AGENT MANAGEMENT TOOLKIT

Building a Viable Network of Branchless Banking Agents

Technical Guide

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How to Use This Guide

This guide presents practical advice to providers on how to build a viable network of agents, which is a critical component of a branchless banking service.[1] This guide is based on more than a year of research that yielded data on more than 16,000 agents in Brazil, India, and Kenya. In-depth interviews were conducted with 466 agents and more than two dozen agent network managers (ANMs) and providers.[2] The guide focuses on the experience of five successful branchless banking services: Banco do Brasil and Banco Postal in Brazil, EKO and FINO in India, and M-PESA in Kenya (see Box 1 for a brief description of each service). Examples are also drawn from other mobile network operators (MNOs), banks, and specialized branchless banking providers, including several partners in CGAP's Technology Program.[3] An Excel-based financial model accompanies this guide and helps providers analyze their overall business model and calculate how much revenue it generates for the agent supply chain.

Audience

This guide is intended for service providers and their ANMs who are conceptualizing, designing, and growing an agent network. The guide may also be relevant for technology firms, regulators, and others in the branchless banking supply chain. It assumes some knowledge of branchless banking. An introduction to the topic can be found in Mas and Siedek (2008) and Lyman, Pickens, and Porteous (2008).

[1] Branchless banking is the delivery of financial services outside conventional bank branches using retail agents and technology, for example, over card-based networks or with mobile phones.
[2] Fieldwork took place between January 2009 and June 2010. A detailed slide pack is available for each country: Brazil see Pickens (2010b), India see Pickens (2010c), and Kenya see Pickens (2009). Many people contributed to this work, including Richard Amwayi, Karuna Krishnaswami, and Sarah Rotman. In Brazil, CGAP worked closely with the Center for Microfinance at FGV, the leading business school in the country. An early version of the Kenya analysis was conducted with Ignacio Mas of the Bill & Melinda Gates Foundation and Olga Morawczynski, now with Grameen Foundation's AppLab.
[3] The Technology Program works to expand financial services for the poor using mobile phones and other technologies and is co-funded by the UK Department for International Development, the Bill & Melinda Gates Foundation, and CGAP.

Box 1. Branchless Banking Providers Featured

Banco do Brasil/Telecom Service (Brazil). Banco do Brasil is the largest public bank in Brazil. It has 15,300 agents. CGAP's data on Banco do Brasil agents come primarily from one of Banco do Brasil's ANMs, Telecom Service. Telecom Service, in operation since 2004, manages a network of over 1,000 agents, typically small family-owned stores. The agents primarily offer bill payments to customers on a walk-in basis. The agents also perform a limited number of transactions linked to bank accounts as well as some government-to-person payments, such as social welfare payments to poor families and pensions to retired government workers.

Bradesco/Banco Postal (Brazil). Bradesco is Brazil's second largest private bank and has 24,200 agents. In 2001, Bradesco submitted the winning bid to offer banking services inside post offices throughout the country. Today, there are 6,038 Banco Postal outlets located within post offices (*correios*). These outlets perform a much wider variety of services than most agents in Brazil, including high levels of account opening, deposits, withdrawals, and loans. Banking transactions account for more than 90 percent of all transactions in rural post offices.

EKO (India). EKO is a start-up that began as a third-party platform provider in 2008 linking the State Bank of India (SBI)—provider of the Mini Savings Account—and Airtel (largest MNO in India and provider of the distribution channel/agents). The relationship with Airtel has since changed, and EKO has now completely revamped its strategy. It is driving the entire business itself, including building and managing the agent network, providing technology, and marketing to clients. It offers clients an interest-bearing bank account (at SBI) and a money transfer product, both accessible via the customer's mobile phone. EKO has 500 agents (primarily small merchant shops) located in the capital city Delhi and the State of Bihar. As a start-up, EKO does not have money to invest in above-the-line advertising and relies heavily on agents to sell the service.

FINO (India). Like EKO, FINO also has its roots as a technology platform provider but currently has a much broader role, including agent management. FINO has more

continued

than 10,000 agents and operates in 25 states with 14 bank partners. CGAP's research was conducted in Karnataka State. Here, FINO offers its (primarily rural) customers an SBI no-frills account (a basic saving account). Customers receive a card and are identified through biometric technology (fingerprints) via the agent's handheld point-of-sale (POS) devices. This is the only model we saw where agents are mobile and offer a doorstep banking service to clients. FINO staff deliver and pick up cash, relieving agents of the time and expense associated with liquidity management.

M-PESA (Kenya). M-PESA is the iconic mobile banking service that led to copycat businesses around the globe. Launched in March 2007 by Safaricom (an MNO), M-PESA offers clients a mobile wallet with the functionality to transfer money and pay bills. Customers can also use M-PESA to transfer money in and out of accounts at 14 banks. M-PESA has more than 21,000 agents managed by several hundred ANMs and 13 million registered customers (more than half the adult population).

Other providers referred to in the guide include Caixa Economica (Brazil), GCash (Philippines), Smart Money (Philippines), Tameer/Telenor (Pakistan), and WING Money (Cambodia).

Structure

This guide is organized into two parts, with additional tools in the annexes. Part I deals with the economics of the agent supply chain, including the business case for agents and their managers. Part I also helps providers judge whether their overall business model will generate adequate revenue to satisfy themselves and their partners. Part II focuses on the operational issues that must be addressed to build the agent network. The annexes include a financial model that uses M-PESA as an example, questionnaires for gathering data on agents, and sample documents from several branchless banking services.

Ideally, the guide should be read in sequence as some chapters build on issues introduced in earlier chapters and developing a viable agent network requires considering all the topics presented here. For example, the decision of which structure to use for your agent network (Chapter 4) is influenced by the amount and distribution of revenue at your disposal (Chapter 3). However, the chapters can also be read separately if providers are interested in a specific aspect of agent management.

PART I

- **Chapter 1: Agent Business Case.** This chapter highlights nine drivers of the business case for agents. These are subdivided into three categories including (1) role-related drivers associated with signing up clients, conducting cash-in/cash-out transactions, and doing other typical functions; (2) exogenous drivers that are beyond the agent's immediate control; and (3) time-specific drivers that come into play at different times in the life cycle of a branchless banking service.
- **Chapter 2: Agent Network Managers.** Launching and growing a viable agent network usually requires specialized ANMs. This chapter explores the business case for ANMs as well as the three critical roles they can play—getting agents started, managing agent operations, and contributing to the overall branchless banking strategy.
- **Chapter 3: Branchless Banking Supply Chain Economics.** This chapter examines how the provider's choice about services, fees, and commission structure drive the amount and distribution of revenue in the supply chain.

PART II

- **Chapter 4: Structuring an Agent Network.** This chapter examines three different ways that agent networks can be structured and the impact the structure has on the service's operational readiness, reach, and control.
- **Chapter 5: Managing Agents.** The final chapter includes examples of tools and strategies providers have used to address six key issues: (1) selecting agents, (2) getting agents started, (3) paying agents, (4) managing liquidity, (5) ongoing monitoring, and (6) reducing the impact of theft, fraud, and abuse.

ANNEXES

- **Annex 1: Financial Model with M-PESA Case Study.** This annex discusses an Excel-based financial model that calculates the financial flows in a branchless banking channel from assumptions about the number of customers, transaction volumes, and the fee and commission structure. The model is demonstrated using M-PESA in Kenya as a case study.[4] The Excel file is available at http://www.cgap.org/p/site/c/template.rc/1.9.49775/.

- **Annex 2: Analyzing Agents in the Field.** Annex 2 includes sample questionnaires for interviewing prospective agents before launch, and for assessing the business case for agents once the service is live.
- **Annex 3: Useful Documents.** Annex 3 provides several documents, including sample agent contracts, commission sheets from several branchless banking providers, and job descriptions.

[4] The analysis of M-PESA is based on a compilation of financial data derived from Safaricom publications as well as the numerous studies that have been published by third parties. Unless otherwise stated, performance indicators are based on annualized June 2010 data. Some extrapolation was required to compensate for missing information. Therefore any statements about M-PESA financial performance should be read as rigorously triangulated estimates by CGAP that serve the primary purpose of demonstrating how to conduct such an analysis.

Introduction

The branchless banking industry is in a state of creative chaos. The impressive growth of a few pioneer initiatives like Safaricom's M-PESA service in Kenya has demonstrated the potential of branchless banking.[5] However, the majority of branchless banking initiatives worldwide have had to re-tool or have yet to develop a business model that sustains all the companies involved.

This guide focuses on one of the important components of a successful branchless banking initiative: the agent network. Agents play a critical role in acquiring new customers, enabling them to transact, and keeping them satisfied:

- Agents verify the identity of customers, both when clients sign up and at subsequent transactions. This not only keeps the service in compliance with know-your-customer (KYC) standards set by regulators, but it also helps guard the entire system against fraud, which may help clients view the service as safe and trustworthy.
- At its core, branchless banking is about having cash when and where customers want it. Agents must keep adequate stocks of both cash and electronic value (e-float) to enable clients to transact. If they cannot do so, customers may see the service as unreliable, and the provider's reputation can be quickly tarnished.
- Agents are also quite literally the face of the service—customers turn to agents to show them how to use the service, provide an opinion about whether the service is worth trying, and troubleshoot problems when they arise. Agents can help bridge the gap between a high-tech service and low-literacy clients.

Agents are increasingly used by all types of financial institutions to distribute financial services. More than 90 mobile money operations are live worldwide: nearly all rely on agents as the main way to sign up and service customers.[6] A Brazilian bank—Bradesco—operates the world's largest agent network, with 24,500 locations nationwide. Several technology firms in India are morphing into complex players that also manage distribution channels, link banks and mobile operators, and design products, all delivered to customers

[5] According to Safaricom financial statements, M-PESA generated US$94 million in revenue in fiscal year 2010. M-PESA is the single biggest source of new profits for the company. See Pickens (2010d).
[6] According to GSMA Mobile Money Tracker as of November 2010.

Table 1: Seven Branchless Banking Operations at Mass Scale

Country	Provider	Number of agents
Brazil	Banco do Brasil Bradesco (incl. Banco Postal) Caixa Economica	15,300 24,200 15,200
India	FINO	10,000
Kenya	M-PESA	20,500
Pakistan	easypaisa	10,500
Philippines	GCash	18,000

Sources: CGAP interviews with senior management and for Brazilian banks see Banco Central do Brasil http://www.bcb.gov.br/?CORPAIS; for FINO see http://knowledge.wharton.upenn.edu/india/articlepdf/4545.pdf?CFID=26732942&CFTOKEN=65143148&jsessionid=a830921139325c725284642b1c2d7d721b2e; for M-PESA see *Daily Nation* 15 Nov. 2010; for easypaisa see http://www.easypaisa.com.pk/agent.php; for GCash see http://technology.cgap.org/2010/10/13/mobile-banking-20-or-05-%E2%80%93-mobile-banking-for-those-with-no-mobile/

via agents. Table 1 shows the seven branchless banking operations in the world that have attained mass scale, defined as having more than 10,000 agents in their network.

While there is widespread belief that agents are an attractive delivery channel for increasing reach and driving down costs of delivering financial services, most branchless banking providers are still working to present a viable business case to the agents themselves. Globally, agents do not make much for their services. Brazilian, Indian, and Kenyan agents typically make profits of less than US$5 per day. For this sum they may be asked to put up substantial capital investment. M-PESA requires agents to hold cash and e-float equal to US$1,250 (1.5 times greater than the annual gross domestic product [GDP] per capita in Kenya).

In some countries, agents face the risk of being robbed. CGAP's research indicates that 25 percent of Brazilian agents have been robbed in the past three years, losing on average more than US$500 of their own money.

However, the most common problem is a mismatch between expectations and actual business. This may occur at the beginning due to slow customer uptake. But it could happen later. M-PESA has seen a 25 percent drop in average profits per day for smaller agents due to the number of agents growing faster than the number of total transactions in the system.

There is no single formula to build a viable network of branchless banking agents. Table 2 shows vastly differing transaction volumes, revenue, costs, and profits for agents in five branchless banking services in Brazil, India, and Kenya. Look first at average commissions per transaction. On the low end is US$0.06 in India's Karnataka State where FINO agents are mostly socially minded individuals chosen because they are perceived

Table 2: Agent Benchmarks in Five Branchless Banking Initiatives

Provider	Transactions per day for agent	Agent revenue per transaction (US$)	Cost per day for agent (US$)	Agent profit/day (US$)
Banco do Brasil—Telecom Svcs (Brazil)	63	0.09	5.28	0.39
Banco Postal (Brazil)	200	0.97	72.40	121.60
Eko (India)	19	0.21	0.00	3.99
FINO Karnataka (India)	28	0.06	0.99	0.69
M-PESA (Kenya)	61	0.12	3.46	3.86

as trustworthy members of their rural communities. Furthermore, FINO sells a no-frills bank account that historically has strict government-mandated limits on charges, limiting the amount FINO can compensate agents. Compare this to Banco Postal in Brazil, where the post office earns a commission (US$0.97) 16 times greater than what FINO agents earn. As a large network, the post office can command a high fee, which the bank is willing to pay for the nationwide coverage it provides. Costs for agents also vary dramatically. At the time of research, most EKO agents reported zero expenses, as their existing staff, shop set-up, and cash on hand were adequate to handle 19 transactions per day. By contrast, Banco Postal locations in Brazil feature special kiosks, a dedicated staff person, and specialized equipment (personal computer, barcode reader, personal identification number [PIN] pad), yielding a relatively heavy cost structure (US$72.40/day), but also a very different look and feel than EKO agents in India. Ultimately, business models are so varied that even in the same country agent daily profits can range from pennies per day (US$0.39 for Banco do Brasil agents surveyed) to sizeable amounts (US$121.6 for Banco Postal, also in Brazil). Providers should not make the mistake of assuming there is one way to build, manage, and compensate a network of branchless banking agents.

This guide is designed around five major challenges associated with building a viable agent network. It takes readers from (1) understanding the profit drivers for agents, to (2) defining the roles and responsibilities of ANMs, (3) judging whether their chosen business model will generate adequate revenue to compensate all parties in the value chain, and once the economics are satisfactory, (4) structuring the agent network, to finally (5) tackling the operational challenges to selecting, training, and managing agents.

Setting an agent strategy is an evolving and dynamic process. Decisions in one area are almost inevitably affected by choices made in others. Agent management strategies also change over time. M-PESA in Kenya has been through at least three different phases of growth. Other providers can expect a similar trajectory as their branchless banking service grows.

In this guide we talk about branchless banking as a supply chain. The core functions of a branchless banking operation are typically divided into a chain of independent companies that each specialize in managing some combination of the core functions. The main focus of this guide is on agents and ANMs, but it is useful to define the other parties in the supply chain, and in doing so introduce the terms used throughout the guide.

1. The **account provider** is the company that manages customer accounts. In a bank-based service, each customer has an account in a financial institution. In a nonbank-based service, such as M-PESA in Kenya or G-Cash in the Philippines, customers have an account managed on a technology platform owned and operated by a nonbank. Funds are typically held in a pooled account at one or more banks.
2. The **transaction provider** owns and operates the technology channel that customers use to make transactions. The company that manages customer accounts is often, but not always, the transaction provider as well. FINO in India is an example of a company that owns and operates the technology platform that enables customers to use their smart cards to access their accounts in the State Bank of India.
3. Most branchless banking systems make use of mobile communication technology in some way. The **mobile network operator (MNO)** owns and operates the mobile telephone system in which the transaction technology operates, or carries data from point-of-sale (POS) terminals to the transaction and/or account providers' systems.
4. The service may also include any number of **third-party operators** that provide additional services to companies in the supply chain or to customers. For example, a mobile money operator like M-PESA is required to deposit all account balances into a commercial bank that provides a global account management service. M-PESA also contracts with Equity Bank and PesaPoint so that M-PESA customers can withdraw cash from these two networks of automated teller machines (ATMs). And utility companies have contracted with M-PESA so that customers can pay utility bills from their M-PESA accounts.
5. The **agent network manager (ANM)** is the company or companies that play a primary role in managing retail agents. In this guide, we use the term ANM to encompass both full-time ANMs who manage a small portion of an agent network as well as larger companies the provider has hired to play a particular role across the entire network, such as training.
6. The **agent** is the entity that operates the cash service point where the customer does cash-in and cash-out transactions. The retail agent often registers new customers.
7. The **customer** is the end user of the service.

Following are two examples of how these parties can fit together in a supply chain.

M-PESA

M-PESA is a mobile money service that operates as a department of Safaricom, an **MNO**. Safaricom mobile phone subscribers can sign up for M-PESA and receive an account they can use to make various payment transactions. Customer accounts are managed on the M-PESA technology platform, which also enables customers to conduct transactions on their mobile phones with transaction information being communicated via the Safaricom mobile phone network. This makes M-PESA[7] the **account provider** and **transaction provider** and Safaricom the **MNO.** A growing number of third-party companies play a variety of roles in the M-PESA supply chain. M-PESA contracts with independent **agents** to provide cash points for customers. M-PESA also contracts with aggregators and other service companies, which are **ANMs** that acquire, manage, train, and monitor networks of agents.

Table 3: M-PESA Supply Chain

Function	Company
Account provider	Safaricom/M-PESA
Transaction provider	Safaricom/M-PESA
MNO	Safaricom
Third-party operators	Banks ATM networks Utility companies
ANMs	Aggregators, superagents, Top Image all play an agent management role
Agents	Independent cash merchants

FINO

FINO of India is a private company that provides transaction services to bank customers through a network of agents. The State Bank of India (and other banks) provides no-frills accounts; these institutions are the **account providers.** FINO is the **ANM** that recruits local individuals to act as agents that sign up new customers and provide cash

[7] Though M-PESA is owned by Safaricom, M-PESA and Safaricom are referred to separately in this guide to distinguish between the mobile money function of the former and the mobile telephony service of the latter.

services at their doorstep. FINO is also the **transaction provider**, as it owns and manages the information technology platform that operates the electronic funds transfer POS terminals agents use to conduct transactions in the field. In some states, the Government of India uses the channel as a **third-party operator,** delivering government-to-person (G2P) payments into customer accounts. FINO also sells insurance on behalf of third-party insurance companies.

Table 4: FINO Supply Chain

Function	Company
Account provider	State Bank of India and other banks
Transaction provider	FINO
MNO	Any
Third-party operators	Government, insurance companies
ANMs	FINO
Agents	Trusted community members

Part I: Economics of the Agent Supply Chain

1. Agent Business Case

Providers need to understand the costs and risks agents are subject to and calibrate agent compensation accordingly. Providers need to assess the role of a branchless banking agent against other opportunities agents have for their time and capital. To illustrate this we compare serving as agent for a mobile money service with selling prepaid airtime.

Agent costs and risks are driven by nine factors that we've put into three groups:

1. *Role-related—upfront capital, liquidity management, and staff and space*
2. *Exogenous—security risk, system reliability, effect on other business*
3. *Time-specific—adequate revenue at start-up, major costs with growth, fragmented demand across too many agents*

Providers need to be clear about what they are asking potential agents to do (in terms of costs and risks) so that they can make an attractive business case to these potential agents. Agents themselves will do the math about the opportunity, and providers should have done it as well. Take, for example, the case of a small store selling prepaid airtime. The demands on the merchant from selling airtime are considerably less than those associated with being an agent for a service like M-PESA.

- CGAP's research shows the minimum amount of float and cash required of an M-PESA agent (US$1,250) is 10 times greater than the typical stock of airtime scratch cards held by the same merchants (US$129).
- Merchants also find they must wait longer for branchless banking profits. With airtime they recoup their investment immediately upon sale of the scratch card to a customer, whereas with M-PESA, Safaricom pays mobile money commissions at the end of the month.
- Selling airtime is also comparatively quick and trouble free: selling a card may take only a few seconds of the merchant's time, and there are rarely questions from clients. Branchless banking customers may have many concerns about new services, or they may even ask agents to complete the transaction for them.
- The distribution network for airtime is comparatively well developed. There are thousands of wholesalers from which a merchant might buy airtime. But even in the most advanced branchless banking services, agents may need to devote time and money to travel to a place where they can exchange cash for electronic float.

Safaricom managed to convince great numbers of merchants (21,000 at latest count) to take on this business. The volume of transactions generated by wildly enthusiastic customer response was key to the success of an endeavor that could have come across to merchants as a weak business proposition.[8] In CGAP's analysis in January 2009 of 125 small stores acting as agents, M-PESA generated 3.2 times more profits per day than did airtime, which was often one of the leading money makers for small merchants. Further, most of the merchants had already reached the ceiling for sales on the goods they already carried, due to the density of other stores selling the same Coca-Cola, maize, and other consumer goods, making M-PESA doubly attractive as an entirely new line of sales.

The business case for agents varies among countries and even among different agents for the same branchless banking service, whether small, owner-operated stores, large retail chains, or the postal network, among other types of potential agents. Providers need to understand how the business case looks to each type of agent.

Based on CGAP's research in Brazil, India, and Kenya, we have identified nine factors that drive the business case for agents (see Box 2). This chapter looks at each in turn. We illustrate our points with examples of agents from CGAP research in Brazil, India, and Kenya (the agents' names have been changed).

Box 2: Nine Drivers to the Agent Business Case

Role-related

1. Up-front capital
2. Liquidity management costs
3. Rigid staff and space costs

Exogenous

4. Security risk
5. System interruptions
6. Effect on agent's other line of business

Time-specific

7. Adequate revenue at start-up
8. Major costs related to growth
9. Fragmented demand across too many agents

ROLE-RELATED DRIVERS

This section describes agents' fixed and variable costs associated with carrying out typical activities, such as conducting cash-in/cash-out transactions. They are presented roughly in the sequence in which agents encounter them.

[8]The average transaction commission (US$ 0.12, net of tax withholding) paid to M-PESA agents represents a 1 percent return on the agent's capital tied up in an average cash-in transaction of US$13, compared to the 5 percent margin merchants earn on airtime, or the 10 to 20 percent margin on many fast-moving consumer goods.

1.1. Upfront Capital

Acting as an agent can be a very capital-intensive business. CGAP's research found M-PESA agents needed to acquire an average of US$1,600 in capital to start operating as an agent. As a point of comparison, US$1,600 is 2.0 times greater than Kenya's GDP per capita income (US$783),[9] and 3.2 greater than the annual income of a manual laborer in Nairobi making US$2.5 per day (the prevailing daily wage in Kibera, the largest urban slum in Nairobi). It is also 12 times greater than the amount that the same merchants had invested in airtime scratch-off cards (US$129). The large amount of start-up capital required by M-PESA may be acceptable to Kenyan agents now that they see the large customer base for the service (more than half of adults in the country). However, this would not have been the case at the time M-PESA launched.

Agents require a lot of capital because they need to have enough cash on hand and electronic float for customers to withdraw and deposit on demand. Other costs also require upfront investment, though in much smaller amounts. Agents may need to acquire a business license,[10] bring the look and feel of their store up to standards (paint, counter, etc.), or make security improvements. M-PESA agents report needing to install locks and bars. In Brazil, security expenses can be much higher. It is not uncommon for Brazilian agents to install bulletproof glass, steel doors, and safes.

Providers need to decide whether or not to ask agents to provide some or all of the up-front capital. Safaricom asks agents to put up all of the capital. Many merchants were willing to do so to join in M-PESA's success. Other providers have gone in the opposite direction, reducing or eliminating agents' up-front investment. AV Villas in Colombia offers agents a revolving line of credit to ensure agents' initial cash and e-float balances are adequate. It also provides agents with a free phone. In India's Karnataka State, FINO has gone a step further by allowing its agents to trade on its account, using funds received from customers as deposits to facilitate customer's withdrawals. Since FINO has a legal obligation to deliver customer funds to the bank in the supply chain, agents use FINO's money. FINO also provides the POS terminal and smart cards for agents and clients.

Asking agents to accumulate up-front capital creates a barrier to market entry. Simply marshalling a very large sum of money may be difficult. Merchants with existing businesses may find that the amount of money required is too large to draw from

[9] GDP per capita from World Bank World Development Indicators Database.

[10] Anecdotal evidence indicates that local authorities in some Kenyan municipalities require M-PESA agents to purchase a more expensive class of business license than what is typically required for other stores. Some businesses report paying US$125 (KSH 10,000), adding an additional up-front cost even for merchants who already have a license for their existing shop.

the earnings or stock they already have, and borrowing such a large amount, either from informal or formal sources, may be challenging. In Kenya, the largest banks do not provide small business loans to entrepreneurs seeking to become M-PESA agents. Small shops may not be able to draw down their inventory of goods far enough to accumulate enough free capital. And the larger the amount, the more difficult it is to borrow from family members.

Even when agents can obtain the necessary capital, the cost of that capital may be prohibitive. For agents on the margins of profitability, interest payments could swing the business case into the negative. For example, Hasita lives in the Indian state of Karnataka (see Figure 1). She is an agent with FINO. She handles 28 transactions on a typical day, earning a wage from FINO as well as commissions on account opening and cash-in/cash-out transactions. Her largest cash transaction on any given day is US$107 (INR 5,000), which effectively determines her cash on hand required to handle the largest transaction on most days. FINO provides liquidity from its own working capital, rather than asking agents to do so. Further, she uses her place of work—the school library—to conduct most agent transactions. As part of FINO's "doorstep" model in Karnataka, Hasita also travels to client homes in six surrounding villages, incurring a transport expense. She nets a daily profit of just US$0.91.

What if FINO's business model asked agents to put up working capital? Hasita might borrow the US$107 from a local microfinance institution (MFI), which might

Figure 1: Profit and Loss for FINO Agent Hasita

Hasita: FINO Karnataka		
		USD
REVENUE		
Transaction commissions		0.29
transactions / day	28	
commission / transaction	0.01	
Registration commissions		0.58
registrations / day	6	
commission / registration	0.10	
Wage	0.99	
Total Revenue		1.86
EXPENSES		
Transportation		0.94
Space (rent, utilities)		0
Wages		0
Cost of capital		0
Insurance		0
Total Expenses		0.94
DAILY PROFIT		0.91

charge an effective annual interest rate of 75 percent. This would yield a daily interest expense equal to 28 percent of her daily profits. The annual interest payments of US$80.18 would equal 88 days of profit. In these terms, the cost of capital would be quite substantial for Hasita.

Working capital requirements can also affect quality of service for customers and ongoing costs for agents. While providers prefer agents to hold amounts that enable them to successfully service even very large deposits and withdrawals, agents make a different calculation, choosing to hold a smaller amount and turn away the infrequent large transaction, or ask the customer to break it into several smaller transactions across several days. In the early days of a service, even a hint of "I was not able to get my money" can jeopardize perceived trustworthiness. Further, with limited liquidity, agents need to rebalance their e-float and cash-on hand more frequently, driving up their liquidity management expense (discussed in Section 1.2).

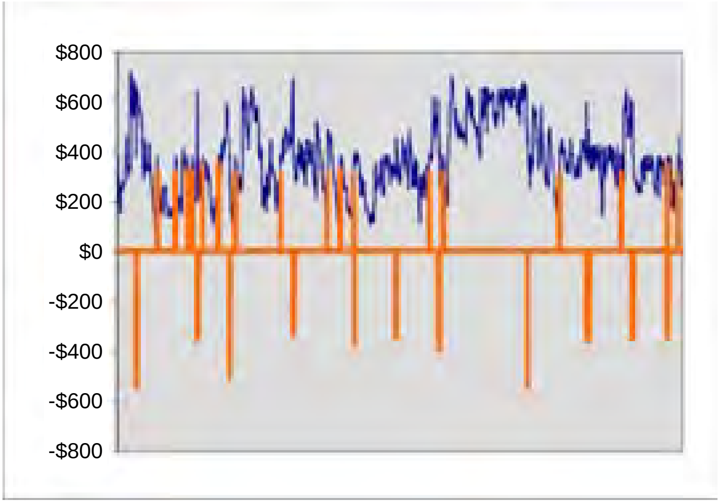
Providers must determine how much upfront capital agents need to be able to operate effectively (see Box 8 in Section 5.4). The financial model in Annex 1 provides a process for calculating the relevant numbers before a product launch. Depending on the amount of upfront capital needed, the provider may then consider whether it is likely to present a barrier to entry for the kinds of agents it is hoping to attract, and the potential implications for customers. It is useful to conduct in-person, in-store interviews with prospective agents to understand how an upfront capital requirement compares to the merchants' other lines of businesses: for example, how much inventory do they typically hold? Could they draw down on this as a source of initial funds? Annex 2 includes a questionnaire tested in the Philippines with prospective agents of a branchless banking service.

1.2. Liquidity Management

The business of branchless banking relies on liquidity management—having cash where and when customers ask for it. Liquidity management has two components: (1) accumulating adequate e-float and cash and (2) rebalancing the two, which typically requires agents or their designees to physically transport cash. The less money agents have available to settle branchless banking transactions, the more frequently they will need to rotate those monies, yielding more rebalancing trips. Agents that seek to minimize the number of trips they make by carrying large cash and e-float balances incur a higher cost of capital.

The amounts of liquidity, and the frequency of rebalancing, are substantial. Figure 2 simulates the cash transactions of an M-PESA agent (Martin) during October 2009.

Figure 2: Cash Transactions of M-PESA Agent Martin



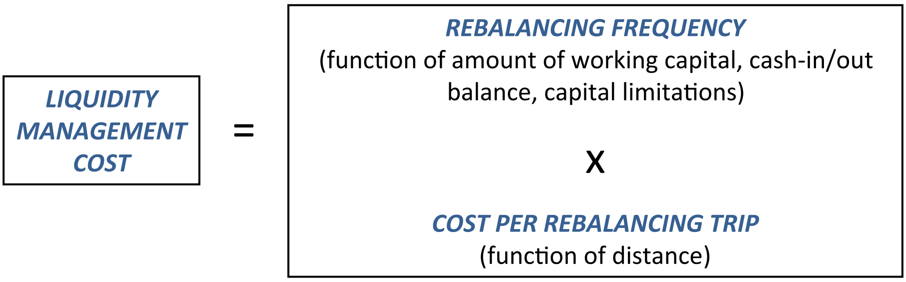
The blue line represents Martin's cash balance, and the orange bars show his rebalancing transactions (either adding cash when low, or subtracting it to convert cash into e-float). Over the course of the month, Martin handled 2,466 deposits and withdrawals valued at more than US$55,000 from customers. This equates to 95 transactions valued at US$2,115 daily, which is a little higher than the transaction values of the average M-PESA agent, but still relatively typical. Martin keeps US$378 in e-float and US$383 in cash on hand—far less than the amount required by M-PESA.[11] As a result, Martin needs to rebalance 28 times during the month.

Martin's experience is common. CGAP's research suggests most M-PESA agents rebalance daily. This is confirmed by another study of 20 M-PESA agents in which 70 percent of agents rebalanced everyday. (Eijkmann, Kendall, and Mas 2010). Daily rebalancing is often the norm in other branchless banking services as well. For example, to support Hasita, the FINO agent introduced in Section 1.1, FINO staff made 23 liquidity management visits in October. They picked up and delivered US$1,219 in cash (more than India's annual GDP per capita of US$1,017).[12]

Another key variable in determining the cost of liquidity management is the cost per rebalancing trip (see Figure 3).

[11]CGAP research indicates many M-PESA agents economize on the amount of cash and e-float they hold, due to the difficulty and cost of mobilizing such large sums. ANMs are not able to catch all or even most of these cases.
[12]World Bank World Development Indicators Database. GDP per capita for 2008 in current prices.

Figure 3: Calculating Agent Liquidity Management Costs



CGAP's research shows rebalancing frequency is driven primarily by three factors: (1) the amount of working capital and (2) the balance of cash-in and cash-out transactions, adjusted by (3) limits to the amount of capital agents have at their disposal.

Because the cost of public transport tends to correlate directly with the distance traveled, one can say the cost per rebalancing trip is also a function of distance from the location where cash and e-float can be exchanged (e.g., the headquarters office for the shop, a bank branch, or a network manager). Providers and their agent managers may be able to calculate a typical "cost per kilometer" travelled that takes into account prevailing transport costs for agents in their market, perhaps segmented along rural and urban areas.

We can illustrate this through the story of an M-PESA agent we call Josiah. Josiah operates a small store that sells food, drinks, cigarettes, and school supplies. His shop is in a rural village near a boarding school. Students often rely on money sent from family, which led Josiah to believe becoming an M-PESA agent could be profitable. Ultimately, the venture was a loss-maker for him, and he quit. Three factors played into M-PESA not working out for Josiah (see Figure 4). First, nearly all customers wanted to withdraw funds. This is not unusual in rural areas where inbound remittances predominate. As a result of the imbalance toward cash-out transactions, the number of M-PESA transactions that Josiah could conduct was strictly limited by the amount of cash on hand. For Josiah, this was US$250—a substantial amount for him, equal to more than one-third the value of inventory in his shop. But with M-PESA withdrawals averaging US$26, Josiah could handle only 10 transactions before his cash on hand was exhausted. This effectively limited his revenue to US$1.18 per day, supplemented by commissions from the occasional account registration. The third factor was Josiah's distance from the nearest bank acting as a rebalancing superagent; the trip costs US$1.50, exceeding his revenue.

Figure 4: Profit and Loss for M-PESA Agent Josiah

Josiah: M-PESA		
		USD
REVENUE		
Transaction commissions		1.18
transactions / day	10	
commission / transaction	0.12	
Registration commissions		0.21
registrations / day	0.33	
commission / registration	0.63	
Wage		0
Total Revenue		1.39
EXPENSES		
Transportation		1.50
Space (rent, utilities)		0
Wages		0
Cost of capital		0
Insurance		0
Total Expenses		1.50
DAILY PROFIT		(0.11)

Liquidity management is the greatest expense for many agents, particularly small stores in rural areas. These are likely to see mostly cash-out transactions, have capital limitations, and operate far from rebalancing points.

