a customer recruitment campaign to gauge the level of market demand, and then consulting the Gram Panchayat, an elected village leader, to determine who would make a good agent. These agents mainly offer deposit services, remittances, and insurance.

The landscape has been changing rapidly in India, and after years of working with third-party specialists like FINO, some banks are now convinced that the model will persist and are building in-house agent network management capacities. Beyond the rural villages where they were forced to operate, there is now a perception that the model could also work well in low-income urban areas, and this may be an area where significant expansion is seen in the future.

In November 2014, the RBI released the Guidelines for Licensing of Payments Banks. Payments Banks have limited banking licenses, which means that they are able to provide payment and small deposit services, but not credit. FINO and over 40 other entities in India have applied for a Payments Bank license, which will effectively allow FINO to become a service provider, as opposed to just a channel manager for banks. FINO is excited about this opportunity, and plans to continue servicing its client banks, while also building a separate network of directly managed agents it can offer its own services through as a Payments Bank.

Who they are & what they do	FINO PAYTECH IN INDIA	
	Bank	*FINO PayTech*
Description of who they are	*20 Banks across India including ICICI, Oriental Bank of Commerce, Union Bank of India, & Canara Bank.*	*A team of 150+ on the technology development side, and 2700+ on the operations side, managing 30,000 agents across the county.*
Agent selection & contracting	• The bank determines which geographical areas need to be covered.	• FINO selects the actual agents (banks approve them), and then FINO handles the on boarding.
Training & business advice	• Banks may help by sending branch staff to give support during training sessions.	• FINO team generally handles agent training and often trains branch managers for the bank.
Liquidity management	• Banks extend lines of credit or interest free overdraft facilities to FINO that is then expected to distribute it to agents.	• Block/district coordinators pick-up cash from bank branches and deliver it to agents usually weekly or fortnightly and sometimes on demand.
Brand & service monitoring	• Agents are co-branded with the Bank's brand as well as FINO's.	• Agents are co-branded with the Bank's brand as well as FINOs. Agents have FINO caps and jackets.
Commissions & reconciliations	• Some payments are fixed per agent managed and paid to FINO, and then additional incentives are given based on performance directly to the retailer and FINO.	• FINO shares between 50 - 70% of revenues with agent depending on the bank and specific type of transaction they are conducting.
Customer care	• Branch staff make appearances in villages to give legitimacy to agents, and do some monitoring visits to assess quality of service.	• FINO operates a call centre to deal with customer complaints and queries.

Islami Bank Bangladesh Limited (IBBL) in Bangladesh (Model 7: use shared agent network)

Islami Bank Bangladesh Limited (IBBL) launched its digital finance service called Islami Bank mCash in December 2012. It was the third to market (after Dutch Bangla Bank [DBBL] and bKash) and launched with a focus on providing new customers access to its banking services via the mobile phone. IBBL wanted to grow quickly to win a large share of the market, and saw its network of 294 branches (the largest of any private sector bank in Bangladesh) as a great foundation for an agent network.

Therefore, it started with a ***hub-and-spoke model*** based on its branches, which it used for a year and a half until around May 2014. It was able to grow an agent network of around six to seven thousand agents in this manner, but had significant trouble doing so. First, it only had a few people dedicated to building the agent channel, which proved to be not nearly enough, and secondly, the agents did not like having to close their shops and travel to the bank branch to rebalance, especially when other leading services were offering rebalancing services at their shops.

Hence, IBBL switched to a ***master agent model*** (in Bangladesh master agents are called distributors), quickly identifying telecom airtime distributors, and local business in communities that had distribution experience, local knowledge, and enough cash to run networks of a couple of hundred agents. It selected 155 of these master agents, and grew the network to 26,000 agents (50% of which were active on a 30-day basis). IBBL requires master agents to deliver rebalancing services to agents on demand, and is also able to outsource a lot of other operational tasks to them. IBBL designs marketing materials, but the master agents are in charge of distributing them and monitoring their display, and training agents. IBBL also provided the necessary training to all distributors and their agents.

