HOW TO SUCCEED IN YOUR DIGITAL JOURNEY:

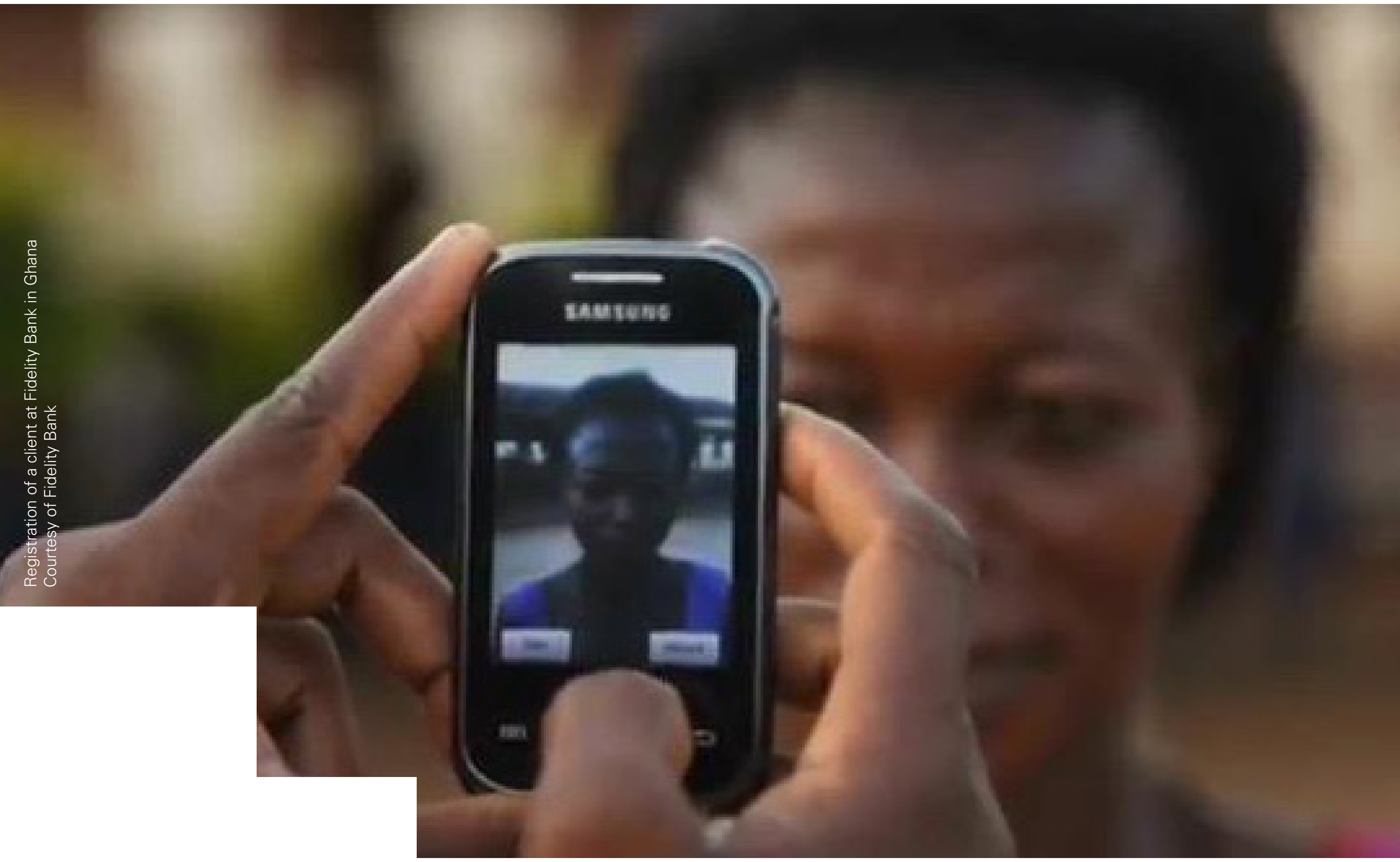
A SERIES OF TOOLKITS FOR FINANCIAL SERVICE PROVIDERS

TOOLKIT #5:
CREATE OWN MOBILE BANKING CHANNEL

PART 2: CASE STUDIES

- EQUITY BANK, UNITED REPUBLIC OF TANZANIA
- FIDELITY BANK, GHANA
- MWANGA COMMUNITY BANK, UNITED REPUBLIC OF TANZANIA

By PHB ACADEMY and MICROLEAD



Registration of a client at Fidelity Bank in Ghana
Courtesy of Fidelity Bank

mastercard foundation
PHB Academy towards financial inclusion
UNCDF MICROLEAD

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LIST OF ACRONYMS

¢	Ghanaian cedi*
ADC	alternative delivery channel
ATM	automated teller machine
BOG	Bank of Ghana
BOT	Bank of Tanzania
CapEx	capital expenditures
CBS	core banking system
DFS	digital finance service(s)
EBL	Equity Bank Limited
EBS	Equity Building Society
FI	financial institution
FSP	financial service provider
GIZ	Gesellschaft für Internationale Zusammenarbeit
HR	human resource(s)
ID	identification
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IT	information technology
K Sh	Kenya shilling*
KPI	key performance indicator
KYC	know your customer
MCBL	Mwanga Community Bank Limited
MIS	management information system
MM	mobile money
MNO	mobile network operator
MTN	Mobile Telephone Networks
MVNO	mobile virtual network operator
OpEx	operational expenditures
PIN	personal identification number
POS	point of sale
SACCO	savings and credit co-operative
SMS	short message service
TSh	Tanzania shilling*
UNCDF	United Nations Capital Development Fund
US$	United States dollar*
USAID	United States Agency for International Development
USSD	unstructured supplementary service data
VSLA	village savings and loans association

***Currency symbols:** UNCDF uses the currency symbol '¢' for the Ghanaian cedi, 'K Sh' for the Kenya shilling, 'TSh' for the Tanzania shilling and 'US$' or just '$' for the United States dollar.

