



CGAP Technology Program

Banking Agents Part III – Market Reach

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CGAP research on banking agents

Banking agents, or banking correspondents, are a key component of the diverse technology approaches being studied by the CGAP Technology Program.

This document provides an overview of banking agents -- retail shops, pharmacies, air time dealers, etc. – that deliver financial services in countries like Brazil, Peru, Colombia, and others.

It explains CGAP's current knowledge about banking agents. We would be happy to include your analysis or experience with banking agent models in this document and provide all appropriate references.

Please send all your comments, questions, and ideas to Hannah Siedek at hsiedek@worldbank.org. We look forward to hearing from you!

CGAP research on banking agents

Part I: The approach

Part II: Implementation choices

Part III: Adoption/Market reach

Part IV: Business Model - *forthcoming*

Part V: Social Impact - *forthcoming*

Part VI: Regulation - *forthcoming*

To learn more about CGAP's Technology Program and view the other parts of this research, please visit <http://www.cgap.org/technology>.

Purpose of this presentation

- **Present findings of CGAP's research in Brazil to understand:**
 - **If clients are using banking agents for their transactions.**
 - **What kinds of transactions they are conducting at the banking agent.**
 - **Why and why not people are using banking agents.**

CGAP research on customers in Brazil (June 2006)

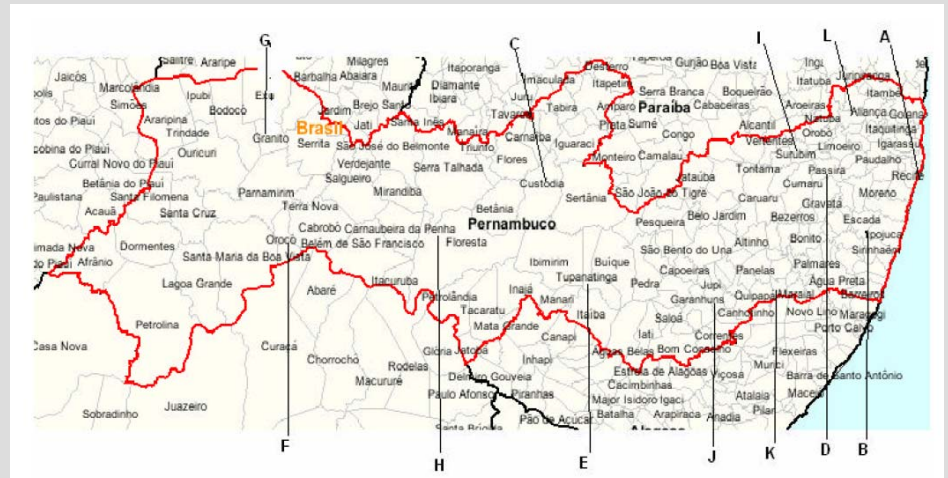
■ Sample:

- Twelve municipalities in the state of Pernambuco (poverty levels similar to northeastern Brazil)
- Municipalities with critical number of banking agents in 50% rural and 50% urban locations
- 750 users and non-users randomly selected from households with average per-capita income equal to or less than half the minimum wage (i.e. less than \$175)
- Marginal error: 3.6%



■ Questionnaire:

- 45 minutes
- Questions:
 - Sociodemographic profile
 - Financial products/services used
 - Points of sale (POS) used
 - Perceptions regarding points of sale



Summary findings

- I. People accept banking agents**
- II. Agents reach low-income clients**
- III. Limited range of transactions conducted at banking agents**