However, being involved in the management of 155 master agents still proved quite burdensome to staff, and the agent channel was not very profitable. IBBL understood that its expertise was not in building and managing this mass market distribution channel; it was in designing financial products to sell through it. So in August 2014 IBBL made a strategic decision to outsource the distribution, so it could better focus on developing services for its agent channel. IBBL signed a partnership with Grameenphone the country's largest telecom business, to distribute IBBL services through the agent network Grameenphone was building called MobiCash. This was effectively a switch to the ***shared agent model.***

This partnership outsources almost everything to MobiCash. MobiCash has developed standards for agent selection, which comply with those of its partner banks, and then does selection, training, monitoring, support and liquidity management for the agents. This switch has been cannibalising IBBL's former master agent based channel, with around 30% of the agents it had recruited through master agents now being converted by MobiCash to offer IBBL services through its channel. Currently, IBBL is allowing this to occur as it needs the bigger bandwidth so that it can develop more innovative banking products to offer over the larger channel to market that it wants, but it is also monitoring the situation carefully to ensure the quality of the channel is high, and the transactions it expects are occurring.

Who they are & what they do	ISLAMI BANK BANGLADESH LIMITED (IBBL) IN BANGLADESH		
	IBBL	*MobiCash*	*MobiCash Master Agents*
Description of who they are	*The largest private sector bank in Bangladesh in terms of branches (294).*	*A brand of Grameenphone, who controls around 40% of the voice market, and 300,000 GSM retailers.*	*About 120 GSM distributors who each manage an average of 500 agents.*
Agent selection & contracting	• Ensure agents comply with their standards.	• MobiCash has developed standards, which master agents use to nominate agents to MobiCash. Agents are contracted upon successful completion of training.	• Selects agents from their GSM retail business to be nominated to MobiCash.
Training & business advice		• Training is done regionally with a MobiCash staff member.	• Participate in trainings, and then are supposed to provide business advice and answer any questions between the training courses with their staff who regularly visit agents.
Liquidity management		• Have pre-funded accounts at all partner banks, which they use to credit and debit transacting customer accounts in real time.	• Have staff visit agents visit agents at least once a day or sometimes less frequently as needed.
Brand & service monitoring	• Banks conduct some service branding for customer awareness.	• MobiCash is putting staff in regional offices who will be dedicated to monitoring the service full time.	
Commissions & reconciliations	• Calculate & pay commissions to MobiCash.	• Receive fees from partner banks, and distribute in real time.	
Customer care	• Each bank maintains its own customer care hotline.		

Note: This table is designed to highlight the shared agent model and therefore does not include the intricacies of the other agency models that IBBL also uses.

Part Three: Agent Network Evolution & Hybridisation

Overview

While most providers seem to begin with one of the seven types of agent networks, they seldom adhere to a pure version of one of these models over time. Digital finance is a dynamic industry where the business model itself changes as volumes of transactions, numbers of customers and product suites grow and evolve over time. This in turn creates evolving requirements for the agent network, which must adapt to handle these increasingly complex needs.

Hybridisation occurs when other typologies or significant components from them are added to complement existing strategies, and ***evolution*** happens when a past strategy is abandoned in favour of a more appropriate one. How these shifts are planned and implemented is beyond the scope of this analysis, but we did think it would be helpful to map out the shifts from the case studies in the table below and also to comment on some of their drivers so agent network managers are better equipped to anticipate them.