OVERVIEW OF TOOLKIT 5

This toolkit is the **fifth** in a series of six toolkits aimed at supporting financial service providers to integrate digital channels into their service delivery approaches.

It describes a fifth model a financial service provider can choose: **to create its own mobile banking channel internally**. In this model, a financial service provider invests in a mobile banking platform to enable its clients to perform a range of transactions from their mobile phone. (The financial service provider's own agents are used as cash-in/cash-out points.) Transactions impact the core banking system (CBS) in real time and require an integration between the CBS and the mobile banking platform.

This toolkit is composed of two documents:

- The document 'Part 1: Business model description' describes the business model and recipe for success. Two international cases, featuring Accion Microfinance Bank in Nigeria and Urwego Opportunity Bank in Rwanda, illustrate how to successfully implement this model.
- This document, 'Part 2: Case studies,' describes the detailed case of Equity Bank in the United Republic of Tanzania, which has developed agency and mobile banking, and features shorter stories of two other MicroLead partners: Fidelity Bank in Ghana and Mwanga Community Bank in the United Republic of Tanzania.

In this toolkit, the authors use the following definition of mobile banking: the use of a mobile handset as a channel to access/ perform financial transactions on an account that has been opened at a financial institution.

The authors make a clear difference between financial service providers (FSPs) and financial institutions (FIs; banks or non-banks). FIs are a form of FSP. FSPs are broader and cover FIs, mobile network operators (MNOs) and payment service providers. When the term 'FI' is used in this toolkit, the authors refer specifically to financial institutions and non-bank financial institutions but NOT to MNOs and payment service providers.

Since in many cases an FI decides to offer both agency banking and mobile banking, these case studies describe the path of three FIs that have developed both agency and mobile banking, while focusing on the mobile banking channel.

Note that, as deposits (cash-in) and withdrawals (cash-out) still require an agent as intermediary for a mobile banking service, an FI can decide to either leverage an existing agent network (as explored in Toolkit #3) or develop its own agent network (as described in Toolkit #4). Equity Bank, Fidelity Bank and Mwanga Community Bank all decided to develop their own agent network.

In all three cases featured here, the FIs chose to create a link between a client's mobile wallet and the client's bank account at his/her respective institution, which means the client can cash-in/cash-out with an agent and then push/pull money between his/her mobile wallet and his/her bank account. This feature requires a real-time connection between the platform of the MNO and the platform of the FI. This real-time connection has been achieved through integration of the two systems.

In this model, the client is the one performing the transaction; the client only uses an agent to transform physical cash into e-money and vice versa.

The authors recommend reading Toolkit #3 and Toolkit #4 prior to this one. In addition, as suggested in a briefing note (see Appendix B: Key reference publications) published to accompany the entire series of toolkits, the authors recommend reading the following: Mobile Money Toolkit by International Finance Corporation (IFC) (2014); Alternative Delivery Channels and Technology Handbook by IFC, Mastercard Foundation and Software Group (2015); Agent Management Toolkit by CGAP (2011); Digital Financial Services Toolkit for Financial Institutions by Accion International (2016); and Digital Financial Services and Risk Management Handbook by IFC and Mastercard Foundation (2016).

Disclaimer: Although digital financial services and mobile banking services in particular have developed throughout the world, this series of six toolkits focuses only on cases in Africa, where most partners of MicroLead and Mastercard Foundation operate. References to Asian and South American examples are occasionally made, yet the focus is mostly on Africa, which is also where digital financial services started and where experience already allows lessons to be learned.

EXECUTIVE SUMMARY

These case studies present the digital journey of Equity Bank and Mwanga Community Bank in the United Republic of Tanzania as well as Fidelity Bank in Ghana. They complement 'Part 1: Business model description' of this toolkit, which presents a fifth business model an FSP can choose—to create its own mobile banking channel.

Equity Bank Tanzania is part of Equity Bank Group, which is headquartered in Nairobi, Kenya. Established in 2012, Equity Bank Tanzania is a medium-size bank with 354,000 clients, 1,292 agents, 16 automated teller machines (ATMs) and 15 branches, as of end-2016.

Tanzanian agency banking regulation was released in February 2013, and Equity Bank Tanzania started agency banking operations in August of the same year. The aim was to utilize a digital deployment to gain customers and transactions, rather than to invest in an extensive branch and ATM network. In August 2014, Equity Bank Tanzania launched Eazzy 24/7 mobile banking, as part of a regional roll-out. Equity Bank Tanzania is currently in the process of becoming a mobile virtual network operator (MVNO).

The digital journey of Equity Bank Tanzania began in 2012 when it became operational, followed by its launch of agency banking only one year later and then mobile banking in 2014. Its primary objectives for digital banking are the following:

1. Provide financial services and products at the doorstep of the unbanked population
2. Increase outreach to customers who cannot easily or conveniently access its urban and/or rural branches
3. Decongest bank branches
4. Increase the number of clients through wallet2bank and bank2wallet functionality (by partnering with MNOs and then becoming an MVNO)
5. Reduce the cost of transportation in accessing financial services
6. Offer novel banking services in the country

All Equity Bank Tanzania key performance indicators (KPIs) have shown impressive and positive trends, especially considering it was a greenfield operation. It has reached 1,292 agents in three years and opened 48,000 digital accounts. Objectives set for digital financial services (DFS) have been reached. Yet breakeven has not yet been achieved, with a US$1.2 million investment to offset. So far, the main benefits are mostly non-financial: Equity Bank Tanzania has enjoyed increased deposit mobilization and brand visibility, while clients have enjoyed easier access to finance, savings in time, money and transportation, and increased security.

