



**Experience in Supervising Banks
and Nonbanks Operating through
Agents**

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Part I: Research Methodology

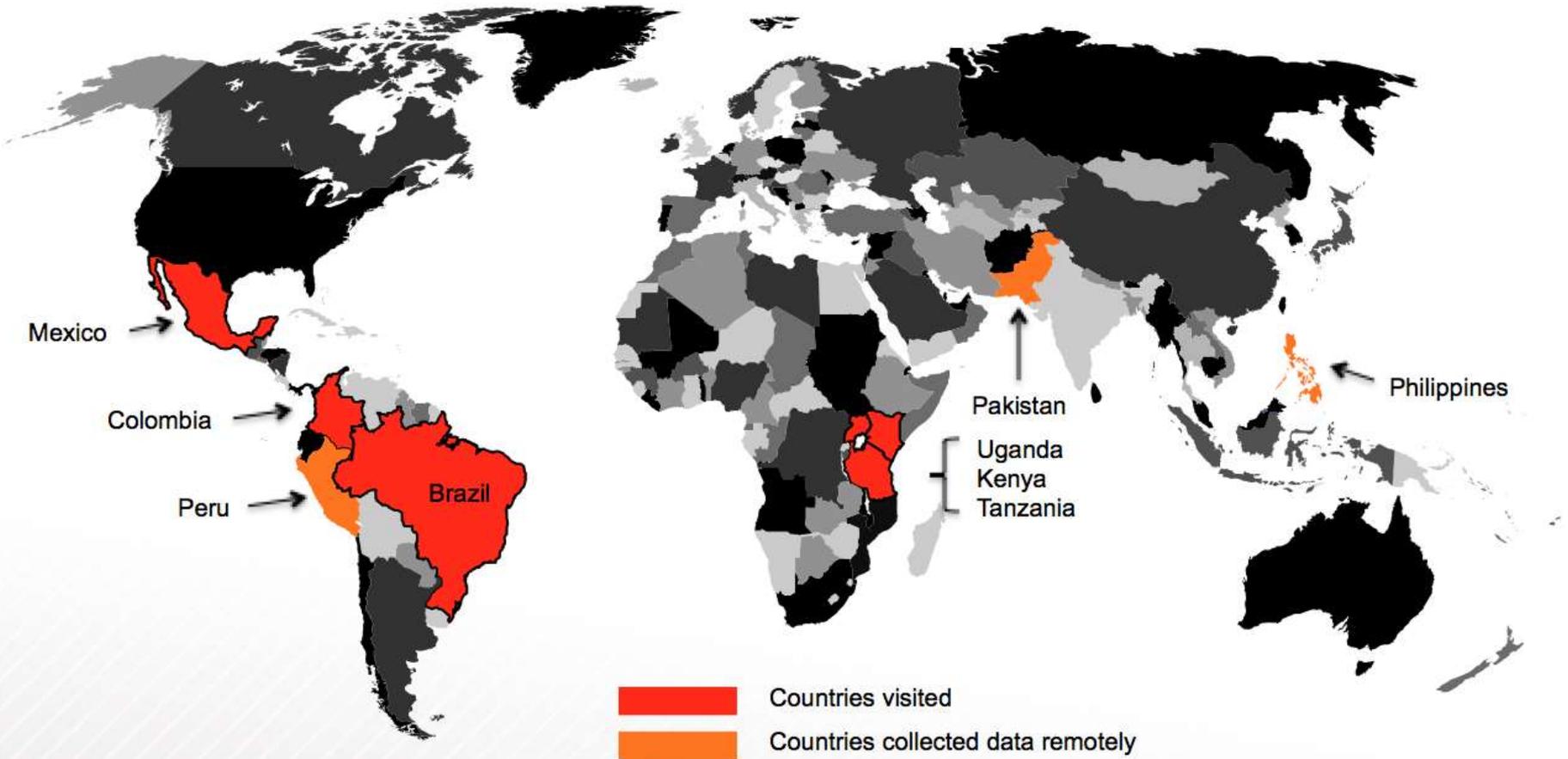
Research methodology

Objective: Building the evidence base on supervisory approaches and tools

1. Chose a sample of countries with well-established, large agent networks across different continents and using different models (bank and nonbank agents)
2. Visited most of them to collect more detailed information talking primarily to supervisors, but also to providers and other sector experts
3. Collected relevant information (sorted in the order of accessibility)
 - Sector data
 - Supervisory processes
 - Reporting formats
 - Supervisory tools (manuals, checklists, etc.)
4. Structured evidence and distilled insights for supervisors on implementing an effective risk-based supervisory approach