Figure 8: Mapping hybridisation and evolution in agent case studies

Provider	Evolution/Hybridisation	Drivers
Zanaco Zambia	Retail Partnership to Centralised Build to Hub-and-Spoke.	The first transition was to gain more control over their operations. The second transition was to increase operational scalability by leveraging branch resources.
Equity Bank Kenya	Hub-and-Spoke, which over time incorporates Retailer Partnerships.	Need to be present at major retailer locations where the competition is present.
Airtel Money Uganda	Centralised Build to Master Agents.	Need to outsource management and focussed on scale of growth.
Easypaisa Pakistan	Built on GSM distribution network, which evolves to offering some direct services to agents akin to a Centralized Channel Build.	To improve agent loyalty, and ensure high levels of service.
BBVA Bancomer Mexico	Retailer Partnerships to Centralised Channel Build.	To fill-in geographical coverage gaps and to drive customer acquisition.
FINO Paytech India	Banks Outsource to FINO as a Third-Party Specialist and some are shifting to a Centralized Channel Build.	Some banks are now more positive about growth potential and want more control over the channel.
Islami Bank Bangladesh Limited (IBBL)	Hub-and-Spoke to Master Agents to Shared Agents.	The desire to be less involved in distribution so they could focus on the services they want to distribute.

Drivers of Change to Network Strategy:

There are several core reasons why providers hybridise and/or evolve their agent network strategies over time. Figure 8 summarises the drivers of change for the case studies we have reviewed above. The core reasons are as follows:

Control over geographical coverage: BBVA Bancomer in Mexico began by partnering with retail channels but subsequently felt that it did not have the geographical reach it would have liked, and therefore needed to hybridise. BBVA Bancomer added a centralised channel build model to directly target areas in its network with low coverage. Eko in India also added a centralised channel build model to its original master agent model to reach rural areas where master agents were not operating. M-Sente in Uganda started by building its network on its GSM network and then implemented master agents to extend its reach into more rural areas in Uganda.

Scalability: Airtel Uganda evolved from a centralised build model to a master agent model to manage growth better. When 'speed to scale' is paramount, shifts in strategy must be made as the network becomes much more burdensome to manage at full scale, or partnerships can be made to scale up more quickly. Once Airtel Uganda scaled up, its staff could no longer handle all the operational tasks involved with a network of that size, and it had to evolve its strategy to outsource tasks like monitoring to master agents.

Similarly in Bangladesh, United Commercial Bank (UCB) opportunistically hybridised its original master agent model to a shared agent network once MobiCash developed a network that could offer its services, and showed that these services would enable increased growth.

Changing need for operational control: Providers might want to build an agent network of their own first, giving them high levels of control over the channel that they build. However, once they have done this, they feel safe bringing in partners to add other attributes like scale to the strategy or geographical reach to areas where they do not currently have a presence.

Equity Bank Kenya can be considered as belonging in this category. However, it can also work the other way like with Easypaisa in Pakistan, where an increasing level of competition in the market meant that more control was needed over the network, which meant that the direct relationships it has with its agents had to be strengthened.

IBBL in Bangladesh found that it had to provide better liquidity management services for agents, but did not have the right typology to do that, so it brought in master agents to provide support. BBVA Bancomer Mexico wanted a direct and exclusive channel that enabled it to focus on customer acquisition and so it recruited agents directly that could do this to complement its retailer partnerships.

Increased Sophistication: This can occur when a new service is added to be delivered through the agent network. In some cases an agent from a different demographic will be required to sell it as it is more complex than previous services or is simply just designed for a demographic that is not currently being served. This is the case in Pakistan where many providers built on their GSM networks which enabled them to offer simple OTC services. However as they transition to wallets these providers are realising that their agent channels are not well designed for more sophisticated sales pitches. In other cases, the product will require a change in density of the agent network to reach the target market. This has been observed with banks that agree to distribute Government-to-Person (G2P) benefits and suddenly need to build a network in rural areas.

Furthermore, over time the agent channel itself differentiates, as it becomes clear certain demographics within it are better at registering customers than others. Some will generally maintain a float and do substantially more transactions than others that are located right next to them. It becomes evident that not all agents are equal, and it does not make sense to treat them as such. In this case, the provider may implement systems to start segmenting their agent network and then offer different levels of support based on performance or other salient criteria, as MobiCash in Bangladesh is currently doing.