The key influencing factors were to learn lessons from the deployment of agency and mobile banking in Kenya and to ensure there was an appropriate level of commitment from Equity Bank Group. The key success factors were a value proposition for all stakeholders, strong investment in capacity-building of human resources (HR) and information technology (IT), and a significant budget dedicated to alternative delivery channels (ADCs). Relying on its branch network (hub-and-spoke model) for agent network management was also key to the success of agency banking launched by Equity Bank Group in both Kenya and the United Republic of Tanzania.

Fidelity Bank in Ghana is a large bank (1.2 million customers, $295 million loan portfolio, $703 million deposit volume) that started operations in 2006. Through digital channels, it has created a network of ~900 agents and ~290,000 new customers in three years. These achievements are a result of large financial, human and organizational effort.

Fidelity Bank downscaled to address the un(der)banked and used its financial resources from serving high net worth individuals to finance its digital journey. Breakeven for a channel/agent deployment is a long-term strategy. Not all FIs have the means and resources to engage in this approach. The digital path Fidelity Bank followed (developing its own agent network and mobile banking channel) is not the right path for every institution. Depending on the position of an FI in its market, on competition and on the environment (e.g., presence of strong existing agent networks), leveraging an existing agent network may be a better option for an FI. It is not an exclusive option either. Fidelity Bank developed its own agent network, yet it is currently in discussions with MNOs to leverage their large agent networks in order to reach scale.

Fidelity Bank is an interesting example of the digital journey of an FI. In addition to being the partner bank for Mobile Telephone Networks (MTN) Mobile Money and Airtel Money services, it started agency banking in 2013 by creating its own agent (both fixed and roving) network (Model 4) and introduced mobile banking at the same time (Model 5). Fidelity Bank tested both point-of-sale (POS) devices and mobile phones, ultimately choosing the latter.[1] Fidelity Bank is contemplating opening its proprietary platform in the future to other microfinance institutions that cannot afford their own platform (Model 6). It is also considering getting an e-money licence (in 2015, the regulator enabled FIs to request an e-money licence) as a possible option to become a provider (Model 6). Finally, in May 2016, Fidelity Bank released a mobile savings and loan product called Airtel Money Bosea, with Airtel Money and the credit-scoring provider Tiaxa (Model 6).

Mwanga Community Bank Limited (MCBL) was established in the United Republic of Tanzania in 2000 with individual and institutional shareholders, all originating from Mwanga District. It follows the community-bank model that was pioneered in Ghana in the 1980s. MCBL is a regional bank with ~122,000 clients, as of end-2016. The objective of MCBL is to provide affordable financial services to over 80% of poor people, living in rural areas. Its original licence from the Bank of Tanzania (BOT) authorized MCBL to only operate in Mwanga District. In 2009, MCBL became a regional bank, allowing it to operate in the entire Kilimanjaro Region.

In 2011, MCBL became a member of UmojaSwitch, which is a shared switch/technical platform that provides the technical backbone for ATM services, agency banking and mobile banking. Through UmojaSwitch, member banks can integrate with other service providers, such as MNOs, as well as be interoperable so as to extend their range of services to their customers. As of March 2017, there were 27 UmojaSwitch members in the country, providing a national footprint of 220 ATMs. Joining UmojaSwitch helped MCBL reduce its upfront investment and could be a promising (cooperation) model for other smaller FIs to explore.

In 2012, MCBL started linking village savings and loans associations (VSLAs) that had been formed by CARE Tanzania to MCBL accounts using M-Pesa. In 2014, MCBL began to provide mobile banking (through UmojaSwitch) to individuals.

MCBL is an interesting example of an FI that has developed mobile banking for both individuals and groups (through linkage of savings groups to MCBL). Its approach and offering has been different for the two segments. The lessons learned and challenges are somewhat different, though MCBL has derived some shared lessons:

- Have a variety of digital devices and channels to facilitate the delivery of financial services (i.e., ATMs, POS devices, mobile phones) in order to have the greatest amount of flexibility possible when implementing a joint strategy for individuals and groups.
- Develop menus and communications in the local language (e.g., Kiswahili is more widely spoken than English in the country).
- Make fees appropriate to the customer segment (i.e., differentiate between individual and group accounts and between group [general] and VSLA [specific] accounts).[2]

Despite the fact that all three banks featured in these case studies were operating in markets with existing agent networks (from MNOs), they still decided to develop their own network. It is important to remember that, when choosing this model, the three banks considered not only internal short-term benefits but also long-term reasons, including the investment needed, breakeven, customer preferences and, in the case of Equity Bank Tanzania, regional roll-out and lessons learned from mobile banking in other operations/countries.

Agents performing transactions on mobile devices
Courtesy of Equity Bank Tanzania

1 More information on agency banking challenges that Fidelity Bank encountered is available in the MicroLead mid-term evaluation, available from http://www.uncdf.org/article/2201/mid-term-evaluation-microlead-expansion-programme.

2 Note that the differentiation of fees may come with its challenges in term of agents' motivation/business case and complexification of the calculation of commission.

CASE STUDY OF EQUITY BANK TANZANIA— JOURNEY AND OBJECTIVES

Equity Bank Tanzania is part of Equity Bank Group, which is headquartered in Nairobi, Kenya. Starting operations in the country in 2012, Equity Bank Tanzania has a small branch (15) and ATM (16) network. Instead it concentrates on agency and mobile banking, with the aim to become an MVNO as Equity Bank Kenya did in 2015 with the launch of Equitel.