Liquidity costs can make the agent business unattractive or even unprofitable. Ideally, ANMs select and manage agents based on the balance between revenue and expenses: Josiah could have been steered clear of failure if the ANM had asked him a few pointed questions about how much capital he could put up, whether he thought all of his transactions would be cash-out transactions, and how much it would cost to travel to exchange e-float for cash. As it was, he became an agent with little analysis as to whether he had the right conditions in place to operate profitably. Josiah's story illustrates the potential risk in allowing anyone to become an agent. In the worst case scenario, a provider's brand may be harmed if it has many agents like Josiah who have problems with liquidity and must turn away clients.

Several branchless banking services have ways to deal with low liquidity at agents and to reduce the number of rebalancing trips agents must make. WING in Cambodia faced a similar situation with agents like Josiah and came up with a partial solution. WING paid "master merchants" a small monthly fee to hold a constant amount of US$2,000 in e-float and make it available on demand to a group of "subagents" (who were required to keep only US$200 in float). Under this arrangement, liquidity balances doubled. FINO uses a somewhat similar approach in some rural areas. It pays "super customers"—usually well-off villagers—to be prepared to make a deposit with the FINO agent if the agent needs immediate access to cash to satisfy other customers.

1.3. Rigid Staff and Space Costs

If liquidity management costs tend to matter more to smaller rural agents than larger agents, staff and location expenses hit larger agents harder than smaller ones. Higher transaction volumes eventually require more staff and space dedicated to handling the branchless banking business. This creates a rigid cost "floor" that leaves agents with a lot less flexibility on how many transactions are needed for the agent business to be attractive.

Compare, for example, two M-PESA agents. Cynthia owns a busy M-PESA agency in a prime location in a Nairobi market. Daily transaction volumes (150 per day) are such that the shop is dedicated to the M-PESA business. She employs two staff to handle two service counters, which resemble bank teller windows. She pays US$3 per staff per day and rent of about US$40 per month, making wages and space her top two costs. She also has some transport costs for liquidity management and capital costs for the portion of working capital she borrowed. She turns a daily profit of US$8.53 (see Figure 5).

Vincent has a much less attractive location: a store in a small village along a dirt road in western Kenya. He handles far fewer transactions per day (40) than Cynthia does (see Figure 6). But at this volume, he is able to handle the business himself at the same counter at which he sells flour, beer, and other products. Sometimes, especially on market days, the shop is so full of people purchasing groceries that he may ask an M-PESA customer to wait or come back later. Vincent has a transport cost for liquidity management, but no other expenses. Although his total daily profit (US$4.11) is half

Figure 5: Profit and Loss for M-PESA Agent Cynthia

Cynthia: M-PESA		
		USD
REVENUE		
Transaction commissions		17.74
transactions / day	150	
commission / transaction	0.12	
Registration commissions		1.01
registrations / day	1.60	
commission / registration	0.63	
Wage		0
Total Revenue		18.75
EXPENSES		
Transportation		1.13
Space (rent, utilities)		1.48
Wages		6.25
Cost of capital		1.36
Insurance		0
Total Expenses		10.22
DAILY PROFIT		8.53

Figure 6: Profit and Loss for M-PESA Agent Vincent

Vincent: M-PESA Agent		
	USD	
REVENUE		
Transaction commissions		4.73
transactions / day	40	
commission / transaction	0.12	
Registration commissions		0.51
registrations / day	0.80	
commission / registration	0.63	
Wage		0
Total Revenue		5.24
EXPENSES		
Transportation		1.13
Space (rent, utilities)		0
Wages		0
Cost of capital		0
Insurance		0
Total Expenses		1.13
DAILY PROFIT		4.11

that of Cynthia's shop (US$8.53), it compares favorably with Cynthia's per teller take (US$4.27).

Perhaps more significantly, Vincent has a much lower threshold in the volume of transactions needed to make a profit. If account registration commissions are taken out of the picture, Vincent breaks even on his 10th transaction. Cynthia's shop needs 87 transactions to be profitable. Providers or their ANMs should advise agents about the potential impact of taking on staff and space expenses.

Specialized agents like Cynthia—whose main business is as a branchless banking agent—are not uncommon in Brazil and Kenya. In Kenya, they tend to be restricted to high-density, high-traffic locales, such as urban markets, slums, and bus stations. In Brazil, banks are experimenting with specialized agents near their most congested bank branches—"strategic points" that mirror bank branches in their look and feel. Space costs are high for the companies that operate strategic points, given the typical location in downtown commercial districts and the expense of equipping them in the style of a bank branch. One operator reports a minimum up-front investment for this kind of agency of US$28,735.[13] To make the business case work, banks may offer the operator a guaranteed monthly payment from the bank, with per transaction commissions on top, and may also provide armored car service. It may be worth the expense if having dedicated staff and service counters yields a better customer experience.

[13]See *Valor* (2010).

EXOGENOUS DRIVERS: Factors beyond the control of agents

Sections 1.1 to 1.3 discussed the details of expense realities stemming directly from agents' discharge of their roles and responsibilities. Sections 1.4 to 1.6 explore factors that are largely beyond an agent's control, but that bear on agent profitability.

1.4. Security Risks

Crime follows money. As a branchless banking service grows, agents attract increasing interest from criminals. One aggregator for M-PESA reports that 10 percent of agents were robbed in 2009.[14] In Brazil, 93 percent of agents interviewed by CGAP report that being an agent increases the risk of being robbed, and 25 percent say they have been robbed at least once during the past three years.

The amount of upfront capital an agent requires to begin operating can be increased by the cost of security improvements. But the expense from actually being robbed is much more substantial.

Agents can be liable for some or all of funds lost via theft. In programs like M-PESA, where agents operate with their own cash in the till, agents bear the entire cost of a robbery. In Brazil, agents do not use their own cash, but banks ask them to share some of the cost of insuring the cash and to share some of the risk by being responsible for the first portion of any stolen funds. On average, this means an agent would be responsible for US$540 of the stolen money, equal to three months of profits from the agent business.[15]

For many small Brazilian agents, these security-related costs are their only direct financial cost. We illustrate this with the example of João, who runs a pharmacy in Brazil's northeastern state of Ceara (see Figure 7).

João handles on average 40 transactions per day, typically all cash-in transactions for utility bills or repayments on consumer loans. This nets US$3.43 in revenue. He typically drives daily to the nearest bank, a 70 km round trip, with some fuel cost. His contribution to cash insurance, pro-rated daily, is US$0.47. Daily profit is US$1.96. If he were robbed and liable for the typical agent's first loss of US$540, he would lose 275 days of profit (i.e., a year's worth of business days).

Some agents worry about robbery all the time. Jema's experience is another example. Jema is one of the highest performing agents for a Brazilian bank. She conducts 1,400

[14]The aggregator managed a network of approximately 100 M-PESA agents.

[15]Terms are typically quite strict: agents reported some insurers will drop coverage after the first or second time an agent is robbed, or only cash located on the premises will be insured (i.e., not when the agent is transporting it to the bank branch, when presumably the agent is most exposed to robbery).

Figure 7: Profit and Loss for Banco do Brasil Agent João

Joao: Banco do Brasil		
		USD
REVENUE		
Transaction commissions		3.43
transactions / day	40	
commission / transaction	0.09	
Registration commissions		0
registrations / day	0	
commission / registration	0	
Wage		0
Total Revenue		3.43
EXPENSES		
Transportation		1.00
Space (rent, utilities)		0
Wages		0
Cost of capital		0
Insurance		0.47
Total Expenses		1.47
DAILY PROFIT		1.96

transactions daily in a location with four teller windows. Due to robbery risk, her bank has set a limit to the amount of cash she can keep on hand at any one time. As a result, she visits the bank every hour, sometimes 10 times a day. She has been robbed three times in the past three years, and she feels that each time she visits the bank she is a target.

1.5. System interruptions

Agent profitability is highly sensitive to service disruptions. This is particularly true for agents with capital, staff, and space costs dedicated to the agent business, as the agent incurs these costs whether or not revenue is being earned. Losing a few days of business may be enough to make the month unprofitable for an agent. We visited one Brazilian agent who usually brings in total commissions of US$1,162 per month against US$1,038 in expenses for a monthly profit of US$124. If she loses the ability to transact for two days in the month, her profits decline 82 percent to US$27.

The inability to transact can be due to several factors. In Brazil, banks often pair a cash-on-hand limit (to limit robbery risks) with turning off agents' POS terminals when they reach the limit. This kind of service interruption occurs often enough that it is a common agent complaint in Brazil. In other countries where agents must put up their own cash, running out of cash or float is a typical cause for lost transactions. Agents in Brazil, India, and Kenya mention unreliable mobile networks as also causing work stoppages, either because the mobile money system itself goes down, or the overall mobile network is unable to carry calls, text messages, and USSD sessions.

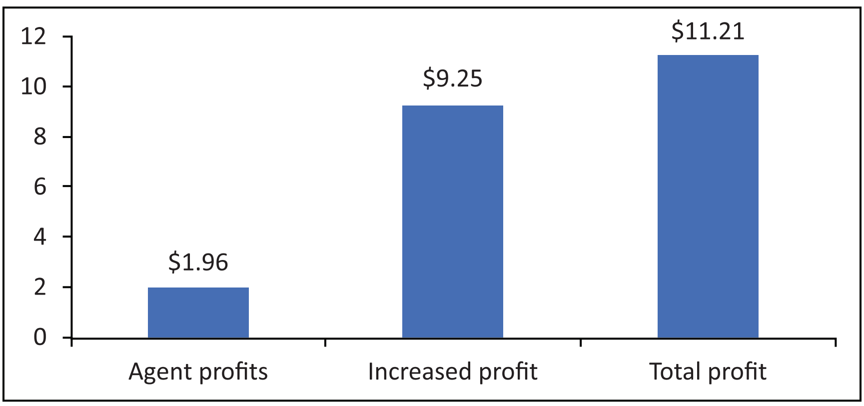
1.6. Effect on Agent's Other Line of Business

In most branchless banking operations, most agents have an existing business that continues to be important to the agent's total income. How the branchless banking business affects it is important.

Brazilian agents report seeing a positive effect on sales: 73 percent say they experience an increase in foot traffic in their store because of the agent business. On average, they report seeing 37 percent more customers. Let's look at a hypothetical Brazilian store that sees 100 customers per day for its grocery business (Figure 8). The owner becomes an agent and enjoys the increase in foot traffic observed in Brazil, which would mean 37 people coming in to do agent business who would not have entered the store otherwise. Not all of them will buy something: let us say one-quarter, or nine people, do. If the average profit on a sale is US$1, the merchant sees nine additional sales yielding US$9 in new profit. If the agent business is similar to João's, profits from the agent business are US$1.96 per day. The US$9 in additional profits in the grocery business would outweigh the profits from the agent business by more than a factor of four.

Foot traffic benefits do not accrue to all agents. Many Brazilian agents claim it is a significant benefit. Many smaller Kenyan agents downplay it, though Safaricom says it has data showing some agents do see the benefit. FINO's agents are generally not merchants, but rather respected community members, so there is not a comparison to be made. EKO agents at the time of research in early 2010 were not seeing a large number of branchless banking transactions, and thus had not seen any foot traffic benefit yet. So the jury is out as to whether benefits from increased foot traffic are a peculiarly Brazilian phenomenon, or whether they manifest elsewhere. Providers could conduct small

Figure 8: Foot Traffic Benefits



surveys to measure any increases of foot traffic, and if there is an increase, to document the conversion rate of added traffic in the store to additional sales. This kind of evidence would help to convince prospective agents that being an agent may benefit their other line of business.

Merchants may also lose money because of agent activity. Customers could crowd a small shop and literally squeeze out people trying to access the pre-existing business, or at least distract the owner enough so that some transactions are lost. The large amounts of cash handled by agents may make them a more attractive target for robbery. Mobile money agents who are also airtime dealers may face the dilemma that mobile money customers begin purchasing their airtime directly from their e-wallets, reducing the agent's airtime sales commissions.

It is also important to recognize that some agents may have motivations beyond direct or indirect profit. FINO's agents in India enjoy serving their rural communities in this way and receive heightened status in the community for being an agent. This status represents value for someone in a tight-knit rural village.

TIME-SPECIFIC DRIVERS: How the agent business case changes over time

Most of the variables that drive agent profitability are dynamic and can change dramatically over time. This can be a problem for agents because they typically do not have excess reserves to weather lean or negative cash flows. Three factors related to growth over time are covered in sections 1.7 to 1.9. M-PESA's evolving agent management strategy from 2007 to 2010 is also addressed as a case study.

1.7. Adequate Revenue at Start-up

The provider in an agent-based financial service channel is likely to launch the initiative with sufficient capital to fund losses until the cash flow turns positive, a process that could take several years. Other companies in the supply chain may be able to do the same. But agents typically have limited resources to endure a prolonged period of unprofitable activity. Providers need to think carefully about how to provide sufficient remuneration to agents during the start-up phase.

Customer sign-up bonuses have served this purpose well in some cases. M-PESA pays agents US$1 for each new customer registered, about six times more than commissions for a typical cash-in or cash-out transaction. This was an incentive to agents to sign up customers and provide revenue when transaction commission revenue was still fairly low.

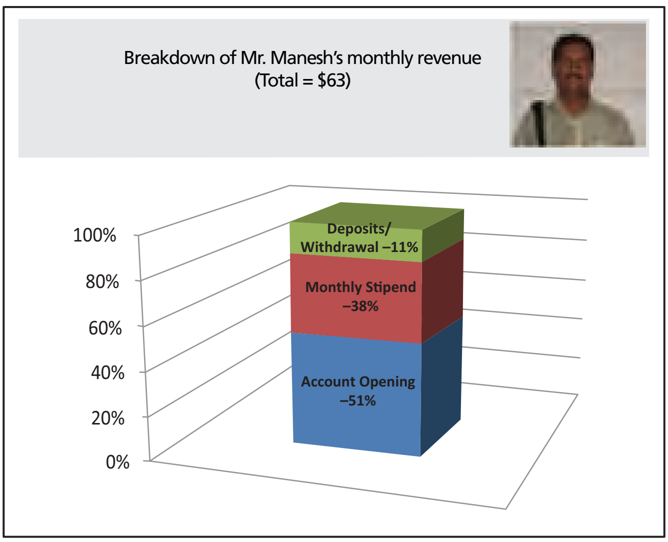
Some providers have opted to create a separate cadre of customer sign-up promoters to accelerate customer growth. Results have been mixed. This approach may be necessary where merchants are too distracted by their main business to promote the product aggressively in their stores or do not have the budget for extensive marketing. Using separate customer sign-up promoters has worked to an extent for WIZZIT in South Africa (WIZZIT claims 250,000 registered users).

But other options that involve splitting customer registration from cash-in and cash-out transactions have had a negative impact on agents. These options deprive store-based agents of early bonuses from registering new clients—bonuses that are often critical to agent profitability early on before transaction volumes build. WING in Cambodia encountered this early on, but fixed the situation by paying some store-based agents to manage street-level agents.

Another way a provider can push revenue to agents early on is to provide agents a modest fixed income—at least initially. In India, FINO agents, who need to travel from village to village to conduct transactions, receive a monthly stipend (about US$20 a month) once they have achieved a certain minimum number of transactions. The agents receive commissions per transaction on top of this stipend but the stipend motivates them to keep working even when the level of transactions is relatively low. FINO combines this feature with bonuses for customer registration. The combination of the monthly stipend and customer registration commissions has kept several agents in business when they otherwise might have lost patience and quit.

For example, six months after signing up to become an agent, Mahesh (see Figure 9) made only about 11 percent of his branchless banking income from regular customer

Figure 9: Breakdown of Monthly Revenue for FINO Agent Mahesh



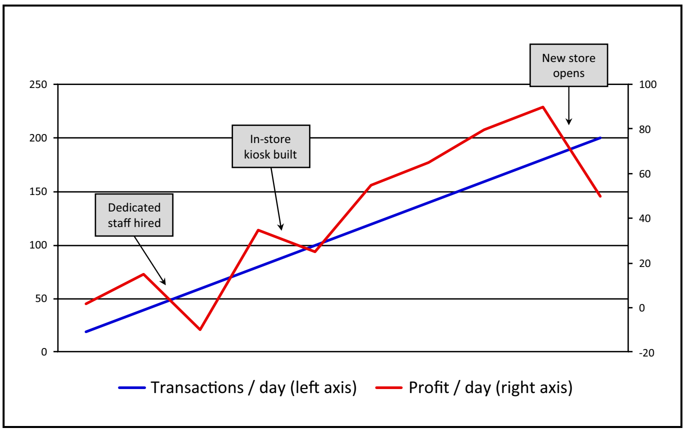
transactions. However, the customer registration fee and fixed salary together brings him the other 89 percent so that he makes a total of about US$63 a month, which is enough to keep him motivated.

1.8. Major Costs Related to Growth

Most new agents can begin their agent business part-time using their existing premises and dedicating most of their time to their existing businesses. However, as the agent business grows, agents incur additional expenses. Some of these expenses, such as transport costs for rebalancing, are directly proportional to the volume of business and can rise and fall as volumes rise and fall. Other expenses are substantial one-off costs that can jeopardize agent profits. Figure 10 shows the profit per day of a hypothetical agent over a period when transactions per day are steadily growing. As illustrated, agent profits can drop suddenly as a result of several decisions.

The first major decision is when to hire a new worker dedicated to handling the branchless banking business. As the transactions volumes increase beyond the capacity of the owner or operator, he or she will hire a full-time employee. This is an expensive proposition and, if done too early, could erase all the profits of the agent business. For example, the average wage and benefits for an agent employee in Brazil is US$600 a month. If the agent owner gets about US$0.20 per transaction, the employee needs to do 125 transactions a day just to pay for his or her own salary. Since the number of transactions a person can do a day is about 150, there is a small margin within which the employee can make profits above his or her own salary. On the other hand, if an employee is not added soon enough, agents may find themselves turning away customers.

Figure 10: Major Costs for Agents as Their Business Grows



The other major cost related to growth is improving the premises—in Figure 10, the agent first builds an in-store kiosk and then a separate, dedicated store. Both these ventures are expensive and are sunk costs. The transaction volume must continue to increase to justify these expenditures.

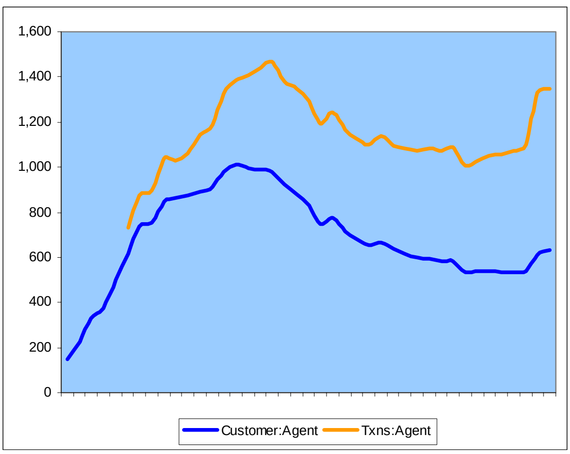
Agents must plan their expansion carefully and have reasonable confidence that their investments (e.g., staff and in-store kiosk) will increase transaction volumes sufficiently to cover the cost. This is where ANMs can play an important role. ANMs handle hundreds of agents and have experience in the agent business. They can advise agents as to when they should make certain investments. In addition, ANMs know how many more agent locations are planned in a certain area or whether new products are planned for the agent business.

1.9. Fragmenting Demand across Too Many Agents

The ratio of customers to agents is a key driver of agent network revenue. This ratio is almost always low at start up. The service provider needs to establish enough agents to make the service attractive to customers, and then recruit customers fast enough to convince agents that their business will be profitable in the near future.

But the ratio can deteriorate even after it reaches an optimum point. This appears to be the case currently with M-PESA. Figure 11 tracks the ratio of customers per agent through August 2010. In June 2008, there were 1,009 customers per agent, and the average M-PESA agent was quite profitable. In June 2010 the ratio of customers to agent had declined to 539. This has resulted in a decline in the number of transactions per agent

Figure 11: Evolution of M-PESA 2007–2010



and corresponding drop in revenue, as confirmed by agents and ANMs interviewed by CGAP. The ratios moved back upward in mid-2010 with a sudden surge of new sign-ups. However, the overall trend in customer/agent and transactions/agent ratios is still downward since 2008, and several agents report they are considering exiting from the business of being an M-PESA agent if revenues continue to decline.

Service providers must ensure that the growth of agents parallels the growth of customers so that the fine balance of customers per agent is maintained. This is difficult because transaction patterns change over time. Cash-in and cash-out transactions tend to dominate initially, when customers are using the channel for a single or just a few services. These transactions occur at the agent, and therefore the agent network typically sees a growth in transaction revenue that is aligned with the growth in number of customers. But over time, customers will likely conduct an increasing number of transactions away from the agent.

For example, M-PESA customers began by putting cash in, making a transfer, and then taking cash out. Agents receive commissions for the first and last of these transactions, but not for transfers, which customers conduct on their own phone. Over time, customers have left balances in their accounts and made more person-to-person transfers with funds in the system. Customers have also increased the number of airtime purchases and bill-pay transactions. Customers now have the option of transferring funds between their M-PESA account and their bank account. All of these transactions generate revenue, but not for the agents. At some point, M-PESA may have to adjust the commission structure to distribute more revenue to agents.

2. Agent Network Managers

ANMs play a key role in helping agent networks scale quickly while providing high-quality, consistent service. Section 2.1 discusses the three roles ANMs can take to support agents: agent start up, agent operations, and business strategy. We use the examples of M-PESA in Kenya and EKO in India to illustrate the very different combinations of roles ANMs can play.

In Section 2.2 we explore the business case for ANMs. Just as with agents, ANMs' revenue must be matched with the specific roles they perform. Many ANMs are dissatisfied with their current business models, due in large part to slow uptake of the service as well as high rates of agent turnover.

Chapter 1 demonstrated that getting the agent business case right is a complex task with at least nine variables that impact the business case in different ways. Since agent management is such a critical piece of a successful branchless banking system and yet is so difficult to get right, most providers ask ANMs to handle some or all aspects of agent management. This allows the provider to focus on its core business and accelerate the specialized task of growing the agent network. This chapter discusses the three key roles that ANMs can perform and the ANM business case.

2.1. Roles of ANMs

Providers must decide exactly which roles to outsource to ANMs. ANMs often take on one or more of three different roles:

- Identifying agents and helping them get started
- Managing agent operations
- Contributing to the overall branchless banking business strategy

Each branchless banking deployment uses ANMs for a different configuration of roles, and providers can pick which tasks to outsource to ANMs based on the market, the product offering, and other factors.

The examples of M-PESA and EKO guide our discussion through the three roles and the different ways ANMs can play these roles. In M-PESA, agent management is divided among several companies, each tasked with a specific role. In EKO, agent management is much more streamlined and centralized, with EKO itself taking on the main tasks for agent management. The example of EKO also shows how some network managers may also take the lead in other areas like technology, marketing, and even product design. In fact, it may become increasingly more common to see such firms—often small or even a start-up—sit in the middle, surrounded by bank, MNO, agent, and client and take the lead in developing branchless banking businesses.

First, it is important to understand the way each service is structured. M-PESA (see Figure 12) as the transaction provider is the driving force of the whole operation. M- PESA has 10 regional managers throughout the country. Although they are responsible for agent management and play an important role as Safaricom's own eyes and ears, they mostly manage other firms tasked with agent management.

- What M-PESA calls "aggregators" are individuals or small companies that own or manage networks of agents (ranging from just a few agents to several hundred). The aggregator may "own" some of the shops (i.e., have their own employee in the location and rent or own the property directly) in addition to "aggregating" independent merchants (i.e., provide them with liquidity management services and oversee their compliance with Safaricom standards).
- "Superagents" are banks that have agreed to operate a special facility for agents to rebalance their cash and e-float. This takes place in existing bank branches.
- Firms such as Top Image are separate companies to which M-PESA has outsourced agent training and monitoring.

For a more detailed explanation of how M-PESA agent management has changed over time, see Chapter 4.

EKO has a different structure (see Figure 13). EKO started as a technology provider, offering a solution called SimpliBank in which customers can open accounts at the State Bank of India (SBI) and transact on these accounts via their mobile phones. At first, EKO

Figure 12: M-PESA Agent Management Structure

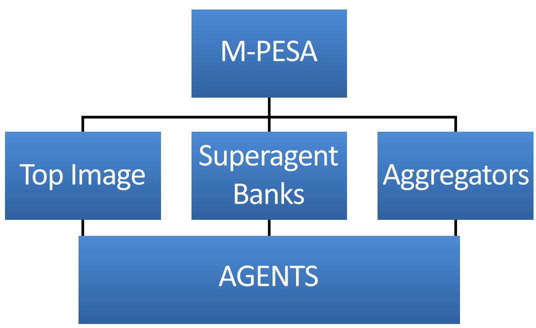
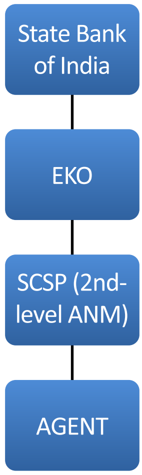


Figure 13: EKO Agent Management Structure



took a hands-off role in agent management and left distribution to its strategic partner, the MNO Airtel. However, this partnership dissolved (see Box 4 in Chapter 4 for more detail) and EKO actively started to build an agent network from scratch. In that sense, EKO is an ANM as it directly takes on the majority of agent management tasks and interfaces directly with agents.

Today, EKO is responsible not only for agent management but also for distribution, pricing, marketing, and all other aspects of the service.[16] EKO uses fast moving consumer goods (FMCG) distributors as a sort of second level of ANM to take on the more day-to-day role of agent management. They are called senior customer service points (SCSPs) and are in some ways similar to M-PESA's aggregators. In most cases, SCSPs have already been working with merchants for some time, distributing other products. Some ANM duties (such as training) are taken on by EKO itself while others (such as liquidity management) are taken on by SCSPs. As EKO's agent network grows, it may need to shift more responsibility to SCSPs or other organizations (as M-PESA has done). EKO's structure is streamlined and hierarchical with clear lines of responsibility flowing from SBI to EKO to the SCSP to the end agent.

Identifying agents and helping them get started

If agent recruitment is centralized at the provider's headquarters, it is difficult to get the right agents in the right locations throughout the country. Using ANMs—especially

[16]Until now, EKO has driven most of these decisions although SBI does need to approve pricing and other aspects of the service.

those that are already located throughout the country—enables the service to be localized quickly. In Kenya (see Table 5), M-PESA is so popular that merchants are lining up to become agents. M-PESA sets the requirements to be an agent and manages the overall recruitment process. However, due to the sheer number of agents involved, its 10 regional sales managers practically cannot take a very hands-on, direct role in this process.

In most countries (such as India), the service is still new, and ANMs play a large role as they need to explain and sell the service to prospective agents. EKO relies on SCSPs, who have existing relationships with retailers for recommendations, but has also developed a scoring system to identify merchants with the highest potential. One of the key differences between M-PESA and EKO is that EKO staff personally interview every prospective EKO agent and are directly involved in every element of managing the network.

ANMs also frequently provide agents with initial equipment or start-up capital. For example, FINO in India provides agents with a POS device (the agent provides a deposit). Both M-PESA and EKO require agents themselves to provide mobile phones and start-up capital although informally some Kenyan aggregators do provide agents with loans.

Table 5: Identify Agents and Help Them Get Started (M-PESA and EKO)

	ACCOUNT PROVIDER	ANM	AGENT
M-PESA	M-PESA—Role in selecting agents has greatly diminished with expansion. Still develops eligibility criteria and manages recruitment process.	Aggregators identify potential agents. Firms such as Top Image vet applicants and provide initial training. Super-agents do not play a role in helping agents get started.	Provide equipment (phone) and start-up capital to fund cash-on-hand and e-float.
EKO	SBI—Limited role in agent recruitment although does approve each location.	Both EKO and SCSP are responsible for selecting and training agents. SCSPs may recommend prospective agents but EKO staff interview them and make final decision.	Provide equipment (phone) and start-up capital to fund cash-on-hand and e-float.

Managing agent operations

In almost every service, ANMs play a key role in managing agent operations. Their most important role is usually helping agents rebalance their cash and float. In Chapter 1, we discussed the burden of rebalancing and the amount of time, cost, and risk agents incur carrying cash to and from the rebalancing point. This is certainly the case with M-PESA agents who hold the primary responsibility for rebalancing (although frequently they rebalance with an ANM if the office is located nearby). In contrast, EKO requires SCSP ANMs to conduct all rebalancing. SCSPs hire dedicated "feet-on-street" staff to pick up client application forms from agents and deliver or collect cash—often running circuits via motorbike. This allows agents to stay in their businesses full-time and focus on serving customers.

Training and monitoring is an additional aspect of managing agent operations. Most providers prefer to use training and monitoring specialists who are objective (as opposed to ANMs who get a cut of commissions and may not wish to raise red flags on their own agents). M-PESA uses third-party firms, such as Top Image, for training and monitoring. Top Image has about 80 dedicated staff for training and monitoring. EKO has taken on this responsibility itself (see Table 6).

Table 6: Managing Agent Operations (M-PESA and EKO)

	ACCOUNT PROVIDER	ANM	AGENT
M-PESA	M-PESA—Monitors Top Image (and other third-party firms) and runs an agent call center.	Aggregators may or may not help agents rebalance. Top Image trains and monitors agents. Superagent banks have special facility for agent rebalancing.	Primary responsibility for rebalancing cash and e-float and maintaining log books in good order.
EKO	SBI—No role	SCSPs conduct all rebalancing and basic monitoring. EKO does higher level monitoring and all training.	Handles transactions with clients but overall less responsibility than M-PESA agents.

Business strategy

Some ANMs play an influential role in determining business strategy of the overall branchless banking service and making decisions in areas such as developing products, setting commissions, and adapting processes to ensure the business case is viable. This is where we see the greatest difference between M-PESA and EKO. M-PESA as the account provider is clearly the driving force of the business. M-PESA makes all the important decisions on the product: pricing, partnerships, and customer and agent strategies. It outsources key tasks to ANMs but these are discrete, functional tasks that have rigid rules and guidelines. ANMs have basically no say in strategy and simply follow orders. This is to some extent a result of M-PESA's origins as the first mover and dominant market player.

At the opposite extreme, EKO is the driving force of its business, as opposed to the account provider, State Bank of India (SBI). EKO determines agent management as well as marketing, geography, and customer strategy. This is also a result of the market. In India, MNOs have been blocked from operating m-banking services due to regulatory requirements. EKO saw an opportunity to be a bridge between banks (who are legally able but reluctant to offer the service) and MNOs (who have the ambition and retail networks but are prohibited from offering the service). They started operations as a third party between the two and needed to actively shape strategy to develop a business.

ANMs that are able to take an active role in business strategy are often well situated to improve the business case both for themselves and for agents. For example, EKO in India developed a remittance product when it realized that commissions from SBI's basic no-frills account were not enough to make a viable business case. The product allows customers to send money from their SBI EKO account to another customer with an SBI EKO account via their mobile phone or any regular account on SBI's core banking system. They've also recently revamped the entire pricing structure to offer different pricing bundles to different segments of customers. Telecom Service in Brazil (an ANM managing 1,000 agents for Banco do Brasil) likewise has ideas to push additional products, like loans for consumer goods, through its agent network. This would improve the business case both for itself and for agents. Both organizations view agents as a distribution channel they have invested in and are actively developing products to push through this channel.

The way M-PESA and EKO use ANMs are just two of the dozens of variations on ANM roles in the market today. We saw that M-PESA outsources some important roles to ANMs but controls the higher level business strategy, while in EKO, almost every

Table 7: Setting Strategy (M-PESA and EKO)

	ACCOUNT PROVIDER	ANM	AGENT
M-PESA	M-PESA itself defines all aspects of the business strategy.	All three types of ANMs have little to no say in product design, commissions, or strategy.	No say in business strategy.
EKO	SBI determines overall level of commission to pay EKO and provides the core product (no-frills account is an SBI account).	EKO is responsible for all supply chain management, marketing, and customer acquisition. EKO also developed the remittance product packaged with the SBI saving account. SCSPs play no role in strategy.	Minimal say in strategy.

important function is done by an ANM. Whether an ANM takes on all three roles or just a subset of one varies widely from operation to operation. It is uncommon, but not unheard of, for a large-scale branchless banking service to do all agent management in-house. Caixa Economica in Brazil is one example; MTN Uganda centralizes most agent management functions within the company. The role you need your ANM to play will influence the structure of your agent network.

2.2. ANM Business Case

Most ANMs are paid by commission, often calculated as a percentage of all commissions earned by the agents they are managing. In some cases, ANMs earn a commission for each new agent they sign up. The commission split is usually around 80 percent for agents and 20 percent for ANMs, although it varies depending on the role the ANM is expected to play. For example, ANMs working for Roshan in Afghanistan get a 30 percent share of commissions as a base. However, when ANMs give agents start-up capital, the ANM share increases to 50 percent of commissions. Some companies that play a role in agent management—such as Top Image in Kenya—are paid a fixed fee, not a commission split. Figure 14 highlights the link between the role ANMs play and the share of commissions they receive.

Box 3: How Much is Enough?

How much income does an M-PESA aggregator (ANM) need to cover its costs? The answer depends on whether the aggregator operates the agent location itself (and pays rent and staff), or just limits its role to supporting agents owned by other businesses with liquidity management services.