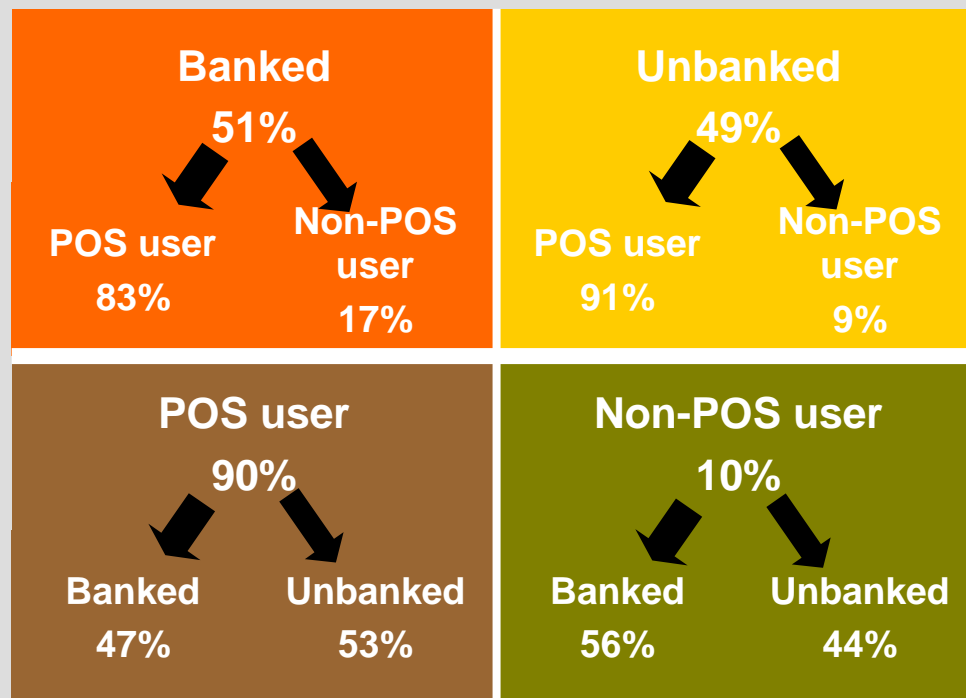
I. People accept banking agents

- **Banking agents are popular: almost everybody (90%) uses banking agents, including illiterate clients.**
- **Uncertain profile of a typical “user” but skews towards:**
 - **Urban population (70%)**
 - **Up to 50 years old**
- **Low-income CLIENTS chose banking agents since they are close to their home, have short lines, and offer good service.**
- **NON-USERS who do not use agents do not know about them, or do not think they need them.**

Banking agents are popular!

Who uses banking agents?

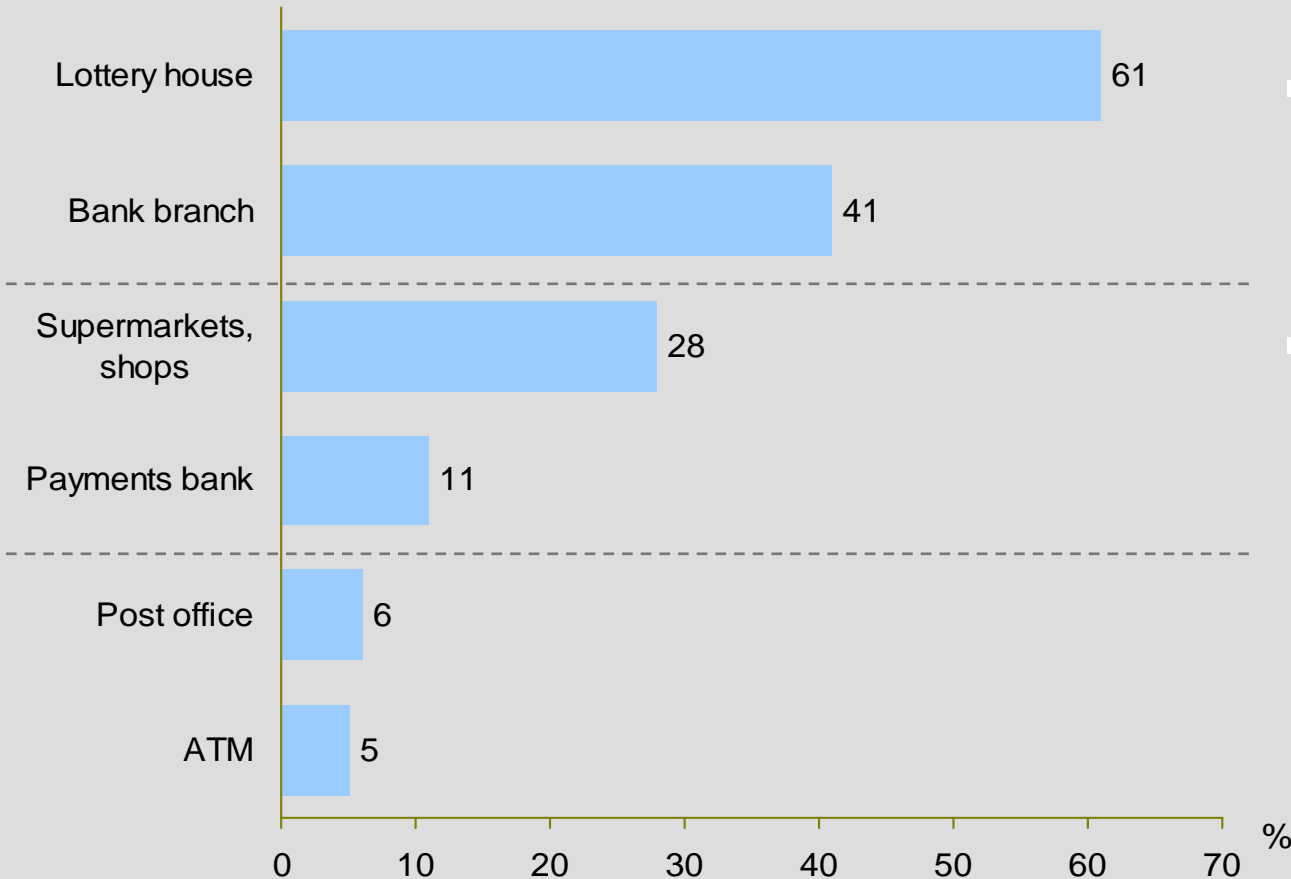
- **Nine in ten households (90%)**
- **No correlation between use of agent and having a bank account.***