Equity agent
Courtesy of Equity Bank

INTRODUCTION TO EQUITY BANK GROUP

Equity Bank Limited (EBL) was founded as Equity Building Society (EBS) in 1984, originally providing mortgage financing for mainly low-income customers. In 1993, the Central Bank of Kenya declared EBS technically insolvent. In a turnaround strategy presented to and approved by the Central Bank, EBS shifted its focus from mainly credit-oriented mortgage lending to deposit mobilization for the masses.

The new model was based on offering the low-income and marginalized population convenient, affordable access to a safe and secure place for savings. The strategy also involved capital injection by shareholders, significant support by donors and strengthening of management to help revive the institution.

At the same time, Kenya liberalized the financial sector. As a result, several major banks shifted focus from the retail to the corporate sector and a number of banks closed their rural branches, creating a gap in the retail sector and a steady flow of new deposits to EBS. Poised to capture a new market, EBS rose to the occasion, registering a 600% increase in gross loans between 2000 and 2004. In 2004, EBS raised K Sh720 million ($9 million[3]) via a private placement to support the transition to EBL—a commercial bank subsequently listed on the Nairobi Securities Exchange in August 2006.

Because of its growing success in Kenya, EBL was in a position by 2007 to begin realizing a long-term dream of expanding its reach first to neighbouring countries in East Africa and then across the African continent. Joseph Iha, Managing Director of Equity Bank Tanzania, described the expansion in a 2016 interview thus: “There were two driving forces to our expansion. First, by 2007, it looked like our model was working very well—in 20 years in Kenya, we had gone from insolvent to successful. We saw the opportunity to replicate our success in neighbouring countries where there was a huge bankable but unbanked population, with high levels of poverty. At the same time, we were experiencing the benefits of regional integration with the revival of the East African Community.”[4]

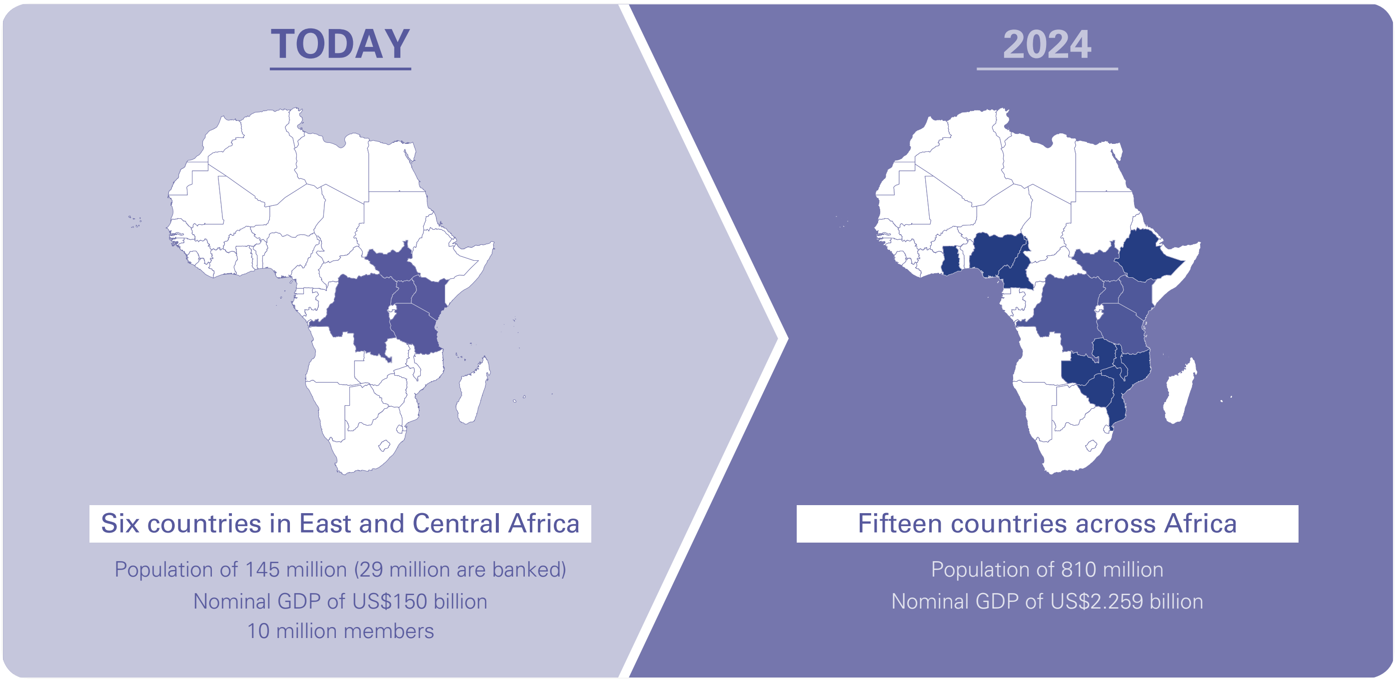
EBL began its regional expansion by acquiring Uganda Microfinance Limited in June 2008. The acquisition proved to be a difficult experience; as Mr. Iha again explained, “The Equity Bank model doesn’t favour acquisition—it’s impossible to convert staff and management of an existing institution to our culture.” Learning from this lesson, EBL refocused its efforts on establishing greenfield subsidiaries. After visits by a special headquarters team to several potential locations, EBL chose South Sudan for expansion and established operations there in May 2009. This greenfield subsidiary was followed by one in Rwanda in October 2011 and another in the United Republic of Tanzania in February 2012.