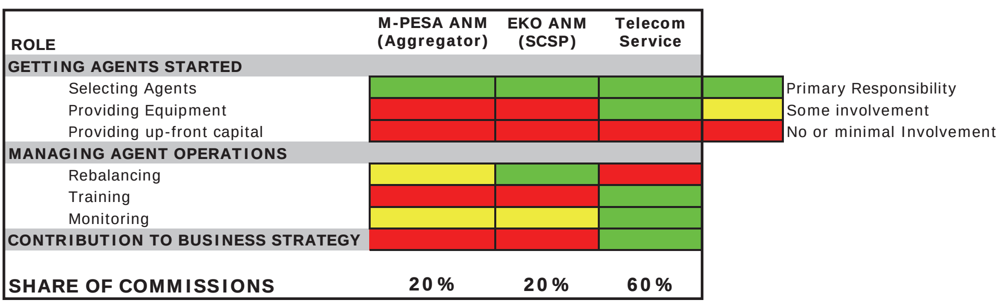
Aggregators who operate their own locations need sufficient revenue to cover the cost of at least one full-time employee and rent, which costs about US$93 per month for small agents in more remote areas and as much as US$250 per month in dense urban settings. At the current average of 53 transactions per day, the remote agent would still generate around US$60 profit for the aggregator-owner. But the more expensive urban agency would have to generate 80–100 transactions per day to cover all costs and generate a profit for the owner.

Aggregators who manage agents get only the 20 percent cut, which is about US$41 for an agent with 53 transactions per day. This means that aggregators can own agencies that generate profit and make some commission revenue from low-volume agents. But aggregators are likely to abandon unprofitable agencies and spend very little money on low-volume independent agents.

The figure shows that M-PESA and EKO agent managers (called aggregators and SCSPs, respectively) have similar responsibilities, primarily centered on selecting agents and, to some extent, helping with rebalancing and monitoring. In neither case do these managers contribute to business strategy or provide equipment or upfront capital to agents. In return, they receive 20 percent commission.

Telecom Service in Brazil has much more responsibility. It selects agents, provides equipment, trains them, and monitors them while contributing to business strategy. The only

Figure 14: ANM Roles and Share of Commissions (M-PESA, EKO, Telecom Service)



areas where it is not involved are in providing upfront capital and rebalancing. In return for its significant role, it receives 60 percent of commissions.

All ANMs have some fixed costs, such as office rent and headquarter staff salaries. However, most of their expenses are usually variable and depend on the specific role they are playing. For example, in Kenya, Top Image's field staff visit each agent at least once every other week to monitor them and ensure they have adequate stocks of cash and e-float and are displaying appropriate marketing collateral and customer notices. In these cases, the business model is very human-intensive, and a large staff-to-agent ratio is needed. However, in Brazil, Telecom Service has more centralized management based on a sophisticated management information system (MIS) rather than on frequent physical visits of each agent. Its staff visit agents only once every two months. However, its investment in software development is high.

Figure 15 demonstrates the business case for Sinha, an EKO ANM (SCSP) in India. EKO is a relatively new service so this story demonstrates the profit an ANM is making when managing just 35 agents. EKO expects all ANMs to build an agent network of at least 100 agents. Sinha makes US$1,133 in commissions a month from EKO. Sinha already works with more than 500 retailers distributing consumer goods. He makes US$4,300 from his distributor business and already has a functioning office with electricity, computers, etc.

For the EKO business, he recently hired two staff and pays for transport for these staff to handle liquidity management. However, they have so far not increased overhead costs through factors like rent and electricity. His overall profit from EKO is US$611 a month. This is 14 percent of his profit from the rest of his distributor business (US$4,300). Once he reaches the EKO benchmark of 100 agents, it is expected that the percentage

Figure 15: Profit and Loss for EKO ANM Sinha

EKO Agent Network Manager: Sinha	
REVENUE	
Number of agents	35
Accounts opened per agent	57
commission / account opened	0.54
Volume of Transactions per agent	1,322
commission / transaction	0.10%
Total Revenue	1,133
EXPENSES	
Transportation	109
Wages	413
Total Expenses	522
MONTHLY PROFIT (US$)	611

of income Sinha makes from EKO will be three times higher than it is today. This is, in part, because Sinha believes that he can transition more of his existing retailers into EKO agents without incurring additional office space or overhead. At US$1,800 of profit a month, his EKO business would be his single most profitable product.

Start-up challenges

ANMs face similar challenges to agents during the ramp-up period. Although ANMs on average have more cash flow reserves than the typical agent, they are unlikely to stay long in a loss-making business. ANMs need to stay motivated through the first months of a service. When they quit, they often take agents with them.

One way to motivate agents is to pay bonuses for each customer the agent registers. This also works to motivate ANMs, particularly during the early phases of the business. Many providers also pay bonuses to ANMs for the customers their agents register to reward the ANMs' work in training and supporting agents. For example, EKO ANMs receive US$0.54 for each new customer registered while their agents receive US$0.64. This ensures a reasonable level of cash flow for both agents and ANMs during the start-up period before large volumes of customers are transacting regularly.

In addition, most ANMs are paid a commission for each agent they have registered. Just as providers need to balance agent commissions so agents are motivated to recruit customers who will be active (not just signing up large numbers of customers), providers should be careful not to skew the balance of incentives for ANMs too far toward recruitment but encourage them to sign up good agents. These commissions for new agents also ensure steady cash flow during the start-up period.

Agent turnover

On paper, the commissions received by ANMs often balance well with expected expenses. However, one factor impacts the ANM business case perhaps more than any other and has the potential to wipe out all of an ANM's profits: agent turnover. ANMs need agents to stay in business long enough to recoup their initial investment in recruiting and training these agents. If service providers and ANMs fail to keep agents motivated, especially during the first months when business is slow, they will need to continuously invest in new agents. One large-scale ANM in Brazil calculated that it takes six months for an agent (doing at least 200 transactions a month) to recoup the investment the ANM made in the agent. Unfortunately, several high-profile deployments (e.g., Zain's ZAP, Vodafone's M-PESA in Tanzania, etc.) have seen very high rates of agent turnover that have severely damaged the business case for the ANM.[17] In one particular case in Brazil, an ANM has selected, trained, and equipped over 6,000 agents in the past few years—and yet has only 1,000 agents today. It is impossible to grow a business this way. Some agents drop out completely while others just stop keeping float on hand and become inactive. The same ANM in Brazil that needs each agent to do 200 transactions a month to breakeven has an inactive agent rate of over 50 percent—meaning the other half needs to be twice as productive. The high rates of agent turnover and their impact on the ANM business case underscore the importance of getting the business case right for both agents and ANMs.

[17]Zain and ZAP are mentioned throughout this guide, referring to the mobile money service launched in 2009 in several African markets. Airtel recently acquired Zain, and in 2011 it will relaunch as Airtel Money in several markets. We expect this service to be substantially different from ZAP.

3. Supply Chain Revenue Analysis

Branchless banking agents are typically the last link in a supply chain of companies that combine their respective roles to create the transaction channel. For the entire supply chain to be sustainable, the operation must generate sufficient revenue to support all of the companies in it. Section 3.1 presents a structured approach to analyzing revenue generation and distribution in a branchless banking supply chain.

Customer transaction fees from a single service (e.g., domestic money transfer) rarely generate enough revenue to support the entire supply chain, which would leave providers unable to pass on enough compensation to motivate agents and ANMs. Section 3.2 explores two approaches to generating more revenue for actors in the supply chain:

1. *Intensify use of the transaction channel*
2. *Generate core-business benefits for companies in the supply chain*

Branchless banking services must generate sufficient revenue to support the business models of all of the companies involved in delivering the service: the service providers themselves as well as ANMs, agents, and other parties (e.g., partner banks). This chapter examines the factors that drive the revenues for each link in the supply chain.

The challenge of generating sufficient revenue has confounded many of the early branchless banking efforts around the world. The way revenues are *distributed* throughout the supply chain through fees and commissions is critical to the success of each business and merits careful consideration in the design phase of any branchless banking business. However, this guide focuses on the more fundamental matter of whether a branchless banking business is structured to *generate* sufficient revenue to support all of the companies in its supply chain.

3.1. Revenue Sources in the Supply Chain

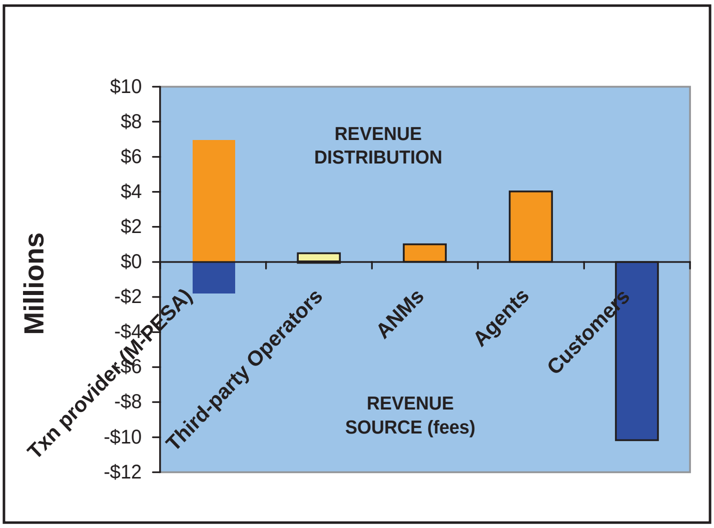
Branchless banking businesses typically begin with a core service that generates most of the revenue from a single source, such as customer transaction fees. However, revenues can be generated from several sources in a branchless banking supply chain. A comparison of the largest branchless banking businesses reveals that they deliver different services, generate income and other benefits from different sources, and distribute revenue through the value chain in different ways.

M-PESA is a significant business line and revenue stream for Safaricom. M-PESA generated US$66 million, or just over 11 percent of total revenue, for the company in the first half of fiscal year 2010–11 (Safaricom 2010). In addition, Safaricom says that M-PESA reduces churn and helps attract customers in an increasingly competitive mobile phone market that has seen multinational telecommunication firms Airtel, Essar, and Orange recently buy into the market.

Our analysis, based on June 2010 operating levels, shows that M-PESA generates around US$12 million in transaction revenue every month across the entire supply chain. The vast majority of revenue is generated from customer transaction fees. The bottom half of Figure 16 shows that customers provide US$10.2 million, or 85 percent, of all of the revenue generated in the supply chain (via the transaction fees they pay). Safaricom adds revenue to the chain by paying agents fees for cash-in transactions, and companies that accept bill payment and make payroll deposits pay Safaricom for those services. The top half of Figure 16 shows how the revenues are distributed. Safaricom retains about US$6.9 million, or 58 percent of the total monthly revenue. Agents and ANMs receive 34 and 8 percent, respectively.

M-PESA's revenue profile is a direct reflection of the service itself. M-PESA started out and remains primarily a person-to-person (P2P) domestic money transfer service.[18]

Figure 16: Monthly Revenue Generation and Distribution



[18]A lot of M-PESA customers use M-PESA to save—upwards of 80 percent, according to Jack and Suri (2010). Calculating the revenue gain from such activity is difficult as M-PESA does not have differential pricing for different kinds of withdrawals, nor does it offer a specialized savings product.

Figure 17: Transaction Volume as % of Cash-in

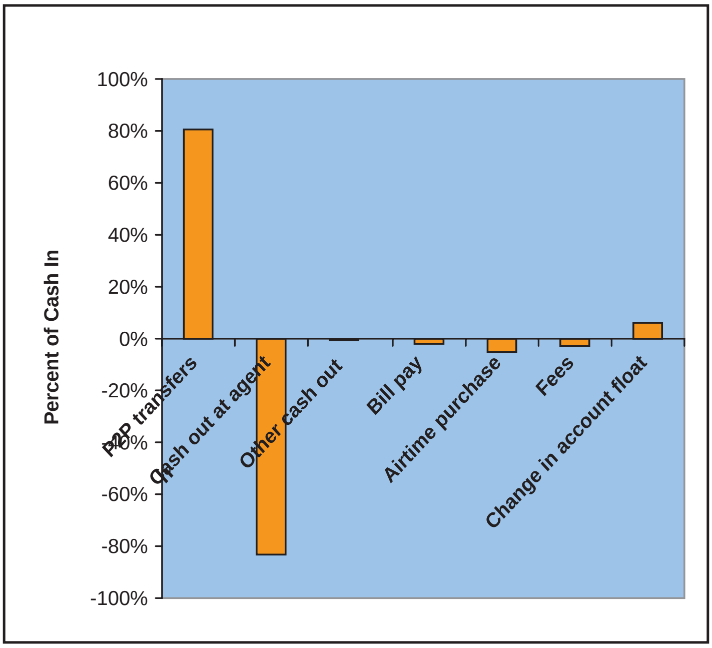


Figure 17 illustrates our estimates of what customers do with their money after they load it to their e-wallet. They transfer about 81 percent of their deposits, and remove about 83 percent in the form of cash in any given month. They also purchase airtime, make bill payments, and leave about 6 percent in their accounts. But the volume of these transactions is still very small relative to cash and transfer volumes.

Customer fees will almost always be an important source of the revenue available to remunerate agents. M-PESA's pricing structure has worked well in this regard. In contrast, setting customer fees too low may starve the system of revenue, even at substantial transaction volume. One well-known branchless banking operation in Asia initially set prices to make the service appear affordable to potential customers. But agent commissions turned out to be insufficient to motivate merchants, and the provider had to raise its customer fees.

Transaction volume has been the key to M-PESA's success. The rapid growth of the number of M-PESA customers has fueled a volume of transaction revenue that has supported the growth of each business in the supply chain. This reflects the widespread demand for P2P transfers in Kenya. Kenyan customers have been willing to pay M-PESA's transaction fees because the service is better than any other option. This makes M-PESA unique among the major branchless banking businesses.

Other successful branchless banking businesses have relied on different revenue sources.

Table 8: Source of Revenue for Agent-Based Financial Services

Service and Country	Core Service for Customer	Primary Source of Revenue	Revenue sufficient for agents?
M-PESA, Kenya	P2P transfer	Customer transaction fees	Yes
Various banks, Brazil	Payment of bar-coded payment coupons (*boletos*) and bills (*convenhos*)	Bank savings on transaction costs	No. Agents are primarily motivated by increased foot traffic in their store, not direct revenues from agent business.
FINO, India	Basic, no-frills bank account	Bank intermediation of account balances	No, unless high transaction volumes are reached.
GCash and Smart Money, the Philippines	E-wallet, used mostly to buy airtime	MNO savings on reduced airtime commissions	Yet to be determined

The Brazilian model is based on the widespread use of bar-coded payment coupons and bills in the economy. A large percentage of Brazilian households need to pay these coupons (*boletos)* or bills (*convehnos*) regularly, and banks are required by law to process them.[19] Customers are eager for a simple payment channel, but are unwilling to pay for the service. Banks have been willing to pay agents to process these payments to reduce the cost of processing payments in the bank branches. This means that for almost all banks (until recently), their agent-based transaction channels have been a cost-savings initiative, rather than a net revenue generator.

FINO in India operates a large agent network that extends basic banking services to customers' doorsteps. The volume of customers is substantial: FINO says it has more than 21 million users. But users do not transact frequently. Moreover, one of the primary products offered—a no-frills bank account—has limits on its revenue potential. Until recently, the government prohibited bank fees so the main revenue in the system has been generated by the bank that is intermediating deposits.

In the Philippines, the two largest mobile financial service providers are generating most of their revenue by reducing the commissions that MNOs were paying for airtime

[19]CGAP analysis in 2007 indicated 75 percent of Brazilians regularly use branchless banking agents to pay bills and coupons. See Siedek (2007).

scratch card sales. Customers have access to an e-wallet on their mobile phone, which they can use to transfer funds and buy airtime. However, Filipinos already have access to at least six inexpensive money transfer operators with large agent networks. The competition from these other options is presumably reflected in the extremely low (compared to M-PESA) transaction fees of the branchless banking service providers. As a result, service providers have not been able to generate sufficient revenue from customer transaction fees. The primary benefit in the system comes from the ability to offer consumers lower airtime rates and to save MNOs' money on lower airtime commissions.

The key lesson from these cases is that very few branchless banking operations are able to generate sufficient revenue from the fees that customers pay on a single financial service. Customer response seldom will be immediate or massive. And in most cases customers are not be willing or able to pay enough for a single core service to sustain the entire supply chain.

3.2. Enhancing Revenues in the Supply Chain

A growing number of branchless banking providers are finding that a single service, such as a mobile phone based domestic money transfer service, cannot produce enough transaction fees from customers to support all of the companies required to maintain the service channel. Our research indicates that the combination of conditions that fueled M-PESA's success is rare and that service providers in other markets have to find new solutions to unique challenges.[20]

To illustrate this point, we developed a case study that asks two questions. First, what would M-PESA look like if it didn't have such large numbers of registered customers, but something more akin to the average number of customers in other branchless banking services? We looked at seven other services for which good data are available: Banco Postal (Brazil), FINO (India), GCash (Philippines), M-PESA (Tanzania), Smart Money (Philippines), WING (Cambodia), and WIZZIT (South Africa). These services average 5.2 million registered users, which is still large but considerably fewer than the 13 million registered to use M-PESA in Kenya. We applied this lower figure to see what the revenue pie would look like for M-PESA in Kenya at this lower level of customer uptake: is there still enough revenue to satisfy everyone in the supply chain?

In the first scenario, M-PESA in Kenya generates around US$4.7 million per month for the entire supply chain, and the typical agent earns gross revenues of US$250 per

[20]For a fuller discussion of the unique environmental and country factors that influenced the success of M-PESA see Heyer and Mas (2009).

Table 9

CASE STUDY ASSUMPTIONS				
VARIABLES	M-PESA		TYPICAL	
Total customers		5,200,000		5,200,000
% active		70%		53%
Active customers		3,640,000		2,756,000
Agents		6,700		6,700
Avg customer txns/month		5.3		2.0
REVENUE				
Total supply chain revenue	$	4,700,000	$	1,500,000
Agent txn/day		54		16
Agent gross revenue/month	$	250	$	71

month, which is still very robust. We would expect most merchants would find it profitable to operate an M-PESA agency at this level. In other words, even with dramatically fewer customers, M-PESA in Kenya would still be attractive for everyone involved.

But, what would M-PESA look like with not only reduced total number of customers, but if other key benchmarks came down to levels more common in other branchless banking services? For this second scenario we change the percentage of customers who are active (from 70 percent to the average of 53 percent in the other seven branchless banking services) and the average number of transactions they perform (from 5.3 per month to 2). In Table 9, we label this second scenario "typical".

The typical case generates just US$1.5 million per month, which is almost certainly inadequate to satisfy anyone in the supply chain, let alone all parties. For a typical MNO with 5.2 million voice subscribers, this would be less than 3 percent of total voice revenue—hardly a game-changing innovation.[21] By comparison, M-PESA revenue was 11 percent of Safaricom revenue in the first half of fiscal year 2010–11, and became the number two source of revenue, surpassing SMS.[22] Agents would gross only US$71 per month, or US$2.73 per day. Only small merchants would find this attractive, making it

[21]Based on an average ARPU of US$10 per subscriber, which is the average Wireless Intelligence ARPU for all African markets between mid-2009 and 2010. We also assume the MNO is able to sign up 100 percent of its 5.2 million voice subscribers to the mobile money service, which is highly optimistic.
[22]See Pickens (2010d).

hard for the provider to recruit retail chains as agents. Any agent that incurred liquidity, staff, or space costs or was subject to even small robberies would quickly find the business unprofitable.

Most branchless banking services today look far more like the typical case than M-PESA. Of the 46 mobile money services in Africa, only five have more than 100,000 registered customers, for example (GSMA 2010). And anecdotal evidence indicates activity rates (percent of clients active, number of transactions per month) are even lower than the rates we used in the typical case. Most branchless banking schemes do not generate adequate revenue to satisfy all the parties in the supply chain. This leaves us with a question, without a massive response similar to that of M-PESA customers, how can providers generate adequate revenue to share with agents and network managers? The options fall into two categories:

- Transaction revenue can be increased by intensifying use and revenue sources in the supply chain
- The operation can generate additional core-business revenue for companies that operate the supply chain

Intensify use of the branchless banking channel

The typical case reflects a common reality in many markets so far: customers who transact infrequently do not generate sufficient revenue to support the supply chain. And a single service (e.g., P2P transfers) is less likely to generate frequent transactions. A broader array of services could lead to more overall transactions conducted, and additional sources of revenue.

Transaction providers in the relatively mature markets of Kenya and Brazil are in fact developing new services for their existing branchless banking channels. Some Brazilian banks, for example, use agents to open bank accounts and to originate, disburse, and collect payments on small-scale consumer loans. Customers conduct fewer of these transactions than bill payments and installments. However, the account- and loan-related transactions generate significantly more revenue for banks, and this is reflected in higher commissions for agents.

Moreover, customers are not the only parties willing to pay to use a branchless banking channel. Third parties may be willing to pay to use the channel, or offer additional services to customers through the channel. In many systems, for example, utility companies pay a fee to enable customers to pay their bills or purchase prepaid services from agents or through their mobile phones. Employers may pay to use customer accounts for automatic payroll deposits. In Brazil, the government uses the Caixa Economica agent network to disburse government-to-person (G2P) payments, such as pensions and safety net support.

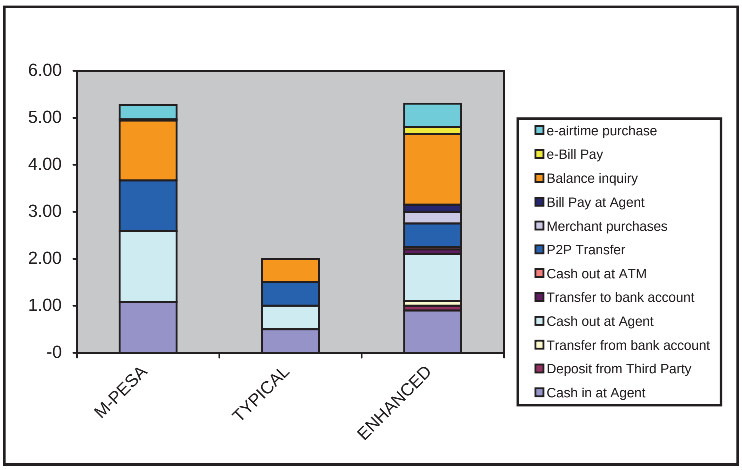
The economics of the supply chain improve significantly when services are added, revenue sources are diversified, and use intensifies. To show the impact, we add these features to the typical case and then model the financial flows as an enhanced case.

Figure 18 illustrates what a more active monthly customer transaction profile might look like. Note that in our enhanced case, customers transact 5.3 times per month (the same number as M-PESA customers). In our enhanced case, P2P transfers are still modest, but customers now use a broader array of transaction types: automatic payroll deposits, pension deposits, transfers from bank accounts, and more frequent cash deposits at agents. They also take out less cash from their mobile accounts and use it instead to make purchases, pay bills, conduct more P2P transfers, and save small balances. We assume the provider reduces customer fees by 30 percent below M-PESA's fees to encourage higher use.

In this enhanced case, the business generates a total of US$3.2 million in monthly revenue, more than double that of the typical case. Even though revenue from customer transaction fees is lower because of the fee cut to encourage use, this is recovered by an increase in third-party use of the channel. In fact, Figure 19 shows how the vast majority of additional revenue comes from other companies in the supply chain:

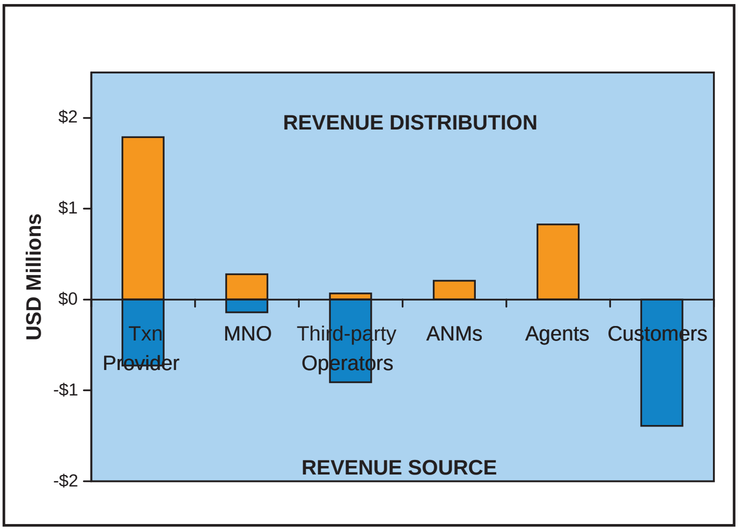
- Employers[23] pay to make automatic payroll deposits
- The government pays a fee to transfer social payments to welfare recipients

Figure 18: Transaction Profiles, Customer Transactions per Month



[23]Employers, government, merchants and banks are all classified as third-party operators.

Figure 19: Enhanced Case: US$3.2 Million in Revenue



- Merchants pay a merchant fee when customers make purchases
- MNO pays the transaction provider a commission for airtime purchases
- Transaction provider pays MNO for customer transaction sessions
- Banks pay the transaction provider interest on the global float balances

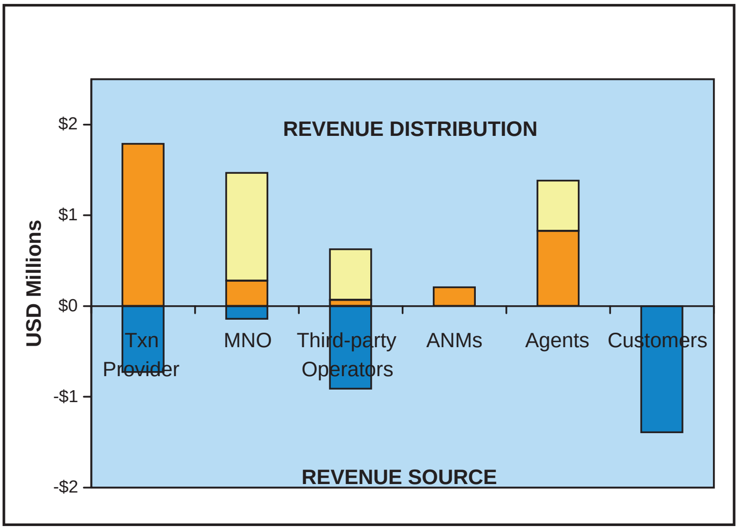
Agents do considerably better in the enhanced case, earning US$123, compared to US$71 in the typical case. However, this is still considerably less than the US$250 per month that M-PESA agents grossed at this customer level and may not be enough to attract and retain many agents. ANMs and other companies in the supply chain may require more revenue as well. We now turn to the second option providers have to boost overall revenue.

Core-business benefits for companies in the supply chain

Companies that participate in a branchless banking supply chain can generate revenue or cost savings *in their core business*. The volume of this benefit can be significant, and in some cases it can be a principal driver of profitability.

Brazilian banks and their agents center their business model on this proposition. Banks deploy their agent networks principally to save on the cost of branch transactions. Merchant agents typically make little profit from transactions, but generate greater net revenue by selling merchandise to branchless banking customers who come into the agent's store to make a transaction (foot traffic sales). Banks also generate revenue by

Figure 20: Addition of Core Business Benefit: US$5.5 Million Total Revenue



intermediating customer account balances. The impact of these core business revenue sources in the enhanced operation is modeled in Figure 20. The yellow columns reflect additional core business revenue, which raises total revenue in the supply chain to US$5.5 million, 71 percent higher than the US$3.2 million from just boosting customer use (Figure 19).

In this scenario, if just 10 percent of branchless banking customers make one US$2 purchase in the store each month, the typical agent would see its total monthly revenue increase by US$83. Agent total revenue increases by 67 percent to US$206 per month.

Banks (third-party operators) make US$555,000 per month by intermediating account balances.[24] MNOs might also see significant benefits to their core business of voice. The most obvious is a reduction in airtime sales commissions, if the MNO is able to pay a lower commission than it currently pays for scratch card distribution. This has been the main source of revenue from mobile banking operations in both South Africa and in the Philippines, for example.

The MNO stands to gain even greater benefit, however, if the mobile money service increases the average revenue per user (ARPU) and reduces the churn of subscribers who have e-wallet accounts. In the enhanced case, for example, the MNO saves US$140,000 per month by reducing airtime commissions by 5 percent. The MNO also generates over

[24]This assumes that the transaction provider deposits the global float balance in a bank, the bank pays the transaction provider 3 percent per year on the average float balance, and the bank yields 8 percent on investing the float balance.

US$1 million per month based on modest assumptions about ARPU increase and churn reduction. An increase of US$0.20 per month of airtime consumption by each active mobile money customer (about 5 percent in many markets) generates US$500,000 per month of additional airtime sales. And if only 5 percent of the mobile money customers represent subscribers the MNO would have lost to churn, the MNO earns an additional US$550,000 in airtime sales.[25]

Measuring these core benefits is the first step toward incorporating them into the economics of a branchless banking supply chain. In Brazil, the recognition of these core benefits has been a key motivation for companies in the supply chain, including agents. But many companies in other supply chains calculate their return on investment solely on direct transaction revenue. The MNO benefits associated with ARPU increase and churn reduction deserve careful attention, in particular. The heads of MNOs who participated in a CGAP survey acknowledge these effects.[26] But most MNOs have been unable to calculate these benefits—sometimes because their systems are not geared to do the calculation, but often because providers simply have not looked to measure the effect and document it. As these financial scenarios try to illustrate, these kinds of benefits to core business may be necessary to make the entire supply chain profitable.

Opportunities to optimize core revenues vary by specific operations and markets. Each company in the supply chain is likely best positioned to identify ways to enhance its core business. However, the provider that is leading the branchless banking business should encourage the other companies to do their own internal analysis and make the case by presenting their own calculations.

[25]Consider that some MNOs experience churn rates as high as 5 percent per month. At this rate, 60 percent of the subscriber base turns over every year. Therefore, the assumption that 5 percent of the mobile money customer base has been retained is very modest. The MNO would also save on customer acquisition costs, which have not been calculated in this example.
[26]See Baba (2010).

Part II: Building an Agent Network

Part I of this guide addressed the economics of the branchless banking service, with a particular focus on understanding the drivers of the business case for agents, the role played by ANMs, and distribution of revenue through the supply chain (including options to boost overall revenue). Part II turns to the operational challenges of setting up (Chapter 4) and managing (Chapter 5) an agent network.

4. Structuring an Agent Network

This chapter introduces three different approaches to structuring an agent network. They can be built by forging a partnership with (1) retail chains where one corporate entity owns and operates many locations, (2) distribution firms that wholesale consumer goods, often nationwide, and (3) individual merchants, often family-owned businesses. Each of these approaches offers a different degree of operational readiness, control, and reach for the branchless banking provider.

Section 4.3 uses M-PESA's changing agent management structure and strategy to illustrate the flexibility required to respond to changing demands by agents and customers.

4.1. Three Agent Network Structures

Providers have three options to acquire merchants that act as agents. Although many services will end up structuring their agent network from several types of merchants, some services start with one predominant approach.

1. **Use existing retail chains**. The provider enters into an agreement with a firm that operates several retail locations. This may be a chain of grocery stores or petrol stations, but it can also be other chains with many outlets, such as the post office or microfinance institutions (MFIs). The ANM is the headquarters of the retail partner while the outlets act as agents. Typically, the headquarters is already dealing with issues of cash management and quality control in monitoring outlets for its existing products. Examples of this approach include Bradesco's use of the Brazilian post office locations (Banco Postal) and Pão de Açucar (a supermarket) and Orange's partnership with MFIs in Mali.
2. **Leverage a wholesale distribution system**. Every country has established distribution systems for selling consumer goods. Most prepaid airtime is not sold through MNO-owned and -operated retail stores, but through independent retailers found everywhere in the country. Its distributors (and distributors for many other products, such as soap and cooking oil) have relationships with many retailers who sell a range of products. These distributors can act as ANMs managing retailers (who are agents) in their network.[27]

[27]Some FMCG companies have exclusive contracts with their dealers/distributors and do not want them to handle additional business lines. This could limit available options.

Distributors probably are connected to many more outlets than the chain option just described, but they have much less control. Both structures 1 and 2 leverage existing systems, but the key difference is that retailers in structure 2 are independently owned and operated while retailers in structure 1 are part of a retail chain that is centrally owned and operated. M-PESA applied structure 1 when it started its agent network with Safaricom airtime dealers and retailers. Several operations (e.g., Vodafone's M-PESA in Tanzania, Zain's ZAP in several African countries) started with this strategy but have since made changes. Selling mobile money is very different than selling airtime, and leveraging distribution systems requires intensive training and monitoring. Box 4 highlights EKO's challenges leveraging Airtel's distribution system.

3. **Build a network from scratch from individual stores**. In this approach, providers build a network of agents one by one, usually with support from one or more ANMs. Some ANMs end up owning some of the outlets. For example, many M-PESA aggregators manage some outlets as well as own several others. This model of building a network from scratch is used by Telecom Service in Brazil, WING in Cambodia, and M-PESA.

Box 4: Lessons Learned from the EKO–Airtel Partnership

Airtel (the largest mobile network operator in India) and EKO (a start-up technology provider for m-banking systems) entered into a partnership in 2008. Airtel offered to leverage its vast retail and distribution network into an agent network for EKO. EKO would use Airtel's existing retail and distribution network to grow much more rapidly than it ever could on its own. About a year and a half later, the shared effort to build the agent network languished, and EKO was left with a few dozen Airtel retailers selling its product. The early assumptions by both parties that a new service could be developed through an existing distribution channel did not materialize very easily. In particular, the following occurred:

1. Airtel did not hire dedicated sales staff for this new product; it added targets for the new product onto existing employees' targets.
2. There was no specific strategy to support agents who needed to sell the product to customers.
3. The most successful retailers and distributors were chosen to pilot EKO, but these retailers were already making substantial profits and had little incentive to spend time on a risky new product.
4. The distributors did not hire dedicated staff to handle agent cash needs and do other monitoring.

continued

It is tempting to think that leveraging an existing distribution system is as simple as turning on a light switch and just adding the mobile money product to the other products being pushed down this channel. Building distribution networks is challenging for any product, and delivering mobile money is very different from distributing airtime. Handling mobile money requires more active selling and monitoring, at least in the beginning. If MNOs intend to use their distribution systems to sell a mobile banking product, they need to invest in a specialized, dedicated sales channel to manage this product, not simply add it to the existing sales channel.

