



Advancing financial access for the world's poor



# BRANCHLESS BANKING AGENTS IN BRAZIL:

## Building viable networks

[www.cgap.org/technology](http://www.cgap.org/technology)

16 Feb. 2010

# AGENDA

1. Background
2. Headline findings from Phase 1
3. Business case for small agents
4. Preliminary insights on network management

# Agents in Brazil

- 149,507 “banking correspondents”, many of which specialize in credit (payroll loans, credit cards, auto loans, etc.)
- 50,000+ authorized to open accounts and handle deposits:

Bank	Approximate no. of agents (Oct. 09)
Bradesco	24,200
Caixa Economica Federal	15,200
Banco do Brasil	8,600
Banco Lemon	6,700*

Note: Bradesco includes 5950 post offices (Banco Postal). Caixa includes 9000 lottery points. Banco Lemon’s network leased to Banco do Brasil as of July 2009, but operations not yet unified.

- Unique features supporting widespread use of agents in Brazil
  - More than a decade of regulatory changes to expand use of agents by banks
  - Banks required to handle *boletos*, a paper instrument for installment payments
  - 1 in 4 households receive a monthly G2P payment

Sources: (i) for total number of banking correspondents, see Banco Central do Brasil <http://www.bcb.gov.br/?CORPAIS>; (ii) for agents in Bradesco, Caixa, and Banco do Brasil networks, forthcoming research by Jayo and Dinez, FGV; (iii) for analysis of regulations, see Dias & Lauer. “Notes on Regulation of Branchless Banking in Brazil” available at [www.cgap.org](http://www.cgap.org); (iv) for Bolsa Familia, Dias and Rotman interviews with Ministry of Social Development, 2009.

# Research approach

- CGAP partnering with The Center for Microfinance Studies (GVcemf) at FGV (Fundação Getulio Vargas), the leading Brazilian business school, and Planet Finance Brazil, a junior partner in the project.
- 3 phases to work (Dec. 09 to Apr. 10)
  - Phase 1: marshal data on state of play for agents and integrators
  - Phase 2: delineate models of network management
  - Phase 3: extract “good practice” lessons on network management
- Field mission Dec. 2-14, 2009 (Phase 1)
  - Data on 295 agents in 9 states
  - Face to face interviews with 49
  - Meetings with 7 integrators + 3 major banks
- This document authored by Claudia McKay, Mark Pickens, Sarah Rotman (CGAP), Eduardo Dinez, Lauro Gonzalez, Martin Jayo, Tania Pereira Christopoulos (GVcemf). Cesar Yokomizo (GVcemf) and Maud Chalamet (Planet Finance Brasil) assisted in the field research.

# Locations sampled for Phase 1



Note: The locations were sampled based on convenience sampling. To read more about the limitations of non-probability sampling see: [http://en.wikipedia.org/wiki/Nonprobability\\_sampling](http://en.wikipedia.org/wiki/Nonprobability_sampling)

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# Agents' impact on financial inclusion often underestimated

- Bill payments comprise 75% of volume (1.6 bil) and 70% of value (US\$ 105 bil) transacted through Brazilian correspondents in 2008 (Banco Central).
- A sole focus on this obscures other insights:
  1. Every municipality in Brazil is now reached by banks, including 1 in 4 municipalities (1600) served only by correspondents (Kumar 2007)
  2. CGAP-FGV-Planet research finds rural correspondents do more deposits and withdrawals as % of total transactions (38%) than urban correspondents (8%), which suggests agents are playing an important role in rural access to bank accounts.
  3. Agents can also deliver substantial convenience and cost savings for clients (For more, see series on CGAP Technology Program blog, [here](#) and [here](#))
  4. Vast extension of credit to consumers in past 5 years is dependent upon agents, which are the primary way mass market consumers repay. Brazilian banks have ramped up consumer lending by 500%, going from US\$ 54 bil (2003) to US\$ 252 bil (2009).
  5. Caixa Economica is in the process of migrating 12 mil Bolsa Familia recipients to simplified accounts, which are operated primarily via agents.

# However, being an agent not very lucrative for merchants

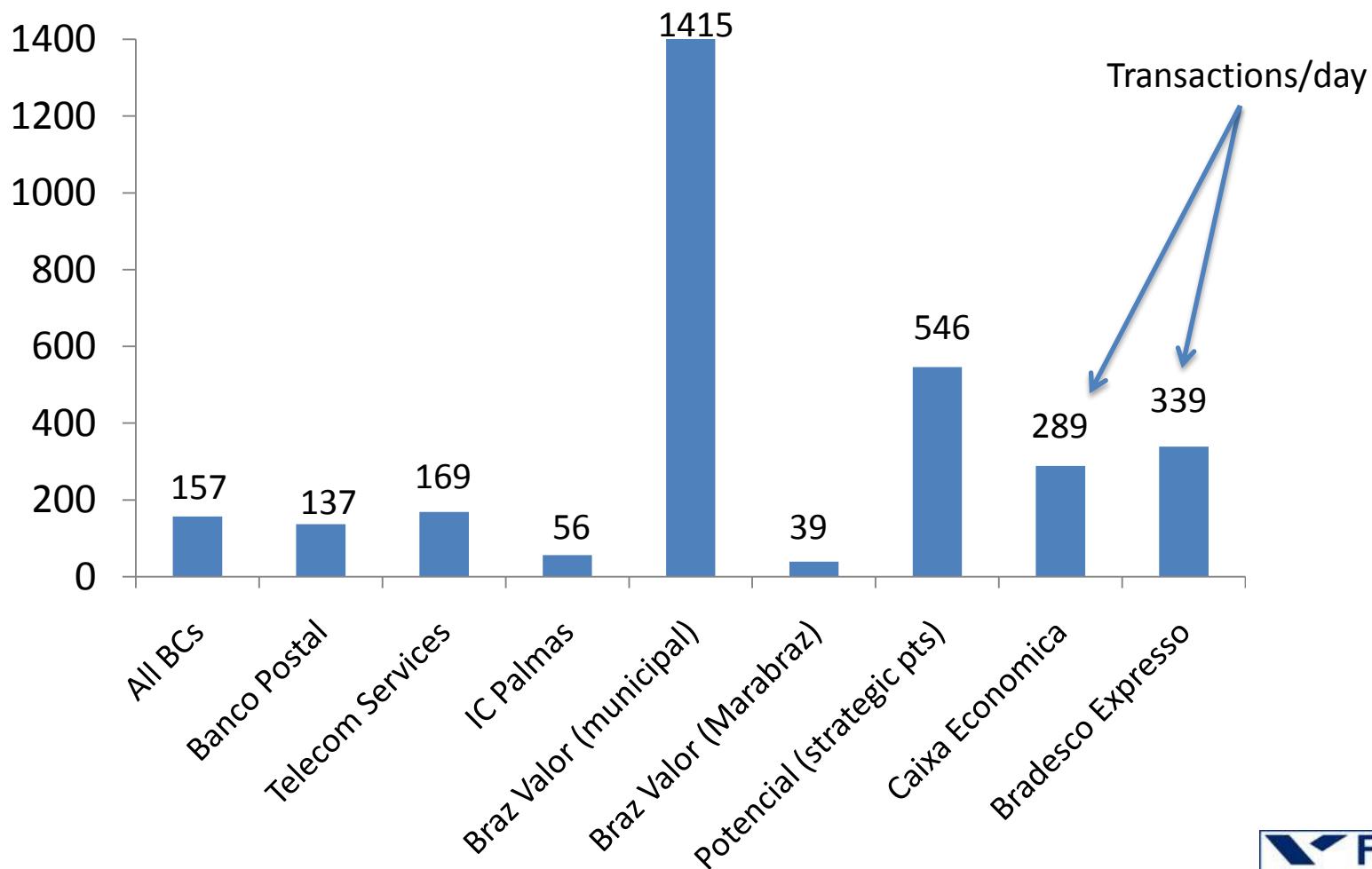
1. Average profit per day: R\$ 9.6 (US\$5.17).\*
2. Over-riding rationale of most merchants is increased foot traffic – 73% of agents say the BC business has increased foot traffic and the average increase is 37%.
3. As in Kenya, liquidity management is still #1 challenge for agents, but it manifests in Brazil as threat of robbery (41% have been robbed)

\* Banco Postal excluded. The post office has negotiated attractive commissions from Bradesco, yielding R\$ 146 (US\$ 79) profit per day. Banco Postal agents comprise 13% of deposit-handling agents.