Research methodology

Objective: Building the evidence base on supervisory approaches and tools



Twofold outcome of research

“Supervision of Banks and Nonbanks Operating through Agents”

- Main audience: Supervisors and other interested parties
- Summarizing current practice and distilling insights for supervisors

“Experience in Supervising Banks and Nonbanks Operating through Agents”

- For a broader audience
- Focusing on general observations

More in-depth research at country level will allow to test the validity of the recommendations



Part II: General Observations from Research Countries

Bank and nonbank agents in the sample countries*

Date in brackets

	Tanzania	Kenya	Uganda	Brazil	Colombia	Pakistan	Peru	Philippines	Mexico
# of bank agents	600 (05/14)	24,000 (03/14)	0	377,300 (1/15)	49,100 (12/13)	204,100 (12/14)	20,900 (06/14)	0	25,600 (09/13)
# of nonbank agents	157,000 (05/14)	125,000 (08/14)	63,000 (06/14)	0	0	0	0	24,000 (12/13)	0
Total # of agents	157,600	149,000	63,000	377,300	49,100	204,100	20,900	24,000	25,600
Total # of agents per 100,000 adults (15+)	580	580	325	248	140	170	97	37	30

*Data for total agents as well as data for active agents is not available for all countries. All data provided by supervisory authorities, country population data from World Bank.

Current trends with relevance for agent supervision

Nonbank agents becoming more common in Latin America and bank agents more common in Africa → learning from each other?

Growth in size of agent networks → is this a reason for the supervisor to get more involved or rather to rely even more on the provider to manage its agent network?

Growing diversity of actors: agents, sub-agents, super agents, agent network managers, aggregators, etc.
→ what are the implications for supervisors?

Increasing number of agents working for multiple providers → implications for agent supervision (e.g. with different reg. framework for bank and nonbank agents)?

What are the risks supervisors are concerned about?

Consumer risks

- Main concern of supervisors and one that receives increasing attention
- Issues such as fraud, unauthorized fees, lack of receipt, lack of liquidity (cash at agent), system downtimes, inadequate dispute resolution, abusive treatment

Operational risk

- The other main concern of supervisors as agents as a new channel give rise to new operational risks
- Issues such as IT continuity, contingency planning, and internal controls

Money laundering and terrorist financing (ML/FT) risks

- Transaction limits mitigate ML/FT risks
- The supervisors' focus on ML/FT depends on importance of the topic more generally (e.g., a high priority in Pakistan)

Current practice in agent supervision

Agent supervision is still an underdeveloped area in the majority of countries with the exception of a few countries that have created comprehensive and detailed supervisory frameworks, encompassing all phases, from licensing to monitoring, from inspections to enforcement.

The majority of countries have not yet fully developed their supervisory procedures to identify and mitigate agent risks, acting on a more reactive and ad-hoc basis.

The approach in supervising agents varies considerably depending on the overall approach taken by supervisors (with some being more intrusive and some more lax in supervising the financial sector)

In the countries where nonbanks (e.g. mobile money providers) have extensive agent networks (e.g. Tanzania), there is disparity in the approach to supervising bank-based vs. nonbank-based agents