Today, EKO is trying to build an agent network from scratch, and Airtel has since established a mobile-commerce team that is looking at a range of new approaches and partnerships.

4.2. Implications of structure on overall service

Each of the three network structures described in Section 4.1 has different implications for operational readiness, reach, and control over the branchless banking business. Operational readiness represents the systems and processes that need to be in place before a successful service can launch. This includes systems for hiring, training, and managing IT and moving cash around securely. Operational readiness has a big impact on how quickly the network can be up and running. Reach includes the quantity and location of outlets. Finally, control indicates how much control or leverage the provider has over both the network as a whole and agents. The graph in Figure 21 demonstrates how the three types of structures compare with each other based on these three variables.

Figure 21: Three Types of Network Structure, by Readiness, Reach, and Control

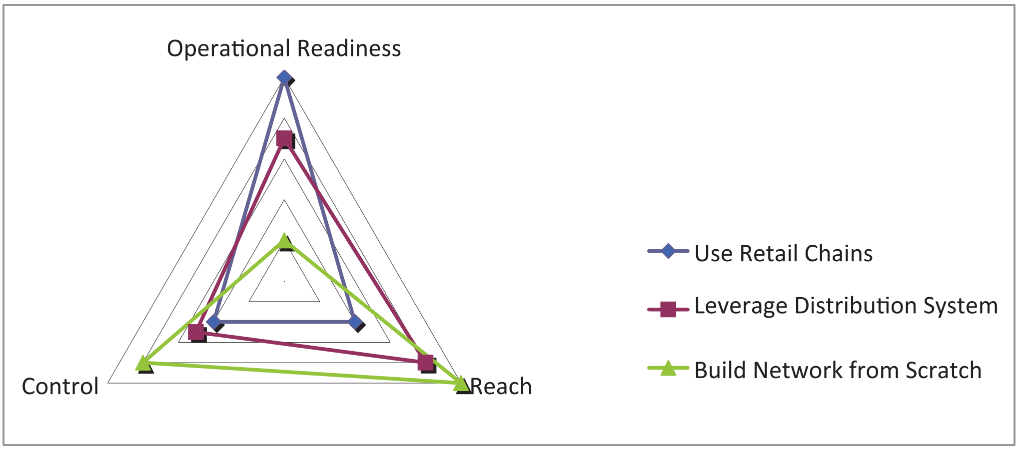


Figure 21 shows that each of the three options includes trade-offs. In terms of operational readiness, using retail chains (e.g., convenience stores like 7-Eleven) can be the easiest way to launch. Existing chains already have in place all the needed structures, such as IT, staff, liquidity management, and monitoring. The agent selection process is simplified, and the network can be "switched on" quickly. Distribution systems (e.g., FMCG or airtime) have some processes in place, such as liquidity management. However, providers need to work with distributors to ensure these processes are adapted to fit the new branchless banking product and that the appropriate agents are selected and trained. Finally, building a network from scratch is time consuming, since every process and system must be developed.

Building a network from scratch can offer the widest reach over time, even if that comes slowly. This is because the provider has the option of recruiting shop owners to be agents, and small retailers can be found in almost every settlement of most countries. Although using existing networks means having several outlets available quickly, this approach is likely to offer the least reach over time.[28] Retail chains have a set number of outlets, and they are unlikely to add more for the branchless banking agent. Also, retail outlets tend to be in urban, middle-class areas while informal shops dominate poorer urban and rural areas.

An existing distribution system offers much wider reach. A distribution system for airtime or FMCGs has a presence in almost every village in the country. Providers must consider the network reach that makes their product work. For example, a service offering domestic remittances requires several agents in both "sending" locations (usually an urban area) and "receiving" locations (usually rural areas). However, a service focusing on bill payments can start with a smaller geographic reach in just one urban area.

Providers may well give up some control to gain immediate operational readiness or reach. The individual outlets of a network are probably well controlled by their headquarters, and issues like branding and monitoring are tightly managed. However, the provider has little control or leverage over the network since the branchless banking product is just one of hundreds the network is selling. Further, once the service is well integrated into the network, the network itself holds a position of power. For example, Correios (the postal service in Brazil) was able to negotiate a 60 percent increase in commissions in 2009 from Bradesco in Brazil for its Banco Postal operations. In addition, the provider has little influence over the salesperson directly interacting with the customer—limited ability to give them special bonuses or incentives to sign up customers and little ability to train or monitor them. Providers may have more control over the

[28]One notable exception is Brazil where 6,000 post offices and nearly 10,000 lotteries act as banking agents and are found throughout the country, including in rural and poorer areas

existing distribution systems and manage issues like training and commissions. However, if distributors do not prioritize this business, retailers will not dedicate resources to the business either. Building a network from scratch gives providers the most control over selection of agents, training, and commissions. Small-scale agents have limited negotiating power. However, if agents do not find the terms favorable enough, they could walk away more easily than agents in the other two structures.

Deciding which structure to use depends on the market, the internal resources of the provider, and the products. For example, if other competitors are joining the market soon and speed is essential, providers probably will be attracted to using an existing retail chain. If time pressure is not as intense, providers may prefer taking a slower route to build an agent network from scratch over which they will ultimately have a lot more control. If the service is very new and the provider (such as with EKO and FINO in India) has few marketing resources, it will want agents who are well trained and directly motivated to sign up new customers. If the product is popular and well known, then providers may just want outlets that can sell the product without needing salespeople.

Two other important variables are quality and cost. Providers want to have the highest quality agents, who will provide good customer service, maintain appropriate liquidity, and be motivated to sell the product. On one hand, existing networks are tightly controlled, with supervisors on hand to monitor and troubleshoot. Liquidity management should not be an issue. However, employees at networks like supermarkets or post offices are not used to selling a service or interacting with customers at the level that may be required—they simply perform transactions. Providers also cannot pay frontline staff commissions directly to motivate them. Small-scale agents may be more difficult to monitor and will have challenges with liquidity management but may be more motivated to sell the product.

Using existing networks usually is the most expensive option on a commission per transaction basis. For example, Correios, which operates Banco Postal in Brazil, is paid US$0.97 per transaction—one of the highest commissions in any country. However, the very same bank that pays this—Bradesco Bank—pays its independent small-scale agents just $0.10 per transaction. On the surface, using existing networks is much more expensive. However, this is not the full story. Correios takes on the vast majority of other costs—training staff, monitoring quality, and moving cash in many parts of the country. So aside from the commission fee, Bradesco does not have many substantial expenses for Banco Postal. On the other hand, Bradesco needs to hire another company to manage its independent agents. It needs to spend more internal resources to train and monitor these agents. The lesson here is that providers must consider all costs when comparing the three structures.

4.3. Example: M-PESA's changing structure over time

The experience of M-PESA highlights the dynamic nature of the agent business and how network structures change over time. It also illustrates the flexibility needed to ensure agent networks grow in line with customer acquisition while maintaining a viable business case for agents. M-PESA has gone through three different phases in regard to selecting and controlling agents. Its evolving ANM strategy is a major reason M-PESA today has a tightly controlled agent network that offers consistent customer experience.

Phase 1 (March to December 2007): When M-PESA first launched in March 2007, Safaricom selected 400 of its largest airtime distributors to act as agents. Within the first few months, Safaricom also launched an aggressive marketing and customer acquisition campaign. The effort was successful, and Safaricom had signed up 1,200 agents by December 2007. These were mostly large Safaricom airtime dealers who had at least 10 locations in both rural and urban areas. In early 2008 Safaricom began allowing smaller airtime dealers to become agents, maintaining a direct contractual relationship with all of its agents. During this period, Safaricom engaged Kenyan marketing firm Top Image to help train and monitor agent compliance on liquidity, signage, and related matters affecting the customer experience.

Phase 2 (early 2008 to late 2009): By early 2008, Safaricom became aware that a growing number of agents were subcontracting with third parties and allowing them to operate under the agent's M-PESA agreement, usually retaining 20 to 30 percent of the subagent's commissions. Entrepreneurs with several subagents began to refer to themselves as "aggregators." This arrangement evolved in large part to accommodate merchants who could not meet Safaricom's agent criteria but who wanted to act as agents. M-PESA benefited from this spontaneous arrangement, as the agent network expanded quickly into a wide variety of retailers.

Reportedly, Safaricom allowed this to occur with its tacit approval, as it had concerns about losing agents to Zain's ZAP, a competing service. M-PESA agent locations grew to more than 10,000 points, with subagents making up more than 50 percent of that volume. As the number of locations grew, Top Image took on an increasingly important role in controlling quality across the burgeoning network. As more smaller agents came online, there was a need for more and easier ways for agents to exchange cash and e-float: Safaricom began to use banks as superagents to perform this service for agents, for a 1 percent payment from Safaricom.

However, because agent–subagent relationships were negotiated privately much of the agent network was one step removed from Safaricom's direct observation or control. The arrangement led to problems around adequate float, look and feel of the location, and training of shop assistants in matters such as compliance with anti-money laundering procedures. All of this posed a risk to the M-PESA brand, and by extension the Safaricom brand. Further, some aggregators were taking advantage of subagents by charging as much as 50 percent of commissions. By mid-2009, Safaricom decided to make a shift.

Phase 3 (late 2009 to mid-2010): In this third phase, Safaricom asserted more control over its agent network. It officially recognized the status of aggregators, placed a 20 percent cap on the portion of subagent commissions they could take, and announced that aggregators would be required to take an active role in training and monitoring their subagents. Top Image and other contractors continue to have a substantial role in training and monitoring agents. Over time, though, aggregators may take on more of this role. Safaricom also took steps that eventually may do away with subagent status altogether by announcing that subagents must establish a direct contractual relationship with Safaricom. Although this means more work for Safaricom, the huge variety in aggregator/agent commission splits was a source of dissatisfaction for agents, and M-PESA knows it must monitor agents to ensure a consistent customer experience. M-PESA also began monitoring agents carefully with an eye to eliminating those that did not meet minimum standards. The number of M-PESA agents has continued to grow and is now more than 21,000.

5. Managing Agents

This chapter comprises six sections that guide providers through the process of identifying and managing agents:

- **5.1 *Selecting Agents.*** *Providers should carefully consider the qualities they need in agents based on the service and what agents are required to do. Providers should balance the application process to adequately screen prospective agents while not making the process overly time consuming.*
- **5.2 *Getting Agents Started.*** *Providers must create contracts for agents, decide who will install and maintain equipment, and ensure agents are well trained.*
- **5.3 *Paying Agents.*** *Aside from determining the overall amount to pay agents, providers need to answer at least five questions on how to pay the agents.*
- **5.4 *Managing Liquidity.*** *Providers need to determine who provides the capital for the service and how the critical but time-consuming and expensive task of rebalancing will be done.*
- **5.5 *Ongoing Monitoring and Management.*** *Effective monitoring is essential to ensure consistent customer experience.*
- **5.6 *Reducing Impact of Fraud, Theft, and Abuse.*** *Providers must be aware of the vulnerabilities in their service and find ways to minimize these.*

Providers, along with their ANMs, must decide how they will go about selecting, training, and monitoring agents. This is an iterative process, and the optimal strategies for providers will emerge over time as they see what works in their market. This chapter guides readers through six key issues, using a variety of examples highlighting available options.

5.1. Selecting Agents

Once providers have chosen their core service and their target client, they can consider the attributes they need in agents. In the design phase, the strategic consideration of which agents to select is done in parallel with decisions on source and distribution of revenue.

What to look for in a prospective agent

Providers should carefully consider the qualities their agents need to have. This is especially important at the launch of a service when the initial agents need to sell the service and represent the brand to customers who have never experienced branchless banking. As discussed in Chapter 4, branchless banking agents need to be screened more carefully than prospective merchants that sell products like airtime.

Aside from technical, quantitative criteria, agents (especially those at launch) should be hungry for more business and enthusiastic about the product concept. ANMs with local knowledge and contacts should play a key role in choosing agents. Table 10 includes a list of nine qualities providers might want to include in their screening of prospective agents.

Table 10: Qualities to Look for in Prospective Agents

QUALITY	DESCRIPTION
1. Ability to maintain sufficient cash and float balances	Most providers stipulate minimum amounts of cash and float balances their agents must keep on hand. Providers need to develop a method for assessing a merchant's current level of working capital. In some countries, merchants are disinclined to divulge this information, and therefore providers have to identify a proxy measure of whether a merchant has enough working capital to maintain cash and float balances. This will not apply in all cases; e.g., Brazilian agents don't deal with float.
2. Customer profile suitable to target clients	Merchants with plenty of cash reserves and highly secure premises may not serve the target client of the service. Retail stores in upscale shopping centers may not want to offer a service that might attract low-income clients. Ideally, the current customer base of the merchant should be the same as the target client of the service so the merchant can focus on converting existing customers.
3. Age, education, and experience of proprietor	The age, education, and experience (number of years in business) of the proprietor is an indication of maturity level and ability to make appropriate decisions about the best product mix for the business.

(*Continued*)

Table 10: Qualities to Look for in Prospective Agents (*Cont.*)

QUALITY	DESCRIPTION
4. Strategic location	The shop should be in a busy, high-traffic location—in a market, near a bus station, or at another location where people congregate. This maximizes the impact of branding and merchandising and offers the best chance of success. In addition, providers should match the agent locations with the core service. If the core service is a remittance product, agents must be strategically located near "senders" and "receivers" along remittance corridors.
5. Proximity to banks/ATMs	If agents are expected to do their own rebalancing, being near a bank branch or ATM will be a big advantage. This reduces their time and cost of transporting cash, making them more likely to stay with the business. This may not be practical in rural areas but should be considered in urban areas.
6. Trust of community	Agents play a pivotal role in convincing prospective customers that the new service is reliable and trustworthy. As such, they must be trusted themselves. ANMs should talk to members of the community about the merchant and his or her reputation and also consider how long the shop has been operating in that location. In India, FINO visits village councils to ask for their recommendation on prospective agents since community trust is especially important in the rural Indian context.
7. Business activity	Ideally, a shop's current level of business activity parallels the expected activity of a branchless banking product. One important indicator is the average time spent by each customer at the service point. If the customer is merely buying airtime or Coca-Cola, the time at the service point is probably less than a minute—leaving little time to talk to the customer about the branchless banking product. Some of these merchants may be unwilling to explain things to customers or actively sell any products. However, if the shop is a pharmacy and the customer asks some questions about possible medicines, the service time might be a few minutes and this shop might be a better agent. Another indicator to consider is current customer footfall. There should be a good amount of customer footfall already so that there is a steady base of prospective clients. On the other hand, if the shop is always filled with customers already, there may be little appetite on the part of the owner to invest in a new, time-intensive product.
8. Literate staff	Staff of the merchant play a key role in helping clients use the new product and filling out monitoring or other forms. Staff should be literate and have a good grasp of numeracy.

(*Continued*)

Table 10: Qualities to Look for in Prospective Agents (*Cont.*)

QUALITY	DESCRIPTION
9. Willingness and motivation of merchants for new product	It is critical that the merchant be personally excited about the new product and believe in the concept. Merchants who are enlisted because they feel pressure from their distributors but have no personal interest in the product are likely to drop out quickly. This is not easy to determine, but merchants should express willingness to attend meetings and trainings to ensure the product is successfully launched.

Providers must develop their own system for screening agents based on the qualities that are most important in their market. They must first understand merchants in their own market—their level of business, average profits, and the availability of other lucrative lines of business. They can construct screening criteria for agents only when they understand the unique opportunities and challenges of merchants in their market. Two sample questionnaires for interviewing merchants are provided in Annex 2.

Box 5: EKO's Agent Scoring System

EKO in India developed a scoring tool to easily and quantitatively score potential agents and categorize the agents who have high potential. It uses 13 criteria (e.g., age, education, location of shop, etc.) and has a different scoring system (ranging from 0 to 4) depending on whether the shop is in a rural or urban location. For example, one criterion is customer footfall. Prospective agents get a low score if their shop is too empty or full—fewer than 50 clients per day or more than 300. They get a medium score if they have between 51 and 150 clients per day and a high score if they have the optimal customer footfall of 151 to 300 clients per day.

Application process

During the agent application process, providers gather information about the prospective agent before making a hiring decision. While providers may want comprehensive information—such as six months of bank and financial statements—prospective merchants may find that providing this level of information is too difficult and expensive. Providers need to understand that it is important to sign up agents quickly and that they shouldn't set the bar so high that only well-off merchants qualify. On the other hand, if the process is too easy and quick, providers may end up signing on agents who are not serious about the business. When Zain's ZAP first established an agent network in Kenya, it set a very low bar to be an agent (US$60 in float and no need to be a licensed business). As a result, it quickly acquired a large agent network, but most agents did not have adequate capital and were looking to make short-term profits rather than committing to a long-term business development strategy. A good application process is robust enough to screen out those who are not seriously motivated but flexible enough to give agents in low-income areas a good chance to succeed.

Box 6 lists the documents EKO in India and M-PESA in Kenya require from prospective to agents. M-PESA requires substantially more from prospective agents than EKO. Annex 3 includes an application form for agents from Telecom Service in Brazil.

Box 6: Documents Required from Agent Applicants

EKO (India)

1. Complete EKO agent application form
2. Proof of address
3. Proof of identity
4. Proof of PAN (Permanent Account Number) card (requirement to pay taxes)
5. Bank account statement for last six months
6. Three passport size photographs
7. Proof of current account with bank

M-PESA (Kenya)

1. Copies of Memorandum and Articles of Association
2. Certified copies of VAT and corporate income tax certificates, where applicable
3. Profile of the company and a business plan
4. List of outlets
5. Certificate of Incorporation
6. Official shareholding statement
7. Copies of IDs and passport photos of company director(s)
8. Copies of IDs of key staff
9. Completed M-PESA agent application form
10. Business permits for each of the outlets
11. Proof of minimum six months trading history in the form of six months of company bank statements

5.2. Getting Agents Started

Contracts: Agreeing roles and responsibilities

Once merchants have been selected to become agents, they must sign a contract. The contract is either with the transaction provider or with the ANM. If the ANM signs contracts directly with agents, then the ANM has a separate contract with the provider, most likely taking full responsibility for the performance of its agents.

Two examples of contracts are included in Annex 3. Common elements to include in an agent contract are the roles and responsibilities of an agent and the provider's corresponding amount and timing of commissions. For example, many contracts include the following:

- *Account balances and float.* The minimum amount of cash and float agents must have on hand. In addition, the contract stipulates who is responsible for rebalancing.
- *Customer care.* Some contracts stipulate that customers should not be denied service and, in case of nonavailability of the product, the agent should refer the customer to a nearby agent.
- *Branding and merchandising.* Most services have very clear requirements on what must be displayed prominently in the shop—pricing list, agent identification, and general branding. The transaction provider gives this to the agent who must display it.
- *Client identification.* The contract may also spell out KYC regulations and the agent's responsibility to identify each client.
- *Exclusivity.* Currently, most services require that their agents be exclusive and not serve as agents for other branchless banking services.
- *Other.* Other requirements may include minimum opening hours, customer confidentiality, and monthly payment of insurance premiums.

The provider in return must include details on exactly what the agent will be paid, for which kinds of transactions, and the timing and method of payments.

Install equipment

Once the contract has been signed, any equipment the agent needs must be installed. When the service is provided via mobile phones, most providers expect agents to provide their own phones. However, some services use additional equipment. In the case of easypaisa, to accommodate stringent KYC requirements, customer registration agents need a computer, printer, scanner, and digital camera. Easypaisa provides this equipment to agents. Most services using mobile phones do not require additional equipment and do require agents to use their own phones.

POS devices used by branchless banking services are expensive; either banks or ANMs provide the equipment and maintain it. FINO in India requires a US$100 security deposit from the agent (held in a bank account that earns interest) in case the POS device is stolen or lost. In Brazil, agents also receive a barcode reader to scan bills. Across the board, POS systems are expensive and complicated (especially when compared with mobile phones), and ANMs need to take a big role in maintaining equipment and training agents on how to use it.

Training

The final step is to train agents on their roles and responsibilities. Training can take place either at the agent location on a one-on-one basis or in a central location bringing larger numbers of agents together. Training an agent in his or her shop ensures focus as well as practical application of the training. However, there may be many disruptions. Bringing several agents together helps the agents build a sense of community and ensures their full concentration. However, it may be expensive and time-consuming for them to close their businesses and travel to the training.

Skills required to be an agent can be similar to those required to be a bank teller. Agents are the face of the transaction provider that they represent. Some of the topics to include in training curriculum are as follows:

- Agent responsibilities and contractual obligations
- KYC regulations and customer registration requirements
- Information on how to conduct transactions
- Trouble shooting technology/equipment
- Customer relationship management
- Fraud identification and management
- Book keeping and maintenance of records
- Cash and e-float management
- Consumer protection laws

Usually, there is a period of intensive initial training. There may be some subsequent training that usually is in direct response to changes in product features. As with other elements of agent management, the content, length, and delivery of training depend on the local context. Table 11 describes the training strategy used by FINO, GCash, M-PESA, and Telecom Service.

Table 11: Agent Training across FINO, GCash, M-PESA, and Telecom Service

PROVIDER	AGENT TRAINING
FINO, India	Agents are trained in groups by FINO. Currently, the initial training is one full day; a three-day initial training course is being developed. After the initial training, FINO staff are supposed to conduct two trainings a month. However, in practice these occur on an "as needed" basis to discuss changes to a product or service. All trainings are done in groups.
GCash, the Philippines	Until recently, the central bank in the Philippines required all agents to travel to Manila to take a specific course on remittances to qualify them to act as agents. This was expensive and restricted the number of merchants who could become agents. The central bank recently relaxed this requirement and GCash is developing a shorter training module that it will deliver itself.
M-PESA, Kenya	M-PESA outsources its training to Top Image and other third-party contractors. Top Image has developed a six-hour training module with a mix of theory and practice. Following the initial training, all agents take an exam. If the agent does not pass, Top Image staff conduct further training so the agent can pass.
Telecom Service, Brazil	Agents are trained in their own shops. The training is focused on use of the POS devices since agents are not responsible for selling the product and do not need to demonstrate it to customers. Therefore, training is extremely practical and can be conducted in the shop.

5.3. Paying Agents

In this section, we discuss five key questions providers should address when setting agent commissions.

What is the balance of registration versus transaction commissions?

As discussed, agents are most likely to drop out during the first months of a service launch when customer volumes are still low. For this reason, we recommend paying bonuses for signing up new customers so that agents have a steady stream of income while transaction volumes grow. Providers must carefully balance the commissions from registration and from transactions over time. If registration commissions are not structured correctly, agents may sign up huge numbers of customers that never transact. Agents need to be motivated to sign up customers who will actively transact, and they need to encourage these customers to make transactions. More and more providers are starting to pay registration commissions only after a customer has done a certain number of transactions. For example, Zain's ZAP in Tanzania pays agents only one-third of the US$1 registration commission after customer verification. The remainder is paid when a customer makes five transactions in the six months after registering. Providers should consider changing the balance of registration/transaction commission over time. At the beginning, agents should receive generous commissions for signing up new customers since this is their primary source of revenue. Over time, these commissions can decrease as transaction volumes increase, and agents should be focused on encouraging customers to make transactions.

Which transactions should agents get paid for?

Agents should get paid for every service they provide, regardless of what the customer is charged. For example, if customers pay nothing to deposit and US$1 to withdraw, the agent could be paid US$0.5 for deposits, and US$0.5 for withdrawals. This is net neutral in total costs to the provider since the customer withdrawal fee covers all of the agent commission. But by paying a commission on deposits, the provider ensures the agent has incentives to handle all kinds of transactions. Some providers pay higher commissions for withdrawals so that agents have an incentive to keep adequate cash on hand. But the basic principle is agents should be paid for every service they provide.

How should commissions be calculated?

Agents can be paid a fixed fee per transaction, a percentage of the total value being transacted, or a fixed amount per tier. Usually, they are paid in the same method that

Box 7: An Innovative Method of Paying Commissions

One provider in Colombia is experimenting with a tiered system in which the commission per transaction varies depending on how many transactions are done. If providers do very few transactions (five or fewer) they are paid US$0.08 per transaction. If they are active (more than 25 transactions a day), they are paid almost double, or US$0.15 per transaction. In this way, the curve steepens and agents are doubly rewarded (higher quantity of commissions and higher commissions per transaction) for reaching higher volumes.

customers are charged (e.g., if customers are charged based on tiers, agents are paid based on tiers). There are pros and cons to each method that should be considered. (See Table 12.)

Overall, paying commissions in tiers is the best option as it allows providers to motivate agents to welcome all types of customers with low and high transaction values.

Table 12: Methods for Calculating Agent Commissions

METHOD OF CALCULATION	PROS	CONS
Percentage of total cash-in/cash-out transaction	Simple to understand	Deters agents from transacting at low amounts. For example, if agents get paid 1 percent for a cash-in transaction, they get paid the same amount—US$5—if they get one large cash-in payment of US$500 or if they accept 100 payments of US$5. Obviously, the latter is a lot more work, and they may not accept customers transacting at this small amount.
Flat fee	Very simple to understand	In this scenario, providers are not motivated to accept large amounts. In the same example above, if an agent gets US$0.10 per transaction, he will earn US$10 by doing the 100 small transactions but just US$0.10 for the one large transaction.
Fee per tier	Paying a fixed amount for every tier (e.g., US$0.10 for a cash-out transaction of less than US$2, US$0.20 for a cash-out transaction of US$2–4, etc.) allows providers to pay more in absolute terms for higher values, but less in percentage terms. They can set generous margins on low-value transactions but pay enough for high-value transactions to keep agents motivated.	This is a difficult method for agents to quickly understand and memorize. Agents may encourage customers to “split” transactions into several small transactions so that the agent can earn more.

Should agents be allowed to set the final fees they charge?

Some providers, such as Zain's ZAP in Tanzania and GCash in the Philippines, give agents a say in the final price of the service. Agents and customers are given a benchmark price (which may be the result of any of the methods described in Table 12—percentage, flat fee, etc.), but the final price is negotiated. This makes it easy for providers as they do not need to calculate commissions or settle with agents. It also allows market forces of supply and demand to sort out some of the issues mentioned in Chapter 1, for example that the agent business is more costly and time consuming for rural agents than urban agents. A rural agent could charge more based both on his higher expense structure but also on the fact that there is likely to be less competition. When agents set their own price, they are able to take both their own business case and the supply and demand of the market into account, presumably to come up with a better price than a centralized one.

However, there are disadvantages to this approach. Some customers do not want to have to negotiate every time they do a transaction. Customers have plans for certain transactions but some of those plans may not work out if the agent that day is setting a higher price. Agents do not have perfect information and, accordingly, would not set ideal market prices. They might give lower prices to friends and family or charge exorbitant amounts in a crisis situation. It is also possible that agents could set unfair prices, which would damage the reputation of a service.

How often should agents be paid?

Finally, providers should consider how to pay commissions to the agent. M-PESA agents used to be paid by their aggregators. Not only did aggregators take out varying amounts of commission for themselves (some as high as 30 percent), they also did not pay the agents on time. This was a major source of dissatisfaction for agents, and they did not know if the problem was with Safaricom or the aggregator. Safaricom now pays every agent directly. Agents get paid once a month and on time. Although things have improved, many agents are still confused about how their commissions earned. They find it difficult to keep track of the amount they earn from the various transactions performed throughout the month.

EKO in India has developed a monitoring system that helps with this issue. Every day, it sends an SMS to each agent. The SMS records the number of customer registrations, the number and value of deposits and withdrawals, and the commissions earned that day. This allows agents to keep track of their earnings throughout the month and raise queries instantly. AV Villas in Colombia pays commissions instantly by topping up the agent's e-wallet after each transaction.

5.4. Managing Liquidity

For any branchless banking service to succeed, customers must be able to get cash when and where they want it. Agents must have a sizeable sum of money (and e-float where applicable) to begin with and must continuously balance the cash and e-float. This is one of the most important aspects of agent management to get right. Dedicating capital to the business and constantly rebalancing stocks of cash is expensive and time consuming, and providers must ensure that whoever takes on these responsibilities is reasonably compensated.

Start-up capital

Section 1.1 described how difficult it is for small-scale merchants to come up with a relatively large sum of capital to invest in the branchless banking business. The start-up amount must be large enough that the customers in the catchment area can reliably be served without the agent running to the bank 10 times a day. However, if it is too large, much of it will never be used, and the return on capital in the business will be low. Calculating start-up capital requirements (see Box 8) is a first step to evaluating the implications for the agent business case.

Box 8: Calculating Capital Requirements for Agents

Upfront capital is a function of liquidity required plus one-off investments agents must make to start operating. The latter may include upgrades to physical premises to meet standards for look, feel, and security that are common in Brazil and Kenya, for example.

UPFRONT CAPITAL =

LIQUIDITY REQUIRED
(function of avg transaction volume, avg transaction value, cash-in/out balance, max transaction size)

\+

ONE-OFF INVESTMENTS
(e.g. security upgrades, business license)

continued

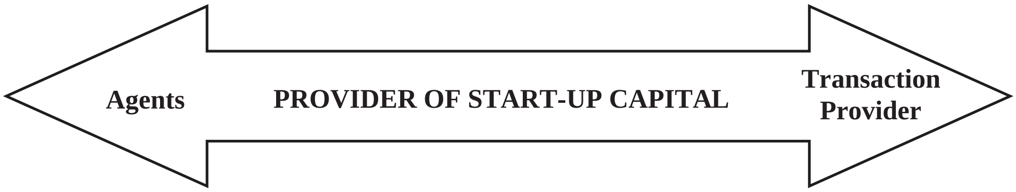
Calculating liquidity requirements is a complex procedure that requires providers to know or have a good estimate of four factors. The first two factors are average transaction volume and value, which combined yield overall transaction value per day.

The third and fourth factors are important qualifiers. The third factor is the degree of balance between cash-in and cash-out transactions, which greatly affects liquidity. Let us consider two agents each conducting 100 transactions per day, all US$1 in value, for a total of US$100. At the end of the day, each rebalances his or her cash and e-float position. The first agent does only cash-out transactions, requiring the agent to have US$ 100 in liquidity (in this case, cash on hand) to be able to serve all customers over the day. But the second agent does US$50 in cash-out transactions during the day, and US$50 in cash-in transactions. If all transactions were US$1 and evenly distributed across the day, the agent could actually get by with US$1 in total liquidity. Withdrawals would be balanced by an in-flow from deposits. This, of course, is an extreme example to make a point: the more balanced cash-in and cash-out transactions, the less liquidity an agent will need to keep in cash and e-float.

However, transactions are obviously not the same size nor are they evenly distributed across the day. This points us to the fourth and final factor, the maximum transaction size. A provider does not need to predict the size of every transaction an agent will process—only the few largest ones in a period between rebalancing. These will be the transactions that can consume an agent's cash on hand or e-float in those transactions alone. As a rule of thumb, Safaricom multiplies the previous day's cash-in and cash-out volumes by 1.5 to set the next day's e-float and cash requirements.

Providers have dealt with this issue in various ways. Some providers put the entire burden on agents. In Kenya, M-PESA sets the bar high because there is strong demand to be an agent and a perceived high return on this capital. Alternatively, some providers accumulate, pay for, and manage liquidity themselves, so that agents won't have to worry about doing so themselves. This approach means that becoming an agent is a zero-cost opportunity, which should help recruit and retain agents. Of course, providers are absorbing some costs into their own profit and loss statement, potentially putting pressure on making higher profits. This is not necessarily a deal breaker, however. In Brazil, agents are not required to put up any of their own funds, as most transactions are cash-in transactions for bill payments, and banks book the funds received as a liability (specifically an account payable to the bill payee), meaning agents are handling the bank's money. Banks

Figure 22: Who Provides the Start-up Capital?



AGENT	ANMs ASSIST	PROVIDER LENDS	PROVIDERS' FUNDS USED
•Agent provides all start-up capital. •M-PESA agents are required to put up US$1,250 combined cash and e-float.	•ANMs can assist wth a loan for start-up capital. •In Afghanistan, M-Paisa ANMs often lend agents start-up capital (in return for 50% commision split instead of 30%).	•Providers can lend agents start-up capital. •In Columbia, AV Villas gives agents a free line of credit.	•Agent transact wit the provider's own money. •This is the case for all Brazillian agents as well as for FINO agents in India.

take out insurance against theft and other loss and institute stringent limits for cash on hand before agents must deliver cash to the bank. Overall, Brazilian banks processed US$105 billion in bill payments through more than 70,000 agents in 2009, indicating that the system works relatively well.

Other solutions include entering into a partnership with a financial institution to provide affordably priced working capital loans to agents, potentially secured by their commissions. Post-launch, providers should carefully track actual agent capital requirements. And providers or their ANMs need a mechanism—whether electronic or in-person—to monitor whether agents adhere to minimum liquidity requirements. Safaricom, for example, has Top Image field staff visit every agent fortnightly, in person.

Figure 22 shows different providers along a spectrum of provision of start-up capital.