* This might be a result very specific to Brazil since everybody receiving benefits has to have a bank account. Therefore, large parts of the population are banked, but often only to receive their payments.

What are people's favorite channel?

(n=752)

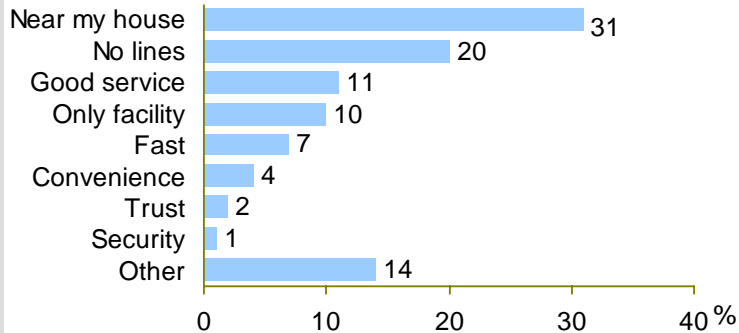


- Six out of 10 people claim to use lottery house as their primary source for some transaction
- Four out of ten people claim to use a bank branch as their primary source for some transaction

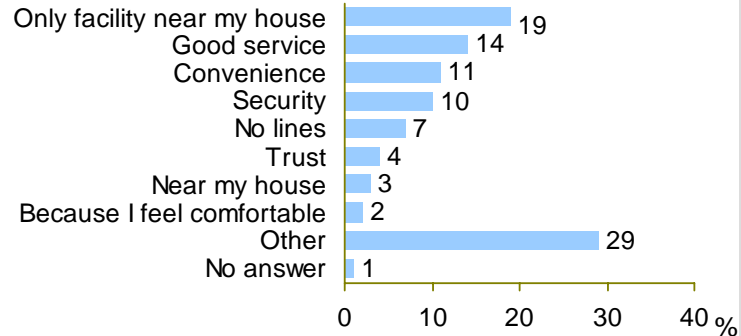
Lottery houses have largest coverage and are people's favorite point of sale. However, 40% prefer banking at the branch!

What do clients like about different channels?