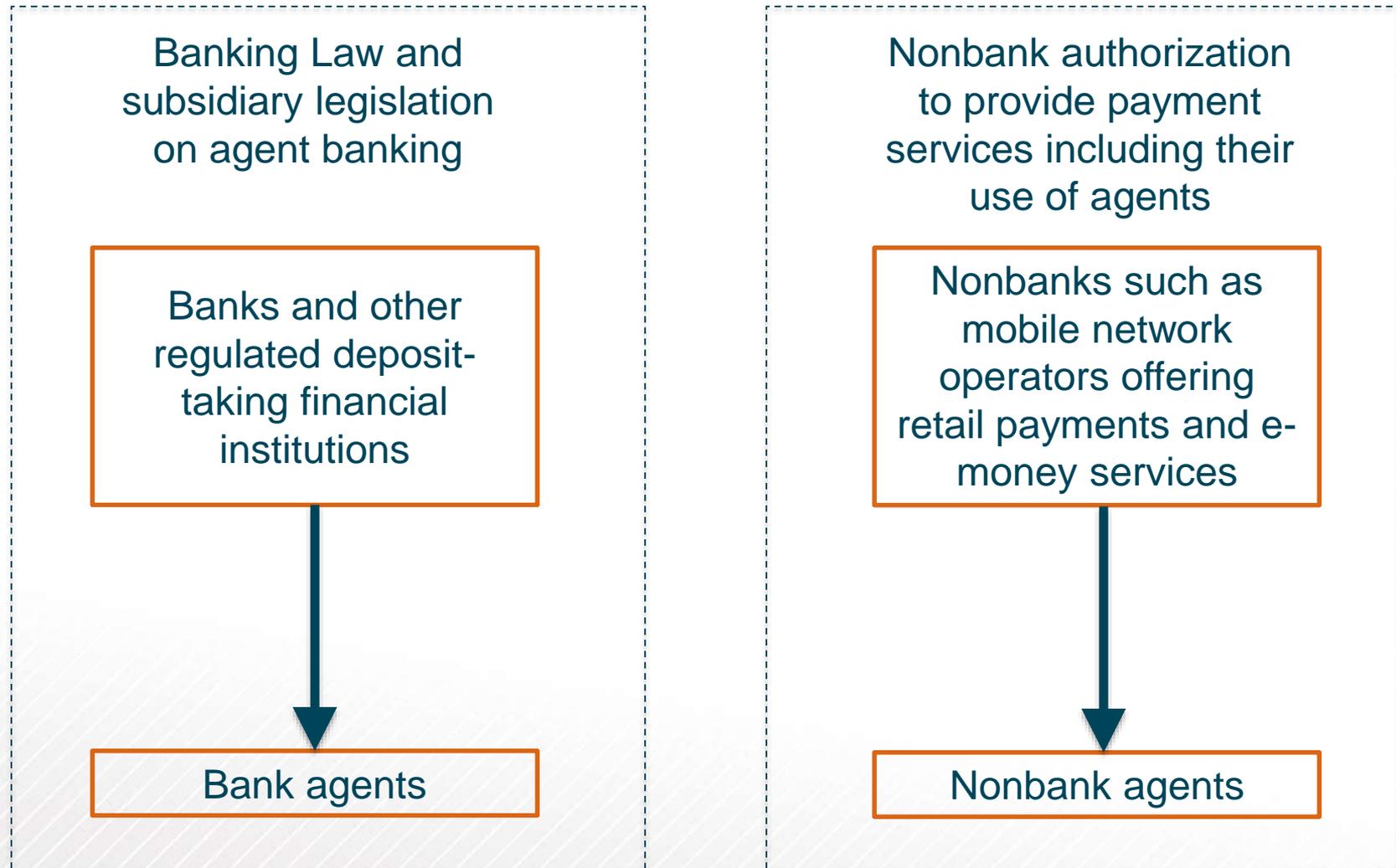




Part III: Country Overview on Regulation and Supervision

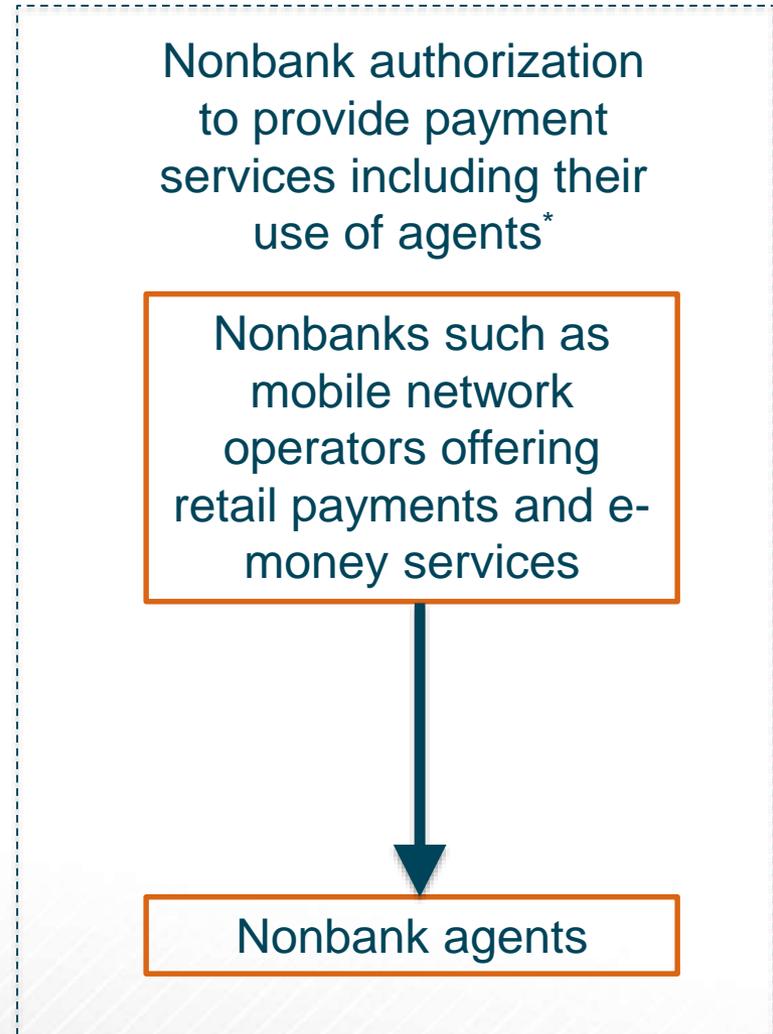
Specific set of regulations for bank and nonbank agents