3 Conversion rate: K Sh = $0.0125 (*Source*: www.xe.com, 31 August 2004).

4 Phone interview by Fiifi Mensah with Joseph Iha in July 2016. *Note:* All quoted speech from Mr. Iha in this document is from this interview.

With impressive results and an aggressive expansion strategy (see figure I), EBL attracted major investors and donors, including the following: Helios Investment Partners, which acquired a 24.99% interest in EBL in 2007 with a $178.7 million investment, and the International Finance Corporation, which extended a $100 million loan to EBL in 2012 to support lending to small and medium enterprises, agricultural projects and women entrepreneurs in Kenya, Rwanda, South Sudan,[5] Uganda and United Republic of Tanzania, with a plan to expand to 16 countries by 2024.

Figure I: Equity Bank Group regional expansion plan



Source: Figure from Equity Bank Group, 'Update on Execution of Digital Banking,' June 2016 presentation, slide 15. Available from ke.equitybank-group.com/images/Update%20on%20Execution%20of%20Digital%20Banking-%20June%202016.pdf

Table 1 provides the customer numbers for each bank, while figure II offers details on deposits and loans at each subsidiary.

Table 1: Number of customers, branches and agents at Equity Bank Group subsidiaries, 2017

Country	Customers	Branches	Agents
Kenya	(2015) 10 000 000	167	15 000
Uganda	500 000	17	NA
South Sudan	160 000	11	NA
Rwanda	392 000	11	833
Democratic Republic of the Congo	170 000	23	NA
United Republic of Tanzania	354 000	15	1 292

5 Equity Bank Group received financial and technical assistance from the first phase of the Rwanda and South Sudan expansion by the UNCDF – MicroLead programme, with funding from the Bill & Melinda Gates Foundation.

EQUITY BANK TANZANIA – A GREENFIELD APPROACH

Before EBL entered the Tanzanian market, the market was seen as ripe for operations: the country was following private sector led economic growth and, according to a 2009 FinScope study, only 12% of the population of 45 million was 'formally financially included.'[6]

However, there were soon to be a number of significant challenges that Equity Bank Tanzania would have to overcome:

1. Challenging lending environment, with a high degree of lending fraud
2. Lack of a national identification (ID)
3. Lack of a credit reference bureau (the first began operations in June 2013)
4. Lack of experienced staff, and the government restriction of Equity Bank Tanzania to eight foreigners
5. Characterization of potential agents as semi-formal businesses, with limited literacy and limited experience of transaction-based technology
6. Strong competition from MNOs that targeted similar client segments with similar financial products (as shared in a MicroLead article, 'the Alliance for Financial Inclusion reported 31.8 million registered e-money accounts held through 4 MNOs and 14 banks as of 31 December 2013, and more than 94% of the adult population having an e-money account, with over 49% actively using those services'[7])

A senior manager described the approach EBL took and the challenges encountered in the United Republic of Tanzania this way:

Figure II: Equity Bank Group deposit and loan portfolio (K Sh billion)

Source: Figure from Equity Group Holdings Limited, *2015 Annual Report and Financial Statements*, p. 13 (Nairobi, n.d.).

> "*We have been more conservative in Tanzania, even though it is much like Kenya 10 years ago. We were nervous because of other banks' (negative) experience before we came. It's a large country with a dispersed population and we didn't want to roll out a lot of branches right away because of the cost, so we took a completely different approach. We are doing mainly SME [small and medium enterprise] lending and progress is encouraging because we are already breaking even though operations started after Rwanda. The management team was astute and held back on opening retail accounts because they wanted to break even as quickly as possible. Because Tanzania is more skewed to the SMEs, it is not following the EBL model with a lot of retail accounts. However, now that agent banking has been authorized, we will go after the large-scale retail banking market.*[8]

6 Financial Sector Deepening Trust, 'FinScope 2009 Survey: The demand for, and barriers to, accessing financial services in Tanzania' (Dar es Salaam, n.d.). Available from http://www.fsdt.or.tz//wp-content/uploads/2016/08/Download-FinScope--Summary-Report-2009-English-Version.pdf (accessed June 2017).

7 Ann Duval, 'Increasing Financial Inclusion in East Africa: Equity Bank's Agent-Driven Model,' p. 4 (n.p., UNCDF-MicroLead, July 2014).