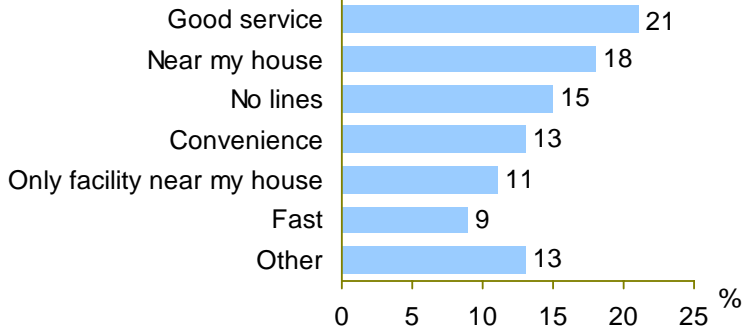
Lottery houses



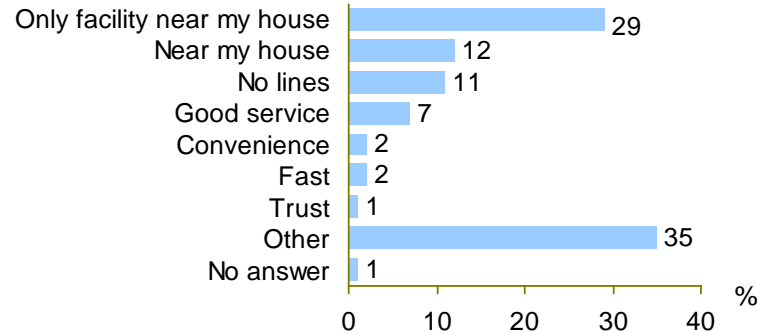
Branches



Independent shops



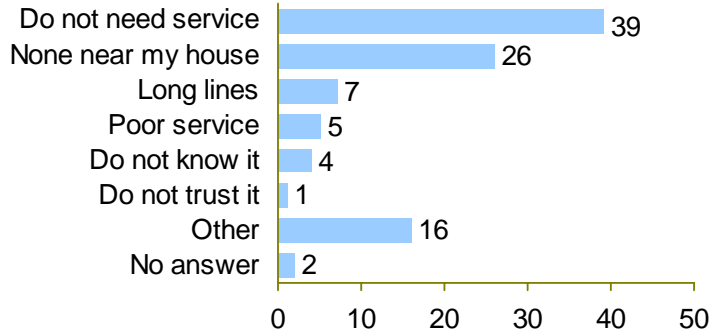
Postal bank



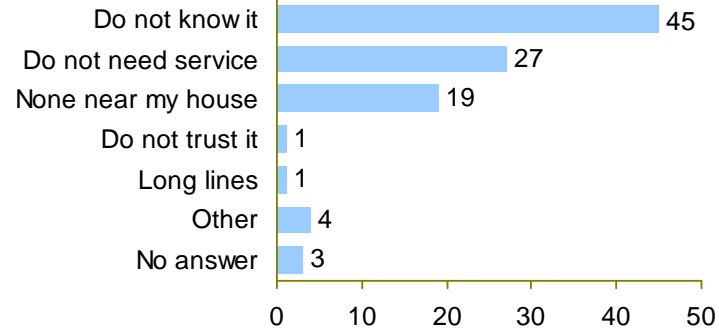
Banking agents are often closer to poor peoples' homes, provide good service, and clients do not have queue.

Why don't they use some channels?