Ex: Kenya, in the pipeline for Tanzania and Uganda



Specific set of regulations for nonbank agents

Ex: Uganda



Specific set of regulations for bank agents

Ex: Mexico, Tanzania (no separate regulations for nonbank agents)



General agent regulation applicable to banks and nonbanks

Ex: Brazil, Colombia, Ghana, Peru

Agent Regulation applicable to all regulated financial institutions making use of agents as a channel

Banks and other regulated deposit-taking financial institutions

Nonbanks such as mobile network operators offering retail payments and e-money services

Bank and nonbank agents

The legal framework for agent regulation and supervision

	Tanzania	Kenya	Uganda (only nonbanks)	Mexico (only banks)
Legal basis for operating agents (year in brackets)	Banks: Agent Banking Guidelines (2013)	Banks: Agent Banking Guidelines (2013)	Banks: prohibited to use agents	Annex to Banking Act (2008)
	Nonbanks: only broad authority under BOT Act	Nonbanks: National Payment Systems Regulations (2014)	Nonbanks: Mobile Money Guidelines (2013)	
Supervisory authority	Banks: BOT Directorate of Banking Supervision	Banks: CBK Supervision Dept.	BOU: Commercial Banking Department (Supervision Function)	CNBV: Supervision of Operational and Technological Risk
	Nonbanks: BOT Directorate of Payment Systems	Nonbanks: Payments Division (soon to be Department)		

BOT: Bank of Tanzania; CBK: Central Bank of Kenya; BOU: Bank of Uganda; CNBV: National Banking and Securities Commission

The legal framework for agent regulation and supervision (contd.)

	Colombia (only banks)*	Pakistan (only banks)	Brazil (only banks)*	Peru (only banks)*	Philippines (only nonbanks)
Legal basis for operating agents (year in brackets)	Decrees authorizing SFC-licensed institutions (2006)	Branchless Banking Regulations (2008, revised in 2011)	Agent regulations updated continuously since 1970s, latest version Resolution 3954 (2011)	Circular B2147 (2005)	Circular 471 (2005)
Supervisory authority	Superintendencia Financiera de Colombia	SBP: Banking Policy and Regulation Dept. and Banking Inspection Dept	Central Bank of Brazil, Supervision Dept and Market Conduct Supervision Dept	Banking Superintendence, Supervision Dept and Consumer Protection Dept	BSP: Core IT Specialist Group

*These countries have recently adopted e-money regulations allowing for nonbanks to use agents, but operations have not been launched yet

SBP: State Bank of Pakistan; BSP: Central Bank of Philippines

The lack of legal authority with regard to nonbanks can create challenges in supervision and enforcement

Tanzania

- Mobile Payments Regulations still in draft form, Payments Law has passed (2015)
- 'Letter of no objection' instead of license
- Electronic Payment Services Guidelines provide authority to impose penalties and sanctions

Uganda

- The Mobile Money Guidelines require nonbanks to partner with licensed financial institutions, with only the latter getting approval from BoU and carrying the regulatory risk
- No legal power to license nonbanks (waiting for Payments Law)

