Learning paper

AGENCY BANKING: [1]WEIGHING IN ON THE COST AND CONVENIENCE

Agency Banking Pricing: Decisions along evolution

Experiences from East Africa: Pricing decisions against competing value propositions

[1] The basic approach in this paper is to create an understanding of the strategic approaches implemented in a country that is well advanced in agency banking; then juxtapose these with what is obtaining in Nigeria, Ivory Coast and Morocco, particularly from a pricing vs convenience standpoint.

About this paper

This learning paper seeks to focus on how pricing strategies have been applied by banks in trying to create viable agency banking services in West Africa, and to what extent distribution management plays a core value proposition for customers.

The analysis contained in this paper helps frame some of the debate swirling on social media during past year on digital financial services (DFS) channels in Kenya – the birthplace of the hugely popular M-PESA mobile money service. While these unfettered exchanges have tended to offer deeper insights into the many use-cases and experiences of the more than 23 million users of the DFS services on offer, price has increasingly become front and centre within a rather contentious public discourse. The basic argument around price stems from mobile money service attracting probably the highest transaction cost proportion of any payment service, yet still remains the service choice path for a majority of the population.

For context, and to their credit, M-PESA currently has put in place its lowest pricing structure since inception of service more than 10 years ago, most likely driven on the back of greater operational efficiencies. Even though customer fees still average above 10% of the principle transaction value, this pricing structure – that remains inordinately high when compared to similar services offered by competitors – does little to reduce the usage in favour of alternative solutions. One example, *PesaLink*, a local inter-bank money transfer service launched about three years ago by the Kenya Bankers' Association (KBA)[2], slowly gains traction in the market, but still lags way behind the mobile money service; this despite spirited marketing efforts by the banking sector. Never mind that its pricing structure in some instances runs as low as 50% of the comparative price for similar transfer amounts, and gives greater transaction thresholds when compared with M-PESA

And just when it appears the relatively aggressive pricing structure of M-PESA would motivate customers to use the tens of thousands of agency banking locations set up across the country, turns out only three leading banks[3] have made significant or viable implementation to attract retail investment that could compete favorably. In the early days of the MPESA implementation, research[4] suggests that the success of services provided could have been driven by three key components: "*viz"* branding, distribution management and pricing.

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[2] PesaLink, an instant inter-bank money transfer service that has been operational in the country for the last three years.

[3] The three banks are KCB Bank, Equity Bank and Co-operative Banks, which already had significant retail market share in the country.

[4] Mas, I., & Ng'weno, A. (2020, January 17). *Three keys to M-PESA's success: Branding, Channel Management and Pricing.* Retrieved from FinDevGateway: https://www.findevgateway.org/sites/default/files/mfg-en-case-study-three-keys-to-m-pesas-success-branding-channel-management-and-pricing-2010.pdf

Are customers generally insensitive to pricing when solutions address their needs?

Are customers insensitive to the pricing maneuvers by providers or are they more responsive to other value-propositions of the services on offer? To what extent can a provider vary pricing as a mechanism to attract customers to its DFS solutions? Are customers more responsive to the solutions, than the cost at which solutions are delivered to them?

Six of seven financial institutions working with the WSBI across East and West Africa were elected to implement agency banking channels as part of their strategic approach to motivating brown-collar segments of the local populations to engage in savings. It is easy to see why agency banking was a popular option for the providers in deepening financial inclusion. Other than the cost of technology, the direct capital requirement for agency banking network deployment proves significantly lower compared to setting up fully fledged banking halls. Operationally, banks can distribute some of the operational risks and challenges usually resident in banking, including liquidity management, cash handling and financial literacy. This occurs besides the fact that agency banking provides greater convenience for customers, enabling them to access banking services at their door steps and at much more extended and flexible time-schedules, being served by people that are from within the local communities.

It is interesting to note, however, that from the experiences of the partner institutions implementing agency banking, they so far bear witness to some aspects that Kenyans may have already encountered along their own DFS journey. Questions remain for institutions like whether pricing as a strategic approach in motivating customer behavior overrated.

CASE STUDY: FCMB Nigeria: EasyClub for Farmers in the North of Nigeria

With support from WSBI's Scale2Save Programme, FCMB Nigeria has been implementing an agro-value-chain digitisation project, enabling small-holder farmers to access fairly priced inputs, including tractors, fertiliser and certified seed. FCMB intends to also give these farmers direct access to markets and off-takers.

While appreciating their disparate individual or stratified needs – and finding the commonality among aims expressed by farmers to better their lives – FCMB designed financial solutions that cater to these needs. Dubbed *EasyClub* Account, FCMB acknowledges the sensitive aspects of farmer life, namely to ensure remote access to their bank accounts, leveraging and and building around existing limits faced due to infrastructure shortfalls, and using intuitively designed solutions. Operationally, the majority of the farmers served are managed under agro-value-chain aggregators that organise them, negotiate good prices for inputs and also serve as produce guaranteed off-takers. FCMB also convenes these different entities and people.