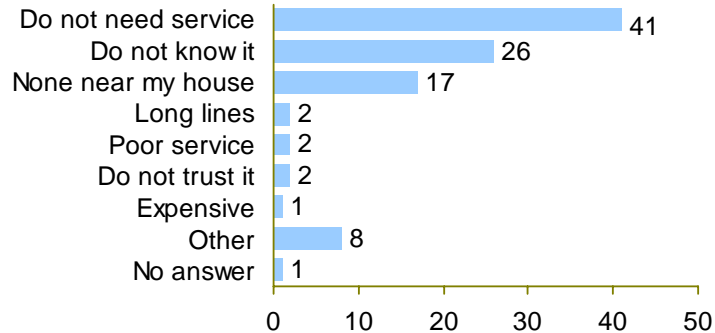
Lottery houses



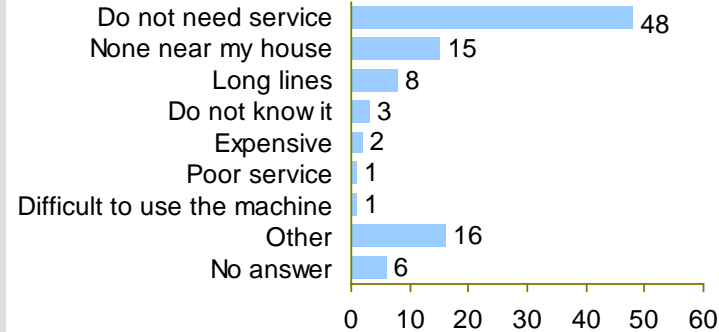
Branches



Independent shops



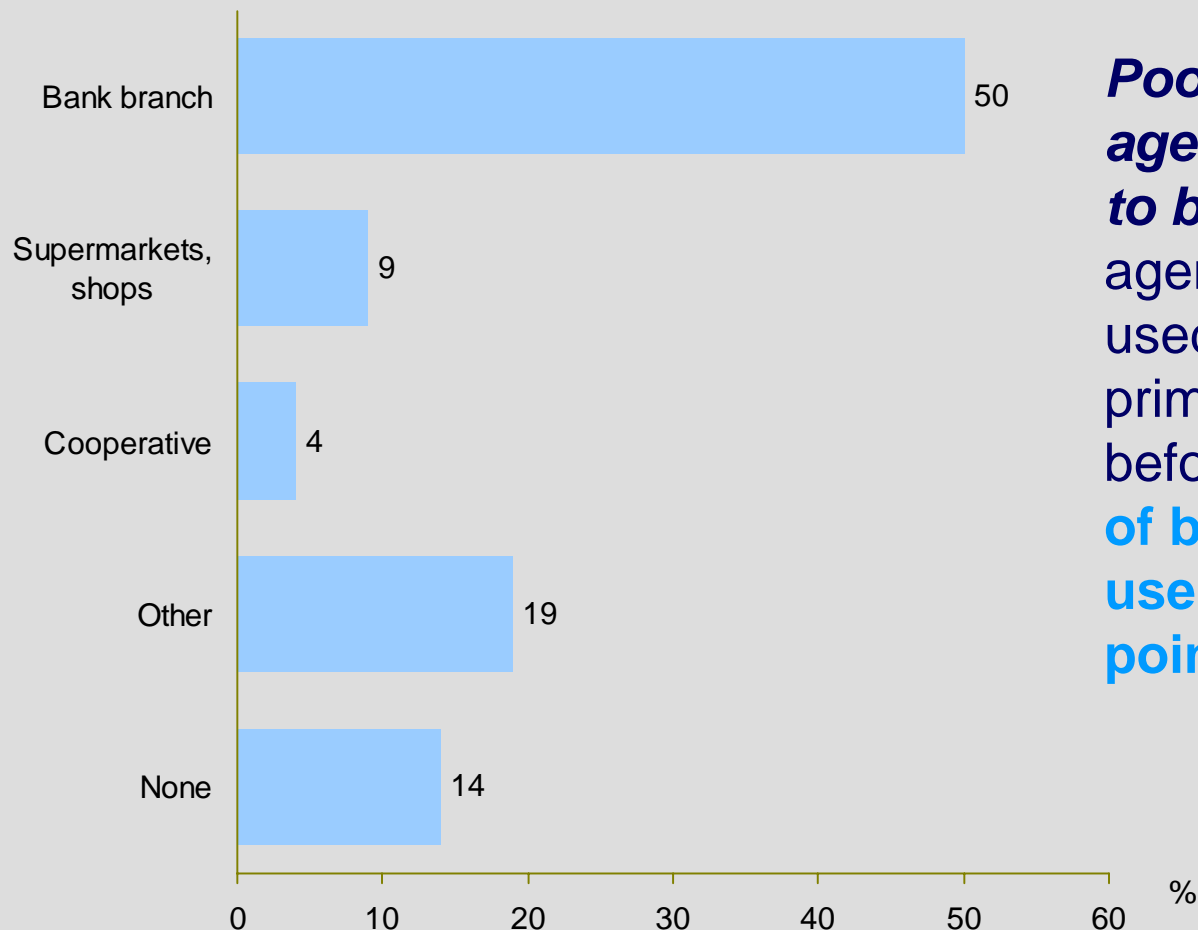
Postal bank



Low-income clients do not use banking agents because they think they do not need them, or because they do not know about them.

Agents might substitute the branch?

Where did you conduct transactions before using the banking agent?