Kenya

- Regulations for nonbanks have only been adopted in 2014 and supervisory framework only being set up now
- Despite being one of the largest agent networks in the world, previously only regular meetings and some basic reporting (without sanctions other than withdrawing the letter of no objection)

Authorization and ongoing supervision

	Tanzania	Kenya	Uganda (only nonbanks)	Mexico (only banks)
Authorization for channel use	Nonbanks: No separate authorization	Nonbanks: No separate authorization	No separate authorization	Authorization
	Banks: Authorization	Banks: Authorization		
Authorization for individual agents	Banks: In bulk	Banks: In bulk	None	Only notification plus regular certification by bank
	Nonbanks: None	Nonbanks: None		
Onsite inspection	Banks: Authority to visit banks and agents (but BOT has not done so yet)	Banks: Inspection of bank & sample of agents	Not regularly, but one examination of mobile network operator (not of agents)	Yes, banks periodically and agents mostly at time of authorization
	Nonbanks: only visits to providers, not to agents	Nonbanks: only visits to providers, not to agents		

Authorization and ongoing supervision (contd.)

	Colombia (only banks)	Pakistan (only banks)	Brazil (only banks)	Peru (only banks)	Philippines
Authorization for channel use	Authorization	Authorization	No authorization required	Authorization	None
Authorization for individual agents	None for individual agents, but approval for new retail network	None	None	None	Yes, individual license as remittance agents
Onsite inspection of provider and agents	Once every 2-3 years, agents not at time of authorization, but only later (small sample of agents)	As part of regular inspection of banks with visits to sample of agents	Yes, but considered minor operational risk. Consumer risk most important. Agents visited rarely	Yes, focused on consumer and operational risks	Yes, providers visited with focus on agent selection and risk management; individual agents visited rarely

Offsite surveillance and overall assessment of supervisory intensity

	Tanzania	Kenya	Uganda	Mexico	Colombia
Offsite Surveillance	Periodic reports on aggregate level; broken down by municipality (Mexico), county (Kenya)				
Overall assessment	Medium touch with limited legal authority for nonbank agents	Light touch for nonbank agents, medium touch for bank agents	Light touch for nonbank agents	Heavy touch especially on authorization, but not so much on individual agents	Medium touch (initially frequent authorization for changes in model contract)

Offsite surveillance and overall assessment of supervisory intensity (contd.)

	Pakistan	Brazil	Peru	Philippines
Offsite Surveillance	Periodic reports; AgentChex with monthly and need-based reporting on individual agents currently being rolled out	Aggregate transaction data every 6 months; basic information on individual agents permanently updated online	Monthly reports on aggregate level broken down by municipality	No periodic reporting, but specific requests by the BSP on an ad hoc basis
Overall assessment	Medium touch, moving towards heavy touch with launch of AgentChex (focus on offsite)	Light touch with no authorization and limited reporting	Light touch with streamlined authorization and limited reporting	Light touch with putting onus on provider and no regular reporting



Part IV: Supervisory Tools and Techniques

Authorizing the use of agents: Observed tools and techniques and recommendations

	Current practice	Examples	Recommendation
Authorization of channel use and of individual agents	<ul style="list-style-type: none"> • 1 or 2 stage (channel authorization and authorization of individual agents) • One-off or periodic 	<ul style="list-style-type: none"> • 2 stage: Tanzania and Kenya with regard to banking agents • Periodic certification by the bank in Mexico 	<ul style="list-style-type: none"> • Risk of delaying agent rollout/closure; overstressing supervisory capacity → no approval of individual agents (or If required, then permit bulk approval) and only new authorization for significant changes to original agent business proposal
What to check at time of authorization ?	<ul style="list-style-type: none"> • Review model contract • Business and operational plan • Financial projections • Agent due diligence docs and agent roll-out plan • IT infrastructure 	<ul style="list-style-type: none"> • Colombia (see next slide) 	<ul style="list-style-type: none"> • Opportunity to bar poorly designed agent businesses • Use model agent contract to be approved by supervisor or min. standard clauses • Check contracts with third parties such as aggregators • Look at agents as part of broad operational risk review of the supervised entity

Example of authorization process for use of agents in Colombia

Looking at operational risk (SARO) and money laundering risk (SARLAFT)