Balancing cash and e-float

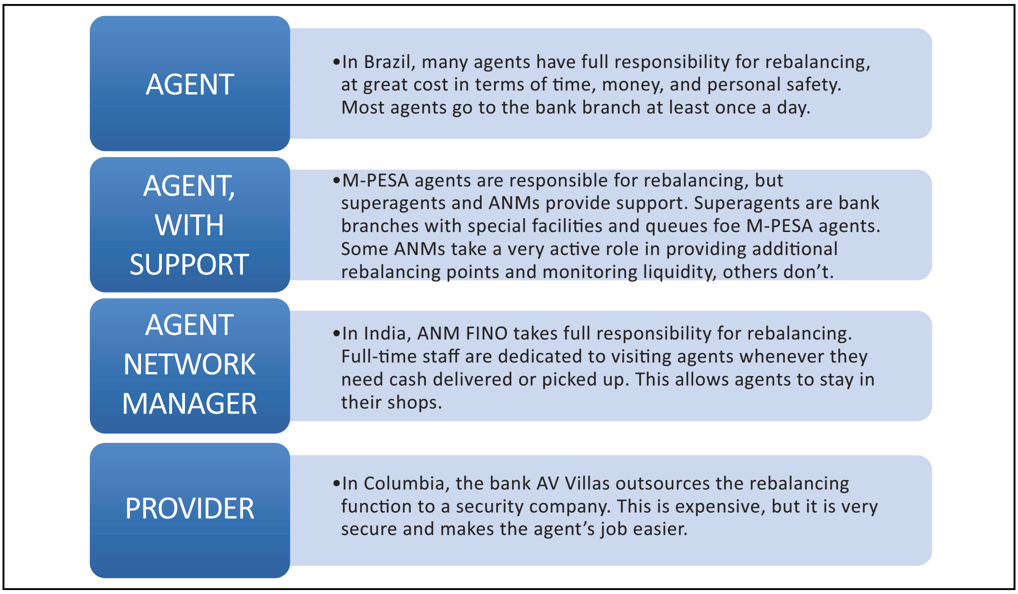
Once agents have their start-up cash and e-float, they need to regularly restock their inventory. In theory, the value of customers' cash-in transactions could balance the amount that other customers cash out. But in reality, this rarely happens. Instead, the balance of cash-in and cash-out transactions is strongly geographic, with agents in urban (sending) areas seeing high amounts of cash-in transactions and agents in rural (receiving areas) seeing high amounts of cash-out transactions. The balance is also strongly affected by seasonal high outflows across the board for festivals and holidays and the agriculture planting season. M-PESA agents need to rebalance their liquidity holdings at least daily, sometimes more often (Eijkman, Kendal, and Mas 2010). Agents in rural markets rebalance daily; agents in more urban areas do so one-and-a-half times a day; and agents in the major city center do so two-and-a-half times a day. Each rebalance means a trip to the bank. Some agents hire full-time staff just to transport cash. An M-PESA agent is aptly described as a professional cash transporter. The cost and risk to the agent of rebalancing depends on three variables:

- Rebalancing frequency (a function of the amount of working capital, cash-in/out balance, and capital limitations)
- Extent of banking infrastructure in the market (influencing the distance and cost of transport for the agent to get to the bank)
- Theft/security risk in the market

However, not all agents take on the burden of rebalancing. M-PESA pays banks around 1 percent of the value of the transactions they process to act as "superagents" and provide rebalancing services to agents through their branches. FINO staff are responsible for rebalancing agent accounts, and FINO has identified local residents ("super clients") who agree to have funds available in return for a monthly fee. Banco do Brasil also provides agents with an Internet tool by which they can easily transfer funds electronically to and from their personal or business accounts. Brazilian banks have generally demonstrated more willingness to take on some liquidity management costs. This reflects their view of agents as strategically important for extending nationwide reach, facilitating branch decongestion, and providing access to shops frequented by the country's rising lower middle class, which banks see as a major growth area over the next 10 years. Brazilian banks occasionally are willing to bear the cost of armored car services—usually when an agent is deemed to be playing an important role in reducing congestion at a nearby branch.

Easypaisa in Pakistan says that the introduction of the service has made life much easier for its agents. All easypaisa agents are retailers who also sell Telenor airtime. Prior to easypaisa, retailers had to wait for the daily visit by the franchisee (distributor) and/or travel to purchase airtime. Now that retailers have mobile wallets, they can use their e-float whenever they want to directly purchase additional airtime, an arrangement that is flexible and convenient. Again, the cost and risk for agents must be balanced with their compensation. Figure 23 illustrates that any number of actors in the supply chain could be responsible for rebalancing.

Figure 23: Examples of Responsibility for Rebalancing Cash and E-Float



5.5. Ongoing Monitoring and Management

An agent network should reliably and consistently serve customers. Although urban agents might look and feel different than rural agents, ideally they provide the same service at the same price with a similar level of customer service. A bank or other company monitoring its own outlets can easily ensure each outlet has the same furniture, interior design, and level of qualified staff. This level of control is more difficult to achieve in a network of independent agents. Successful services require strict adherence to basic standards to ensure a consistent customer experience. Monitoring is usually done through a combination of face-to-face onsite visits as well as through technology and an MIS.

Providers need to carefully consider who will be tasked with primary agent monitoring. ANMs often take on a role in a specific area of monitoring (like monitoring liquidity) but usually do not take the lead on overall agent monitoring, especially when it comes to ensuring a consistent customer experience. This task is usually done in-house or outsourced to a separate company. A dedicated team should be established to monitor the branchless banking service. Some ANMs are also airtime or FMCG distributors. However, the level of monitoring required for a branchless banking service is more intense than that for a product like airtime, and staff dedicated to this should be trained and tasked with this responsibility.

Site visits

The best way to ensure an agent is following the rules set by the provider is to visit in person. This is expensive but possibly the best way to have confidence that agents are complying with service requirements. M-PESA understood the importance of a consistent customer experience from its first days and hired Top Image to conduct routine monitoring visits. These visits happen at least once every two weeks per agent location. Top Image trade development representatives (TDRs) have a checklist and precise procedures to follow. They assess each outlet against 10 critical criteria. Each criterion receives a score of 1 (compliance) or 0 (noncompliance). TDRs can quickly tally the score, raise any red flags if a score drops below 7, and add comments.

The 10 areas to measure are divided into three groups. The first group of measures, availability, is perhaps the most closely inspected since customers become disgruntled when they are not able to transact due to lack of cash or e-float. The next group, standards, makes sure agents are complying with basic KYC requirements and other standards. Finally, M-PESA has strict requirements on visibility of merchandising.

Customers know an M-PESA outlet is authentic in part because of the consistent displays of agent number, pricing poster, and other advertising. If any of these items are not displayed—or are torn—the agent gets a noncompliance mark. If the agent accumulates several red flags, M-PESA may choose to drop the agent.

Easypaisa in Pakistan uses an external company to conduct quarterly audits of each agent. This company sends staff to each retail shop to inspect merchandising and log books and to determine whether agents are following proper procedures. If agents are not compliant, they are sent to regional training teams for retraining. If they fail to improve after one or two supplementary training sessions, their account may be suspended.

Box 9: Checklists for Agent Monitoring

A nationwide monitoring system should be simple to ensure the system will be understood and used the same way by everyone. M-PESA uses a simple scoring system with just two options—0 for noncompliance or 1 for compliance. The system assesses 10 areas.

Availability of the following:

1. Float
2. Cash
3. SIMEX (SIM replacement cards)
4. Log books

Standards for the following:

5. Assistants
6. KYC
7. Recording

Visibility of the following:

8. Thematic advertising
9. Pricing poster
10. Agent number

Using technology to monitor agents

Although site visits are a good way to ensure agents are complying with the rules of the service, visits can be expensive and time consuming. Assessments from visits are also open to human error and fraud. Some providers and ANMs have invested in automatic MISs to help them monitor agent performance. For example, Telecom Service in Brazil uses an MIS that allows it to track the exact level of liquidity for agents across the country from its headquarters in Sao Paulo. Every morning, staff review their agents in the system and immediately know how many are operating, how many have a technical issue, how many are holding a lot of cash and will need to rebalance soon, etc. They call the agents on the phone and resolve most issues from a distance. Top Image visits each M-PESA agent every two weeks—Telecom Service visits its agents only once every two months.

Two services in India have each developed innovative SMS-based systems to monitor their services. FINO has a three-part dashboard to monitor field staff performance.[29] Staff (block coordinators) send text messages at the start of each workday and when they go to visit each agent, specifying the reason for the visit. At headquarters, FINO staff can see performance level data for each staff member, district, and overall project. They are able to categorize staff into different groups (excellent, good, average, etc.) and incentivize and reward staff based on this. The system is susceptible to fraud, but the aim is not perfect information. The act of sending an SMS is a subtle reminder of the employee's duties. And patterns of absence will appear. The key is follow up. FINO has several headquarters staff who call delinquent staff.

EKO in India also uses an SMS-based system (mentioned in section 5.3) but primarily to easily, cheaply, and transparently communicate progress against targets to its own staff, agents, and ANMs. EKO sales staff receive four text messages each day letting them know their progress against their targets. This allows staff and management to notice any variation against targets quickly and to follow up with ANMs. EKO agents and ANMs also receive daily text messages with the overall number and volume of transactions and number of new account openings for the day. The message includes the commission earned that day, which allows agents to regularly track and understand their revenue. Since SMSs are so inexpensive in India, EKO sends 2,000 monitoring messages each day for just US$5.

Either human-based or technology-based systems can work well in monitoring branchless banking services. The key is to keep things simple and to focus on those few elements of the agent business that are central to ensuring a consistent customer experience. The

[29]For more detail on FINO's dashboard, see Rosenberg (2010) for CGAP's presentation on banking agents in India.

system must act as an early warning so that any agent who is not complying or performing can be quickly supported before customers have a poor experience.

5.6. Reducing Impact of Theft, Fraud, and Abuse

Even if a provider selects, trains, and monitors agents well, external challenges may arise in the form of theft and abuse. This section explores these challenges and provides examples of how various services are dealing with them.

Theft

Chapter 1 outlined the severe impact theft can have on the business case of an agent. Once community members know that the agent is keeping extra stocks of cash in his or her store, the agent may become a target. Agents are vulnerable inside their stores but especially outside as they travel back and forth to the bank managing liquidity. The severity of the problem varies from market to market. In India, FINO agents travel from village to village collecting cash yet do not feel that theft is a threat. Agents provide a valuable service to the community, and the community would punish thieves who might jeopardize this service. Rural agents in the Amazon in Brazil feel similarly. However, in urban areas in Brazil theft is a very real threat. Ninety-three percent of agents in Brazil say being an agent increases the risk of being robbed, and 25 percent have been robbed in the past three years. In fact, most Brazilian agents go to the bank to drop off extra cash even when the cash they are holding is far below the limit set by the bank. They prefer the extra hassle and cost of getting to the bank to the risk of holding so much cash.

Providers can take four steps to reduce the likelihood and impact of theft of agents. There is a trade-off between security on the one hand and costs, ubiquity of the network, and convenience for agents on the other. Providers need to assess the security risk in their market and the trade-offs they are willing to make.

- **Require secure premises.** When selecting agents, providers can require a certain level of security, such as bars on the doors and windows and glass separating agents from customers.
- **Lower cash limits.** Providers can lower the cash limits agents can hold (primarily in operations where agents transact with the provider's money). This may reduce the likelihood of theft (as word gets around that agents are not holding as much cash) and will definitely reduce the impact of theft. However, agents in Brazil and Kenya are already going to the bank on average once a day. If limits are reduced, they'll have to go even more often. Also, in Brazil the consequences of reaching the cash limit is

severe—the agent's POS device can be frozen for up to two days, slashing monthly profits by 79 percent (assuming expenses hold steady through this time).

- **Use armored cars.** Providers or ANMs can hire armored cars to carry cash around. In Brazil, several ANMs hire armored cars to collect cash, and in Colombia, AV Villas has outsourced cash collection to a security company with a full fleet of armored trucks. Unfortunately, it's an expensive option. Most agents cannot afford such a service directly but the impact might hit them in lowered commissions from the provider or ANM who bears this cost. Braz Valor (an ANM) in Brazil reports that it would need a 70 percent increase in transactions per location to breakeven on the cost of an armored car.
- **Purchase insurance.** Providers can purchase insurance or make this mandatory for agents. Agents are still liable for part of the loss. In Brazil, their average liability is US$540, equal to almost five months of profit. Even with this, providers need to shut down agent businesses that are robbed and claim insurance fairly quickly due to the risk of moral hazard.

Fraud and abuse

Any successful system attracts people who try to game the system. In mobile banking, this can happen on a very small scale (agents altering the price they charge for a service) or a very large scale (using a branchless banking system to finance terrorist activities).

The following are four main areas of fraud along with recommendations to providers to mitigate fraud.

1. **Money laundering.** This is primarily a regulatory issue, and providers need to comply with regulations in their country. Ideally, proportionate regulation should be effective but not unduly stringent so poor customers who transact with small amounts can easily access the system. ***Providers can comply with regulations*** *and seek to influence regulators to develop effective, proportionate regulation.*
2. **Customers are defrauded.** Agents can defraud customers, especially in poor, remote locations where customers are less educated and rely on word-of-mouth instructions rather than on written merchandising material. Agents can pretend to make a cash-in transaction or change the fees they charge for providing a service (and demand the fee in cash). Often, bank tellers or agents in branchless banking services that use a PIN recommend a simple PIN for the customer to use. This is mostly done in good faith to help customers who are not familiar with the concept but can be dangerous when customers trust agents to do transactions for them and the agent uses this information to steal from them. Customers can also be defrauded by other customers. In one case attracting headlines in Kenya, a man stole more than US$1,200 through fraudulent transactions on people's phones once he had been told their PINs (Kiplagat 2010).

Providers can educate customers. *Customers need to understand how the system works; understand that vital information, such as PINs, should not be disclosed; and know to always to wait for the confirmation SMS before assuming a transaction is complete. Customers can be educated via radio, posters, graphics, and other vehicles aside from written material in agent shops. Providers should also* ***have a call center*** *where customers can call with questions or to complain about potential fraud. Every effort should be made to reimburse individuals who have been defrauded, similar to the general policy of credit card companies to verify but generally trust customer claims of fraudulent activity.*

3. **Agents and customers defraud the system.** Agents and customers can work together to defraud the service. One way to do this is by splitting one transaction into two or more smaller ones. When pricing is tiered, customers can sometimes save money by doing this (e.g., by cashing out in three small tranches rather than one large one). Also, agents can seek to maximize their commissions if they get paid more on a percentage basis on small amounts rather than large amounts. Since deposits are mostly free yet agents get paid for deposits, agents might get paid more when customers pay for a deposit followed immediately by a withdrawal. Theoretically, they can spend the whole day together depositing and withdrawing from the customer account and split the spread they make between commissions and fees.

   Another way customers can defraud the system is by making direct deposit into a different phone number than their own, allowing customers to "transfer" funds to another person's m-wallet without paying a transfer fee.

   Providers can ***develop a rigorous MIS to monitor transactions*** *and quickly raise red flags when suspicious transactions occur. The MIS must have algorithms, for example to spot multiple types of the same kind of transaction made by the same customer in a single day. It can look for multiple failures of a transaction by an agent—if the PINs being tried are all very similar, it's possible that a person is struggling to remember his or her PIN. However, when the numbers are very different (e.g., 1111, 2222, 3333) it's likely someone is trying to guess someone else's PIN.*

   Providers should also ***examine their pricing and commission models*** *for vulnerability to fraud. The simplest solution to the problem of splitting commissions would be to stop tiered pricing. However, this has so many disadvantages (agents being underpaid for low transactions or overpaid for high ones etc.) that it's probably best to keep a tiered structure but inspect it carefully.*

4. **Customers (or those posing as customers) defraud agents.** Agents are vulnerable to fraud and abuse as well. Since they are usually well trained compared with customers, they are not as susceptible to simple fraudulent activities as customers are. They understand the system and the safeguards that are in place (e.g., receiving a confirmation SMS from M-PESA). This is their best protection. Box 10 describes how thieves in Kenya were able to steal money despite these safeguards.

   *Providers can continue to **invest in rigorous agent training** as they are the best defense against fraud and abuse. Providers should also consider **redesigning the user interface** so that messages from the provider are distinctive and not easily imitated. This is difficult to do on basic handsets. Providers should also **consider compensating agents who are defrauded.** Otherwise, agents will be motivated to keep cash limits low, which ultimately will harm customer service standards.*

Box 10: An Elaborate Fraud

In February 2010, two people posing as Safaricom employees entered an M-PESA store with M-PESA publicity material and Safaricom identification. They claimed to be doing an audit and spent several minutes with the agent's logbooks and phone. Shortly after they left, an elderly man came in to withdraw 30,000 shillings (about US$370). The agent received an apparent confirmation SMS from M-PESA and handed over the cash. The customer left. Only when the agent was serving his next customer did his float balance appear 30,000 shillings too low. He called the agent support center only to be told that they had recorded no withdrawal at that amount.

In another case, thieves posing as Safaricom employees gained access to the agent's phone and inserted a contact with the name M-PESA and a number under their control into the address book. Therefore, a message from that number would appear as M-PESA. The "customer" would text accomplices from the agent shop (pretending to initiate an M-PESA transaction). They in turn would text the agent who would think it was M-PESA's confirmation SMS. In this case, it appears that the thieves may not even have had access to the phone. The M-PESA contact was inserted into the device's address book remotely, as a VCard payload in an SMS message.

Source: Gmeltdown (2010).

There are many different ways to defraud a system, and the more successful a service is, the more people will want to take advantage of it. There are a variety of steps providers can take to prevent fraud. Educating customers, training agents, and developing rigorous MISs that raise red flags on potentially fraudulent transactions are the best prevention measures.

This chapter covered a wide range of topics from how to select agents and get them started through to monitoring and managing them. Each aspect depends on the particular market and value proposition for agents. Providers and ANMs must understand the particular conditions in their market rather than copy another provider's agent commission structure or agent selection guidelines. When all these variables are carefully implemented, there is a good chance that agents will perform a valuable service for both customers and the provider while feeling satisfied with their own rewards.

Summary

There is no single recipe to build a viable network of branchless banking agents. However, there are five inter-related challenges that must be dealt with systematically. And the process is iterative, requiring intensive analysis of linked issues during the design phase and then periodic review as the operation matures:

1. Building an attractive business case for agents
2. Defining the roles and responsibilities of ANMs
3. Ensuring sound economics for all businesses in the supply chain
4. Selecting the optimal agent network structure
5. Selecting, training, and managing agents

Building an Attractive Business Case for Agents

There are costs and risks associated with the role agents are asked to take, and agents should be compensated accordingly. These costs and risks are driven by nine factors, which we put into three categories:

- Role-related—(1) upfront capital, (2) liquidity management, (3) staff and space costs
- Exogenous—(4) security, (5) system reliability, (6) effect on core business
- Time specific—(7) adequate revenue at start up, (8) major costs related to growth, (9) fragmented demand across too many agents

The nine drivers affect all agents, but in different ways. There is no one-size-fits-all model for agent profitability, and no substitute for providers investing time in understanding the specifics of the business case for their agents.

Defining the Roles and Responsibilities of ANMs

For many branchless banking service providers, ANMs play a key role in helping agent networks reach scale quickly and provide timely, consistent service to customers. Providers have choices about how to structure the role of ANMs related to getting agents started, setting up agent operations, and adapting the branchless banking business strategy over time.

Ensuring Sound Economics for All Businesses in the Supply Chain

Branchless banking agents are typically the last link in a supply chain of companies that interact with each other to create the transaction channel. For the supply chain to be sustainable, the endeavor must generate sufficient revenue, and the revenue must be distributed to support all of the companies in the chain. Branchless banking providers need to model the financial flows of the entire supply chain so that they can make informed decisions.

M-PESA achieves impressive financial results for all companies in its supply chain by generating customer transaction revenue from what is primarily a P2P money transfer service. But the M-PESA business model is likely an exception among branchless banking ventures. In most markets, a branchless banking service is unlikely to have the kind of massive and rapid customer uptake that has driven the single-product M-PESA model. Revenues can be enhanced, however, in at least two ways:

- Use of the transaction channel can be intensified and revenue sources diversified, by providing access to third-party operators who pay for customers to use the transaction channel to pay for operator services
- Companies in the branchless banking supply chain may be able to increase revenues in their core business. In some markets, this may be a primary revenue source. Calculations based on modest assumptions about the benefits that accrue to MNOs, banks that intermediate float balances, and agents that increase store sales show that these core-business benefits could total over half of the transaction revenue. In some markets, these indirect core-business benefits may be necessary to make the branchless banking business model viable.

Selecting the Optimal Agent Network Structure

Providers may consider variations on three approaches to building an agent network structure:

- Contract with existing retail chains
- Leverage a distribution system
- Build a network of independent agents from scratch

The three options entail trade-offs in operational readiness, reach, and control. Providers need to decide what is most important in their market. M-PESA started off leveraging Safaricom's distribution system but after awhile began building its network from scratch to meet customers' demands for reach throughout the country.

Managing Agents

- **Selecting agents.** Providers should carefully consider the qualities they need in agents based on the service and the role agents play.
- **Getting agents started.** Providers must create contracts for agents, decide who will install and maintain equipment, and ensure agents are well trained.
- **Paying agents.** Aside from determining the overall amount to pay agents, providers need to consider options and decide on the best agent payment structures to use.
- **Managing liquidity.** Providers need to determine who provides the capital for the service and how the critical but time-consuming and expensive task of rebalancing will be done.
- **Ongoing monitoring and management**. Effective monitoring (either in person or remotely) is essential to ensure consistent customer experience.
- **Reducing impact of fraud, theft, and abuse.** Providers must be aware of the vulnerabilities in their service and find ways to minimize these.

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Annex 1: Financial Model With M-PESA Case Study

This annex discusses how to use an Excel-based model that calculates the financial flows of the companies in a branchless banking supply chain. The model is available at *http://www.cgap.org/p/site/c/template.rc/1.9.49775/*.

The input and output tables presented in this annex pertain to a case study of M-PESA in Kenya. The input data are based on financial data derived from Safaricom publications as well as from numerous studies published by third parties. Unless otherwise stated, performance indicators are based on annualized June 2010 data. Some of the input data are estimated to compensate for missing information. While this is a reasonable estimate of the M-PESA business model, it should not be interpreted as a precise analysis. This case study demonstrates how to conduct such an analysis when information is available.

1. The M-PESA Value Chain

The model is designed to accommodate many companies in a multi-level supply chain. One or all of the supply chain levels may be used, depending on the specific branchless banking venture. Any combination of functions may be assigned to any of the companies.

The M-PESA supply chain comprises the following companies:

- M-PESA itself and Safaricom. M-PESA is a mobile money service; it operates as a department of Safaricom, an MNO. Safaricom mobile phone subscribers can sign up for M-PESA and receive an e-wallet account they can use to make payments. Customer e-wallet accounts are managed on the M-PESA technology platform, which also enables customers to make transactions on their mobile phones through the Safaricom mobile network. In our taxonomy of the branchless banking supply chain, this makes Safaricom/M-PESA[30] the **account provider** and **transaction provider.**
- **Third-party operators:**
    - Several Kenyan banks hold the total balance of all M-PESA customer accounts in a trust fund.

[30]M-PESA and Safaricom are referred to as separate companies to distinguish between the mobile money function of the former and the mobile telephony service of the latter, even though both are in fact owned by the same company.

- ○ M-PESA has signed agreements with six banks to play the role of "superagent." In this capacity, banks provide a liquidity service to agents who need to rebalance their cash or float accounts with M-PESA.
- ○ M-PESA customers also have access to Equity Bank and PesaPoint ATM networks, which they can use to withdraw funds from their e-wallets.
- ○ Companies contract with M-PESA to provide a payment channel for paying M-PESA customer salaries and for company customers to pay routine bills from their e-wallets.

- M-PESA contracts with independent **agents** to provide cash points for customers.
- M-PESA also contracts with aggregators and other service companies that function as **ANMs** that acquire, manage, train, and monitor networks of agents.

2. Data Input

The Network Summary Table

The Network Summary (Figure A1) collects basic information about the number of customers, agents, and ANMs. M-PESA reported over 10 million customers as of June 2010, which is 56 percent of the Kenyan adult population. We assume that 70 percent are active (having made a transaction in the past three months), based on conversations with management. Note that the Network Summary also calculates basic indicators from data in other tables.

Figure A1: Network Summary

NETWORK SUMMARY	
Number of customers	10,232,805
% active	70%
Number of active customers	7,162,964
Number of Agents	18,977
Active customers/agent	377
Number of Agent Network Managers	190
Agents/ANM	100
Monthly txns/active customer	7.6
Monthly agent txns/active customer	3.6
Avg commision/agent txn	0.18

Note that light-colored cells are for variable input; all other cells are calculated.

The Transaction Profile

The Transaction Profile (Figure A2) is a precise breakdown of the frequency and transaction amounts that an average customer conducts in a month.

- The transaction types from **account sign up** to **e-airtime purchase** are transactions customers execute.
- **Account balance and interest rate** is the average balance in customer accounts and the interest rate earned or paid on that balance.
- **Transaction session fee** is the cost of using the communication channel to conduct each transaction. It is typically paid to the MNO.
- **ARPU increase, churn reduction, and core business benefits** are forms of core business value added (and are explained in Chapter 3).

Figure A2: Transaction Profile

Txns/ mo	Avg Amount	TRANSACTION TYPE
239,225		Account Sign up
1.54	32.68	Cash in at Agent
		Deposit from Third Party
		Transfer from bank account
2.10	19.98	Cash out at Agent
		Transfer to bank account
0.007	50.00	Cash out at ATM
1.45	28.00	P2P Transfer
		Merchant purchases
		Bill Pay at Agent
1.73		Balance inquiry
0.05	20.00	e-Bill Pay
0.69	3.80	e-airtime purchase
	10.00	Acct balance and interest rate
32,394,880		Transaction Session Fee
	0.40	ARPU Increase
12%	4.40	Churn reduction
		Core Business Benefit
7.6		Total Txns
3.6		Agent Txns

Note that all transaction types are displayed, even though they are not all used in the M-PESA case.

M-PESA adds about 240,000 customers every month. Every active customer conducts on average 7.6 transactions per month. Importantly, only 3.6 transactions per month are conducted at the agents, and this is the number that drives all calculations of agent transaction volume, revenues, and expenses.

The Transaction Fees Table

The Transaction Fees table (Figure A3) demonstrates who pays for each transaction and how much.

Figure A3: Transaction Fees

TRANSACTION TYPE	%	TRANSACTION FEES							
		Customers	Agents	ANMs	Third-party Operators	Account provider	Txn provider (M-PESA)	MNO (Safaricom)	TOTAL
Account Sign up							1.00		1.00
Cash in at Agent							0.14		0.14
Deposit from Third Party									-
Transfer from bank account									-
Cash out at Agent		0.34							0.34
Transfer to bank account									-
Cash out at ATM	%	0.8%							0.8%
P2P Transfer		0.46							0.46
Merchant purchases									-
Bill Pay at Agent									-
Balance inquiry		0.01							0.01
e-Bill Pay		0.15			0.15				0.30
e-airtime purchase	%								0.0%
Acct balance and interest rate	%								0.0%
Transaction Session Fee									-
ARPU Increase	%								0%
Churn reduction	%								0%
Core Business Benefit	%								0%

This table allows users to assign a fee for each transaction type to a specific entity in the supply chain. The % column is used when the fee is a percentage of the transaction volume; otherwise the table assumes that the fee is per transaction.

M-PESA customers pay a fee for most transactions, but not all. They do not pay to sign up for an account, and they do not pay to put cash into their e-wallets. However, M-PESA pays a fee to the agents for these transactions. Companies share the cost of bill pay with the customers.[31]

The Commissions Earned Table

The Commissions Earned table (Figure A4) determines who earns a commission for each transaction and how much they earn.

[31] The M-PESA fee structure does not include some elements that could be significant in other operations. If the transaction provider and MNO are two different companies, then the transaction provider will likely pay the MNO for SMS messages (or USSD sessions) sent when customers or agents conduct a transaction. The MNO will likely pay a commission when customers purchase airtime from their e-wallets. And banks may pay interest to the transaction provider on the global float account balance.

Figure A4: Commissions Earned

TRANSACTION TYPE	COMMISSIONS EARNED							
	TOTAL	Customers	Agents	ANMs	Third-party Operators	Account provider	Txn provider (M-PESA)	MNO (Safaricom)
Account Sign up	1.00		0.80	0.20				
Cash in at Agent	0.14		0.11	0.03				
Deposit from Third Party	-							
Transfer from bank account	-							
Cash out at Agent	0.34		0.17	0.04			0.13	
Transfer to bank account	-							
Cash out at ATM	0.8%				0.8%			
P2P Transfer	0.46						0.46	
Merchant purchases	-							
Bill Pay at Agent	-							
Balance inquiry	0.01						0.01	
e-Bill Pay	0.30						0.30	
e-airtime purchase	0.0%							
Acct balance and interest rate	0.0%							
Transaction Session Fee	-							-
ARPU Increase	0%							
Churn reduction	0%							
Core Business Benefit	0%							

80/20 commission split

In M-PESA's case, you can see that commissions for agent transactions are split between the agent and ANM on an 80–20 percent basis.[32] In practice, ANMs have negotiated higher percentages with agents, but M-PESA is now imposing a standardized split to protect agents.

The Core Business Value Added Table

The Core Business Value Added table (Figure A5) captures benefits that accrue to the core (not the branchless banking) business of the entities in the supply chain.

Figure A5: Core Business Value Added

TRANSACTION TYPE	CORE BUSINESS VALUE ADDED							
	TOTAL	Customers	Agents	ANMs	Third-party Operators	Account provider	Txn provider (M-PESA)	MNO (Safaricom)
Account Sign up	-							
Cash in at Agent	-							
Deposit from Third Party	-							
Transfer from bank account	-							
Cash out at Agent	-							
Transfer to bank account	-							
Cash out at ATM	-							
P2P Transfer	-							
Merchant purchases	-							
Bill Pay at Agent	-							
Balance inquiry	-							
e-Bill Pay	-							
e-airtime purchase	10.0%							10.0%
Acct balance and interest rate	0.7%				0.7%			
Transaction Session Fee	-							
ARPU Increase	90%							90%
Churn reduction	90%							90%
Core Business Benefit								

[32]Agent commissions are also subject to a 21 percent tax withholding requirement.

In M-PESA's case, Safaricom saves its normal airtime distribution costs (estimated at 10 percent) when customers purchase airtime from their e-wallets. Banks generate income from the float that banks hold as a deposit. The **ARPU increase** and **churn reduction** expenses also accrue to Safaricom, net the 10 percent distribution costs. Safaricom agents do not report additional core business sales to M-PESA customers, so none is included in this case.[33]

The Agent Liquidity Requirements Table

The Agent Liquidity Requirements table (Figure A6) calculates the amount of float and cash balances agents will require. The amount is calculated by applying the multiplier to the total amount of daily cash-in transactions (the settlement account) and cash-out transactions (cash on hand), and then multiplying that figure by the number of rebalancing transactions per day. For example, the M-PESA model assumes that agents rebalance once per day, and therefore they need one times the average cash-in and cash-out amounts. If agents rebalanced every two days, they would need twice that much liquidity.

Figure A6: Agent Liquidity Requirements

AGENT LIQUIDITY REQUIREMENTS	Multiplier	
Settlement account	1	732
Cash on hand	1	609
Rebalancing per day	1	

In practice, rebalancing requirements are highly variable. An agent with a perfect balance of cash-in and cash-out transactions might not have to rebalance at all, or might have to do so infrequently. In contrast, an agent that does mostly cash-out transactions might have to rebalance several times a day, or need more cash than settlement balance.

The Agent Expense Table

The Agent Expense table (Figure A7) contains the variables that drive the monthly cost structure of the agent business.

Variable costs are calculated by a number of units that is derived by dividing the average **TXN/day** by the number in the **daily TXNS/unit** column. So for example, the agent hires an employee for every 80 transactions per day, for a monthly cost of US$31.50 per employee.

[33]See Section 1.6 for an explanation of how important the "foot traffic" effect is for Brazilian agents.

Figure A7: Agent Expenses

AGENT EXPENSES			TXN/DAY	53
VARIABLE COSTS	Daily TXNS/ unit	Units	Cost/Unit	Total
Wages	80	1	$ 31.50	32
FIXED COSTS		Units/mo	Cost/Unit	Total
Rent/Infrastructure		1	19.00	19
LIQUIDITY		Volume		
Rebalancing costs		26	$ 1.13	29
Working Capital Expense		1,341	1%	13
Loss to Theft			0%	-
TOTAL EXPENSES				93

Fixed costs. Some agents rent small kiosks for as little as US$19 per month. Other agents are small shop owners with existing facilities who do not incur additional rental expenses. In Kenya, agents generally do not incur specific expenses related to security, other than the security features of the kiosk. Agents conduct transactions on their own mobile phone, which are readily available in Kenya for as little as US$40 or less.

Liquidity costs. Rebalancing costs are travel or transaction-related expenditures incurred in rebalancing the float account or cash on hand. **Working capital** expenses are a cost of capital, calculated on the total amount of cash and float required (which the model draws from the float calculation tables). **Theft** is calculated as a percentage of working capital.

At average transaction volumes, the M-PESA agent needs US$1,341 to maintain float and cash balances. The **cost of capital** may be a borrowing cost, or an opportunity cost for deploying cash in the agent business. In practice, M-PESA agents who have tried to borrow the funds have not fared well. Several ANMs say that they have a strict policy against signing on agents who need to borrow money to maintain cash and float balances because the expense undermines the profitability of the agent's business. The largest portion of the cost comes from transport associated with rebalancing, which is estimated here at US$1.13 per daily transaction.

The ANM Expense Table

The ANM Expense table (Figure A8) calculates the agent management-related expenses of both the transaction provider and the average ANM. The expenses are calculated with the same method used in the Agent Expense table.

M-PESA incurs direct costs for the roles it plays in agent management; these are shown in the **transaction provider** section of this financial model. In practice, M-PESA outsources some of these functions, but still pays for their costs. The expenses calculated in the **average ANM** section are incurred directly by M-PESA aggregators.

