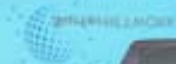




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# Multi-channel Approach to Expand Financial Services



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Mobility of financial services is key to enhancing outreach, whether they are serviced via smart branches with ATMs or ...



Via mobile  
branches using  
Point of Sale or ...



Via customer service points/fulfillment centers using combination of POS and cell phones



Deployment of correspondent networks changes the geography of access



# Branchless Banking Ecosystem is evolving

- Use of innovative channels like network of franchises and retailers using enabling technologies like bio-metrics, POS/ATMs and cell phones.
- Convergence of payments and mobile communications is inevitable. Use of cell phone on a P2P basis may take time for adoption in developing economies
- However, limitless opportunities for financial inclusion exists.
- Commercial Banks and card associations are very important for this initiative.



- There is availability of various enablers across the developing countries for bank-led, Telco-led or hybrid.
- It is important for MFIs/ MFBs taking initiative to ensure that the ROI on the project is favorable and the delivery cost is lowered for the benefit of the end user.
- Non-cash transactions in the developing world carries a high cost which prohibits the BOP customers to participate.

# Use of Agents in Banking

## Financial Services

I- MFB to Business Correspondents/ Franchisee Model

II- MFB to Customer Service Points Model

## Credit Products

I- Bank to Bank model (Correspondent Banking)

II- Bank to MFB model (On Lending)

III- MFB to MFI/NGO/SHG (back office outsourcing rather than front office or retail)



A very strong assumption is that the transactions taking place are recorded online on the bank hosted systems

# Franchisee and Product Set Possibilities

## Franchisee

- Banking & Financial Institutions
- Insurance Companies
- Government Agencies
- Post Offices
- Merchants/National Retail Chains
- Quick Service Restaurants
- Money Remittance Companies (Domestic, International)
- Pawnshops
- Content Service Providers
- Application Solution Providers
- Distributors/Sub-distributors
- NGO/Cooperatives/Other MFI

## Product Set

- Over-the-Counter Debit/Credit/Prepaid payments including air time
- Micro-credit disbursement and usage
- Inward and outward remittances
- Domestic Money Transfers
- Prepaid and postpaid bills
- Utility bills
- Insurance premium collection
- Other innovative products like pension, old age benefits etc. can be also included in future

# Role of Franchisee

## Banks must evolve an accreditation policy

### As Business Correspondents

- ➔ Awareness generation
- ➔ Enrollments of customers, AML / KYC
- ➔ Training of operators
- ➔ Cash handling and cash management
- ➔ Coordination with other banks for settlement
- ➔ Providing sustainable revenue streams for Agents

### As Customer Service / Fulfillment Points / Agents

- ➔ Providing transactions:
- ➔ Cash Deposit
- ➔ Cash Disbursal
- ➔ Account-to-Account Transfer (SIM to POS card to Bank hosted)
- ➔ Statements
- ➔ Maintenance of equipment
- ➔ Safekeeping and daily reconciliation of cash
- ➔ Awareness generation within peri-urban and rural areas
- ➔ Coordination with and reporting to Franchisee / Business Correspondent



# Focus on Products and Utility of Delivery Channel

## FOCUS

- End-to-End technology driven system.
- Automatic generation of MIS and records, reports.
- Fool proof Identity
- Should be simple to use (even by relatively illiterate operators)
- With minimal training needed
- Should deliver reduction in transaction costs
- Both Offline / Online operation for usability in all conditions
- Should cater for versatile product mix and multiple products via single channel.