La SFC autoriza el uso de corresponsales evaluando aspectos en administración del riesgo operativo y (SARO) en riesgo de lavado de activos y financiación del terrorismo (SARLAFT)

SARO

1. Identificación y gestión para mitigar los riesgos asociados a la prestación de este servicio.
2. Ajustar manuales de funciones, procesos y procedimientos, planes estratégicos, planes de continuidad del negocio y contingencia y mapas de riesgo.
3. Complementar los mecanismos de control interno y ajustarlos a las nuevas condiciones de los CB.
4. Adoptar políticas y establecer procedimientos para la selección, vinculación, capacitación, realización de pruebas, operación y desvinculación de los corresponsales.
5. Definir una fase de acompañamiento por parte del establecimiento de crédito, al inicio de la operación de cada corresponsal y la disposición de los medios locales y remotos que le suministren la ayuda y el soporte.

SARLAFT

1. Traducir los requerimientos del sistema de administración de riesgo de LAFT a la prestación de este canal en lo que sea aplicable.
2. Definir los deberes del corresponsal, dentro de los cuales se puede incluir la posibilidad de brindar soporte a la entidad en las gestiones necesarias para el conocimiento del cliente.

Good Practice:
Clear criteria broken down by risk category

Ongoing supervision: Observed tools and techniques and recommendations

	Current practice	Examples	Recommendation
Inspecting providers	<ul style="list-style-type: none"> • Targeted inspection vs. being part of regular inspections • Transaction simulations • Agent due diligence procedures • Internal controls • Access rules to IT system • Etc. 	<ul style="list-style-type: none"> • General review of regulatory compliance in Brazil • Review of agent business as part of operational risk review in Colombia and Peru 	<ul style="list-style-type: none"> • Consider materiality of agent business for the provider • Make use of offsite analysis and previous onsite inspections to plan for visits • Focus on headquarters and review of risk management program • Also visit agent network managers if heavily involved in operation of agents • Check quality of reporting process
Offsite surveillance	<ul style="list-style-type: none"> • Wide range of intensity from detailed database with data on agent level to no regular reporting on agent activities • Quality of reporting? 	<ul style="list-style-type: none"> • AgentChex system in Pakistan; more hands-off approach in Brazil 	<ul style="list-style-type: none"> • Only collect information that feeds into the risk assessment or serves other regulatory purposes (e.g., financial inclusion monitoring) • Automated process • At a minimum quarterly reporting on aggregate level

Example of agent supervision manual from Mexico



DIRECCIÓN GENERAL DE SUPERVISIÓN DE RIESGO OPERACIONAL Y TECNOLÓGICO

FORMATO DE CERTIFICACIÓN INTERNA COMISIONISTAS (FCIC)

México, D.F. a XX de XXXXXX de XXXX.

Las pruebas realizadas (Certificación) y la información que se presente en este formato, debe ser completada por un área del Banco independiente y que no sea parte del flujo de implementación de operaciones con Comisionistas, preferentemente apoyarse de un área de Control Interno o Auditoría Interna del Banco¹. Este formato debe ser entregado a la CNBV antes de iniciar el proceso de visita para la autorización de Inicio de Operaciones.

1. Especificar el detalle de los Comisionistas con los que se pretende obtener autorización para el Inicio de Operaciones, con base en el Padrón² entregado durante la autorización del Plan Estratégico de Negocios.

Nombre del Comisionista	Formato de Tienda, Tipo de Establecimiento o Marca Comercial	No. Total de Tiendas	No. de Tiendas Certificadas por la Institución
<Comisionista 1>	<Formato 1>	0	0
	<Formato 2>	0	0
	<Formato N>	0	0
	Total	0	0
<Comisionista 2>	<Formato 1>	0	0
	<Formato 2>	0	0
	<Formato N>	0	0

Good Practice:
Few countries seem to have separate agent supervision manual

Ongoing supervision: Observed tools and techniques and recommendations (contd.)