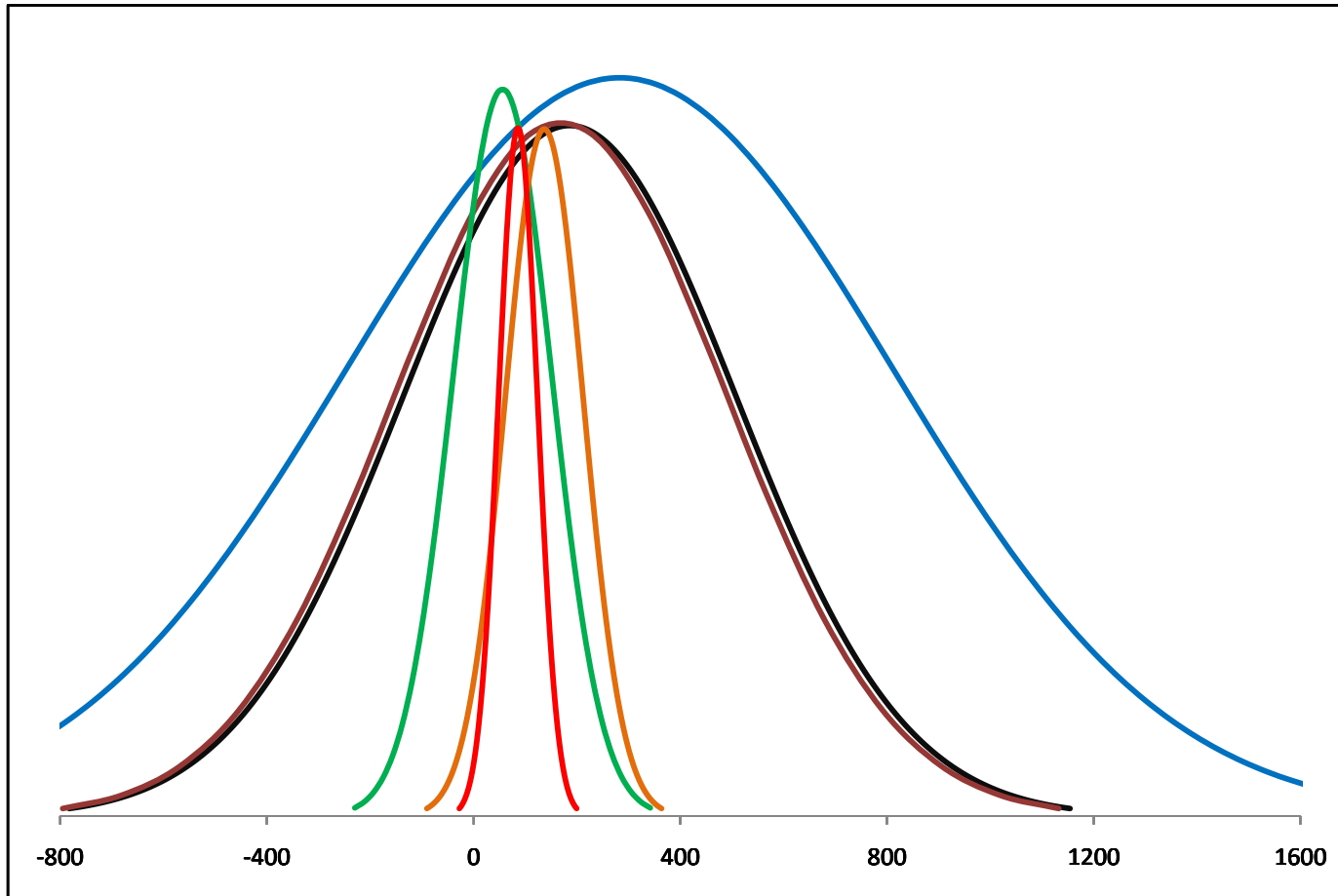
# Considerable diversity between networks

Agents sampled	237	91	18	32	12	56	5	3	5
Commission (US\$)	66	125	12	5	43	42	228	34	31