## Utility

- Fraud Detection: Identity Profile with biometrics (fingerprint+photo)
- Deposit products (no-frills/ basic banking; Targeted; Term; Current)
- Micro-Insurance products
- Credit products
- Cash withdrawal facility
- Cash deposit facility
- Account-to-account fund transfer (SIM to POS to Bank Hosted)
- Record of last 10 transactions
- Cashless Payments to Merchants
- Other innovative products from the Bank

*Promote true Financial Inclusion of unbanked and under-banked*

*Versatile suite of financial products to serve all kinds of customers*

# Risks of agent based banking and mitigants

RISK	DESCRIPTION	APPROACH
Regulatory Account opening	That the regulations do not allow a micro finance bank to use agents to open accounts and/or provide cash in and cash out services.	Legal clarification of existing regulations, lobbying and finally alternative solutions such as bank employee managed kiosks at retailers / business correspondents.
Operational for bank	System reliability; losses due to problems with system integrity; or misuse by retail agents or customers.	Regulator sets out requirements with respect to system reliability and check to ensure that the requirements are met. Regulator has 'look-through' authority to examine operations/accounts of agent.
Operational for agent	Theft or robbery, misuse by insufficiently trained staff.	Bank responsible for investigating competence of retail agents and providing training. Low value of transactions per agent. Complete Compliance before agency agreement.
Operational for customer	Fraud perpetrated by agent; technical errors that improperly credit customer account, disclosure of sensitive customer information.	Bank (principal) directly responsible for acts committed by agent (whether intentional or accidental) acting on its behalf; right of redress for customer against bank rather than agent, consumer education by banks. Access to Call centre for client, mandate certain levels of data security and 'look see' power to examine.
Credit for bank	Risk that retail agent will not pay bank after bank credits customer's account.	Contractual relationship with business correspondents, recommended by franchise holder after adequate long term relationship and track record of credit management.
Credit for agent	Risk that bank will not compensate retail agent that pre funds customers.	Real time settlement and limits in contract for level of any pre funding by agent if system down.

# Risks of agent based banking and mitigants

RISK	DESCRIPTION	APPROACH
Credit for customer	Risk that deposits will not be properly credited to bank account.	Retail agent issues receipt form POS and/or SMS received on customer's phone confirming deposit. Direct right of redress to bank. Access to Call centre and central bank's customer complaint. Customer education.
Legal risk	Risk of non-conformity with laws and regulations, which will be high with this new model.	Bank responsible for extra legal actions by agent. Needs to ensure adequate contract with agent regarding liability.
Liquidity for bank	Risk of liquidity shortfall if bank finds it difficult to track agents liquidity demands.	Real time settlement systems. MFBs <b>MUST BE ALLOWED TO PARTICIPATE IN</b> Central Bank's settlement/payment system.
Liquidity for agent	Inability to meet customer demands for cash, especially if in remote location.	Contingency planning by bank, set maximum withdrawals per agent per day, require advance notification of large withdrawal requirements, information to clients re next closest agent, educate to maximize electronic transacting.
AML/CFT	Risks that agents are used as channel for money laundering or terrorist financing.	Banks held responsible for ensuring customer due diligence and accounts opened by bank employees, limit size of transaction that can be performed by agent without review by bank.
Reputational risk for bank	Due to actions by agent including incompetence, fraud, liquidity etc.	Regulator may require authorization or retain right to review credentials of each agent. Regulator may also review for access to system. Contractual relationship with agent and bank, training

# Conclusions

- ➔ **Start with simple products and keep regulatory clarity in mind.**  
Innovation is not easy in banking. The industry has to contend with a entangled web of regulations acting as “speed bumps” that can slow down product and marketing innovation.
- ➔ **Have an internal robust technology infrastructure available prior to experimenting with delivery Channels.** Technology is enabling new entrants into banking services and in-turn changing the cost structure and geography of financial services.
- ➔ **Have processes defined and tested for fraud detection, franchisee training / awareness, operations, customer service, continuity of business at agent locations.**
- ➔ **Have a very clear marketing plan imbedded with customer service in mind and processes to measure them.**
- ➔ **Most importantly, as we anticipate widespread access of new delivery models, the success of innovative delivery of financial service hinges on the trust factor, which means surety, low cost and customer service.**

**Thank You**