	Current practice	Examples	Recommendation
Inspecting agents	<ul style="list-style-type: none"> • Random sample • Targeted samples according to certain criteria (top/worst performers, most fraud cases, most complaints, etc.) • Mystery shopping • Most countries don't do this on a regular basis 	<ul style="list-style-type: none"> • Mystery shopping for consumer protection purposes in Peru • Brazil as part of thematic reviews 	<ul style="list-style-type: none"> • Inspect individual agents only with very clear supervisory purpose (e.g. To check price disclosure, conduct transaction simulations, audit particularly problematic agents) and prioritize targeted sampling
Enforcement actions	<ul style="list-style-type: none"> • Wide range of measures available vs. only withdrawal of letter of no objection • No serious enforcement actions have been taken yet 	<ul style="list-style-type: none"> • Uganda and Tanzania: withdrawal of letter of no objection (in UG this has been effective to enforce non-exclusivity) • Mexico: requested changes in data security features 	<ul style="list-style-type: none"> • Sufficient enforcement powers needed including for changes in contracts, suspending or prohibiting certain practices, and penalties

Pakistan's AgentChex as example of comprehensive database used as offsite supervisory tool

Online submission of agent data into specialized web portal with some data updated monthly, others on need basis

Includes data points on, among others:

- Date of last training received by agent and training hours
- Agent education
- Agent status (normal, under warning, suspended, terminated, blacklisted) as categorized by the bank
- Electronic Credit Bureau report
- GIS coordinates
- Number of complaints against agent
- Etc.



The degree of engagement of supervisors varies widely

Pakistan

- Comprehensive diagnostic on agent operations in 2013 (may be repeated)
- Currently populating AgentChex database as an “agent reference bureau”
- Quarterly Branchless Banking Newsletter with detailed industry data based on separate data request
- Separate report on fraud and complaints

vs.

Brazil

- Agents not considered priority risk for supervisor
- No regular reporting on agent operations besides aggregated data for retail payment system statistical monitoring (twice a year).
- No individual agent monitoring or inspection if no strong reason
- Agent risk and blacklisting seen as industry's role, not supervisor's
- Eventual agent checks only for consumer protection purposes, focused on loan sales practices



Part V: Supervisory Structure and Capacity

It depends on local context where best to locate the responsibility for agent supervision

- Bank supervision dept. typically has relevant experience with supervision
 - Often split in onsite and offsite teams, with the former organized in smaller groups for specific types of financial institutions
 - Mexico has also specialized risk teams (e.g., operational risk)
- Payment system dept. might be involved regarding nonbank agents and has necessary expertise in retail payment oversight, but lacks onsite experience
 - Both depts. might be involved if regulatory framework is different for bank and nonbank agents
- There might also be a separate consumer protection dept. and financial intelligence unit
- Most important is level playing field (→ same risk = same level of oversight), to make the best use of pre-existing knowledge, resources and skills, and ensuring effective coordination among different departments

Capacity and qualification of supervisory staff

Agent supervision may be conducted by generalists with specialized training on IT issues

- Drawing on IT specialists might be an option for specialized IT inspections, but not needed in all cases
- Good understanding of the agent business and how providers manage agents and agent risks
- While many researched supervisors organize in-house and external trainings, only Brazil has conducted specific training on agent supervision
- Supervision manuals are useful tools to advance supervisory capacity





Part VI: Common Challenges and Potential Solutions

Some common challenges in supervising providers operating through agents and early insights on how to address

Implementing a truly risk-based approach focusing on provider risk management process:

- Risk-based approach defined as rationalizing the use of scarce supervisory resources by focusing on issues posing the highest risk to the achievement of the main policy objectives of inclusion, stability, protection and integrity. Some supervisors continue applying a compliance-based system that may not focus on the highest risk areas.
- Use materiality tests considering the risk of the agent business to the system as a whole and to individual institutions

Building sufficient capacity and qualification of supervisory staff

- Pragmatic solution building on existing supervisory know-how and optimizing use of scarce resources

Some common challenges in supervising providers operating through agents and early insights on how to address (contd.)

Collecting relevant data

- Granularity of data varies significantly across supervisory authorities; financial service providers should understand why data is being collected and supervisor should only seek information that they have capacity to use/analyze, and check on its reliability
- Data should not only look at individual agents, but also consider the effect of agent business on the providers (e.g., share of the business conducted through agents rather than conventional channels)

Creating a level playing field in supervising bank and nonbank agents

- Issue general rules applicable to banks and nonbanks and considering risks depending on type of products offered, not on who is the provider
- If separate departments are in charge, closely coordinate

CGAP

Advancing financial inclusion to improve the lives of the poor



Foreign Affairs, Trade and
Development Canada
Affaires étrangères, Commerce
et Développement Canada



BILL & MELINDA
GATES foundation



MetLife Foundation
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