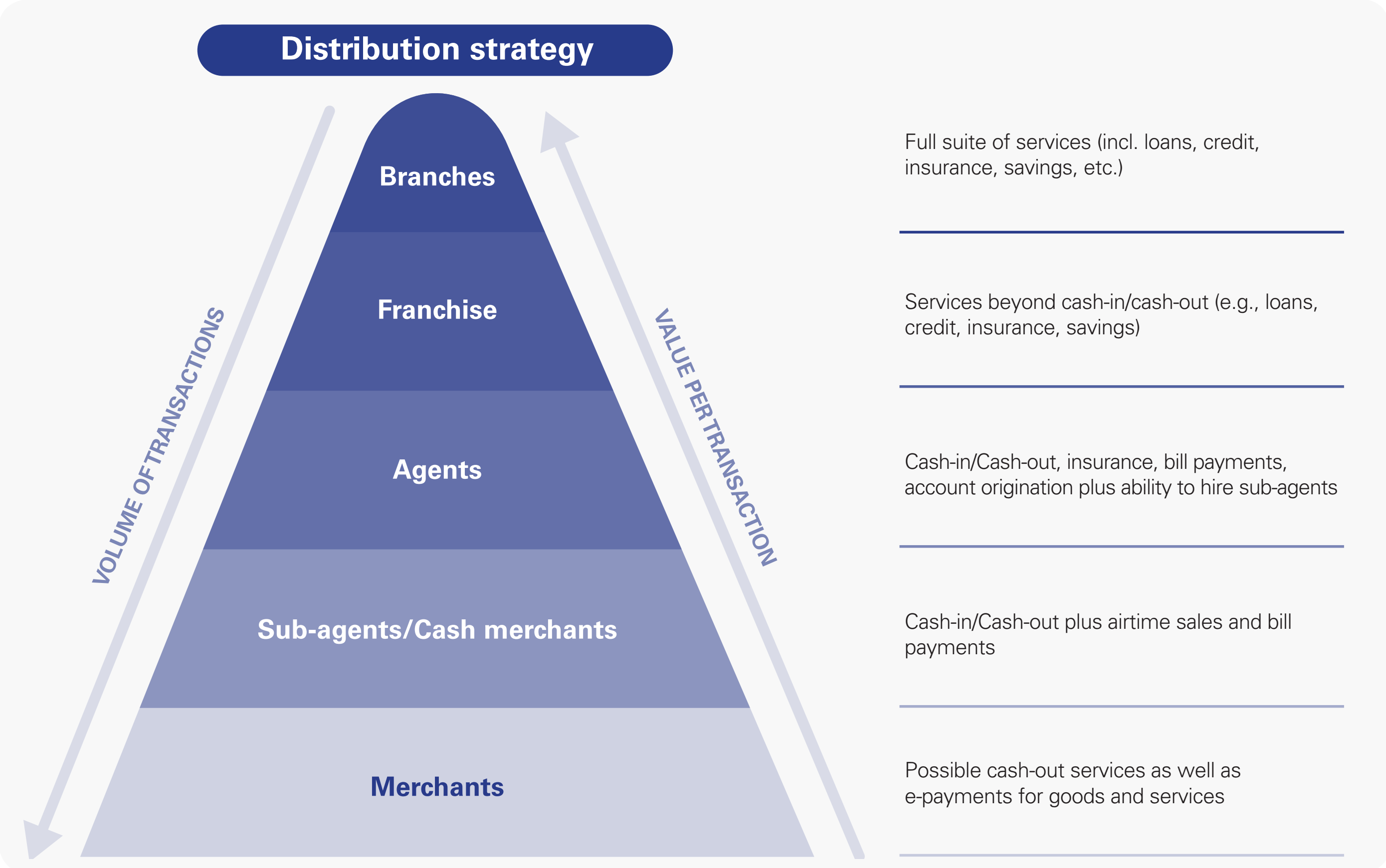
8 Ibid, p. 7.

Market entry strategy

With the above in mind as well as its overall distribution objectives, Equity Bank Tanzania employed the following market entry strategy:

1. Aggressively opening zero-balance accounts
2. Beginning operations in urban and peri-urban areas before going rural
3. Recruiting local staff and training them for one year at headquarters in Kenya
4. Utilizing a distribution strategy of limited investment in formal bank structures: branches and ATMs (see figure III for a visual of the distribution strategy)
5. Targeting VSLAs, savings and credit co-operatives (SACCOs) and village community banks with the goal of recruiting members as individual clients

Figure III: Equity Bank Tanzania distribution strategy



Source: Equity Bank Group, 'Agency Banking,' internal presentation to UNCDF, 26 February 2014.

The market entry strategy was complemented by a below-the-line advertising approach, as explained by Mr. Iha, the Managing Director of Equity Bank Tanzania: "We have been doing a lot of word-of-mouth, door-to-door and workshops engaging the communities directly. That is what we have been doing on-the-ground, so you find our people in the marketplaces, in meetings, in churches and literally everywhere. The reception has been amazing."

Table 2 summarizes important details about Equity Bank Tanzania.

Table 2: Equity Bank Tanzania at a glance

Regulatory status	• Bank licence received in 2012 • Licence from central bank (BOT) to operate agency banking received in August 2013 • Application submitted for an MVNO licence
Operations	• Since February 2012
Products	• Loans • Savings products • Agency banking • Mobile banking (i.e., cash-in/cash-out, registration, bill payment, airtime sales) • Insurance products • Custodial services (i.e., buying and selling of shares and other financial instruments)
KPIs	• 354,000 customers • 15 branches • 16 ATMs • 1,292 agents • $238,078,500[a] total assets[b] • $161,385,780 outstanding loan portfolio

a Conversion rate: TSh1 = $0.00047 (*Source:* Google, 2016).
b Audited statements of financial position as of 31 December 2016.

DIGITAL JOURNEY

Figure IV: Digital journey taken by Equity Bank Tanzania

February 2012	Establish branch network with ATM and POS services
August 2013	Begin agency banking
August 2014	Launch mobile banking
2017	Apply for an MVNO license

Source: PHB Development

Customers at an Equity Bank ATM
Courtesy of Equity Bank

Equity Bank Tanzania has largely followed the same roll-out model as Equity Bank Kenya, which is to say a combination of delivery channels such as branches, ATMs, Internet banking, agency banking, mobile banking, POS services and self-service kiosks. Its digital journey is summarized in figure IV and detailed in the sections below.

PHASE 1 – Branch network with ATM and POS services (February 2012)

Equity Bank Tanzania has established 15 branches across the country (as of end-2016), with a target of each branch covering a radius of ~100 kilometres with agency bankers. It also has 16 ATMs, which together with the branches serve over 354,000 clients.

PHASE 2 – Agency banking (August 2013)

Equity Bank Tanzania received its agency banking licence from BOT in August 2013. It started its agency banking operations at that time, developing a network of its own agents. There were over 998 Equity agents in the country as of September 2016, with a target to push that number to 1,500 by end-2016 (it ultimately reached 1,071 by end-2016). As of June 2017, it had 1,292 agents.