Summary

One of the great ironies of the industry is that it takes an army of physical agents on the ground to convert a population to using digital finance, and this is where many providers continue to struggle. Currently the GSMA Mobile Money tracker shows that there are over one hundred new providers readying for launch, and possibly the most important thing they will have to get right is the design of the agent network they use to deliver their value proposition. The nature of this value proposition, the resources they have available to them, and their desire for scale, reach and control will further determine which model they use as a foundation for building their network.

As they launch and join the 260 other providers fighting to maintain quality of service, register new customers, grow their agent network, and chase elusive profits, providers will have to understand how to develop, hybridise and evolve their network as they make strategic shifts, and identify operational issues. It is clear that most providers have not been able to do this very successfully, as the GSMA's 2014 State of the Industry report shows that only 60% of agents around the world are active (on a 30-day basis), meaning there is still enormous room for improvement and we still have a lot to learn as an industry.

However, we also know a lot more now as an industry. On the topic of building and managing agent networks, there is no longer any reason to focus on Kenya, or even East Africa. Agent networks in South Asia like bKash and MobiCash in Bangladesh, as well as Mobicash in Pakistan, have grown much faster than any network in East Africa ever could have dreamed of doing. Banks in Latin America are pioneering partnerships with retail networks that offer a different model completely, and banks in general are becoming more aggressive and sophisticated in a space that has thus far been dominated by telecom operators.

These new models and providers will combine to increase competition, put pressure on operational efficiencies, and create new market dynamics, which hopefully will bring innovation on frontier issues like mobile money merchants, agent network segmentation, rural expansion, and how to move beyond payments to delivering mass market banking services. The best way to get there is to start with strategic alignment between the value proposition, and the agent channel that will be designed to deliver it. This paper will help providers to think about the myriad ways in which this has been and can be done, and we are sure that innovation in this area will continue to reveal ingenious solutions for designing physical channels that are even more effective at delivering digital money in the future.

Annex Table: Experts Consulted

1	Stephen Waiswa	Business Development Manager, Airtel Money	Airtel Uganda
2	Nuhu Kanyike	Director of Agent Management, Airtel Money	Airtel Uganda
3	Angela Kenyoza	Operations Manager, Airtel Money	Airtel Uganda
4	Peter Kakaire	Head of M-Sente Mobile Money	M-Sente, Uganda
5	A.N.M. Tawhidul Islam	In Charge of Mobile Financial Services Department	Islami Bank Bangladesh Limited
6	Md. Nasimul Islam	Lead Manager, Head of MobiCash Channel Development & Management	Grameenphone Ltd., Bangladesh
7	Mir Jahir Uddin Ahmed	Executive Vice President & Head of Mobile Financial Services	United Commercial Bank Limited, Bangladesh
8	Gerald Rasugu	Mobile Money Market Engagement Director	GSMA Mobile Money for the Unbanked
9	Mansi Kohli	Vice-President of International Business	Eko India Financial Services Private Ltd
10	Kimathi Githachuri	Head of The *Helix* Institute of Digital Finance	The *Helix* Institute of Digital Finance
11	Graham A.N. Wright	Group Managing Director	*MicroSave*
12	Roar Bjærum	Head of Telenor Financial Services Asia	Telenor Asia (ROH) Limited
13	Daniel Radcliffe	Program Officer	The Bill and Melinda Gates Foundation
14	Andrew Wakahiu	GM Agency Banking	Equity Bank, Kenya
15	Carolijn Gommans	Consultant Project Management & Agent Banking – Retail Division	Zanaco, Zambia
16	Carlos López-Moctezuma	Global Director For Financial Inclusion	BBVA Bancomer, Mexico
17	Hernando Rubio Dacosta	CEO	Tranza S.A.S., Colombia
18	Sarang Vaidya	Vice President – Rural Initiatives	HDFC Bank, India
19	Shailesh Pandey	Business Head – Strategy & New Initiatives	FINO PayTech Ltd., India
20	Isaac Holly	Senior Manager, Digital Finance Services	*MicroSave*