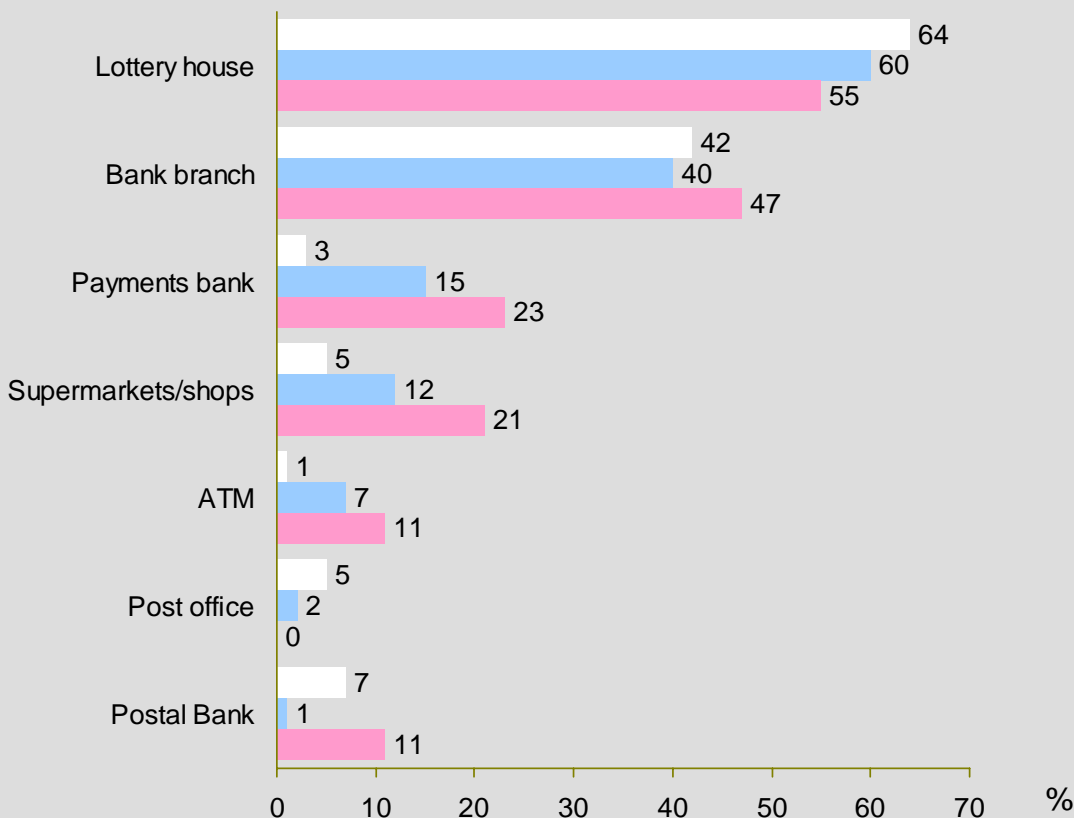
Poor clients trust banking agents and some prefer them to branches. Fifty percent of agent users claimed to have used a bank branch as a primary transaction source, before using the agent. **Only 6% of banking agent users still use the branch as primary point of sale.**

Who are the 10% not using agents?

- **Banked and not using agents:** (n=91)
 - Half is older than 40 years.
 - Either with income below US\$100/month (23%) or above US\$701/month (22%)
 - 56% is banked
- **Unbanked and not using agents:** (n=44)
 - 77% is either below 24 or over 50 years old.
 - 92% claim to conduct payments mostly at branches
 - As reasons for not using other point of sale, they state that they do not know about the service, or that they do not need it.

Non-POS user 10%	
Banked 56%	Unbanked 44%

II. Banking agents reach poor clients



SEC E
(n=288)

SEC D
(n=419)

SEC C
(n=44*)

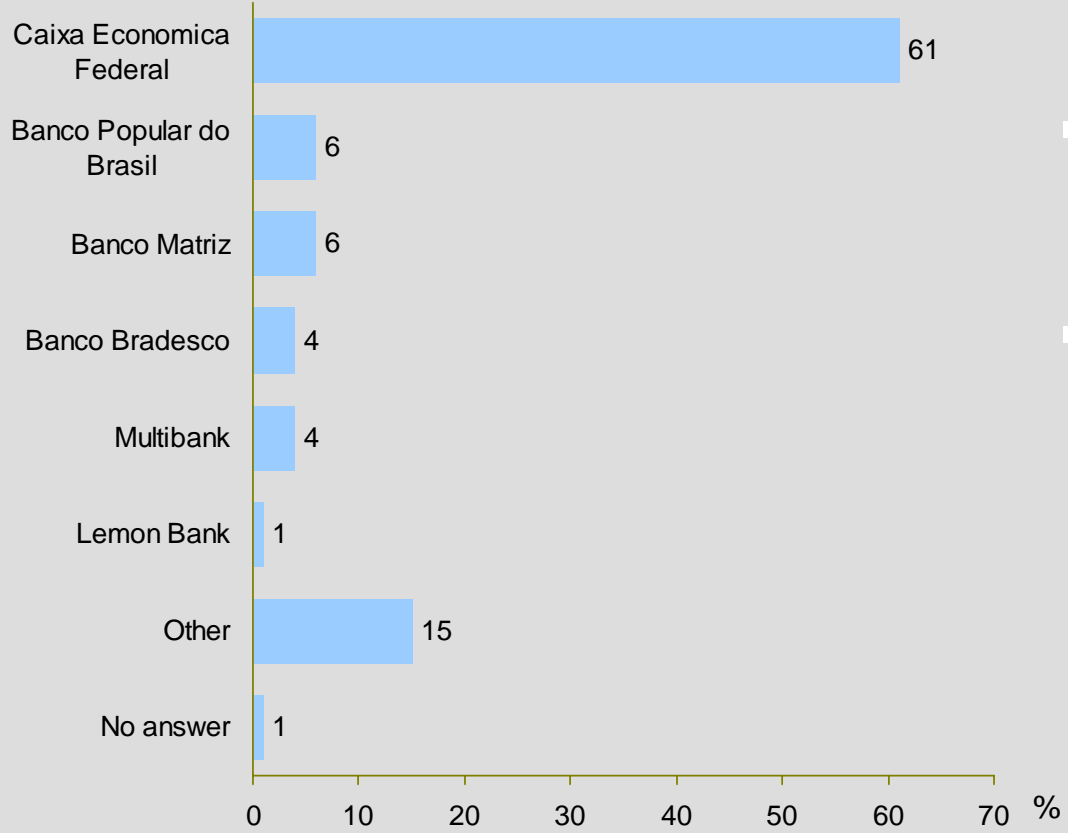
- Poorer segment E clients are more likely to have a “simplified” account (34%) to receive their welfare payments which they access at lottery houses.
- 32% of segment C has credit cards and 11% use ATMs.
- Around 40% of all segments still use the branch.