Figure A8: ANM Expenses

ANM EXPENSES	TRANSACTION PROVIDER				AVERAGE ANM			
							Agents/AMN	100
VARIABLE COSTS BY FUNCTION	Agents/ unit	Units	Cost/Unit	Total	Agents/ unit	Units	Cost/Unit	Total
Agent Acquisition	120	159	500	79,500	-	-	-	-
Agent Training	120	159	500	79,500	-	-	-	-
Agent Monitoring	2,000	10	1,000	10,000	25	4	450	1,800
Agent Technical Support	1,000	19	500	9,500		-		-
Transport/communications		-		-	25	4	260	1,040
FIXED COSTS								
Management/Admin Personnel				-		4	550	2,200
Rent				-		1	300	300
Office expenses				-		1	700	700
LIQUIDITY		Volume				Volume		
Rebalancing costs		493,402	-	-		100	6.80	679
Working Capital as % of Agent Liquidity		0%				10%		
Working Capital Expense		-	0%	-		13,393	0%	-
Loss to Theft			0%	-			0%	-
TOTAL EXPENSES				178,500				6,719

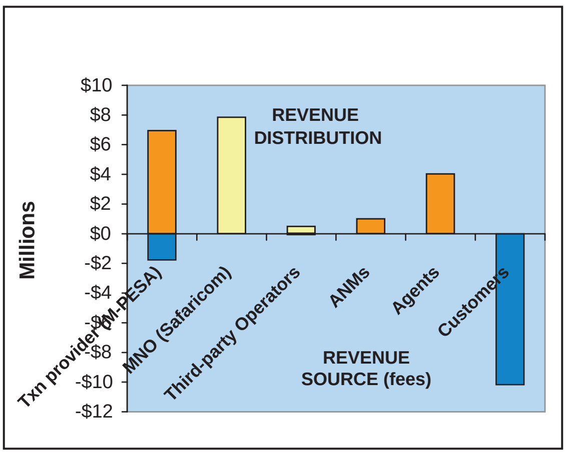
3. Output Tables And Graphs

The Revenue Generation and Distribution Graph

The Revenue Generation and Distribution graph[34] is one of a series of outputs the model produces. It provides a top-level view of financial flows in the supply chain. The bottom of the graph shows the source of revenue (who pays the fees) and the top shows which entity retains the revenue. The yellow bar in the stack indicates value added to an entity's core business.

The graph shows that customer transaction fees constitute the primary source of revenue in the M-PESA business model. M-PESA retains 58 percent of total revenue, or about US$6.9 million per month. Agents and ANMs share 34 percent and 8 percent, respectively.

Figure A9: Revenue Generation and Distribution



[34]The graph is supported by a data table.

The model also demonstrates that Safaricom may be making as much as US$7.9 million per month in additional core airtime sales from M-PESA customers.

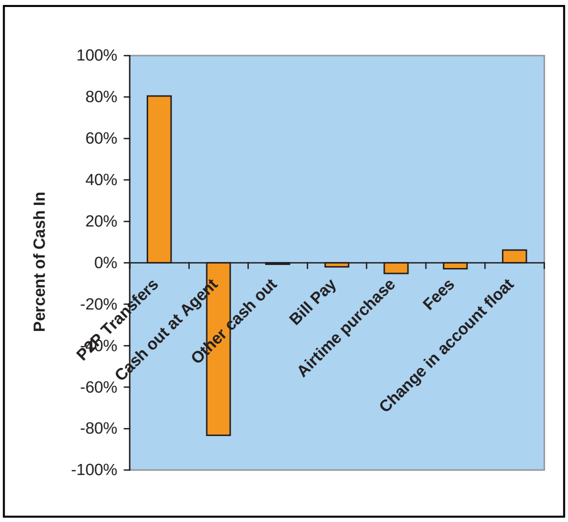
- The gross savings on airtime distribution commissions is US$1.9 million per month.
- A 10 percent increase (US$0.40) in ARPU for every active M-PESA customer generates US$2.6 million per month.
- If only 12 percent of M-PESA customers represent subscribers that Safaricom would have lost to churn, then Safaricom is earning US$3.4 million per month from these subscribers. Most of this amount comes from airtime sales, and the rest comes from savings on customer acquisition costs.[35]

The core business benefits are difficult to calculate with certainty. But the M-PESA example demonstrates how significant these benefits can be. Under these assumptions, Safaricom earns as much revenue from its core communications business because of M-PESA as it does from direct M-PESA revenues.

The Transaction Volume as % of Cash-in Graph

The Transaction Volume as % of Cash-in graph (Figure A10) illustrates where money is flowing through the branchless banking channel.

Figure A10: Transaction Volume as % of Cash-in



Note: The graph is supported by a data table that includes the amounts of these flows.

[35]Safaricom attributes M-PESA with reducing churn, without quantifying the contribution. The assumption that 12 percent of M-PESA customers (1.2 million) chose not to churn because of the M-PESA service implies a 5 percent reduction in Safaricom's annual churn rate.

This illustrates the point made earlier that M-PESA continues to be primarily a P2P transfer service. Customers are rapidly adopting the new services, but the volumes are still very low compared to that of cash and transfer transactions.

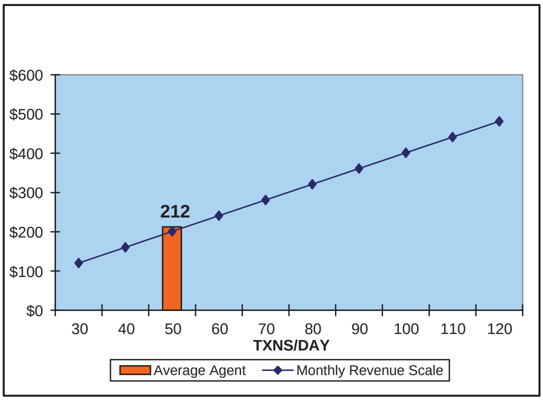
Agent Summary Table and Agent Monthly Revenue Scale

The Agent Summary table (Figure A11) presents summary indicators for an average agent. The Agent Monthly Revenue Scale (Figure A12) plots the current gross revenue earnings and shows how gross revenue would increase or decrease with a change in the average transactions per day.

Figure A11: Agent Summary

AGENT SUMMARY TABLE		
INDICATORS		
Active customers/agent		377
# txns/day		53
Avg commission/txn		0.15
FLOAT ACTIVITY		
Settlement Account	$	732
Cash on Hand	$	609
Total	$	1,341
Rebalance txns/day	$	1
REVENUES		
Account sign up	$	10
Txn commissions	$	202
EXPENSES		
Variable	$	32
Fixed	$	19
Interest	$	13
Liquidity	$	43
NET REVENUE	$	107

Figure A12: Agent Monthly Revenue Scale



The average M-PESA agent is profitable at 53 transactions per day, but only if rent and wages are low.[36] An agent in an urban setting pays considerably more for both staff and rent, and is viable only at a higher daily volume. Agents can compensate somewhat for either lower volume or higher operating costs if they are also owner–operators (without employees) or are store owners who already have both location and employees.

[36]Because agents are subject to a 21 percent tax withholding, their revenues are that much less than appears in the table.

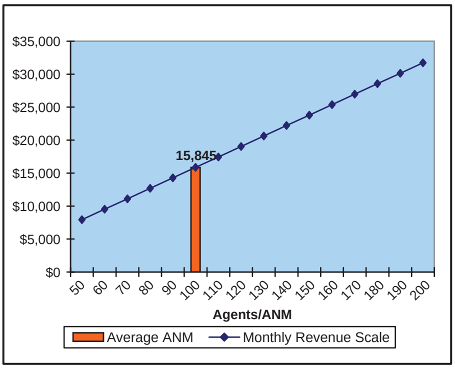
The ANM Table and ANM Monthly Revenue Scale

M-PESA ANMs (aggregators) with 100 agents are quite profitable. However, profits from owner–agents are a key revenue component. If ANMs do not own agents, then the ANMs would only earn their 20 percent transaction commission cut. The analysis suggests that ANMs would not be profitable without owning a substantial number of the agents they manage.

Figure A13: ANM

AGENT NETWORK MANAGER TABLE		
INDICATORS		
Agents/ANM		100
ANM-owned agencies		100
Revenue/agent	$	159
REVENUES		
Account sign up		252
Txn commissions		5,046
airtime commissions		-
Profit from own agencies		10,547
EXPENSES		
Variable		2,840
Fixed		3,200
Liquidity		679
NET REVENUE		9,125

Figure A14: ANM Monthly Revenue Scale



Annex 2: Analyzing Agents in the Field

This annex contains two sample questionnaires used by CGAP. The first was used to interview merchants as prospective agents prior to launch of a branchless banking service in the Philippines and the second to assess the business case for existing branchless banking agents working with a range of banks in Brazil.

Questionnaire 1: Prelaunch Analysis of Prospective Agents

	QUESTIONS	ANSWERS	NOTES	RATIONALE
A BASIC DATA ON MERCHANT				
	Date of interview:			
A.1	Merchant's name:			Contact data for follow up
A.2	Phone number:			Contact data for follow up
A.3	Address:			Contact data for follow up
A.4	Do you have a bank account (non-MFI, unless MFI offers deposit services)?		Yes or no	Experience and stability of the merchant
A.5	How far away is the bank?		km	Travel and labor cost
A.6	How often do you go there each week?		Whole number	Symptom of cash handling
B BASIC DATA ON THE BUSINESS				
B.1	What is your main business?			Categorization of business types
B.2	How many years have you operated your current business?		Years	Experience and stability of the merchant
B.3	How many days per week is your business open?		Days	Revenue opportunities
B.4	How many hours per day?		Hours	Revenue opportunities
B.5	Is your business registered?		Yes or no	Viability to act as an agent

	QUESTIONS	ANSWERS	NOTES	RATIONALE
B.6	Do you maintain accounting books for your business?		Yes or no	Experience and stability of the merchant
B.7	Do you have any other businesses or a sideline?		Yes or no	Allocation of revenue
B.8	If so, what kind?			
B.9	Are you an agent of a mobile money service [name them]?		Yes or no	
B.10	How long have you worked as an agent of [mobile money service]?		Years	
B.11	How reliable is the power in your business location?		Reliable, unpredictable, poor	Environment for POS equipment
C CASH FLOW				
C.1	How much rent do you pay (weekly) for your store facility?		Pesos	Outbound cash flow
C.2	How many times per week do you go to the market to buy your products or inventory?		Whole number	Outbound cash flow
C.3	How much do you spend every time you go to the market?		Pesos	Outbound cash flow
C.4	Do you have purchase arrangements with wholesalers?		Yes or no	Volume spending
C.5	If yes, please describe.			
C.6	How much do you spend each time you resupply/restock?		Pesos	Outbound cash flow
C.7	Do you know the value of the inventory you keep on hand?		Pesos	
C.8	What are your average sales per week?		Pesos	
C.9	Are there any periods of time, where your business transactions are larger or smaller? In other words, are there regular times when business is slow or heavy?			Cycle impact
C.10	How much budget per week do you set aside for personal/family consumption?		Pesos	Nonbusiness expenses
C.11	Do you have any other sources of income?		Yes or no	Inbound cash

(continued)

	QUESTIONS	ANSWERS	NOTES	RATIONALE
C.12	If yes, approximately how much?		Pesos	Inbound cash
C.13	On average, how much cash does your business transact per week?		Pesos	Inbound and outboand cash handling
C.14	On average, what is you minimum cash on hand each day?		Pesos	Cash handling capability
D INTEREST IN BEING AN AGENT				
D.1	How much of your time do you think you could devote to a cash-in/cash-out business?		Hours or partial hours	Willingness to participate
D.2	How many transactions do you think you might do in a day?		Whole number	Market size and willingness to participate
D.3	While running your business, what is the typical eight-hour revenue?		Pesos	Price sensitivity
D.4	Are you willing to undergo a one to two evening (off-hours) training to start up this business of being an agent?		Yes or no	Cost of entry
D.5	How much cash do you feel safe keeping on hand?		Pesos	Willingness to participate and security tolerance
D.6	How much cash do you typically end with at the end of a day?		Pesos	Capability to determine cash-in only or cash-in/cash-out
D.7	How often per week do you go to the bank?		Whole number	Capability to determine cash-in only or cash-in/cash-out
F INTERVIEWER OBSERVATIONS				
F.1	Are the obvious security measures in place?		Yes or no	Viability for cash handling
F.2	How much foot traffic seems to coming in per hour?		Whole number per hour	Security risk and business traffic opportunities
F.3	Estimate of how many people operate the business.		Whole number	Costs and transaction level of the business
F.4	Living in urban or rural area		Urban or rural	Market segmentation

Questionnaire 2: Post-Launch Analysis of Existing Agents

Date: ______________________

Interviewer(s): ______________________

Location: ______________________

Store Name: ______________________

Respondent's Name & Title: ______________________

Respondent's Telephone Number: ______________________

1. What are the names of the service and ANM that you are an agent with?

Service: ______________________

ANM: ______________________

2. How many agent locations do you have in total?

____

3. What was the first year you began working as an agent?

____

4. What is your primary motivation to be an agent? *[Do not prompt. Check all mentioned.]*
   - ❑ Transaction fee income
   - ❑ Brings more people into my store
   - ❑ My clients expect me to do it/asked for it
   - ❑ I want to be associated with a big brand
   - ❑ Other ______________________

5. What is the other main business you conduct in this establishment?
   - ❑ Groceries
   - ❑ Pharmacy
   - ❑ Electronics
   - ❑ Stationery/copy shop
   - ❑ Cafeteria/bar/restaurant
   - ❑ Other ______________________

6. After you became an agent, would you say the number of people coming into your establishment increased, remained the same, or decreased?
   - ❑ Increased
   - ❑ Remained the same
   - ❑ Decreased
   - ❑ Don't know

7. On average, how much did the number of people coming into your store change after you became an agent?
   - ❑ +/− 0–10%
   - ❑ +/− 25%
   - ❑ +/− 33%
   - ❑ +/− 50%
   - ❑ +/− 66%
   - ❑ +/− 75%
   - ❑ +/− 100%
   - ❑ +/− 150%
   - ❑ +/− 200% or more

8. If you could not be an agent any longer, what kind of effect would it have on your other business?
   - ❑ Large negative effect on my main business
   - ❑ Small negative effect on my main business
   - ❑ Neither positive nor negative effect on my main business
   - ❑ Small positive effect on my main business
   - ❑ Large positive effect on my main business

9. What is the reason for the effect? ______________________________

10. *INSTRUCTIONS: Read the instructions below and the following items on the Revenue Sheet. Rely on the closing report from the POS device to fill out this worksheet, or if unavailable, ask agent to estimate for a typical day. The list below includes all types of transactions that a correspondent may offer; however, the respondent may not offer all of them.*

Now we need to know some details about the types of bills you receive. For this, it would be better if you could show us your closing report from yesterday or the most recent one available.

REVENUES					
Category	**Transaction type**	**Transactions per day**	**Commission per transaction**	**Revenue**	**Notes**
Withdrawals	Cash-out from e-wallet or bank account				
	Social benefits (e.g., Bolsa familia)				
	Loan disbursement				
Deposits	Cash-in to bank account				
Payments	Loan repayments				
	Utilities				
	Taxes				
Electronic top-up	Prepaid telephone				
	Public transport card				
Other	Account opening				
	Balance inquiry				
	Account statement				
	Insurance application				
	Loan application				
		TOTAL			

11. Would you say this day (in question 10) the total number of transactions was more than typical, about average, or less than typical?
    - ❑ More than typical
    - ❑ About average
    - ❑ Less than typical

12. *INSTRUCTIONS: Read the instructions below and the following items from the Expense Sheet. As necessary, provide explanation in notes section. For communication costs it may be necessary to indicate more than one as some banks/ANMs provide a secondary connection as a contingency.*

For the items below, could you tell me how much you spend per month:

EXPENSES				
Item	**Description**	**Cost**	**Portion associated with agent business**	**Notes**
Technology	Transaction device			
	Cameras or other security system			
Communication	Primary connectivity (e.g., X25, IP, GPRS, dial-up, ADSL, satellite)			
	Contingency (if any)			
Cash	Insurance			
	Transport			
Electric	Monthly bill			
Staff	Monthly cost			
Space	Rent			

13. Who pays for the insurance for the cash used in the agent business?
   - ❑ Bank/service provider
   - ❑ ANM
   - ❑ I do

14. What is the maximum amount of cash you keep in your establishment for the agent business?

   ____

15. What is the primary way money used in the agent business is delivered to the bank? [choose only one]
   - ❑ In person
   - ❑ Armored car
   - ❑ Bank transfer
   - ❑ Other

16. How many times per week is money delivered to the bank?

____

17. Do you feel that being an agent increases the risk you will be robbed?
    - ❑ Yes
    - ❑ No

18. Has your agent business ever been robbed?
    - ❑ Yes
    - ❑ No

If yes, when? ____

How much money was taken? [if more than once, ask about the most recent]

____

19. Have your employees ever stolen money from the till?
    - ❑ Yes
    - ❑ No

If yes, when? ____

How much money was taken? [if more than once, ask about the most recent]

____

20. Have customers every tricked you or your staff and taken money?
    - ❑ Yes
    - ❑ No

If yes, when? ____

How much money was taken? [if more than once, ask about the most recent]

____

21. What is the biggest problem you encounter in the agent business? *[Do not prompt. Record answer verbatim and probe for detail]*

____

22. Have you ever thought of quitting being an agent?
    - ❑ Yes
    - ❑ No

Why? ____

23. Finally, we would like to ask you a few questions about your other main business in this establishment. Tell us the typical daily revenue and expenses for your top three selling products.

[If necessary, prompt respondent to first think of how many units sold on a daily basis, and price per unit, then do the math for the respondent and tell them the total revenue figure and ask "Does this sound correct?" If respondent only has one main product, ask only about that.]

Product	**Daily Revenue**			**Daily cost**		
	Units sold	Unit price	Total revenue	Units sold	Unit price	Total expense

Annex 3: Useful Documents

1. Scorecard for agents: Indian provider
2. Agent contract: Indian provider
3. Agent contract: Brazilian provider
4. Agent application: Brazilian provider
5. Agent marketing materials: Brazilian provider
6. Monitoring instruments
   a. FINO Dashboard
   b. Top Image and M-PESA Reporting
7. Sample job descriptions
   a. Head of Department, M-PESA Sales, Kenya
   b. M-PESA Area Sales Manager, Kenya
   c. M-PESA Regional Sales Manager, South Africa
8. Agent commissions
   a. Banco do Brasil
   b. Banco Postal
   c. Caixa Economica
   d. FINO
   e. EKO
   f. M-PESA, Kenya

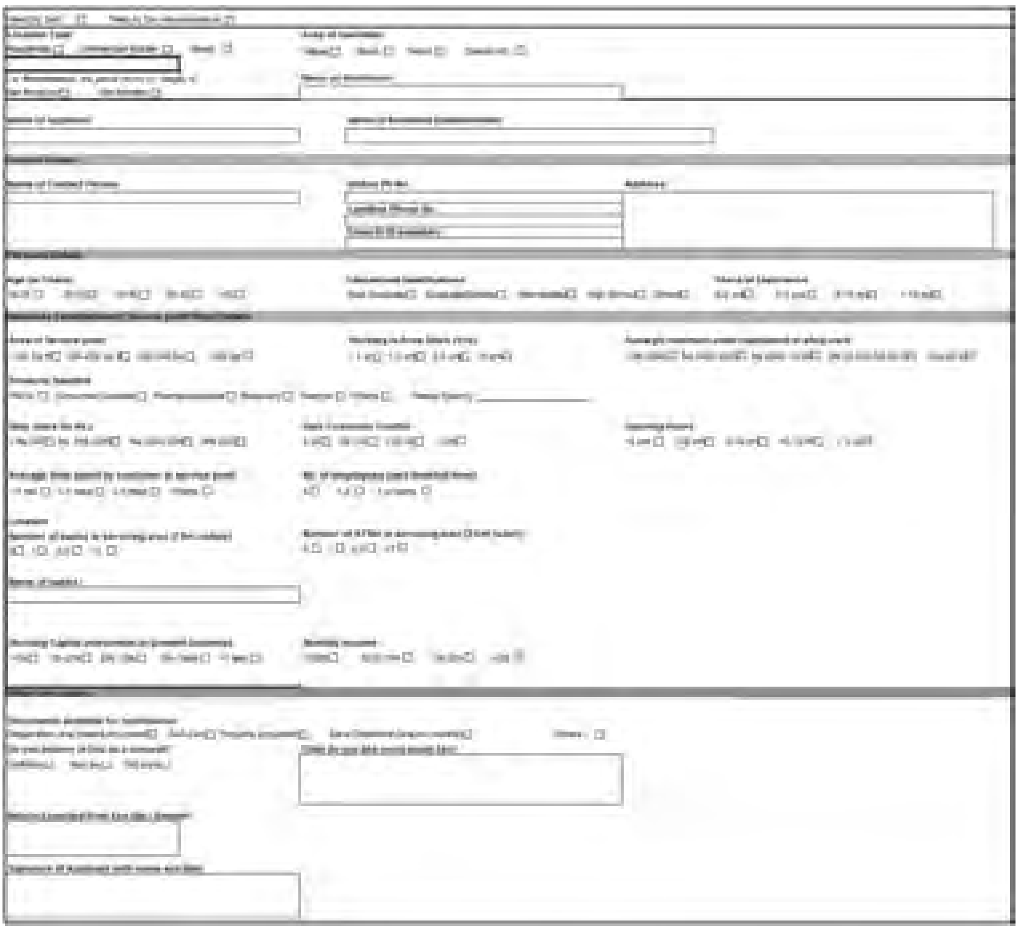
1. Scorecard for Agents: Indian provider

This scorecard includes three parts:

1. Customer service point (CSP) application form
2. Initial scoring; scores CSP prospect based on set parameters
3. Qualitative review by field officer; generates global score

How to use the scorecard

1. The application form can be completed either by the [provider] official or by the applicant.
2. The responses on the application form are used on the second sheet (initial scoring), which will give a score.
3. Following the initial scoring, the [provider] official conducts a qualitative review of the CSP applicant and rate him or her on the listed parameters to generate a global score.
4. The global score can be compared to benchmarks for selecting a CSP.



INITIAL SCORING CRITERIA				
Field on application form		Possible responses	Scoring criteria	
			Rural	Urban
Personal details				
1	Age	18–25 yrs	2	2
		25–35 yrs	4	4
		35–45 yrs	3	3
		45–55 yrs	1	1
		>55 yrs	0	0
2	Educational qualifications	Post graduate	3	3
		Graduate/diploma	4	4
		Intermediate	2	2
		High school	1	1
		Others		
3	Years of experience	0–2 yrs	1	1
		2–5 yrs	2	2
		5–10 yrs	3	3
		>10 yrs	3	3
Business details				
1	Area of service point/shop	<100 sq ft	2	1
		100–250 sq ft	3	3
		250–500 sq ft	3	3
		>500 sq ft	3	3
2	Working in area since	<1 yr	1	1
		1–3 yrs	2	2
		3–5 yrs	3	3
		>5 yrs	4	4

(continued)

Field on application form		Possible responses	Scoring criteria	
			Rural	Urban
3	Minimum cash maintained in shop vault	<2000	0	0
		2,000–5,000	2	2
		5,000–10,000	3	3
		10,000–20,000	4	4
		>20,000	4	5
4	Products handled	FMCG	4	4
		Consumer durables	2	2
		Pharmaceuticals	4	4
		Stationery	4	4
		Telecom	4	4
		Others		
5	Daily sales	<Rs. 500	1	1
		Rs. 500–2,000	2	2
		Rs. 2,000–5,000	3	3
		>Rs. 5,000	2	2
6	Daily customer footfall	0–50	1	1
		50–150	2	2
		150–300	3	3
		>300	1	1
7	Business hours	<6 hrs	1	1
		6–8 hrs	2	2
		8–10 hrs	3	3
		10–15 hrs	4	4
		>15 hrs	4	4
8	Average time spent by a customer on service point	<1 min	1	1
		1–3 mins	2	2
		3–5 mins	3	3
		>5 mins	3	3

Field on application form		Possible responses	Scoring criteria	
			Rural	Urban
9	Number of employees (part time/full time)	0	1	1
		1–2	2	2
		3 or more	3	3
10	Number of banks in servicing area	0	3	3
		1	3	3
		2–3	2	2
		>3	1	1
11	Number of ATMs in servicing area	0	4	4
		1	3	3
		2–3	1	1
		>3	0	0
12	Bank type	Only public sector banks (SBI, PNB, BOB, etc.)	3	3
		Only private banks (ICICI, HDFC, etc.)	0	0
		Both public and private sector banks	1	1
13	Working capital investment in present business	<10 k	1	1
		10–25 k	2	2
		25–50 k	3	3
		50k–1lakh	4	4
		>1 lakh	5	5
14	Monthly income	<5,000	1	2
		5,000–10,000	2	3
		10,000–25,000	3	4
		>25,000	4	1

(continued)

Field on application form		Possible responses	Scoring criteria	
			Rural	Urban
Other information				
1	Documents available for submission	Registration documents	1	1
		PAN card	1	1
		Property documents	1	1
		Bank statement (last six months)	1	1
		Balance sheet and income statement	1	1
		Others	0	0
2	Believe in [product] as a concept	Definitely	2	2
		Maybe	1	1
		Not sure	0	0

INITIAL SCORING (example agent)			
	Field on application form	**Response**	**Score**
Personal details			
1	Age	18–25 yrs	2
2	Educational qualifications	Graduate/diploma	4
3	Years of experience	2–5 yrs	2
Business details			
1	Area of service point/shop	100–250 sq ft	3
2	Working in area since	1–3 yrs	2
3	Minimum cash maintained	<2,000	0
4	Products handled	FMCG	4
5	Daily sales	< Rs. 500	1
6	Daily customer footfall	50–150	2
7	Opening hours	6–8 hrs	2
8	Average time spent by a customer at service point	< 1 min	1
9	Number of employees (part time/full time)	0	1
10	Number of banks in servicing area	1	3

	Field on application form	Response	Score
11	Number of ATMs in servicing area	0	4
12	Bank type	Only public sector banks (Like SBI, PNB, BOB, etc.)	3
13	Working capital investment in present business	<10 k	1
14	Monthly income	<5000	1
Other information			
1	Documents available for submission		
	0	No	
	0	No	
	0	Yes	
2	Other Information	Yes	
	1	Yes	
	0	Yes	4
Total Score			**40**

QUALITATIVE REVIEW BY FIELD OFFICER		
	Score (0–5)	Weighting
Field visit score		5
Shop cleanliness and overall ambience; suitable for financial transactions	1	5
Shop is very clean, organized, and has sufficient available space for conducting financial transactions		
Shop is moderately clean and organized, and has sufficient available space for conducting financial transactions		
Shop is not very clean and organized but has some available space for clients to conduct financial transactions		
Shop is not very clean and organized, and it might be difficult for clients to conduct financial transactions securely		

(continued)

	Score (0–5)	Weighting
CSP willingness/motivation level about the business	1	5
CSP seems quite motivated to start this new line of business		
Try and see approach—CSP is open and willing to give it a try and see if it makes business sense for him or her		
CSP is just trying it out of pressure from distributor and does not appear very motivated and excited about the concept		
CSP open and willing to attend meetings/trainings	1	5
CSP shows readiness to attend meetings/trainings		
CSP is slightly hesitant but says he or she will attend meetings and trainings		
CSP is clearly hesitant and doubts that he or she can attend meetings/trainings		
Customer profile is suitable as per [provider's] target clientele		
Most clients belong to the very low-income category		
Most clients are from low to lower middle income category		
Most clients are from middle income category		
Most clients are from higher middle to middle income category		
Shop location	1	5
In busy market		
Near some metro station, bus station, or any other place where people congregate		
Market image	2	5
Market reputation (at least two references from market)		
Total	6	
Weighting	5	
Qualitative Score	30	
Total Score for Agent (Initial score 1 qualitative score)	70	

2. Agent Contract: Indian provider

Customer Service Point Agreement

This Customer Service Point Agreement ("**Agreement**") is entered into on the xxx day of xxx, 2010 ("**Effective Date**") by and between:

[ANM], a not-for-profit Section 25 company, incorporated under the Companies Act, 1956 and having its registered office at xxx (hereinafter referred to as "**[ANM]**", which expression shall, unless repugnant to the context or meaning thereof, be deemed to mean and include its successors and permitted assigns);

And

[Agent], an Indian national, residing at xxx (hereinafter referred to as the "**Customer Service Point**" or "**CSP**")
[ANM] and the CSP shall hereinafter be individually referred to as a "**Party**" and collectively referred to as the "**Parties**".

Whereas:

A. [ANM] has been appointed by the State Bank of India ("**Bank**") as its Business Correspondent for providing various banking and financial products to the Bank's customers;

B. [ANM] is desirous of appointing a CSP for the purposes of rendering certain services to the customers of the Bank within their defined area, including, customer sourcing, customer transactions and marketing of the Bank's products on behalf of [ANM];

C. The CSP has approached [ANM] for appointment as a CSP of [ANM] for providing the Services as more extensively defined in Annexure 2;

D. [ANM] has agreed to appoint the CSP for providing the Services in accordance with the terms and conditions set forth herein.

NOW THIS AGREEMENT WITNESSETH THE TERMS AND CONDITIONS DETAILED HEREUNDER:

1. **Appointment of the CSP of [ANM]**
   1.1 [ANM] hereby appoints [Agent] as a CSP of [ANM] in xxx ("**Area**").
   1.2 It is agreed between the Parties that a person shall be eligible for appointment as a CSP only on fulfillment of the eligibility conditions set forth in Annexure 1. In the event it is brought to the notice of [ANM] that a person has forged documents for appointment as a CSP, this Agreement shall stand terminated forthwith.

1.3 On appointment as a CSP, the appointee shall be required to open a Current Account with the Bank. It is agreed between the Parties that any person seeking appointment as a CSP of [ANM] shall be required to clear the Bank's account opening process and guidelines to start operating as a CSP.

1.4 The CSP shall maintain a minimum balance mentioned in Annexure 1 in the Current Account at any given point in time to provide continued Services. It is a mandatory condition of appointment as CSP that the CSP shall not deny Services due to nonavailability of funds. The CSP should maintain funds in the CSP Bank's Current Account and cash as necessary at all times.

2. Role and Responsibilities of the CSP

2.1 The CSP shall act on behalf of [ANM] and provide the Services, as set forth in Annexure 2.

2.2 [ANM] reserves the right to amend the list of Services set forth in Annexure 2 from time to time, and the CSP hereby agrees to all such amendments.

2.3 The CSP hereby submits itself to the overall supervision of a Super CSP appointed by [ANM]. [ANM] hereby agrees to intimate the CSP about the Super CSP appointed for its area.

3. Rules and Regulations for CSP

The CSP agrees that effective provision of Services by him/her can only be through an adherence to the Rules and Regulations as laid out in Annexure 3 of this Agreement.

4. Remuneration

4.1 In consideration of the Services to be provided by the CSP and performance of the terms and conditions set forth herein, [ANM] shall pay the CSP in accordance with the structure set forth in Annexure 4 hereto ("Facilitation fee").

4.2 The Payment shall be inclusive of all expenses, taxes, or other taxes that may be levied after the date of this Agreement, levies, cost, expenses, and charges, which may be incurred or paid by the CSP during and with regard to rendering the Services or as a result thereof.

4.3 The CSP undertakes to claim only those additional costs, expenses, or extension of Services as have been specifically authorized by [ANM] in writing.

4.4 All Payments by [ANM] to the CSP under this Agreement shall be made subject to compliance with documentation and Turn Around Times (TAT) and deduction of all applicable withholding taxes, for the time being in force.

5. Representations and Warranties of the CSP

The CSP represents and warrants to [ANM] that:

5.1 It has full power and authority to enter into this Agreement and perform the Services and it has the necessary infrastructure to duly perform the Services under this Agreement;

5.2 It shall ensure that the Services are performed to the highest standards of professionalism and skill and otherwise in accordance with instructions, specifications, procedures, standards, guidelines, timeframe, if any, as are issued from time to time, by [ANM], for the performance of the Services to the satisfaction of [ANM];

5.3 The CSP shall not make any representation to prospective customers or customers or give any warranties other than those contained in any standard terms and conditions set out by [ANM] from time to time;

5.4 It shall perform the Services under this Agreement in such manner as to not adversely affect the reputation and goodwill of [ANM] or its business associates;

5.5 It shall maintain proper and accurate records relating to the conduct of the Services under this Agreement during the term of this Agreement;

5.6 It shall ensure compliance with all applicable laws and regulations in the performance of the Services under this Agreement, including any applicable RBI guidelines communicated by [ANM] to it from time to time;

5.7 It shall ensure that it will neither allow nor entertain requests for transfer of money for the following:

5.7.1 any form of drugs; and/or

5.7.2 arms; and/or

5.7.3 terrorist activities; and/or

5.7.4 money laundering, and shall further bring to the notice of [ANM] of any such requests or suspicious activity by customers immediately.

6. Term and Termination

6.1 **Term.** This Agreement shall commence on the Effective Date and shall be valid till terminated in accordance with Section 6.2.

6.2 **Termination.**

(i) **Termination by either Party**. This Agreement may be terminated by either Party by giving a prior written notice of 45 days, except in cases where [ANM] has the right to terminate this Agreement without notice.

(ii) **Performance during Notice Period.** During the notice period mentioned in Clause 6.2(i):

a. All dues have to be cleared within this period.

b. The CSP will continue to provide the Service to the customers during the notice period.

c. The CSP will be entitled to the commissions and incentives for providing the Service during notice period.

d. The CSP shall return all materials (e.g., account opening forms, documents, account opening kits, posters, stamps, instruction booklets, publicity material, etc.) provided by [ANM] in connection with the Service to [ANM], at its own cost, by the end of notice period.

e. The CSP shall return the identification card and BC certificate to the [ANM] at the end of the notice period.