Equity Bank Tanzania follows a hub-and-spoke model for agency banking. Under this model, it first establishes a branch and then attaches several agents to the branch (see the 'Approach to implementing agency and mobile banking' section for more details on this model and table 3 for exact numbers regarding ADC efforts by Equity Bank Tanzania).

The agent network handles over 3,000 transactions per day, compared to 4,000 transactions per day at branches, where over 65% of transactions are cash deposits. The goal is to have 3,000 agents by end-2018, each completing a minimum of five transactions per day, translating to 15,000 total transactions per day, and thereafter growing by 10% annually for the agency business.

Table 3: Equity Bank Tanzania alternative delivery channel results, 2013–2016

	2013 (basis)	2014	2015	2016
Branches	6	9	10	15
Agents	43	383	625	1 071
Agency banking transactions	190	140 644	439 524	764 439
Agency banking accounts	2 181	12 719	28 162	48 294
Deposit portfolio, total (TSh billion)	107.9 ($66.9 million)	212.5 ($133.9 million)	261.7 ($154.4 million)	315.3 ($148.2 million)
Deposit portfolio, agency banking (TSh billion)	1.3 ($806 thousand)	14.9 ($9.4 million)	48.9 ($28.9 million)	87.6 ($41.2 million)
Withdrawals per month, agency banking	35	138	217	244
Total transactions per agent	97	557	703	792

Conversion rates: 2013 – TSh1 = $0.00062; 2014 – TSh1 = $0.00063; 2015 – TSh1 = $0.00059; 2016 – TSh1 = $0.00047 (*Source:* Google.)

PHASE 3 – Mobile banking (August 2014)

Mobile banking was the subsequent step to achieve the greater objective Equity Bank Tanzania had to increase financial inclusion in the country by offering multiple products and services to customers who on their own would be able to push/pull money back and forth between their mobile money (MM) wallet and their Equity account.

PHASE 4 – MVNO (2017)

For Equity Bank Tanzania, the next step is to be independent from MNOs. It would like every Tanzanian to be able to transfer money to every bank and every MNO. To achieve that interoperability and independence, Equity Bank Tanzania plans to become an MVNO in 2017 so that clients can have a fully integrated bank account in terms of bank and telecom integration and can thus have a better customer experience. Equity Bank Tanzania will also have access to client data and be able to perform credit scoring and provide mobile loans. The Tanzanian MVNO model will follow that of Equity Bank Kenya, namely the Equitel model (see 'Toolkit #6: Be a provider' for more details on the experience of Equity Bank Kenya in becoming an MVNO).

OBJECTIVES OF GOING DIGITAL

The digital journey of Equity Bank Tanzania began in 2012 when it became operational, followed by its launch of agency banking only one year later and then mobile banking in 2014. Its primary objectives for digital banking are the following:

1. Provide financial services and products at the doorstep of the unbanked population
2. Increase outreach to customers who cannot easily or conveniently access its urban and/or rural branches
3. Decongest bank branches
4. Increase the number of clients through wallet2bank and bank2wallet functionality (by partnering with MNOs and then becoming an MVNO)
5. Reduce the cost of transportation in accessing financial services
6. Offer novel banking services in the country

The Kenyan model for going digital was replicated by EBL in other countries though, as explained by Mr. Iha, Managing Director of Equity Bank Tanzania, the path to agency banking in the Tanzanian market was motivated by two main factors:

> *" First, the geographical nature of the United Republic of Tanzania made access to banking services very difficult despite the presence of numerous banks. Second, financial inclusion was just 12% out of the total population, as of 2013, according to the FinScope Survey. The same survey revealed that the major reason for financial exclusion was lack of access to financial services. Equity Bank Tanzania saw an opportunity to bridge the financial inclusion gap and position itself as the pioneer of agency banking in the United Republic of Tanzania at the time (2013). Since that, four other banks in the United Republic of Tanzania have adopted the agency banking model.*[9]

Despite the fact that MNOs in the country (Airtel, Tigo and Vodacom) already had extensive agent networks, which it could have leveraged, Equity Bank Tanzania decided to go digital and to create its own agent network for two main reasons:

1. Control over fees charged to customers and commissions paid to agents
2. Long-term strategy to become an MVNO (following the Kenyan experience), which would position Vodacom/M-Pesa as a future direct competitor and would put any current collaborations under considerable stress

> *" Because we own the infrastructure, we are able to control the switching cost or charges since one of the disadvantages of integrating with MNOs is that they dictate the prices and sometimes, particularly when it's money moving from wallets to bank accounts, the pricing is not very favourable. The other thing that gives us an advantage is that we have access to the data, so once we have access to the mobile data and the bank data, then it becomes very easy for us to develop scoring models and then we can begin to give mobile credit. So, there is a lot more that we can do if we control the infrastructure as opposed to depending on third-party MNOs.*
>
> *– Mr. Iha, Managing Director, Equity Bank Tanzania*

9 Those banks are AccessBank Tanzania, Ecobank, FINCA Tanzania and National Microfinance Bank.

CASE STUDY OF EQUITY BANK TANZANIA—APPROACH TO IMPLEMENTING AGENCY AND MOBILE BANKING

Equity Bank Tanzania had to wait until August 2013 before it could start agency banking, as until then there was no agency banking regulation in the country. When it did launch agency banking, Equity Bank Tanzania followed the hub-and-spoke model that had been successful in Kenya.