# Another look at diversity...

Normal distribution, transactions per day

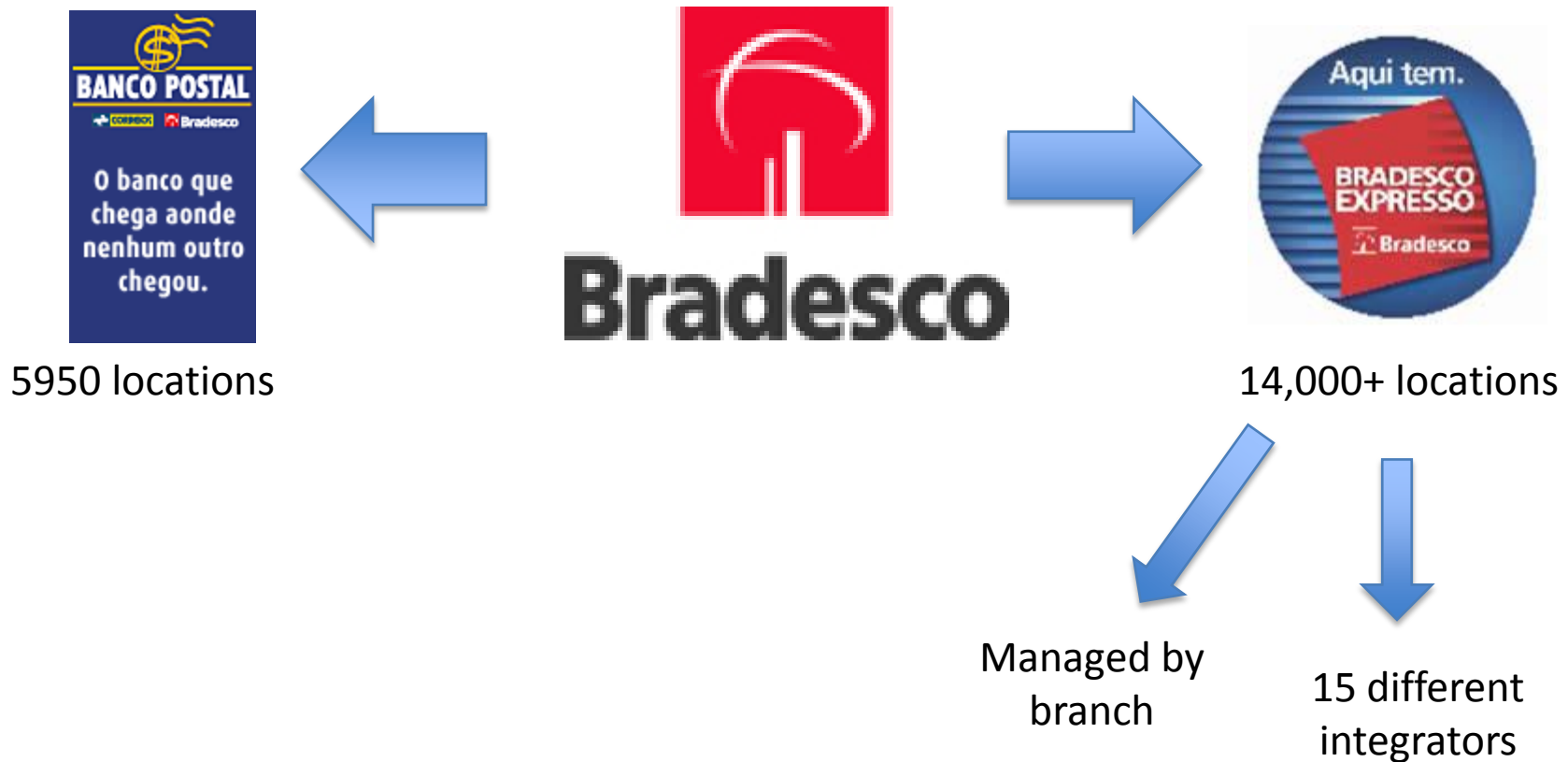


Network	Avg. trans / day
All BCs	157
Telecom	169
Braz Valor	282
Palmas	56
Postal	137
M-PESA	86

CGAP analysis of M-PESA available [here](#)

# A third look at diversity between networks

Bradesco has 17 different ways it manages agents



# AGENDA

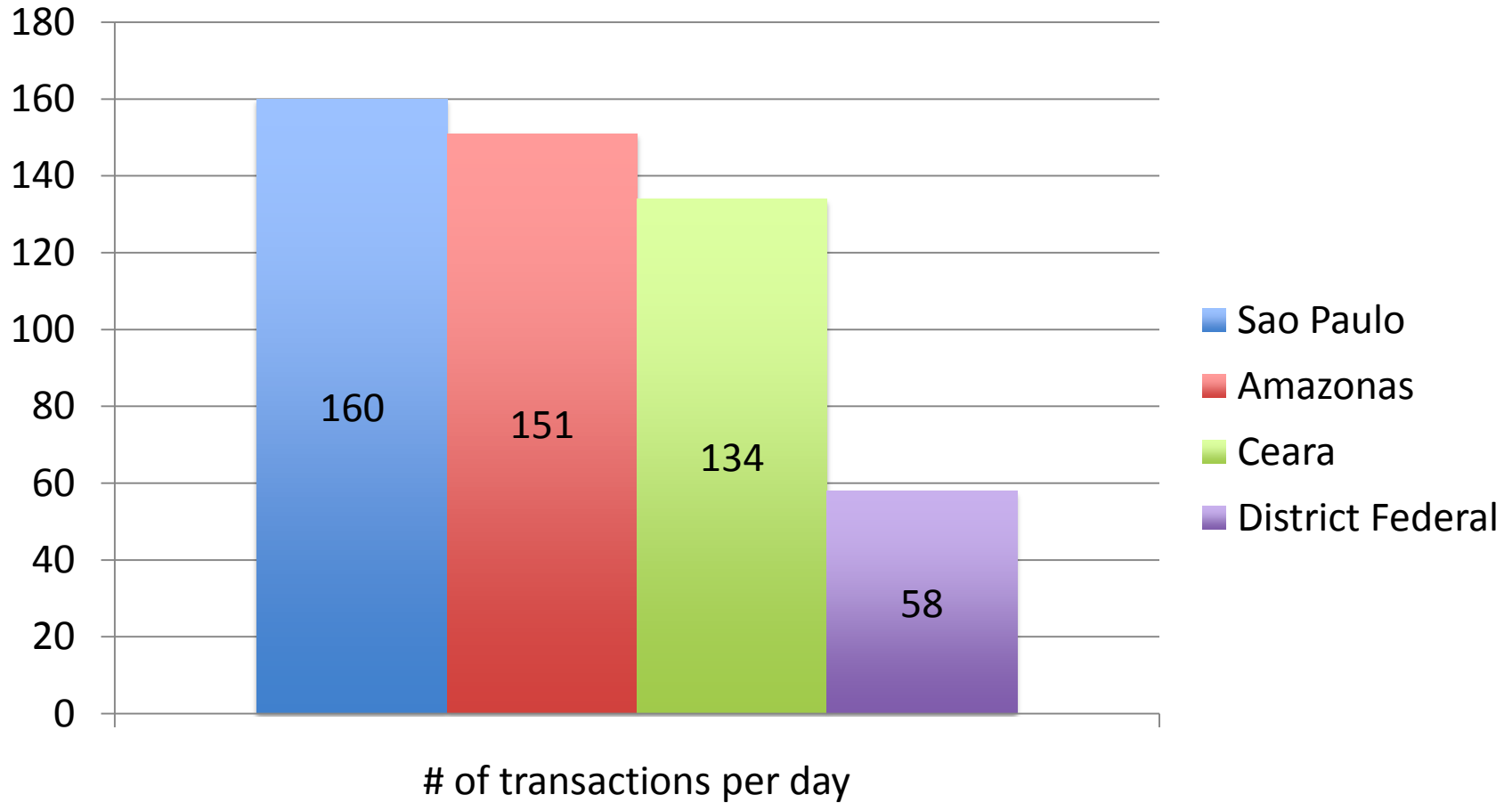
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# Transactions and profits by agent type