Agents can reach low income clients. In previous years, Brazilian banks have primarily targeted client segments A-C*. By providing poorer clients with bank accounts, agents play an important role in serving these groups.

* The Brazilian economic classification ranges from A to D and is based on household assets, income, and education level of the head of household

Poor clients use agents to receive their benefits

(n=661)



- Caixa Economica Federal is ten times more likely to be used most often than any other POS.
- 62% of Caixa users, receive benefits.

Poor clients seem to choose the type of agent based on convenience. Lottery houses of Caixa Economica have the largest coverage, i.e., in all municipalities, and clients have to go anyway to receive their benefits.

What about illiterate clients?

(n=115)

■ Financial access:

- Majority is banked (62%) and over 50 years old (77%)
- More likely to have a “simplified account”*, i.e. receive government benefits (55% vs 27% of total sample).

■ Use of agents:

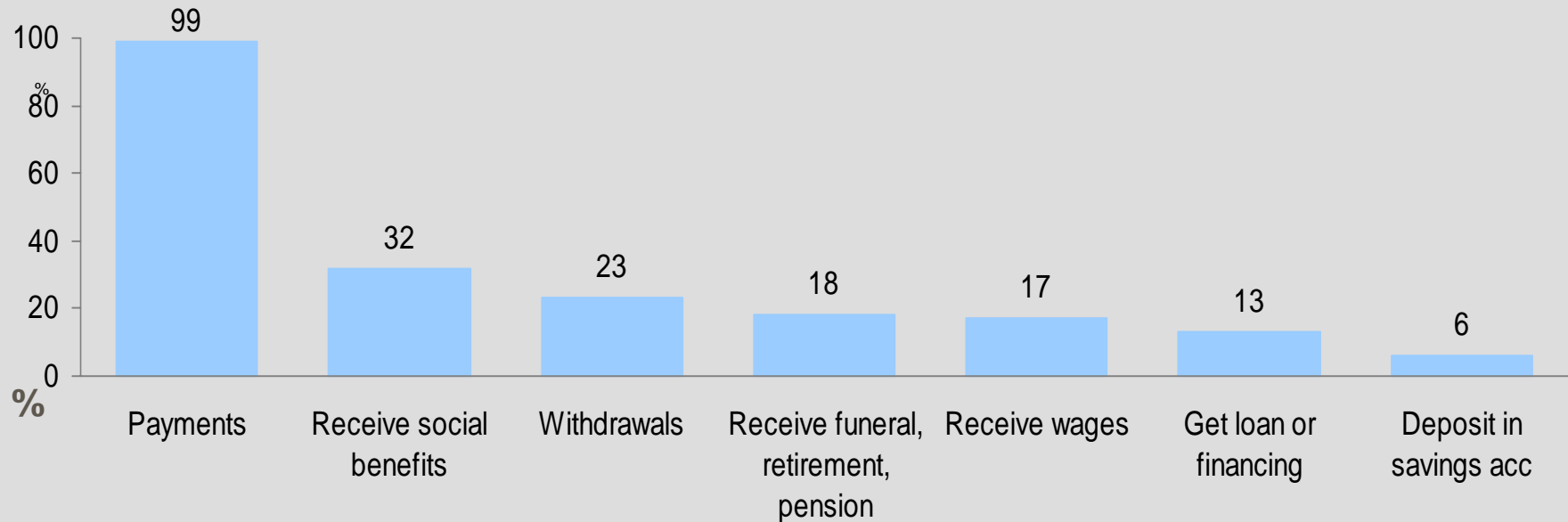
- 82% claim to use banking agents
- Almost same profile with regard to what outlet (e.g., lottery, retail, etc.) is used, with slightly more usage of independent shops, rather than lottery houses.