To achieve this novel approach, FCMB developed a remotely accessible digital application using both smart and feature phones, which enables these small-scale farmers – the majority of whom come from the northern states of Nigeria – to procure quality inputs and best farm-gate prices for their produce. The aggregators and the off-takers also use the *EasyClub* application for resource planning and managing farmer expectations. The *EasyClub* application also provisions for a savings account that enables the farmers to access collateralised loans, and advances from the aggregators and off-takers, but more importantly enables them to track their savings and plan their finances, effectively.

To ensure that farmers can save regularly or access their funds whenever needed, while operating in some of the most rural and remote locations in Nigeria, FCMB has rolled out an agency banking service targeted at locations nearby and easy to access for the farmers.

EasyClub Pricing Strategies to Motivate Deeper Agent Network Distribution

Asked about the pricing decisions FCMB have had to take to drive customers to save, FCMBs Agent Banking Manager Babajide Fatinikun suggests that their current approach remains largely focused on incenting agents to set up and keep their outlets open for business within largely rural agricultural locations.

It appears that FCMB, currently in the initial roll-out stage of its agency banking service, chooses to be less distracted with the customer transaction pricing, which for now is similar to the bank fees customers expect to pay at branch level. The focus of the bank seems instead to be on pricing incentives for agents. And the logic behind this strategic approach – first deepen distribution with reliable, well stocked and trained agent network, then probably later move to creatively implement transaction pricing regimes that support higher number of customer transactions.

Still a grossly under-banked country, Nigeria has huge swathes of territory that still do not present viability for brick-and-mortar branch investment. FCMB has a national coverage of branches, which are mainly located in urban locations. The agency banking service is expected to cover the vast number of rural locations that the bank finds limited viability for brick-and-mortar investment. This focus faces a challenge: the same low-viability basis that limits branch investment in these areas appears to be the same basis that many potential agents would want to stay away from. The bank would like to leverage these agent locations, however, to support its agro-value chain digitisation project that it expects will lift small-holder farmers from the extremes of poverty to regular low-ticket savers.

With just about 500 agents distributed mostly in the northern regions of Nigeria, meantime being expected to support the agro-value-chain project the bank implements by mobilising small-holder farmers to save using digital channels, FCMB has a lot of ground to cover. Its branch network may not sustainably support this ambition.

Given the primary pricing regime focus built around balancing distribution objectives with what the bank can reasonably afford, the question arises whether there is merit in assuming that customers will pay just about anything that FCMB proposes, particularly in locations that are under-banked. FCMB Microfinance Bank CEO Adetunji Lamidi, who also doubles up as the project lead, suggests that at this stage in the implementation that customers are willing to pay extra fees over the counter and above the published costs of transactions, particularly to agents who operate in deep rural locations, where alternatives are limited. It does appear that this is a practice that is common across all providers implementing agency banking services in Nigeria.

Key Take-Aways:

Across the different geographies, from the East to the West of Africa, it is evident some common pricing strategies could potentially be employed, with of course variations to suit the local conditions. Key amongst the learnings that could be used to influence strategic design, particularly at the beginning of the agency banking network roll out, include the following take-aways from the Scale2Save programme, to-date:

a. Most agents drop out at the beginning of the roll out, compared to the period of growth and consolidation. It may therefore be prudent at the beginning of the deployment to focus pricing strategies to attract investments and motivate agents to keep outlets open to serve potential customers. If you can keep the service available and functional, the customer pricing structure at the beginning might be of little consequence.

b. Pricing maneuvers, as a strategic approach to motivate customer use of the service, can only be as effective as the technologies and value propositions in place to support the digital channels. At the beginning of the service roll out, customers would be most concerned to validate if the service delivers the functionality promise and meets customer expectations.

c. Failure in the initial deployment of the agency banking service will be very costly for an effective comeback. Customers tend to be highly unforgiving of a solution that does not work out for them or appears to have exposed them to some negative experiences at the beginning of the roll out. No pricing strategy would help you recover from an initially terrible customer experience on customers.

d. If you train agent banking channel partners to fully understand the pricing structure, and how they can optimise their earnings using the agency channel, every opportunity to train a customer to continue transacting more will be seen as an incentive to them. It should be routine to question your own training regime, if a provider has conditioned its agents to imagine that the only time they can contribute to customer literacy and education on the service, is only when the provider bears the cost of customer training.

e. Customers would rather pay for trustworthy services readily available and reliable to them. They will shun cheaper service with lower distribution footprint or less reliability.

f. It may be worth considering a pricing structure that places further incentives for agents operating either under extra-challenging locations or in conditions that attract extra investments and cost impact on them. It would however be foolhardy to implement differentiated pricing to customers, particularly higher fees for customers living in these extra-challenging conditions. The costs associated with running these agent locations may be actually drawn from some marginal fees that can be applied on customers across the country before equitable service access occurs nationally.