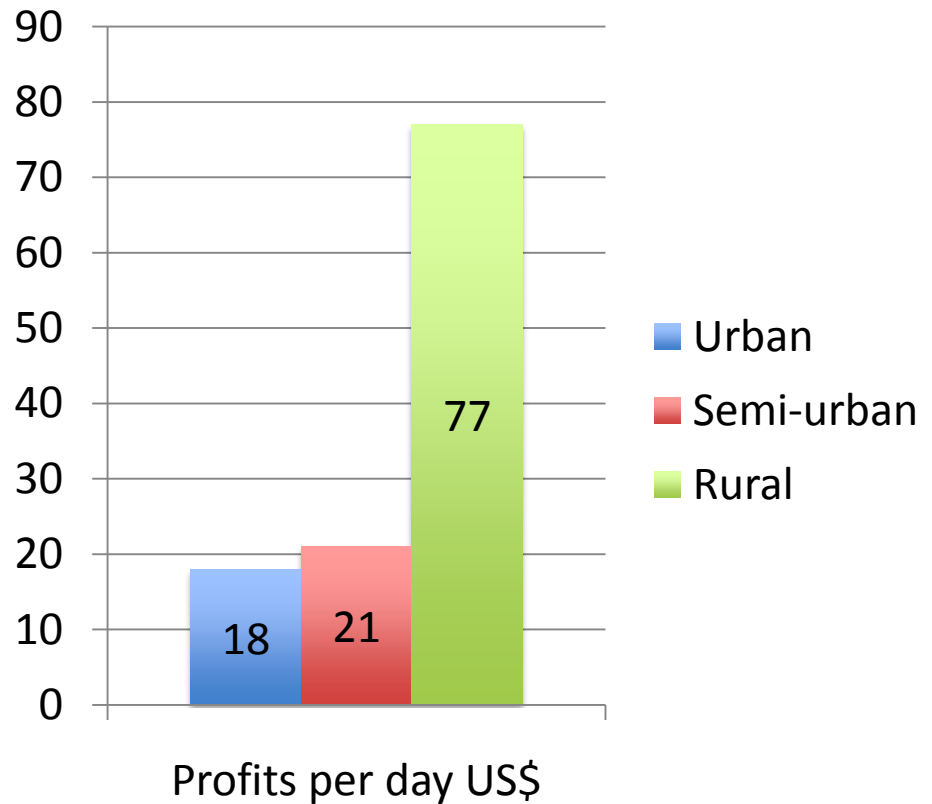
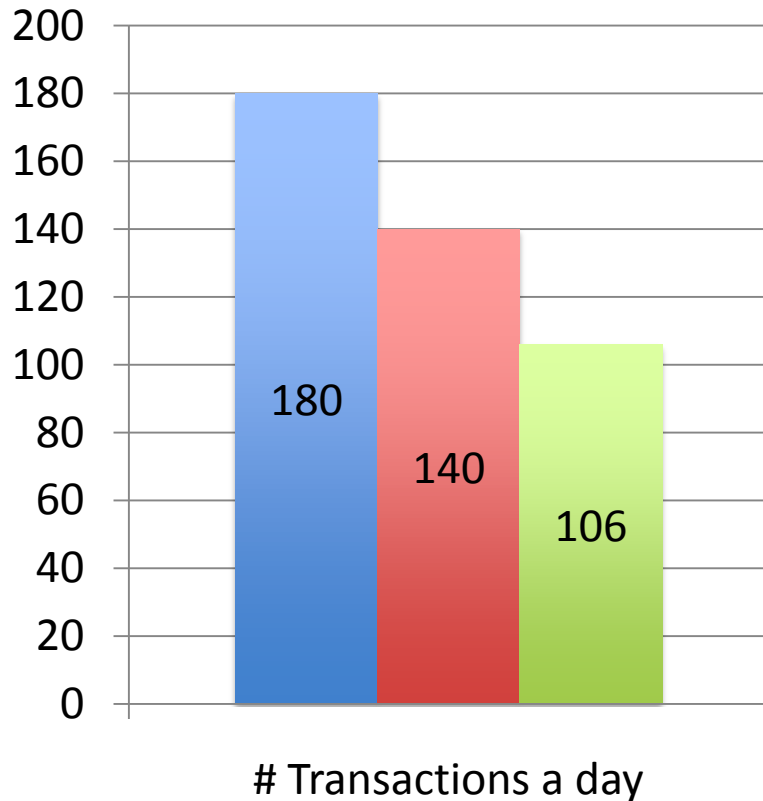
Type	Sample Size	Primary motivation	Avg. trans per day	Commission / day (US\$)	Commission / trans (US\$)	Profit / day (US\$)	Profit / commission (profit margin %)
Stand alone agents	137	Revenue	170	48	0.28	3	6%
Small Shop	28	Mix of foot traffic & revenue	236	52	0.22	19	37%
Post Office	91	Revenue from fees	137	125	.91	79	63%
Instituto Palmas	1	Mixed	56	5	0.09	-172	-313%

- “Stand alone agent” refers to agents operated as independent enterprises, rather than part of another business. In this sample, it is comprised of agents in the Braz Valor, Potencial, Union Security and Signa networks.
- Daily commission and profit available for one Palmas location, though there are 31 active in the Palmas network.

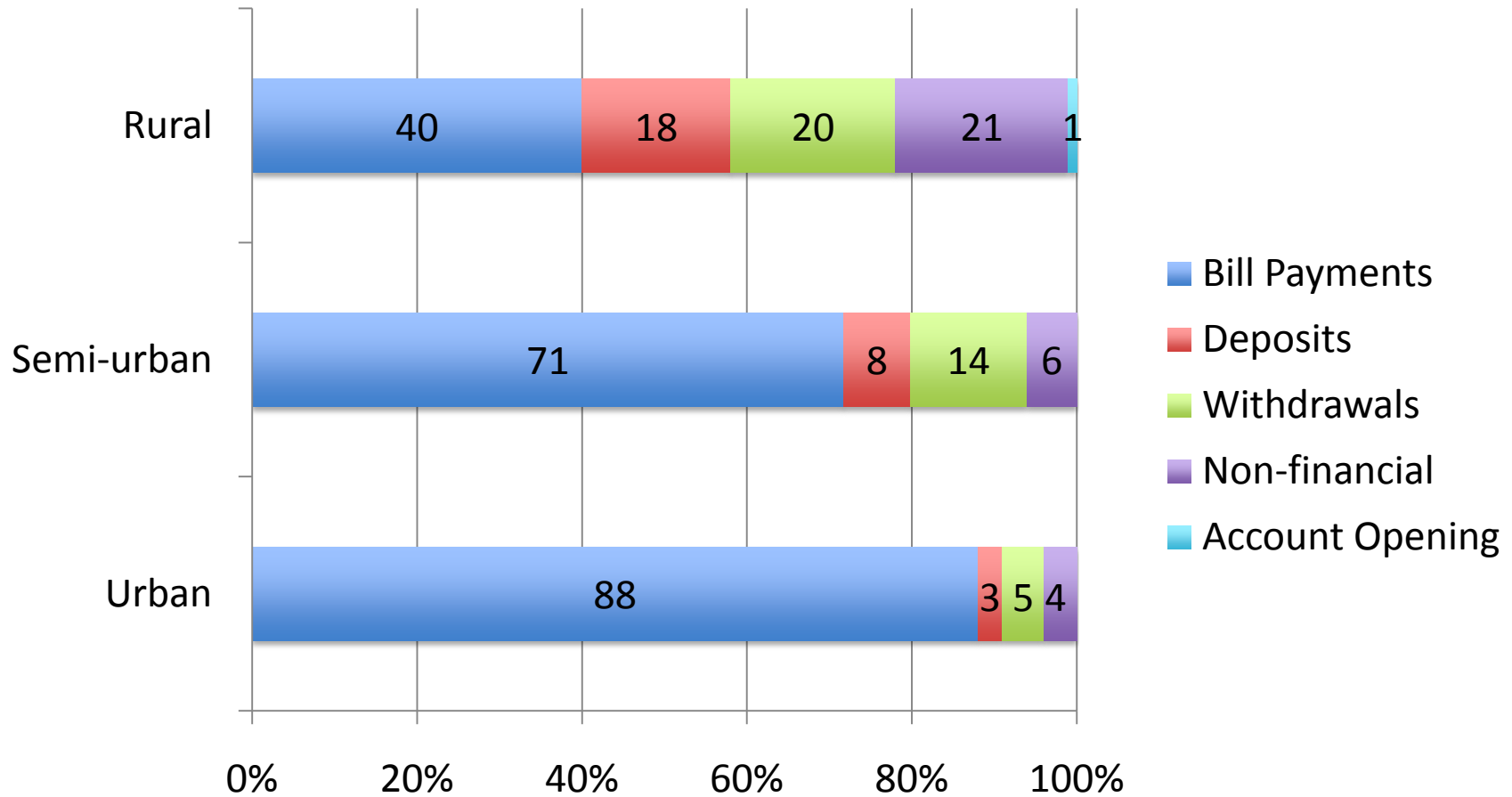
# Sao Paulo has the highest volume of transactions