On and from the end of the notice period, the CSP shall cease to represent [ANM] in any of its dealings.

(iii) **Termination by Mutual Consent.** The Parties may terminate the Agreement by written mutual consent.

(iv) **Suspension by [ANM].** The relationship between [ANM] and CSP may be unilaterally suspended by [ANM] at any point of time.

(v) **Termination by [ANM].**

a. [ANM] shall terminate the Agreement without notice in the event of breach of any of the provisions of this Agreement by the CSP.

b. [ANM] may terminate the Agreement if it is of the opinion that its association with the CSP is detrimental to the interests of [ANM].

c. In the event of a complaint of any fraud being received from any customer or prospective customer of the Bank, this Agreement shall be suspended immediately and after a probe, if found to be guilty, this Agreement and the Service rendered by the CSP shall be terminated without any notice.

d. In the event of complaint of any misbehavior with or denial of Service being received from any customer or prospective customer of the Bank, the CSP will be suspended immediately and after a probe, if found to be guilty, the CSP will be terminated, without any notice. In the event of termination due to misbehavior, negligence, or denial of service, any amount due as commission and incentive to the CSP will be paid after deducting therefrom the decided penalty amount.

e. In the event where [ANM] provides a written notice to the CSP to rectify a defect and if the CSP fails to rectify the defect within the time stipulated by [ANM], the Agreement shall automatically stand terminated, without any further notice, at the end of the aforementioned time period. The dues will be cleared by [ANM] at the end of the month only after deduction of any penalty.

f. In the event that any of the data given in the Declaration Form (Annexure 5) is found to be false.

(vi) It is agreed between the Parties that [ANM] reserves the right to impose a strict penalty and/or terminate this Agreement without any notice at its sole discretion, in the event the CSP is identified as a fraud, and/or in the event that [ANM] detects a deliberate attempt by the CSP to falsify service provision, including but not limited to account opening or conducting malicious financial transactions, without any notice at its sole discretion. Further, [ANM] also reserves the right to intimate any fraud on part of the CSP to the law enforcement agencies and/or the Bank for strict legal action.

7. Relationship

7.1 The relationship between [ANM] and the CSP is that of principal to principal. Nothing in this Agreement shall be taken as constituting the CSP an employee or agent of [ANM] or the Bank. The Parties undertake that none of their respective employees and staff shall be construed in any manner, either expressly or by implication, as the employees or agents of the other Party or the Bank and the other Party or the Bank shall not be liable in any manner whatsoever for any claims, demands, and the like made by them.

7.2 The CSP and [ANM] acknowledge that:

(i) Neither is the legal representative, agent, joint venture, or partner of the other for any purposes; and

(ii) Neither of them has any right or authority to assume or create any obligations of any kind or to make any representations or warranties, whether express or implied, on behalf of the other or to bind the other in any respect.

8. Confidentiality

8.1 In addition to all data that is marked as "Confidential", all customer-related data and information, proprietary data and databases, all trade secrets, know how licenses, know how formulae and processes, and intellectual property rights shall be deemed to be confidential for the purposes of this Agreement.

8.2 CSP will keep confidential all data provided by [ANM] and resultant data generated by it relating to the performance of its Services under this Agreement and will not use it for any purpose other than to perform its obligations under this Agreement. CSP shall keep confidential and use only for purposes of this Agreement: (i) all information communicated to it by [ANM] whether before or after the Effective Date; (ii) all data that confidential to which it has access in connection with the Services, whether before or after the Effective Date; and (iii) this Agreement and the Parties' rights and obligations under this Agreement. CSP shall use the same means as it uses to protect its own confidential information, but in no event less than reasonable means, to prevent the disclosure and to protect the confidentiality thereof. No such information will be disclosed to third parties by CSP without the prior written consent of [ANM] except as provided in this Section.

8.3 Notwithstanding the other provisions of this paragraph, neither Party shall be prevented from disclosing confidential information: (i) that, at the time of disclosure, was in the public domain; (ii) that was lawfully disclosed on a nonconfidential basis by a third party who is not bound by a confidentiality agreement with either Party; (iii) that is disclosed with the Parties' prior written approval; or (iv) to the recipient Party's attorney, auditors, insurers, subcontractors and employees who have a need to access such confidential information in connection with their employment (or engagement, if applicable) by the recipient Party; (v) that is in response to valid legal process, whether issued by a Court or Regulatory body. If confidential information is required to be disclosed pursuant to a requirement of a legal process, the Party required to disclose the confidential information, to the extent possible, shall provide the other Party with timely prior notice of such requirement and shall coordinate with such other Party in an effort to limit the nature and scope of such required disclosure.

8.4 Upon written request at the expiration or termination of this Agreement for any reasons as provided for in the Agreement, all such documented confidential information (and all copies thereof) owned by the requesting Party will be returned to the requesting Party or will be destroyed, with written certification thereof being given to the requesting Party, provided that the recipient Party may retain, in the sole custody of its Legal Counsel's Office, certain categories of confidential information identified to the requesting Party and which are reasonably necessary to substantiate compliance with this Agreement or otherwise required for financial or operational auditing purposes. Any residual retention will remain subject to the confidentiality obligations under this Agreement. When such retained information is no longer reasonably required, it shall be returned to the requesting Party or will be destroyed, with written certification thereof to the requesting Party.

8.5 The contents of this Agreement shall be deemed to be confidential.

8.6 The CSP agrees and acknowledges that [ANM] has the right to terminate this agreement forthwith, without any notice, for breach of Section 8 by the CSP.

8.7 This clause shall survive the termination of this Agreement.

9. **Indemnity**

The CSP hereby undertakes and agrees to indemnify and keep and hold [ANM] indemnified and harmless from and against all claims, proceedings, damages, losses, actions, costs, and expenses arising as a consequence of:

(i) any acts, omissions, negligence or fault of the CSP and/or its employees; and
(ii) any breach by the CSP of the covenants under this Agreement.

10. **Intellectual Property**

This Agreement does not constitute a trademark or service mark license. The CSP hereby acknowledges that:

(i) the trademark and trade name [XX], and all trademarks and trade names derived from it, and the trademarks used in association with [ANM]'s products ("**Trademarks**"), whether registered or applied for registration or otherwise, are the exclusive property of [ANM] or any of its affiliated companies;
(ii) the CSP is not entitled, either by implication or otherwise, to any title in or use of the Trademarks, except in accordance with the express written permission of [ANM], such permission to be given or withheld at the sole discretion of [ANM].

11. **Notices**

All notices referred to in this Agreement shall be in writing and shall be deemed to be properly given and served on the Party to whom such notice is to be given if sent either by fax or courier to the Party at its address shown on the first page of this Agreement.

12. **Governing Law and Jurisdiction**

This Agreement shall be construed in accordance with the laws in India, and shall be subject to the exclusive jurisdiction of the courts at New Delhi.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the Effective Date.

For [ANM]	**For [Agent]**
By:	By:
Name:	Name:
Designation:	

Annexure 1

Eligibility Criteria

To become a CSP the individual must fulfill the following minimum requirements:

- Only an individual is allowed to become a CSP.
- The individual should be Indian.
- The individual should enjoy good social standing and reputation.
- The individual shall have submitted a copy of his/her address proof.
- The individual shall have submitted a copy of his/her identity proof.
- The individual shall have submitted a copy of his/her PAN card. If the individual does not possess a PAN, he/she shall be required to file an application in Form 60 and obtain the same within six months from the effective date.
- The individual shall have submitted a copy of his/her bank account statement for last six months.
- The individual shall have submitted three passport size photographs.
- The individual shall have a current account with the bank as per [ANM]'s specifications.

Account balance and cash

The CSP agrees and undertakes to maintain a minimum balance of Rs [xx] in the current account opened with the Bank, throughout the subsistence of the Agreement to ensure continued provision of the Service in the assigned area.

The CSP agrees that [ANM] shall have the sole right to revise the abovementioned minimum balance amount in accordance with the changes in the need and demand of the Service by [ANM] in the assigned area. Such revisions shall be intimated in writing by [ANM] to the CSP.

The CSP shall not be entitled to deny the Service to any customer due to nonavailability of funds in the current account or cash in hand. The CSP shall be required to maintain a balance between cash in hand and cash in account at all times in accordance with the instructions received from [ANM].

Nonavailability of funds in the current account or cash in hand shall be deemed to be a material breach on part of the CSP and in the event thereof, [ANM] shall have the right to terminate this Agreement in accordance with the provisions hereof.

Annexure 2

Critical Processes

The CSP will provide the Services to facilitate the functioning of [ANM] as a Business Correspondent. For providing the Services the CSP will:

1. Deploy its own resources as required from time to time.
2. Invest in setting up the requisite infrastructure.
3. Provide the following services:
   - (i) Identification of borrowers and fitment of activities
   - (ii) Collection and preliminary processing of loan applications, including verification of primary information/data
   - (iii) Promotion of awareness about savings and other products and provision of education and advice on managing money and debt counseling
   - (iv) Processing and submission of applications forms to the Bank
   - (v) Promotion and nurturing Self-Help groups/Joint Liability Groups
   - (vi) Post-sanction monitoring
   - (vii) Monitoring and handholding of Self-Help Groups/Joint Liability Groups/Credit Groups/others
   - (viii) Follow-up for recovery
   - (ix) Disbursal of small-value credit
   - (x) Recovery of principal/collection of interest
   - (xi) Collection of small-value deposits
   - (xii) Sale of microinsurance/mutual fund products/pension products/other third-party products
   - (xiii) Receipt and delivery of small value remittances/other payment instruments

Processes

Processes have been defined by breaking up the Services in the above Section. The “Turn-Around-Time” (**“TAT”**) has been defined for critical processes.

Process 1: Collection of small-value deposits

Characteristics
CSP will provide the following services: • Disbursal of small value credit • Recovery of principal/collection of interest • Collection of small value deposits • Sale of microinsurance/mutual fund products/pension products/other third-party products • Receipt and delivery of small value remittances/ other payment instruments CSP will ensure: • Minimum balance in their current account for continued services • Exchange of physical cash should match the electronic confirmation for each transaction.

Accuracy
CSP will rectify any errors identified by [ANM] within 48 hrs from the date of reporting.

TAT			
No	**Activity, time span, cut-off time**	**TAT for cases received within cut-off time**	**TAT for cases received beyond cut-off time**
1	Payment of small withdrawal	2 mins	5 mins
2	Collection of small deposit	2 mins	5 mins

Process 3: Processing and submission of applications to banks

Characteristics
CSP will provide the documents and collect the documents from the assigned area. The process will include: • Provision of account opening forms and account opening kit • Stamping and signing of the photocopy of the required documents after cross-verifying with the details filled in the account opening form • Submitting the required documents with the complete account opening form to the designated personnel notified by [ANM]

Accuracy
CSP will rectify any errors identified by [ANM] within 48 hrs from the date of reporting.

TAT			
No	**Activity, time span, cut-off time**	**TAT for cases received within cut-off time**	**TAT for cases received beyond cut-off time**
1	Collect the complete account opening form	48 hours after electronic confirmation of account opening	48 hours after electronic confirmation of account opening
2	Submission of the complete account opening form with the required documents to the designated personnel notified by [ANM]	2 days after electronic confirmation of account opening	7 days after electronic confirmation of account opening

Annexure 3

Rules and Regulations for the CSP

1. Customer interaction and behavior
   a. The customer should never be denied Service by the CSP, in case of nonavailability of the product or failure to accept withdrawal or deposit, the customer should be guided to a nearby CSP.
   b. The CSP should be polite and welcoming to customers and prospective customers.
   c. The CSP should assist customers and prospective customers and explain the product till the customer is not confident.
2. Timing
   The timing of opening and closing of the CSP should be displayed and communicated to customers and prospective customers clearly, including lunch time and holidays. The CSPs are expected to work from 10am to 8pm, barring on holidays.
3. Identification card
   a. Identification material as required and provided by [ANM] should be displayed for customers and prospective customers.
4. Customer confidentiality
   a. The CSP will not be privy to a customer's PIN.
   b. The CSP will not share data received from customers/prospective customers with any third party.
   c. The CSP will not share any transaction history or pattern of customers/prospective customers with any third party.
   d. The CSP will not share the customers' account details with any third party.

5. Transfer of services
    a. The Services performed by the designated CSP cannot be transferred to any other individual or Super CSP or CSP.
    b. The CSP cannot form an agency of any sort related to providing similar service.
6. Exclusivity
    The CSP cannot become a part of any other group providing similar/competing service to customers/prospective customers.
7. Area of operation
    a. The CSP will operate in the defined Area.
    b. The CSP will acquire customer in the defined Area.
8. [ANM] reserves the right to modify the rules and regulations set forth in this Annexure 3 at anytime during the term of the Agreement, with prior intimation to the CSP.
9. The CSP shall deposit a sum of Rs.[xx] as a security deposit with [ANM] which shall be interest-free and refundable 90 days upon termination of this Agreement.

Annexure 4

Facilitation Fee

[ANM] reserves the right to change the commission and incentive structure with prior notice of five days to the CSP.

The CSP will be paid facilitation fee for two main area of service: Customer account opening, and Customer Servicing

1. Customer account opening
    CSP is compensated with an incentive, the details of which will be communicated by [ANM] to the CSP, for each customer account successfully opened by it. Successful account opening is defined as completion of **all** the steps below:
    a. Account creation via mobile phone successfully completed
    b. Customer's activation kit registered
    c. Initial first deposit of at least Rs. [xx] *successfully completed*
    d. Account opening form correctly filled, including required documentation
    e. Account opening form and documentation received at form processing center within stipulated TAT.

2. Customer Servicing
   The CSP will accept small deposits from and provide small withdrawals by customers. The CSP will receive a percentage of the amount transacted (deposit and withdrawal) as incentive for providing the aforementioned Service to customers, the details of which will be communicated by [ANM] to the CSP.
   Incentives for customers acquired and serviced between first to last day of the month, if any, will be paid on 10th of following month.

Annexure 5

Declaration Form

The CSP hereby declares the following:

1. There is no criminal case pending against the CSP. Criminal case for the purposes of this Annexure excludes any case under the Motor Vehicles Act.
2. The CSP has not failed to satisfy any debt adjudged due and payable by the CSP as a Judgment debtor under an Order of a Court in India or elsewhere.
3. The CSP has never been adjudged bankrupt by any Court in India or elsewhere in the last 10 years.
4. No charges involving moral turpitude have ever been found true against the CSP.

3. Agent Contract: Brazilian provider

Contract On Correspondent Functions Concluded Between [Anm] And [Agent]

[ANM], a private legal entity headquartered at xxx, registered in the CNPJ/MF under No. xxx, by its Chief Executive Officer, Mr. xxx, Brazilian, legally separated, business manager, RG xxx CRA/DF, CPF xxx, hereinafter referred to simply as the CONTRACTING PARTY, and [AGENT], a private legal entity, headquartered at xxx, registered in the CNPJ/MF under No. xxx, by its legal representatives, Mr. xxx, holder of RG identity card No. xxx, registered in the CPF/MF under No. xxx, hereinafter referred to simply as the CONTRACTOR.

The CONTRACTOR shall perform the services described in Item 1.1, at the establishment located at xxx, known as [store name].

HAVING REGARD TO item 1.2.8 of the Contract on Correspondent Functions– No. 2005/0018, concluded between the CONTRACTING PARTY and [Brazilian bank] on [DATE], the parties sign this Contract, pursuant to National Monetary Council Resolutions No. 3.110 and No. 3.156 and Central Bank of Brazil Circular No. 2.978 of [DATE], agreeing as follows:

1. PURPOSE

1.1 The lawful purpose of this Contract shall be the performance of Correspondent functions, with a view to provision, by the CONTRACTOR, of some or all of the services specified below, in accordance with the "Procedures Manual of [Brazilian bank]":

I. receipt and forwarding of applications to open demand, time, and savings deposit accounts
II. receipts and payments in connection with demand, time, and savings deposit accounts
III. receipts, payments, and other activities deriving from agreements for the provision of services entered into by [Brazilian bank] pursuant to the regulations in force
IV. active or passive execution of payment orders on behalf of [Brazilian bank]
V. receipt and forwarding of loan and financing applications
VI. receipt and forwarding of credit card applications
VII. execution of collection services
VIII. other control services, including data processing, related to the agreed operations

1.1.1 The procedures necessary for proper performance of the Correspondent functions and execution of the services referred to in the heading of this item shall be described in the "Procedures Manual of Banco Popular," hereinafter referred to as "Procedures Manual," which shall be provided by the CONTRACTING PARTY, either in hard copy or on the Web site of [Brazilian bank]

1.1.2 With a view to constantly improving the technical, operational, and legal procedures, the CONTRACTING PARTY shall notify the CONTRACTOR, in writing and at least 25 days in advance, of any substitutions or changes in all or part of the Procedures Manual, stipulating the time allotted the CONTRACTOR to comment, without prejudice to continuation of the corresponding activities as indicated in item 1.1.4.

1.1.3 The period of 25 days referred to in the preceding item may be shortened in the situations provided for by law.

1.1.4 Upon expiration of the period stipulated in the document providing notification of substitutions or changes in the Procedures Manual, without any comment from the CONTRACTOR and the corresponding activities having continued without interruption, the new procedures shall be considered accepted and validated.

1.1.5 Funds obtained through loan contracts shall be deposited in the borrower's current account associated with the operation.

1.1.6 Funds obtained through financing may be deposited in the borrower's current account associated with the operation or in the current account of the commercial vendor firm, following transit through the borrower's current account, in accordance with the specific financing agreement signed between [Brazilian bank] and the commercial firm.

1.1.7 The period allotted for deposit of the funds obtained through financing in the current account of the commercial vendor firm shall be defined in an annex to this contract.

1.1.8 The CONTRACTOR shall be subject to the penalties provided for in Article 44, Paragraph 7, of Law No. 4.595 of 1964, if, for its own account and on its own initiative, it carries out private operations reserved for financial institutions, except in cases where the CONTRACTOR has obtained prior authorization from the Central Bank of Brazil to perform such functions

1.1.9 This Contract shall apply to the specific responsibilities of the CONTRACTOR expressly agreed between the parties.

1.1.10 Direct liability vis-à-vis third parties and the Central Bank of Brazil regarding the services covered by this Contract shall be borne exclusively by [Brazilian bank]

1.1.11 The provision contained in item 1.1.10 above shall not release the CONTRACTOR from liability for the nonfulfillment of obligations undertaken (a) in this instrument or (b) pursuant to law or any rule or regulation issued by the National Monetary Council of the Central Bank of Brazil.

2. OBLIGATIONS AND RESPONSIBILITIES OF THE CONTRACTOR

2.1 THE CONTRACTOR agrees to:

I. maintain exclusivity with regard to performance of the services covered by this Contract, it being prohibited from acting as correspondent of another financial institution, including as subcorrespondent;

II. make infrastructure available for the installation of equipment necessary for performance of the contracted services, as well as satisfy all the conditions established by the CONTRACTING PARTY, including, without limitation, those specified in the "Procedures Manual" furnished by the CONTRACTING PARTY to the CONTRACTOR on the date of installation of the equipment or posted on the website of [Brazilian bank];

III. execute and process transactions in strict conformity with the conditions and procedures established for each product and set out in the "Procedures Manual";

IV. maintain complete and absolute secrecy, on the part of both itself and its employees or agents, concerning any data, materials, details, transmitted information, documents, technical or commercial specifications, innovations and improvements of which it has knowledge or to which it has access, or which are shared with it by the CONTRACTING PARTY by virtue of this Contract, it being prohibited for any reason from reproducing, divulging, transferring, selling, giving, exploiting, marketing, disclosing, using, or making them known to third parties not a signatory hereto, without the express written consent of the CONTRACTING PARTY, under penalty of law, including after the expiration of this Contract, without prejudice to liability for any ensuing losses and damages;

V. assume full liability for damages suffered by the CONTRACTING PARTY and [Brazilian bank], customers, or third party payers as a result of any malicious or negligent acts or omissions committed by it;

VI. guarantee full and unrestricted access by [Brazilian bank] to all information, data, and documents related to the services provided, covered by this Contract;

VII. also guarantee full and unrestricted access by the Central Bank of Brazil to all information, data, and documents related to the services provided, covered by this Contract;

VIII. assume responsibility for all personnel expenses and any other related expenses derived from or associated with the employment contracts of its employees, it being required, as a matter of regular procedure, to affirm in any proceeding—administrative or judicial—its exclusive responsibility for payment of the respective labor, tax, and social insurance obligations;

IX. assume responsibility for all provisions and obligations established in the legislation pertaining specifically to work-related accidents suffered by its employees in the performance of functions related to the purpose of this Contract;

X. participate in training programs offered by the CONTRACTING PARTY, to ensure that its staff has all the information necessary for the proper execution of their duties;

XI. permit disclosure on the Web sites of [Brazilian bank] and the CONTRACTING PARTY of the existence of the partnership and the respective address of the CONTRACTOR, as well as disclosure of the partnership on other communications media, making known its status of correspondent;

XII. in the event of cancellation of this Contract, cease any and all use of the "[Brazilian bank]" trademark;

XIII. notify the CONTRACTING PARTY of any penalties imposed by supervisory bodies as a result of its activities as correspondent;

XIV. apprise the CONTRACTING PARTY, immediately and in writing, of any irregularity observed in the execution and processing of transactions;

XV. make compensation and/or assume responsibility for any expenses related to the purpose of this Contract that [Brazilian bank] and/or the CONTRACTING PARTY may be enjoined by judicial decision to pay, relative to the employees of the CONTRACTOR responsible for the execution and processing of transactions;

XVI. provide all clarifications requested of it by the CONTRACTING PARTY;

XVII. guarantee that the use of software and hardware, made available by the CONTRACTING PARTY, shall be restricted to the execution and processing of the transactions covered by this Contract and within the period of validity hereof;

XVIII. refrain from reproducing all or part of the software and respective documentation covered by this Contract and made available by the CONTRACTING PARTY, unless expressly authorized to do so in writing;

XIX. return to the CONTRACTING PARTY, in the event of cancellation, all programs, hardware, and respective documentation provided under this Contract in perfectly usable condition;

XX. acknowledge receipt of notification of changes in the "Procedures Manual" introduced and disclosed by the Bank itself;

XXI. report any differences caused by shortages, overages, differences in valuation documents or suspected of being illegal, verified in the analytical check of cash by the responsible office of [Brazilian bank], directly to [Brazilian bank], in accordance with and within the periods defined in the "Procedures Manual";

XXII. meet the targets defined by the CONTRACTING PARTY;

XXIII. in dealing with customers, observe procedures of courtesy, respect, service, and promptness;

XXIV. ensure compliance with the laws in force governing the hiring of persons under 18 years of age, refrain from hiring them for night-time, dangerous, or unhealthy work, and refrain from hiring persons under 16 years of age, except as interns, in accordance with the Law;

XXV. avoid harming the environment by complying with the Environmental Laws in force;

XXVI. maintain a deposit account in the name of the CONTRACTOR at [Brazilian bank] S.A., to facilitate the relationship between the parties;

XXVII. promptly inform the CONTRACTING PARTY of the existence of notices, notifications, or sanctions imposed by supervisory bodies, and of any legal notices, notifications, interpellations, or summonses, all in connection with its actions as correspondent, under penalty of being held liable for judgments rendered in default;

XXVIII. provide the CONTRACTING PARTY, when requested, with copies of documentary proof of the regular collection of taxes, contributions, and legal charges, or tax clearance certificates attesting to the fulfillment of its tax obligations;

XXIX. cooperate, in addition, with inspections carried out by the Central Bank of Brazil.

2.2 The CONTRACTOR also agrees to observe, in connection with the execution and processing of transactions covered by this Contract, the standards issued by the National Monetary Council and the Central Bank of Brazil, including with regard to Law 9.613/98–Preventing and Combating Money Laundering.

3. OBLIGATIONS AND RESPONSIBILITIES OF THE CONTRACTING PARTY

3.1 The CONTRACTING PARTY agrees to:

I. make such payments as are owed, on the terms indicated in items 7 and 8 of this Contract;

II. notify the CONTRACTOR of any irregularity encountered in the execution and processing of transactions;

III. provide training in the provision of the services covered by this Contract, in conformity with the instructional material furnished by [Brazilian bank];

IV. install the equipment (microcomputer with printer and/or sales terminal—POS, bar code reader and password keypad) necessary for performance of the services;

V. manage connections with the CONTRACTOR, in conformity with the provisions of the "Procedures Manual";

VI. supply and replenish materials needed to facilitate performance of the services covered by this Contract;

VII. replace the equipment, referred to in subparagraph IV, necessary for performance of the services covered by this Contract;

VIII. facilitate installation of the display and signage materials made available by [Brazilian bank];

IX. provide technical assistance for the electronic equipment necessary for performance of the services covered by this Contract.

3.1.1 The CONTRACTOR shall be covered by insurance against assault and theft, under a specific policy stipulated by Aliança do Brasil.

4. REMITTANCE OF FINANCIAL ASSETS AND SETTLEMENTS

4.1 For the purposes of this Contract, financial settlements are defined as the cash assets resulting from the receipt and payment transactions carried out by the CONTRACTOR, as well as checks received on deposit.

4.1.1 In the performance of such transactions, the CONTRACTOR assumes the responsibility of faithful trustee of the assets resulting from the operations covered by this Contract, in accordance with Item 1.1, until they are delivered to the branch or treasury department of [Brazilian bank] S.A.

4.1.2 Withholding or failing to remit the cash, in accordance with terms set out in items 4.3 and 4.3.1, shall constitute the crime of embezzlement, as defined in Article 168 of the Criminal Code.

4.2 The CONTRACTOR shall remit, daily, all checks processed, as provided for in the "Procedures Manual," at the times defined by the CONTRACTING PARTY for processing/exchange.

4.3 Financial settlements between the CONTRACTOR and the CONTRACTING PARTY shall be carried out no later than the first business day following the respective operations, as stipulated in the "Procedures Manual."

4.3.1 Amounts received prior to the deadline defined in the "Procedures Manual" shall be remitted on the same day and any remaining balance shall be remitted the following day.

4.3.2 Financial settlements not carried out in accordance with items 4.3 and 4.3.1 shall lead to the automatic blocking, without prior notice, by the [Brazilian bank], of the correspondent operations.

4.3.3 The following financial charges shall be collected from the CONTRACTOR, for amounts remitted late in violation of items 4.3 and 4.3.1:

(a) default interest at the market rate on the date of payment, pursuant to Resolution No. 1.129 of 05.15.1986 of the National Monetary Council;

(b) late interest at the effective rate of 1 percent (one percentage point per month);

(c) fine of 2 percent (two percentage points), calculated and payable on the dates of payment, on the amounts in arrears.

4.4 If the CONTRACTOR fails to carry out financial settlements in the manner provided for in Item 4.3, the CONTRACTING PARTY shall be authorized to withhold all or part of the compensation owed the CONTRACTOR for amortization or settlement of balances owed as a result of noncompliance with the said Item 4.3.

4.5 The CONTRACTING PARTY shall inform the CONTRACTOR of the amount of the daily operating limit on receipts established for it, and the CONTRACTOR shall be subject to the blockage of transactions if said limit is exceeded.

5. INFORMATION TRANSMISSION EQUIPMENT AND SYSTEM

5.1 The CONTRACTING PARTY shall transfer the equipment—microcomputer with printer and/or sales terminal (POS), barcode reader, and password keypad—to be used for provision of the services, together with the necessary information transmission system, received from [Brazilian bank], upon receipt of an itemized delivery form, which shall be duly checked and signed by the CONTRACTOR, for attachment as an annex to the Contract.

5.1.1 The CONTRACTOR shall bear sole and exclusive responsibility for any improper use or enjoyment of the equipment transferred by the CONTRACTING PARTY.

5.1.2 The CONTRACTOR shall take care to maintain the equipment as though it were its own, and shall use it properly in accordance with the instructions provided by the CONTRACTING PARTY. If any defects are discovered in the equipment owing to negligence or improper use by the CONTRACTOR, the latter shall be responsible for the costs of any necessary repairs.

5.1.3 The equipment made available by the CONTRACTING PARTY may be used only for performance of the correspondent services covered by this Contract.

5.1.4 The CONTRACTOR agrees to use the equipment properly and in compliance with the technical specifications and recommendations set out in the Procedures Manual, and shall take all necessary steps to ensure correct handling, so as to return it, upon the expiration of this Contract, in perfectly maintained condition.

6. PROHIBITIONS

6.1 The CONTRACTOR shall be prohibited from:

I. transferring this Contract to third parties, in whole or in part;

II. making advances against funds to be disbursed by the CONTRACTING PARTY;

III. issuing, for its own account, payment booklets or slips for operations in which it acts as intermediary;

IV. collecting from end users, on its own initiative, any charge for provision of the services referred to in this Contract;

V. providing any type of guarantee in the operations referred to in this Contract;

VI. assigning or using this Contract to guarantee any financial operation;

VII. adopting its own operational routines in carrying out the procedures for contracting loans and financing, unless previously authorized by [Brazilian bank];

VIII. collecting any amounts from third parties, regardless of the reason, on the pretext of including them as providers of correspondent services for [Brazilian bank]

7. COMPENSATION

7.1 Compensation for the services provided by the CONTRACTOR to the CONTRACTING PARTY shall be made in accordance with the following Table of Compensation for Services:

Current Account—Validated	R$0.75
Current Account—Issue of card	R$0.75
Receipt of payment slips issued by [Brazilian bank]	R$0.18
Receipt of payment slips from other banks	R$0.18
Receipt of utility payments	R$0.12
Couple's Life Insurance	R$0.80
Individual Life Insurance	R$0.55
Password change	R$0.10
Loan contracting	R$0.10
Renegotiation of loan	R$0.10
Annual Tax-Exempt Declaration	R$0.10
Deposit of cash and/or check	R$0.10
Cash deposit	R$0.10
Issuance of DOC	R$0.10
Current account statement	R$0.10
Loan statement	R$0.10

Payment of INSS (social security) benefits .... R$0.10
Miscellaneous electronic withdrawal.. R$0.10
Magnetic card withdrawal.. R$0.10
Duplicate magnetic card... R$0.10

7.1.1 The above compensation table may be changed during the term of this Contract, as agreed by the parties, without the need for a Contract Amendment.

7.1.2 It is understood that compensation for the services provided by the CONTRACTOR shall be paid by the CONTRACTING PARTY, on a monthly basis, at the agreed prices.

8 PAYMENT FOR SERVICES

8.1 The CONTRACTOR shall submit accounts to the CONTRACTING PARTY no later than the second business day of the month following that in which the transactions in question were executed and processed. Payment shall be made no later than the 15^{th} (fifteenth) day of each month, or on the following business day, by crediting the current account maintained by the CONTRACTOR at a branch of [Brazilian bank] S.A.

8.1.1 If the CONTRACTING PARTY notices any discrepancy or irregularity in the presentation of accounts, after comparing it with the reports generated by the system monitoring execution of the services, it shall be returned to the CONTRACTOR no later than 3 (three) business days following the date of submission, for necessary corrections, which shall be clearly indicated in the return document, without any change in the payment deadline indicated in item 8.1.

9 CONFIDENTIALITY AND SECRECY

9.1 The CONTRACTOR declares that it is familiar with the rules governing bank secrecy, especially as set out in Law No. 4.595 of December 31, 1964, and Article 18 of Law No. 7.492 of June 16, 1986, and undertakes, for itself, its agents and employees, to maintain the utmost secrecy concerning all operations carried out, results and analyses not shown to be in the public domain, information, data, materials and documents of [Brazilian bank] and its customers, to which it has access or of which it has knowledge, voluntarily or involuntarily by virtue of this Contract, and agrees not to divulge, communicate, or make use of any such information, data, materials, and documents, on pain of liability for losses and damages caused the CONTRACTING PARTY and [Brazilian bank]

10. TAXES

10.1 Taxes and assessments levied currently as well as in the future as a direct or indirect result of this Contract or its performance shall be paid respectively by the party responsible for taxes as indicated in the applicable legislation.

11. LABOR AND COMPENSATION ACTIONS

11.1 The parties are considered separate entities and nothing in this Contract shall create any other relationship between them, whether with regard to employment, social insurance, or other aspects, such as those of a commercial or corporate nature for example, and the CONTRACTOR shall be solely responsible for any and all labor or compensation actions brought by its contract employees.

12. TERM OF THE CONTRACT AND ANNEXES

12.1 The term of this Contract shall be 12 months, beginning on the date on which it is signed, and the performance hereof may only begin after the granting of authorization by the Central Bank of Brazil. At the end of this period and without any indication to the contrary from either of the parties, the term of the Contract shall be automatically renewed for equal and successive periods, without the need for an amendment, subject in all cases to the term of the contract referred to in item 12.1.1 below.

12.1.1 The term of this Contract is directly linked to the term of the Contract on Correspondent Functions No. 2005/0018, concluded between the CONTRACTING PARTY and [Brazilian bank] on 12/29/2005 and its respective annexes.

12.1.2 The occurrence of any legal or contractual violation and/or nonobservance of the procedures set out in the "Procedures Manual" shall constitute grounds for the cancellation of this Contract, with the party at fault being held liable for damages.

12.1.3 This Contract may also be canceled by mutual agreement, which shall be formalized in writing and confirmed by the interested party by express notice given no fewer than 30 (thirty) days in advance, or within a shorter period to be agreed by the parties at the time of cancellation.

12.1.4 The cancellation may also be unilateral, which shall be formalized in writing by the interested party by express notice given no fewer than 60 (sixty) days in advance.