* A “simplified account” is a government subsidized account for clients with less than US\$400 income/month who do not own another bank account. This account is free of charge and offers a limited number of free transactions per month.

III. Range of transactions is limited

- Banking agents are almost exclusively (99%) used for bill payments
- No transaction conducted significantly more than once a month
- Little use of financial service in general: The majority (87%) of low-income clients has a bank account to receive their benefits, only 6% to save money
 - Less than one in ten has a credit card
 - 13% have an active loan
 - 2% are part of an insurance scheme
 - Only 4% send or receive remittances (international and national)

Clients only conduct payments



Uptake of a wide range of financial services at the agents by poor clients is still a challenge. Almost half the population is banked, but often only to receive their salary and other benefits.

..and almost only once per month

Average frequency per month	1.03	0.93	0.88	0.96	0.95	0.48	0.4
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No transaction happens significantly more than once a month.

Areas for future learning...

- How to **cross-sell financial services** to low-income clients through the agent? Can the agent take over this role, or does the bank have to make the effort?
- What are **demand-driven products** and services which are easy to be offered by the agent, and rapidly adopted by clients?
- What other **marketing activity** (e.g., media, direct sales, financial literacy training) can strengthen the relationship of the client with the bank?
- What is the **appropriate regulatory environment** to support client uptake (e.g., no taxation for transaction below a certain amount, less stringent account opening requirements, etc.)

Research projects under way

Besides in-depth research in Brazil, CGAP will use its learning ventures to learn more about how poor clients respond to banking agents:

- **Colombia**
- **Kenya**
- **Maldives**
- **Mongolia**
- **Pakistan**
- **The Philippines**



Australian Government
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Building Financial Systems for the Poor



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Annex: Specifics that impacted our research

- In Brazil, **74 financial institutions** (57 banks and 17 financial companies) managed 90,000 banking agents* in **all 5,561 municipalities** of the country.
→ Access is not the problem!
- Government **delivers benefits** through lottery houses of state bank Caixa Economica. Every recipient of benefits, but also salaries, has to have a bank account, often a “simplified account.”**
→ Having a bank account does not imply full use financial services.

Source: Kumar, Anjali. *Expanding Bank Outreach through Retail Partnerships*, CGAP analysis

* The 90,000 number includes banking agents in shops, but also special attendance points in public and private companies, as well as mini-branch-like outlets. When only counting the banking agents in retail and postal outlets of the largest financial institutions, the number of points shrinks to around 58,000.

** A “simplified account” is a government subsidized account for clients with less than US\$400 income/month who do not own another bank account. This account is free of charge and offers a limited number of free transactions per month. This special account can be offered by any financial institutions, but has primarily been offered by public banks, since it is often not profitable.

Annex: Details of sample

Sociodemographic:

- 71% female, 29% male
- 60% with household income less than US\$400/month
- 95% of poverty levels D and E*

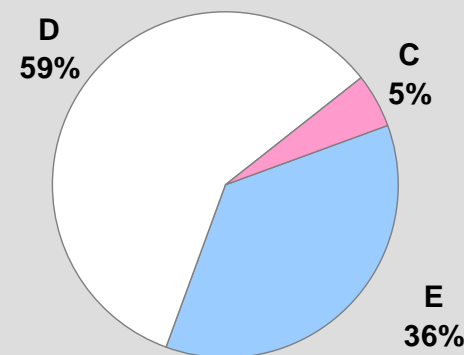
Education:

- 50% of elementary school or less
- 13% illiterates

Access to finance:

- 51% have a bank account.
- 99% transact not more than once a month.
- Urban populations need 16min, rural populations 34min to the next point of sale.

Economic classification:



** The Brazilian economic classification ranges from A to D and is based on household assets, income, and education level of the head of household