# Rural areas have lowest volumes, highest profits



# Rural agents do more deposits and withdrawals Bill payments dominate in urban agents





# Top concerns among agents

1. Low remuneration
2. Liquidity management
3. Network availability

# Agents complain of low remuneration

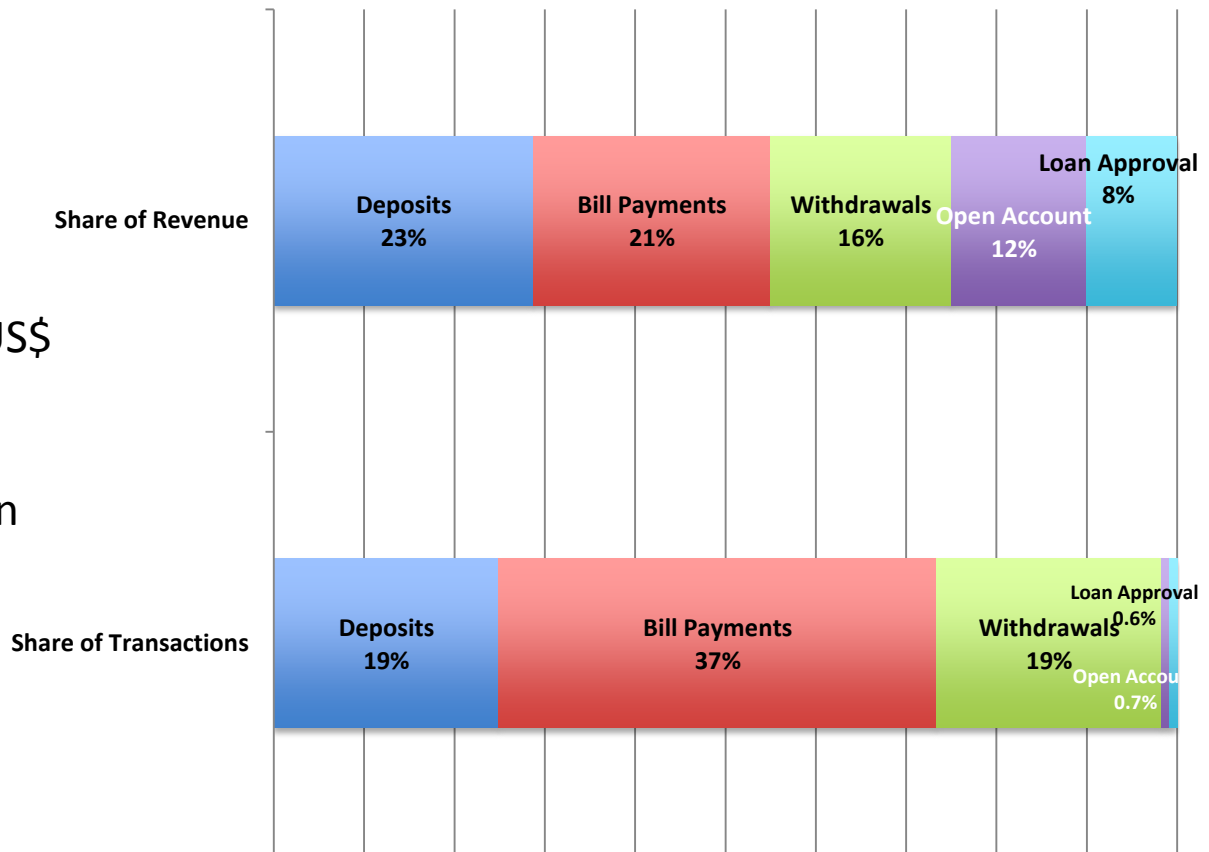
- Excluding Banco Postal, the average agent earns:
  - US\$ 48.5/day in commission, and US\$ 5.17 a day profit
  - US\$0.26 per transaction
  - Average profit margin of 10.6%

Most agents did not cite remuneration as a primary motivation to do the agent business. Many agents did not even know their commission per transaction, demonstrating their lack of profit motive.

# Most common transactions not necessarily most lucrative

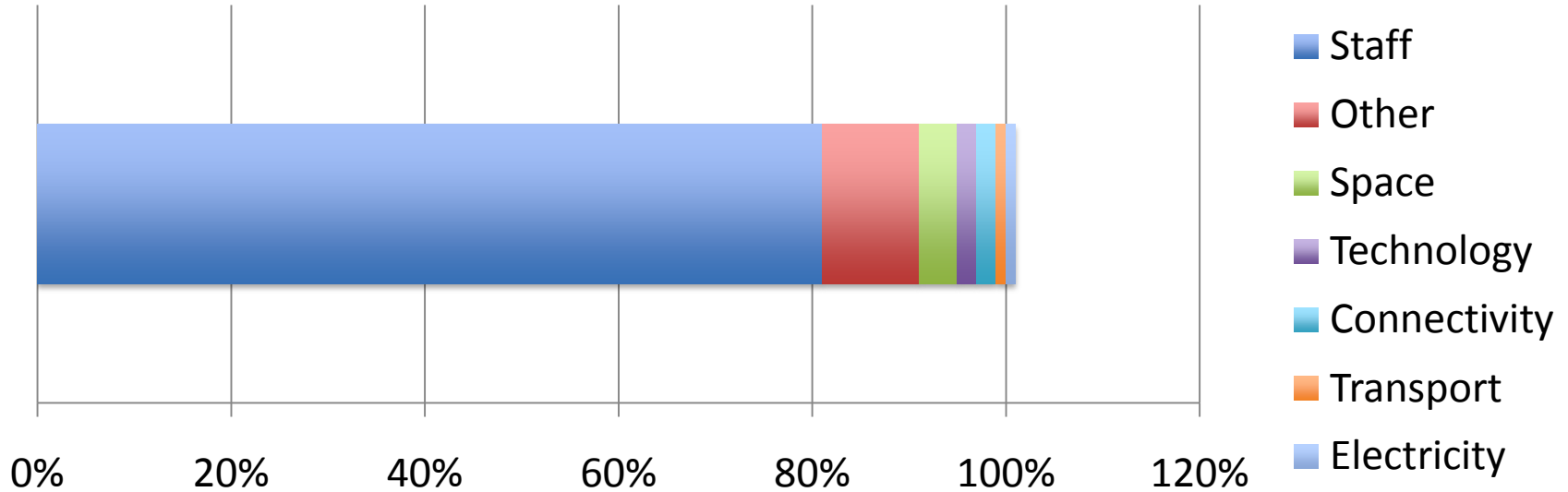
- Difference in profit in rural/urban outlet types explained by commission structure
- Banks incentivize outlets to focus on high-value transactions
- E.g., Banco Postal receives US\$ 15 per new account opened which means new accounts earn 12% of all revenue even though only 0.7% of transactions

**BANCO POSTAL TOP 5 REVENUE EARNERS BY SHARE OF REVENUE AND TRANSACTIONS**



NOTE: Numbers do not add up to 100% as not all transaction types have been included – only top 5 transactions by revenue  
 Also, Banco Postal recently renegotiated commissions with Bradesco in July 2009. As a result, commissions went up by 60%.