12.1.5 In the event of cancellation of the Contract, and regardless of the reason, after an interval of 180 (one hundred eighty) days following the processing of the first transaction, the CONTRACTOR may not provide the services covered by this Contract to another financial institution for a period of 1 (one) year, subject to the imposition of a fine of 50 percent (fifty percent) of the total amount of earnings received during the term of this Contract as a result of performing the services covered hereby.

12.1.6 The CONTRACTING PARTY may cancel the Contract for reasons other than those provided for by law and in this instrument, without the need for any judicial or extrajudicial notification, in the event that:

I. the CONTRACTOR is the subject of judicial or extrajudicial recovery proceedings or a petition is filed for its bankruptcy or civil insolvency;
II. the CONTRACTOR suspends its activities for more than 15 (fifteen) days;
III. the CONTRACTOR is the subject of a judicial action or tax proceeding liable to jeopardize fulfillment of the obligations assumed herein;
IV. the CONTRACTOR is unable to adapt to updates to operational procedures/systems introduced by the competent bodies, including the Central Bank of Brazil;
V. the imposition, by the Central Bank of Brazil, of any restriction on or impediment to the activities of the CONTRACTING PARTY as correspondent of [Brazilian bank] by virtue of the Contract on Correspondent Functions entered into by them;
VI. the imposition, by the Central Bank of Brazil, of any restriction on or impediment to the activities of the CONTRACTOR as correspondent of [Brazilian bank] by virtue of this Contract;
VII. nonobservance, in the performance of its activities, of the legal provisions, particularly the Consumer Protection Code, in agreements entered into with users and customers of [Brazilian bank];
VIII. any act of authority that prohibits the performance, by the correspondent, of the activities covered by this Contract;
IX. the CONTRACTOR fails to achieve the objectives defined by the CONTRACTING PARTY.

12.1.7 In the event of cancellation of the Contract between [Brazilian bank] and the CONTRACTING PARTY, it shall be understood from that moment that its subcorrespondents may be transferred to another CONTRACTING PARTY, by decision of [Brazilian bank]

13. TRADEMARKS

13.1 The CONTRACTOR agrees to satisfy all requirements established by the CONTRACTING PARTY for the trademark of [Brazilian bank], as follows:

I. to use the "[Brazilian bank]" trademark in strict observance of the definitions of the basic elements—Emblem, Logo, Trademark, Type, Style and Colors—defined in the "Procedures Manual";

II. to use the "[Brazilian bank]" trademark exclusively in advertising the provision of correspondent services, its use for purposes other than the intended purposes being prohibited;

III. to protect the integrity of the "[Brazilian bank]" trademark, its use in the following being prohibited:

a. activities considered illegal or prohibited;
b. activities related to games of chance or which are speculative, except those regulated by specific legislation;
c. activities considered disreputable or dishonest;
d. activities that have a negative environmental impact;
e. activities linked to a political party.

IV. to notify the CONTRACTING PARTY of any threat that comes to its attention, stemming from the unauthorized use of the "[Brazilian bank]" trademark by third parties;

V. not to use the "[Brazilian bank]" trademark in conjunction with the figurative or mixed trademarks of other financial institutions, nor of enterprises engaged in competing activities;

VI. to submit, in advance, to [Brazilian bank], through the CONTRACTING PARTY, a request for approval of any and all uses of the "[Brazilian bank]" trademark on materials not provided by the owner;

VII. obey the rules governing signage set out in the "Procedures Manual," and take care to keep the same in good condition, notifying the CONTRACTING PARTY of any need for maintenance;

VIII. make arrangements for necessary updates of promotional materials in keeping with the sales strategy for financial services and products defined by [Brazilian bank], it being understood that such materials will be provided by the Bank and forwarded to the CONTRACTOR by the CONTRACTING PARTY.

13.1.1 The use by the CONTRACTOR of the trademark, logo, or other characteristic signs of [Brazilian bank] shall not confer any rights upon the CONTRACTOR.

13.1.2 The CONTRACTOR shall compensate [Brazilian bank] for losses, liability, and expenses (including attorneys' fees) incurred by the latter if it is forced to defend its ownership rights as a result of improper use of the "[Brazilian bank]" trademark by the CONTRACTOR.

13.1.3 The CONTRACTOR shall submit to the CONTRACTING PARTY and the latter shall request prior authorization from [Brazilian bank] to use the "[Brazilian Bank]" trademark on advertising materials other than those produced by [Brazilian bank]

14. INFORMATION SECURITY

14.1 The CONTRACTOR shall keep records of the activities of its operational personnel (including those who have access to equipment used to transmit or process secret information). These shall include, in addition to records of all transactions and queries:

I. start and end times of processing runs;
II. secure identification of the person carrying out the operation.

14.2 The CONTRACTOR shall ensure that the records of operator activity—cashiers' tapes, authenticated documents, and cash—are checked regularly.

14.3 If an error occurs, the CONTRACTOR shall report it to the CONTRACTING PARTY, which shall initiate corrective actions. The errors reported, related to problems with data processing or communications systems, shall include, as a minimum, the following information:

I. transaction not completed;
II. customer involved in the transaction;
III. amount in question, if any;
IV. error message;
V. number of the correspondent agreement;
VI. establishment number.

14.4 The CONTRACTING PARTY shall send accredited personnel for routine inspections after notifying the CONTRACTOR, which shall permit the entry of inspectors or service providers. The notice must be given formally in advance and must contain, as a minimum, the following information:

a) name of the inspector
b) inspector's employer
c) position held
d) addresses (physical and email) and contact telephone numbers
e) purpose of the inspection
f) internal areas to which the inspector is to have access

14.5 The CONTRACTOR shall immediately request cancellation of the “J” key of any user whose function has changed or whose employment contract has been canceled, regardless of the reason.

14.6 Employees of the CONTRACTOR who have access to the information area must have a signed employment contract containing the rules governing confidentiality. Occasional workers and service providers not covered by an existing contract shall be required to sign a confidentiality agreement before gaining access to data.

15. PROCESSING ERRORS

15.1 The CONTRACTOR shall immediately report any errors in the processing of transactions carried out on its premises to the CONTRACTING PARTY, which shall provide a solution to the problem within a maximum of 48 hours, counting from the time of recording of the event by the CONTRACTOR.

15.2 Procedures not covered by this Contract that prove necessary for the execution and processing of transactions shall be discussed and agreed between the parties.

16. GENERAL PROVISIONS

16.1 The CONTRACTOR shall be required to post a sign, in a place visible to the public, stating that it is performing correspondent functions for [Brazilian bank], pursuant to CMN [National Monetary Council] Resolution 3.110 of 07.31.2003, and making it clear that it is a simple provider of services for the CONTRACTING PARTY, indicating as well the services it is authorized perform in that capacity.

16.2 The CONTRACTOR shall be required to provide to the CONTRACTING PARTY, when requested, copies of documentary proof of the regular remittance of taxes, contributions, and legal charges, or tax clearance certificates attesting to the fulfillment of its tax obligations.

16.3 The CONTRACTING PARTY shall supervise internal operations, the processing of transactions and all activities necessary for performance of the functions of the CONTRACTOR as correspondent, and shall also give [Brazilian bank] direct access to the process of performing the services as well as transaction files and documents, when necessary.

16.3.1 All requests, complaints, requirements, or comments made by [Brazilian bank] concerning the execution and processing of transactions shall be submitted in writing and delivered in a memorandum to the CONTRACTOR.

16.3.2 The CONTRACTING PARTY may halt the execution and processing of any transaction that is clearly not being carried out in accordance with the quality standards and procedures set out in the "Procedures Manual."

16.4 The parties shall be financially liable for damages caused one another or to third parties as a result of errors in the execution and processing of transactions covered by this Contract, including those caused by strikes or fraudulent acts of their employees.

16.5 The correction of errors, aimed at the reparation of mutual damages or damages caused by one of the parties to the other, shall be based on analysis of the reports generated by the system monitoring execution of the services as well as the documents processed, and shall be carried out by representatives of the CONTRACTOR and the CONTRACTING PARTY.

16.6 Liability for damages, once remedied, shall obligate the party that caused them to make appropriate compensation. The liable party shall be formally notified to pay no later than 5 (five) business days following receipt of the notice, which may also be given electronically.

16.7 The CONTRACTOR agrees to inform the CONTRACTING PARTY within 24 (twenty-four) hours of the date of occurrence of any amendment to the articles of incorporation, modification of the purpose or structure of the CONTRACTOR, change of address and closure of headquarters or branch office(s), or change in the execution and processing of transactions covered by this Contract, made in branch offices of the CONTRACTOR, in order that the CONTRACTING PARTY may immediately apprise [Brazilian bank] of the fact.

16.8 Nonuse by the parties of any of the rights guaranteed under this Contract or under the law in general shall not constitute a waiver thereof and should not be interpreted as an abnegation of future actions. All means made available in this Contract are cumulative and not alternative, including with regard to legal provisions.

16.8.1 This Contract, the "Procedures Manual," and any Amendments shall constitute the only valid documents regarding the services and shall take precedence over any other prior understandings or agreements between the parties, whether verbal or written, pertaining to the conditions established herein.

16.8.2 With the exception of the table of compensation for services, set out in Item 7, and the term of validity specified in Item 12, the terms of this Contract may only be changed by Contractual Amendment, signed by both parties, which shall be submitted in advance for the approval of [Brazilian bank] and the Central Bank of Brazil.

16.9 The courts of the judicial district of Goiânia (*Comarca de Aparecida de Goiânia*) are elected to resolve all issues arising in connection with this Contract, to the exclusion of all others, regardless of any prerogatives the latter may enjoy.

16.10 This Contract on Correspondent Functions shall be kept available for the Central Bank of Brazil at the headquarters of [Brazilian bank] and an authenticated copy at the headquarters and branch offices of the CONTRACTING PARTY and the CONTRACTOR.

The parties, considering the above to be correct and duly agreed, sign this Contract in 3 (three) identical copies in the presence of the following witnesses:

Done in [place], [date].

____

[ANM]

____

[Agent]

Witnesses:

____

Name:
CPF:

____

Name:
CPF:

____

[Brazilian bank] – CONSENTING PARTY
(Article 4, paragraph III of CMN Resolution No. 3.110 of 7.31.2003.)

ANNEX I

LIST OF SERVICE LOCATIONS

CNPJ (Federal Tax Number)	**TRADE NAME**	**FULL ADDRESS**
xxxxxxxxxxxxxx	[store name]	[address]

4. Agent Application: Brazilian provider

AGENT APPLICATION FORM
[Brazilian ANM]

BUSINESS DATA
BUSINESS NAME: ____________________
TRADE NAME: ____________________
CNPJ: ____________________
STATE REGISTRATION: ____________ OPER. LICENSE ____________
CONTACT: ____________

ADDRESS
STREET/AVE.: ____________________
DISTRICT: ________ CITY: ________ POSTAL CODE: ________-________
BUS. TELEPHONE: ____________ HOME TELEPHONE: ____________
EMAIL: ____________ WEBSITE: ( ) YES ( ) NO

REFERENCES
NAME: ____________ TELEPHONE: ____________
NAME: ____________ TELEPHONE: ____________

[Brazilian bank] BRANCH INFORMATION
BRANCH: ____________ CURR. ACCT.: ____________

ATTACH:
- ❏ CNPJ CARD
- ❏ ARTICLES OF INCORPORATION
- ❏ AMENDMENT TO ARTICLES OF INCORPORATION
- ❏ STATE REGISTRATION CARD
- ❏ OPERATING LICENSE
- ❏ IDENTITY CARD AND CPF
- ❏ PROOF OF ADDRESS
- ❏ PROOF OF CURRENT ACCOUNT (XEROX OF CHECK, STATEMENT, ETC.)

FAX: xxx xxxx.xxxx—SÃO PAULO BRANCH

5. Agent Marketing Materials: Brazilian ANM

I WOULD LIKE TO KNOW (How to become a Correspondent)

What is a Correspondent?

A Correspondent is a value-added product, which enables commercial establishments to absorb the demand of users of bank branches, by carrying out various transactions, such as:

- Receipt of utility payments (water, electricity, telephone, etc.)
- Receipt of bank-issued payment slips
- Opening of [Brazilian bank] current accounts*
- Loans to [Brazilian bank] current account holders*
- [Brazilian bank] current account withdrawals and statements*
- Withdrawal of INSS (social security) benefits*
- Withdrawal and balance inquiries for [Brazilian bank] customers*

What are the advantages of becoming a Correspondent?

The presence of [Brazilian bank] sets you apart from your competition in the market by providing a number of advantages for your business and your customers.

See how your business can benefit:

- Increased customer traffic
- Larger volume of sales of your products
- Possibility of a new source of income for your establishment
- Tool for building customer loyalty
- Market advantage vis-à-vis your competition
- Credibility by representing [Brazilian bank], a respected name backed by 200 years of tradition

See how your customers can benefit:

- Payment of bills close to home or work
- Flexible service hours
- Large variety of payment options
- Better use of time, by combining banking services with the opportunity to make purchases
- Simplified access to the financial system
- No cost to open an account and no proof of income required

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* Transactions available to businesses in operation at least 90 days and with prior authorization from [ANM], [Brazilian bank] and BACEN (Central Bank of Brazil).

- Opportunity to borrow at an interest rate of 2 percent per month
- [Brazilian bank] customers can check their balances and make withdrawals up to R$500.00

80 percent of those who pay their bills at Correspondent offices end up buying at least one item. (*BNDS Bulletin* March 2001).

What equipment, supplies, and resources does [Brazilian ANM] provide?
[Brazilian ANM] will make available, on loan, the equipment necessary to provide Correspondent services.

- POS (Point of Sale)—Equipment capable of handling up to 3,000 transactions/month;
- PC—Equipment used by businesses that carry out more than 3,000 transactions per month
- POS and PC tape
- Forms
- Training for your operators
- 0800 media
- Advertising of your establishment on the Web site
- 100 percent secure against theft and aggravated robbery
- Initial Daily Operating Limit of R$3,500.00, with Promissory Note*
- Signage, such as plaques, banners, stickers, folders**

Compensation and Bonuses
Correspondents of [ANM] are compensated and receive bonuses based on performance. But this is not the main attraction of being a correspondent. The objective of this type of partnership is to increase the flow of customers into your business and boost sales.

This phenomenon is called ADDED SALES!

Prerequisites for becoming a correspondent
Prospective correspondents must satisfy a number of prerequisites, such as:

- Commercial enterprise
- CNPJ of the enterprise unrestricted
- CPF of partners unrestricted

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*The Daily Operating Limit is the maximum amount that the business can hold in cash.
**Materials provided only if in stock.

Compensation Table

Table of gross fees paid to correspondents	
Service	**Gross fee paid to correspondents**
508 Issue current account statement	R$0.10
511 Change password	R$0.10
Tot. cards activated	R$0.75
539 OCP statement request	R$0.10
552 Current account settlement	R$0.75
613 Current account balance	R$0.10
521 Duplicate card	R$0.10
532 Loan contract	R$0.10
544 Contract renegotiated	R$0.10
601 Card withdrawal	R$0.10
602 Pmt. of inss (soc. sec.) benefits	R$0.10
603 Payment w/receipt	R$0.10
616 Curr. acct. withdrawal	R$0.10
501 Rec. utility bill payments	R$0.12
502 Rec. [Brazilian bank] payment slips	R$0.18
503 Rec. slips from other banks	R$0.18
506 Cash deposit	R$0.10
507 Cash/check deposit	R$0.10

Table of Bonuses

EQUIPMENT	PERFORMANCE	TRANSACTIONS*	BONUS**
POS	Average	> 500	5.00%
	High	> 1,500	7.50%
	Excellent	> 2,500	15.00%

EQUIPMENT	PERFORMANCE	TRANSACTIONS*	CONTR. BONUS**	ACTUAL BONUS
PC	Average	> 2,250	8.33%	11.11%
	High	> 3,500	16.67%	16.67%
	Excellent	> 5,250	25.00%	22.22%

* Transactions involving utility payments and bank-issued payment slips.
** Bonus on compensation for utility payments and bank-issued payment slips.

- Legal account at [Brazilian bank], with approved credit limit (risk A, B, or C)
- Promissory note in the amount of the designated Daily Operating Limit
- Telephone line available for connecting the POS over an 0800 channel

Necessary documents

- CNPJ (corporate taxpayer) card
- Articles of incorporation and most recent amendment
- Proof of legal account
- Proof of business and residential address
- State registration (nonrestrictive)
- Municipal registration (nonrestrictive)
- Copy of the CPF (taxpayer registration number) and RG (national identity document) of partners

Other obligations and requirements

- Go to [Brazilian bank], remit cash, *every* day
- Drop off and pick up boxes at [Brazilian bank] on days indicated
- Operate in accordance with the Procedures Manual
- Contribute to a liquidity fund, with monthly withholding ranging from 5.5 percent to 6.5 percent of compensation, depending on the business's performance
- Monthly payment of insurance premium, as indicated in the following table:

LOD				
From	To	Full premium	Discount*	Final premium
0.00	3,500.00	9.99	0.00	9.99
3,500.01	4,999.99	19.99	7.00	12.99
5,000.00	7,499.99	29.99	14.00	15.99
7,500.00	9,999.99	39.99	20.00	19.99
10,000.00	12,499.99	49.99	25.00	24.99
12,500.00	999,999.99	59.99	30.00	29.99

(Photo)

CONTACT US [tel + address]

6. Monitoring Instruments

6a. FINO Dashboard

FINO uses an Excel-based dashboard to monitor its field staff. The dashboard is hosted online and is available realtime for updates and changes. There are three levels to the dashboard.

Level one is geared to tracking the frontline Block Coordinators (BC) who recruit and manage agents. Color-coding reflects attendance based on an SMS, which each BC is required to send each morning to a dedicated telephone number, informing FINO he/she has left home and is en route to his/her first stop.

- Green—BCs who report in before 9 am
- Yellow—BCs who report in before 9:30 am
- Pink—BCs who report in by 10:30 am
- Red—BCs who did not report in

Clearly, the system is susceptible to some degree of fraud, but according to FINO, the aim is not perfect information. The act of sending an SMS is a subtle reminder of the employee's duties. And as FINO puts it, "You can't lie forever." Patterns of absence will appear, enabling FINO to identify the worst offenders. Then the key is follow-up. FINO has several headquarters staff who telephone delinquent staff.

Clicking on the name of any BC in the dashboard reveals **Level 2** with their details, including their mobile number.

- Number of agents for which the BC is responsible
- Agent names

FINO Dashboard: Level 1

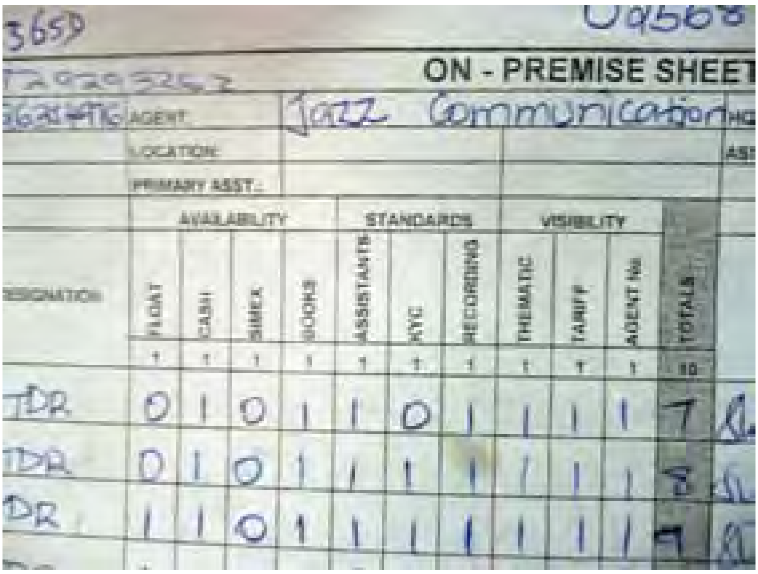
PROJECT	SBI (Karnataka)		
DISTRICTS	Ramnagar	Hosakote	Doddaballapur
BLOCK COORDINATORS	BC name	BC name	BC name
	BC name	BC name	BC name
	BC name	BC name	BC name
	BC name	BC name	BC name
	BC name	BC name	BC name
	BC name	BC name	BC name
	BC name	BC name	BC name
	BC name	BC name	BC name
	BC name	BC name	BC name
	BC name	BC name	BC name

- Date and time of visits to agents that week for settlement or cash delivery/pick-up
- Employee's mobile number to allow headquarters staff to call employees directly to discuss performance.
- Employee identification number
- Space to recommend and track human resources action with high/low performers

Level Three considers multiple data points and separates BCs into five groups: excellent, good, fair, poor, and very poor. Points are assigned (up to 140) and converted to smiley faces (1 to 5) for easy absorption by FINO staff. The criteria used are attendance, number of agents visited twice in the week, number of transactions per week by agents, average deposit of clients, and number of agents who have attained a "golden" status (earning more than Rs. 2,000 per month).

6b. Top Image and M-PESA Reporting

In Section 5.5, we introduced the monitoring tools that Top Image TDRs use when visiting M-PESA agents. The information is first recorded in a logbook:



The TDRs' entire visits for the day are recorded in an Excel spreadsheet. This includes more detail than the high-level on-premise logbook. It includes the average number of daily transactions for withdrawals, deposits, and registrations as well as both e-float and cash availability. It also includes 17 different merchandising requirements that the TDR checks.

Top Image report on monitoring visits (Part 1)

Annex: Top Image report on monitoring visit (Part 1)

REGION: Lower Rift **DATE: 17TH Feb 2010**

TDR	Time of Visit	Outlet Name	Location	Agent No.	Assistants on Premise			Average Daily Transactions				Float Availability	
					Secondary Assistant	Contacts	Staff Trained	Withdrawals	Deposits	Give Cash	Registrations	E-Float(Ksh.)	Cash(Ksh.)
Robinson Mutiso	10.37am	[redacted]	Njoro		[redacted]		2	76	81	3	2	62,799	100,000
Robinson Mutiso	10.45am	[redacted]	Njoro		[redacted]		2	44	52	2	8	38,980	70,000
Robinson Mutiso	10.51am	[redacted]	Njoro		[redacted]		1	63	75	4	5	11,869	80,000
Robinson Mutiso	11.00am	[redacted]	Njoro		[redacted]		2	81	95	3	2	54,213	10,000
Robinson Mutiso	11.10am	[redacted]	Njoro		[redacted]		2	60	71	5	4	2,149	37,851
Robinson Mutiso	11.28am	[redacted]	Njoro		[redacted]		1	68	82	1	2	3,050	40,000
Robinson Mutiso	11.40am	[redacted]	Njoro		[redacted]		1	46	59	2	5	666	48,000
Robinson Mutiso	11.54am	[redacted]	Njoro		[redacted]		2	81	93	2	8	10,000	154,999
Robinson Mutiso	12.22pm	[redacted]	Njoro		[redacted]		1	63	75	2	4	30,050	10,000
Robinson Mutiso	12.30pm	[redacted]	Njoro		[redacted]		1	94	106	0	3	67,627	30,000
Robinson Mutiso	12.35pm	[redacted]	Njoro		[redacted]		2	74	97	4	3	7,014	61,128
Robinson Mutiso	12.40pm	[redacted]	Njoro		[redacted]		1	43	54	2	5	39,896	36,000
Robinson Mutiso	12.45pm	[redacted]	Njoro		[redacted]		1	62	75	4	6	22,788	30,000
Robinson Mutiso	12.51pm	[redacted]	Njoro		[redacted]		1	47	54	2	4	12,230	38,000
Robinson Mutiso	1.00pm	[redacted]	Njoro		[redacted]		2	111	154	5	3	35,789	120,000
Robinson Mutiso	1.07pm	[redacted]	Njoro		[redacted]		1	73	94	5	1	18,866	20,000
Robinson Mutiso	1.37pm	[redacted]	Njoro		[redacted]		1	60	74	3	4	17,018	13,612
Robinson Mutiso	1.45pm	[redacted]	Njoro		[redacted]		1	78	97	4	7	56,500	45,000
Robinson Mutiso	2.40pm	[redacted]	Njoro		[redacted]		1	57	79	3	5	10,374	30,000
Robinson Mutiso	3.15pm	[redacted]	Njoro		[redacted]		1	69	74	4	6	8,544	22,000

Top Image report on monitoring visits (Part 2)

Annex: Top Image report on monitoring visit (Part 2)

REGION: Lower Rift **DATE:**

TDR	Time of Visit	Outlet Name	Location	Agent No.	Merchandising																	Phone Delivered
					Sim Sign/ Vinyl Sticker	Standee	Trade Presenter	Flyers/Brochures	Washlines(M-PESA Accepted)	Danglers	Agent No. Stickers	Terms and conditions	Agent Manual Folder	Registration Books	Logbooks	Posters(Customer Educ. & Generic)	Snapper Frames	Tarrif Guide Posters	Polite Notice Sticker	M-PESA Stickers	Sim Card Reader	
Robinson Mutiso	10.37am	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	10.45am	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	10.51am	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	11.00am	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	11.10am	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	11.28am	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	11.40am	[redacted]	Njoro		1	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	11.54am	[redacted]	Njoro		1	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	12.22pm	[redacted]	Njoro		1	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	12.30pm	[redacted]	Njoro		1	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	12.35pm	[redacted]	Njoro		1	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	12.40pm	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	12.45pm	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	12.51pm	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	1.00pm	[redacted]	Njoro		1	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	1.07pm	[redacted]	Njoro		1	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	1.37pm	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	1.45pm	[redacted]	Njoro		1	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	2.40pm	[redacted]	Njoro		1	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1
Robinson Mutiso	3.15pm	[redacted]	Njoro		0	0	0	0	0	0	2	0	1	1	2	2	0	1	1	0	0	1

7. Sample Job Descriptions

The following are three sample job descriptions and desired qualifications. Two are from M-PESA in Kenya and one is from M-PESA in South Africa.

7a. Head of Department—M-PESA Sales, Kenya

Reporting to the Chief Officer, New Products Division, the job holder will be responsible for the growth of sales of the M-PESA product. This entails formulating and implementing the M-PESA sales strategy with an aim of growing use, connection, and revenues from the product. The role is also responsible for managing M-PESA's vast agent network and related activities.

The job holder's key responsibilities will be to

Drive M-PESA Sales

- Formulate and implement M-PESA sales strategy
- Manage the M-PESA sales budgets
- Drive the M-PESA transactional revenue

Manage Key Accounts

- Recruit nontraditional retail outlets
- Formulate and implement marketing plans per channel
- Manage the overall operations of newly acquired channel accounts and ensure compliance to channel contractual agreement requirements
- Develop and implement effective merchandising plans for the retail channels
- Develop and implement effective promotional activities within the sales channel

Manage the Agent Network and Administrative Process

- Provide administrative supervision in recruiting of M-PESA agents, including Safaricom dealers, nondealers, new M-PESA agents, and businesses
- Identify gaps and corrective measures on agent coverage within the country to ensure a quality agent network
- Monitor agent performance
- Communicate to agent's dealers on issues of noncompliance, irregularities, and action plans on way forward
- Deliver suitable branding for M-PESA outlets and recruitment activities

Provide Leadership and Management

- Build talent, motivate and influence others to develop a high-performing team
- Mentor, coach, and train individuals within the team
- Actively monitor team key performance indicators
- Promote an open atmosphere and encourage team members to seek advice
- Develop and manage the team's budget

The ideal candidate should possess the following skills and competencies

- Bachelors degree in Sales or Marketing. A post graduate certification in Sales and Marketing is an added advantage
- At least 10 years' hands on experience in sales management, with at least 5 years in a managerial role preferably in a fast moving consumer goods company
- Proven success in the management of regional or national distributor network
- Good working knowledge of MS Office applications is a must
- A highly organized, conscientious, and detail-oriented individual
- Excellent communications, interpersonal, presentation, and negotiation skills
- An excellent planner and organizer. The individual must demonstrate good business and commercial awareness
- Ability to influence and advise stakeholders, peers, and the Safaricom Executive Committee
- Good problem solving, analytical, and decision making skills
- A highly credible, strategically focused individual
- Good leadership and management skills coupled with hands-on experience in appraising and developing staff

7b. M-PESA Area Sales Manager, Kenya

Reporting to the Regional Sales Manager, West Kenya, the M-PESA Area Sales Manager will be responsible for effective management of Agents and Subgents in the assigned area by growing the Agents/Subagents business to ensure availability of M-PESA services in the area at all times.

Key Responsibilities

- Growing sales by effective implementation of market penetration strategy in the trade
- Monitoring e-money and cash float as per set targets
- Ensuring achievement of set revenue targets through attainment of agent recruitment and sales target
- Carrying out regular audits of outlets

- Ensuring shops are well branded according to Safaricom standards
- Preparing, planning, and executing area sales programs aimed at market penetration, availability of the M-PESA services at all times
- Training agent staff according to the laid down procedures and guidelines
- Prepare weekly, monthly, quarterly, and annual reports on performance gaps and planned activities

Minimum Requirements

- A degree in a Business-related field from a recognized university
- 5 years' experience in trade execution preferably within FMCG/telecom environment
- Demonstrated ability to manage key accounts
- Hands-on experience in planning route plans, sales promos, and initiatives
- Proficiency in training and development facilitation and evaluation skills
- High organizational and decision-making skills
- Excellent communication and interpersonal skills

7c. M-PESA Regional Sales Manager, South Africa

The job holder will be responsible for delivering M-PESA customer and revenue targets through effective management of the M-PESA distribution network, with the support of the sales and operational resources in the region.

OBJECTIVES

- Deliver revenue for the M-PESA products through agent-related transactions in the assigned region
- Create targets for each agent outlet in terms of both consumer recruitment and financial transactions in the assigned region
- Identify gaps in M-PESA coverage and recruit suitable outlets
- Manage operations of the M-PESA distribution network
- Do initial set-up of acquired outlets as functional M-PESA Outlets
- Provide feedback and propose improvements on the Outlets' user experience
- Train agent staff according to the laid down procedures and guidelines
- Efficiently manage point-of-sale and merchandise material to be effectively used for branding in Outlets
- Manage sales staff in the region and contract sales force against their set targets
- Prepare weekly, monthly, quarterly, and annual operational and management reports

Knowledge

Knowledge and understanding of mobile money transfer services
Business and financial acumen
Retail operations
Management by projects
MS Office (MS Word, Excel, Power Point)
Specialist knowledge of managing sales/marketing and targets

Key Outputs

Manage operations
Manage human resources
Manage business performance
Manage projects
Compile reports
Maintain relationships
Evaluate proposals

Attributes

Ownership and commitment
Tenacity
Strong attention to detail
Personal motivation and alertness
High quality work deadlines
Adaptable
Initiative
Ability to work unsupervised
Result driven

Qualifications

Matric (Grade 12)
3-year tertiary qualification (Commerce, Finance, Business Management, Marketing, or Project Management)

Experience

Minimum 5 years' sales experience (preferably in retail)
Financial experience will be an advantage
People management experience will be an added advantage
Own Transport
Valid South African Drivers license

8. Agent Commissions

8a. Agent Commissions for Banco do Brasil

SERVICE	AGENT COMMISSION ($US)
Issue statement for current account	0.06
Change account password	0.06
Activate card	0.44
Issue comprehensive statement (all accounts w/ bank)	0.06
Activate current account at Banco Popular	0.44
Issue balance for Banco do Brasil current account	0.06
Re-issue card	0.06
Sign loan contract	0.06
Renegotiate loan contract	0.06
Withdrawal with card	0.06
Pay social security benefit	0.06
Pay a bill without boleto or utility bill	0.06
Withdrawal from account	0.06
Receive utility bill payment	0.06
Receive boleto payment	0.10
Deposit cash	0.06
Deposit check	0.06

In addition, agents with Banco do Brasil receive a bonus if they do an exceptional number of transactions a month. There are two categories depending on whether they have a POS device (smaller agents) or a PC (larger agents).

BONUS FOR AGENTS (Telecom Service)			
Equipment	**Category**	**# Trans/mo**	**Bonus**
POS	Intermediate	500+	5.00%
	High	1,500+	7.50%
	Excellent	2,500+	15.00%
PC	Intermediate	2,250+	8.33%
	High	3,500+	16.67%
	Excellent	5,250+	25.00%

8b. Agent Commissions for Banco Postal

These agents are paid to the postal company (Correios) who centrally owns and manages agents.

SERVICE	AGENT COMMISSION ($US)
Request credit card	1.60
Open bank account	16.20
Withdraw from any account with card	0.80
Loan application submission	12.80
Deposit to savings or checking account	1.20
Bill payment (utility bills)	0.50
Bill payment (other)	0.70
Approval of loan	12.80
Pay taxes	0.70
Pay check	1.50
Savings or checking account statement	0.70
Pay pension or benefit	0.70

8c. Agent Commissions for Caixa Economica

SERVICE	AGENT COMMISSION ($US)
Bill payment	0.21
Social benefits	0.20
Account opening	0.22

8d. Agent Commissions for FINO

SERVICE	AGENT COMMISSION ($US)
Monthly stipend/transport allowance	Varies depending on number of transactions, about $20 a month
Account opening	0.10
Deposit/withdrawal transaction	0.01

8e. Agent Commissions for EKO

SERVICE	AGENT COMMISSION ($US)
Account opening	0.67
Deposit/withdrawal transaction	0.30% of value of transaction

8f. Agent Commissions for M-PESA, Kenya

SERVICE	TIERS ($US)	AGENT COMMISSION ($US) Net after tax and aggregator commissions
Account opening		$0.63
Deposit		
	$1.25–31.25	$0.08
	$31.26–62.50	$0.08
	$62.51–125.00	$0.12
	$125.01–250.00	$0.16
	$250.01–437.50	$0.32
Withdrawal		
	$1.25–31.25	0.12
	$31.26–62.50	0.20
	$62.51–125.00	0.28
	$125.01–250.00	0.47
	$250.01–437.50	0.55