# Agent expenses dominated by staff costs



Expense Category	Staff	Other	Space	Tech	Connectivity	Transport	Electricity
Percent of Total:	83%	10%	4%	2%	2%	1%	1%

# Increased foot traffic is primary motivation

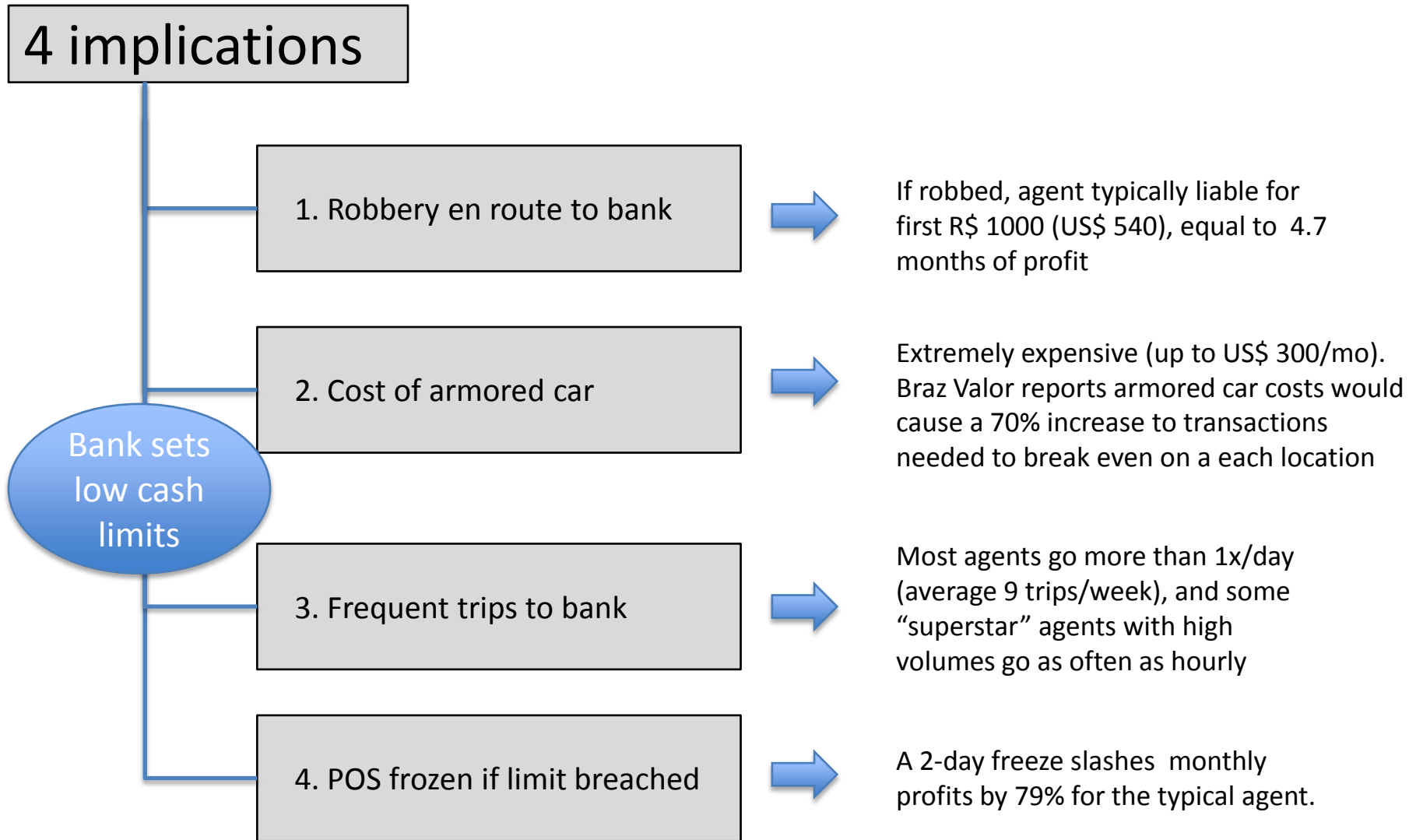
- 73% of agents have seen an increase in their non-agent business
  - Average increase of 37% for non-Banco Postal agents
  - Increase of more than 100% for rural Banco Postal outlets
  - Increase of 25% for urban Banco Postal outlets

# Risk of robbery is high

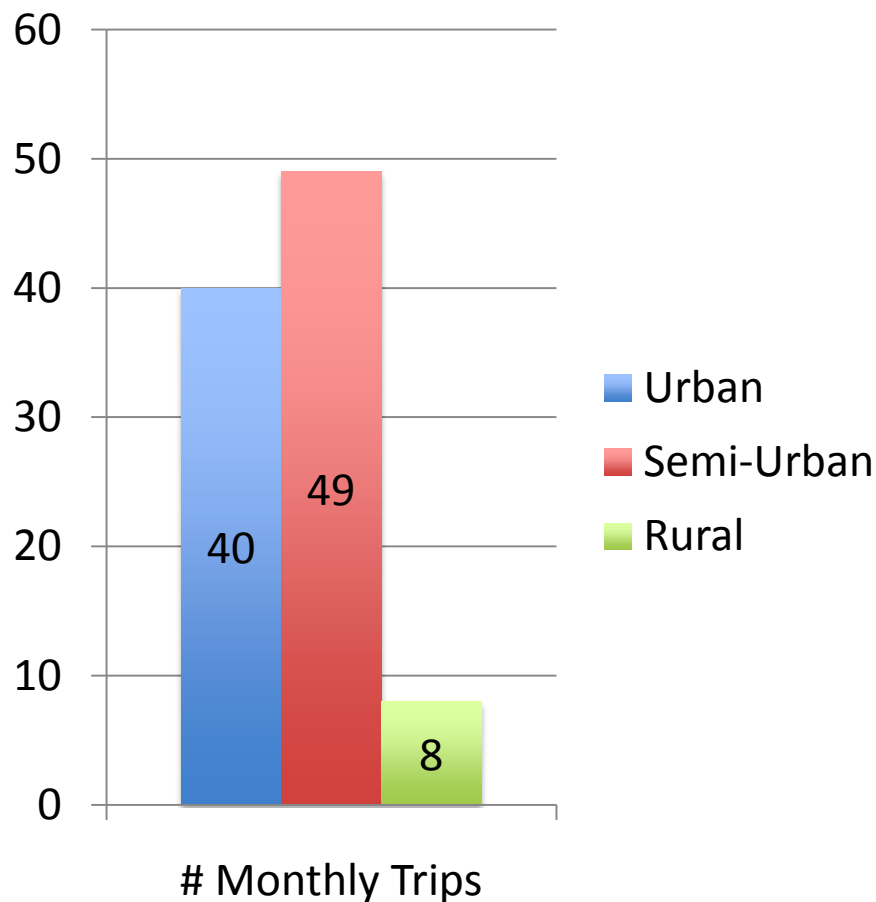
- 93% of agents say being an agent increases risk of robbery
- 41% of agents report being robbed
- Average theft involves loss of US\$8,100, of which the agent themselves is typically liable for first US\$ 540.
- 27% of agents have experienced worker theft (avg. loss US\$ 6k) and 16% have experienced client fraud, usually counterfeit bills (avg. loss US\$ 189)

NOTE: Sample size for risk of 49 for prevalence of theft, less for average loss.

# Major costs, inconveniences and risks stem from managing robbery risk



# Most agents go to the bank more than once daily



## Cash Management:

- Most agents go to the bank at least daily by armored car or in person
- Total time per trip at least one hour, including queuing time
- Rural agents have higher cash limits and go less frequently – but can spend 3+ hours for each trip



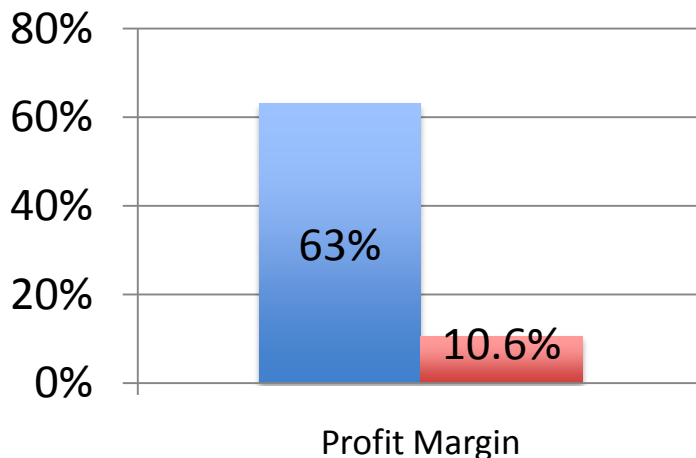
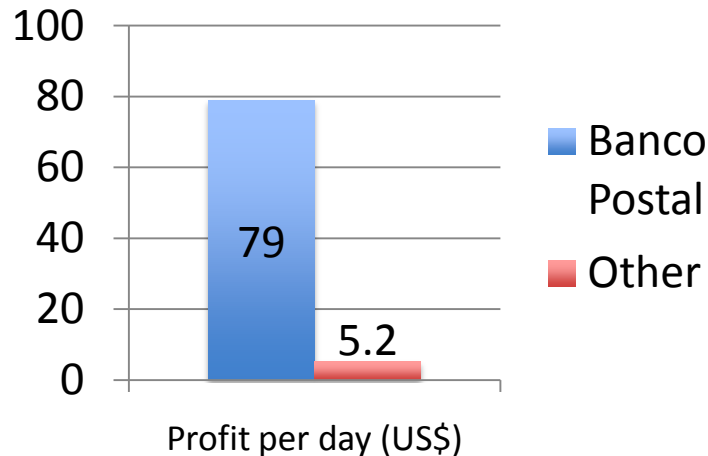
# Downtime impacts profits significantly

- Many agents complain about downtime:
  - POS “frozen” by bank once cash limit reached, pending deposit of cash at branch, but often with a lag until POS is unfrozen.
  - Poor GPRS connection for some agents
  - Occasional maintenance required
- If unable to transact for 2 days, monthly profit margin cut by more than half from 10.6% (\$124/mo) to 2.6% (\$27/mo)

# Banco Postal case unique in Brazil

- In 2001, Bradesco submitted winning bid to offer banking services inside post offices
- 5950 Banco Postal outlets in Brazil with 91 in Amazonia
- Majority of Banco Postal outlets in Amazonia are in rural areas
- Rural outlets see high volume of transactions (e.g., Manacupuri does >10,000 transactions a month although 200 km from Manaus)
- 90% of post office transactions in rural areas now devoted to Banco Postal
- Enormous brand recognition and loyalty – many call agents ‘Banco Postals’

# Banco Postal has much higher profits



## WHY SO PROFITABLE?

- Large vol. of transactions which attract high commissions, e.g. account opening, loan processing (90% of Bradesco new accounts in 2009 were opened via Banco Postal)
- Very high negotiating power: Banco Postal negotiated 60% increase in prices in July 09
- Bradesco takes on some of biggest costs: cash transport and insurance

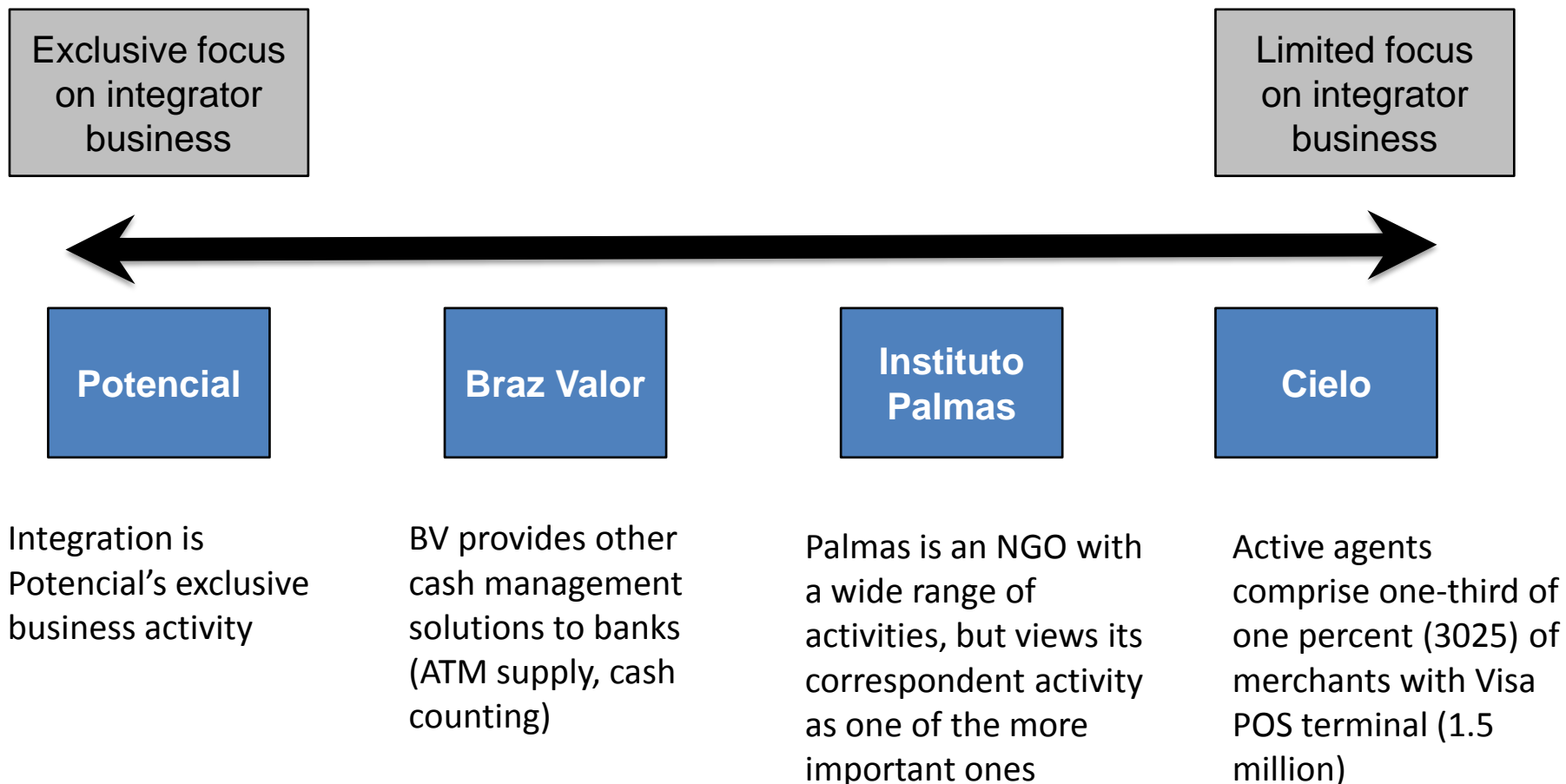
NOTE: Average commission per transaction is \$0.91 vs. \$0.26 for rest of sample

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Phases 2 & 3 of the project focus on network management models and drawing good practice lessons for building viable agent networks. The following analysis is preliminary in nature.

# Focus on integrator business varies for integrators



# 4 ways integrators are paid

Method	Description	Example
Guarantee	Bank guarantees integrator a minimum revenue which “steps” upward with increased # of transactions processed	Potential strategic points with Banco do Brasil
Flat fee	Merchant (banks also?) pays integrator a set fee to operate a correspondent on the premises (and may cover some costs, such as waiving rent, electric, armored car)	Braz Valor with Marabraz furniture stores and Banco Popular
Flat commission	Bank pays integrator a set commission, which is the same regardless of vol. of transactions.	Instituto Palmas with Banco Popular
Geared commission	Flat commission per transaction, plus a percentage bonus which kicks in when volume thresholds reached	Telecom Services with Banco Popular

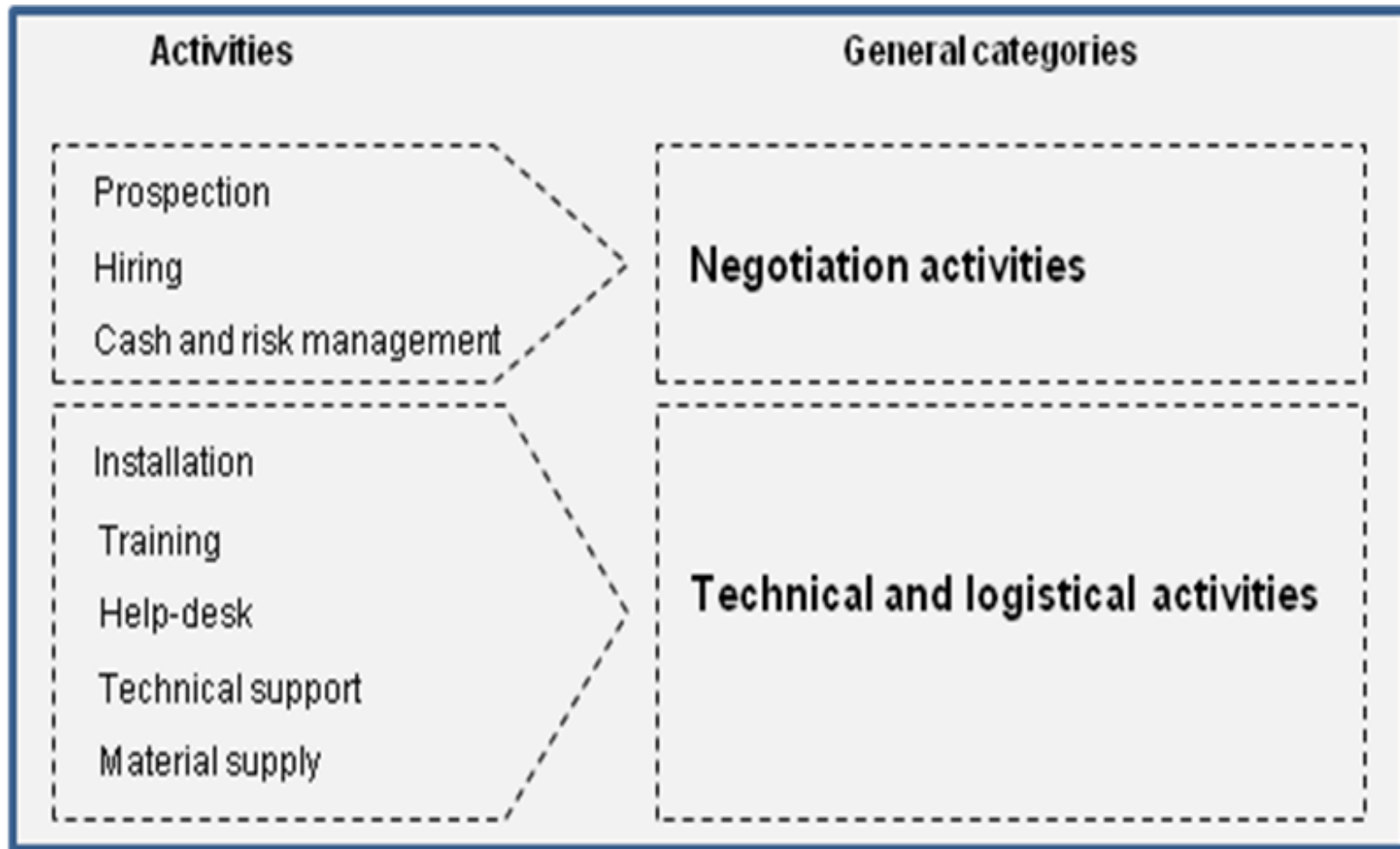
In some instances, integrators are free to negotiate different commissions with correspondents

# Network management tasks

1. Prospecting for new agents
2. Hiring (contracting) selected points to be agents
3. Installation of technical infrastructure needed for agent operations
4. Training agent staff that will operate correspondent systems at stores. Includes both technical (systems functionalities) and business training (characteristics of financial products and services).
5. Help-desk and remote assistance to retail stores through PBX, to solve problems related to systems operation
6. Technical Support and on-site repair and replacement of malfunctioning equipment
7. Material Supply: provision of supplies and consumables (e.g. receipt paper)
8. Risk related to losses at the correspondent level (due to fraud, theft, etc)

Based on PhD research conducted by Martin Jayo, FGV

# 4 ways integrators are paid



Based on PhD research conducted by Martin Jayo, FGV



# Taxonomy of network management models

Class	Class description	Model	Model description
<b>1.Full Delegation</b>	<p>Both categories of activities (negotiation and technical &amp; logistic) are outsourced to an integrator</p> <p>Outsourced integrators have greater participation and influence on channel operation</p> <p>Tends to be more frequent at less banked areas (especially 1.1)</p> <p>Outsourced integrator bears risks of non-transfer of net balances collected by agents</p>	1.1 Outsourced integrator <b>subrogates</b> contract	Bank hires thirdparty integrator as correspondent, and the outsourced manager hires independent retailers under sub-agency contract
		1.2 Outsourced integrator operates <b>own points</b>	Bank hires thirdparty integrator as correspondent, and the outsourced integrators operate own points of services, mostly inside big retail stores
<b>2.Partial Delegation</b>	<p>Negotiation services performed by bank, technical &amp; logistics activities outsourced to an integrator (in this case, a payment network acquirer (VAN))</p> <p>Tends to be more frequent in areas already served by traditional channels (branches)</p> <p>Bank bears risks of non-transfer of net balances collected by agents</p>	2.1 VAN <b>without</b> prospection	Bank prospects and hires individual retailers, usually through its regular branches, that suggest potential correspondents among their corporate clients. VAN is hired to provide needed infrastructure to capture transactions.
		2.2 VAN <b>with</b> prospection	Bank prospects and hires individual retailers from a list of stores already served have by a VAN network that capture transactions.
<b>3.No Delegation</b>	<p>Arrangement not involving network outsourcing</p> <p>Models prevalent in the first years of the correspondent channel CBs (before 2003)</p>	3.1 <b>Proprietary</b> network	Bank take advantage of its pre-existing infrastructure by delivering services though a network already in operation
		3.2 <b>Direct</b> management	Bank assumes all activities related to integration services, negotial and technical- logistics.

Based on PhD research conducted by Martin Jayo, FGV

# CGAP Technology Program

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- Research, Policy and advisory
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## Areas of Focus

- Clients: drivers of large-scale adoption?
- Providers: what incentives to offer services to large numbers of poor people?
- Governments: how can they develop (1) safe and enabling regulation, and (2) policies that promote adoption?