CONDUCIVE REGULATORY ENVIRONMENT

BOT issued agency banking guidelines in February 2013,[10] which allowed FIs to appoint retail agents as banking agents for the first time. Equity Bank Tanzania began agency banking in August 2013. Then, in 2014, the United Republic of Tanzania became the first country to successfully develop and implement standard business rules for interoperable DFS transactions (see annex I for a detailed context of the country). The process to obtain approval to conduct agency banking took six months from the time the regulation was released (see box 1 for the specific documents required and box 2 for the minimum criteria to become an agent in the country).

Agents printing receipt of transaction on POS device
Courtesy of Equity Bank Tanzania

10 BOT, *Guidelines on Agent Banking for Banking Institutions, 2013* (Dar es Salaam, 2013). Available from http://www.bot.go.tz/BankingSupervision/GUIDELINES%20ON%20AGENT%20BANKING%20FOR%20BANKING%20INSTITUTIONS%202013.pdf

Box 1: Checklist of documents to submit for agency banking application in United Republic of Tanzania

1. The banking institution's agent due diligence policy and procedures
2. The services to be provided through agents
3. A copy of the draft standard agency agreement detailing amongst other things the items specified in guideline number 10 of these Guidelines
4. The policies and procedures applicable to the provision of services through agents, as well as a description of the technology to be used
5. A risk assessment report of the operations to be performed through the agents including mitigating measures to be adopted in order to control the risks identified, in accordance with the banking institution's risk management policies and these Guidelines
6. Anti-Money Laundering/Combating Financing of Terrorism policies and procedures relating to agency banking business
7. Agent operational policies and procedures
8. A feasibility study of future operations and development of the agency banking business for a minimum period of three years from the date of the application including:
   a. The proposed number of agents and their locations over a three-year period
   b. Estimate of total population and economically active population of the areas where the agent will operate
   c. Analysis of the relevant market over the past two (2) years, along with an estimate of the proposed agents' volumes/ transactions in the banking institution's delivery channel strategy
   d. Description of the agent management structure to be used by the banking institution
   e. Financial projections on the share of the proposed agents in the banking institution's business

Source: BOT, *Guidelines on Agent Banking for Banking Institutions, 2013*, p. 19 (Dar es Salaam, 2013). Available from http://www.bot.go.tz/BankingSupervision/GUIDELINES%20ON%20AGENT%20BANKING%20FOR%20BANKING%20INSTITUTIONS%202013.pdf

Box 2: Minimum selection criteria to become an agent in United Republic of Tanzania

The minimum selection criteria to be considered as agent in the United Republic of Tanzania are:

a. Possession of a valid business license
b. Operating at permanent business premises
c. Established core business, which has been in existence for at least two years
d. Whether the person has not been classified as a nonperforming borrower by any banking institution and that status shall be maintained for the duration of the agency agreement
e. Possession of appropriate physical infrastructure and HR to be able to provide the services with the necessary degree of efficiency and security

An approved banking institution shall conduct assessment and due diligence (Know-Your-Agent) on the business owner and business operations, which include:

i. integrity, personal qualities and reputation of the business owner
ii. financial position and credit profile of the business and the owner
iii. knowledge, capability and competency to conduct agency banking services at an acceptable quality
iv. ability of the agent to control operational risks related to agency banking, particularly for agents representing multiple approved banking institutions
v. the ability of the person to comply with the requirements of these Guidelines

Source: BOT, *Guidelines on Agent Banking for Banking Institutions, 2013*, p. 8 (Dar es Salaam, 2013). Available from http://www.bot.go.tz/BankingSupervision/GUIDELINES%20ON%20AGENT%20BANKING%20FOR%20BANKING%20INSTITUTIONS%202013.pdf

PRODUCTS AND SERVICES

Services offered via agency banking with Equity agents include the following:

1. Application for account-opening
2. Cash deposit and withdrawal
3. Money transfer
4. Bill payment
5. Link to mobile banking (Eazzy 24/7)
6. Issuance and top-up of Equity prepaid card
7. Application for ATM card
8. Purchase of airtime from any MNO
9. Application for reactivation of dormant account

Eazzy 24/7 advertisement
Source: Equity Bank, 'Eazzy 24/7.' Available from https://cib.equitybank-group.com/corp/eqt_links/Eazzy247.html (accessed September 2017).

Eazzy 24/7 is a mobile banking service that allows customers to access Equity products and services on any network using unstructured supplementary service data (USSD), short message service (SMS) and Internet services.[11] Services offered via mobile banking include these:

1. **Transfers:** Transfer money to Equity accounts as well as other bank accounts and mobile numbers
2. **Bill payments:**
   a. Pay electricity, water, Higher Education Loans Board, DStv and other bills
   b. Make utility bill purchase payment
3. **Enquiries/Requests:**
   a. Check account balance anytime and request mini-statements
   b. Request full statements
   c. Submit loan status enquiries
   d. Make cheque book requests
   e. Make stop cheque/card requests
   f. Make exchange rate and stock enquiries
4. **Airtime top-ups:** Top up own phone or another person's phone and request emergency airtime from the four main telecoms (Airtel, Tigo, Vodacom, Zantel)
5. **Loan services:** Request loan, enquire about loan status, make payments through own phone and obtain emergency overdraft
6. **Loan applications:** Request emergency advances
7. **ATM withdrawals:** Conduct Airtel and M-Pesa card-less ATM cash withdrawals from Equity ATM network
8. **Agent transactions:**
   a. Withdraw and deposit cash at Equity agent outlets
   b. Buy airtime
   c. Pay bills
9. **Other features:**
   a. Pay for goods and services directly from own account at Equity-branded outlets
   b. Invite a friend
   c. Change language
   d. Change password

Equitel SIM card
Source: Equity Bank website

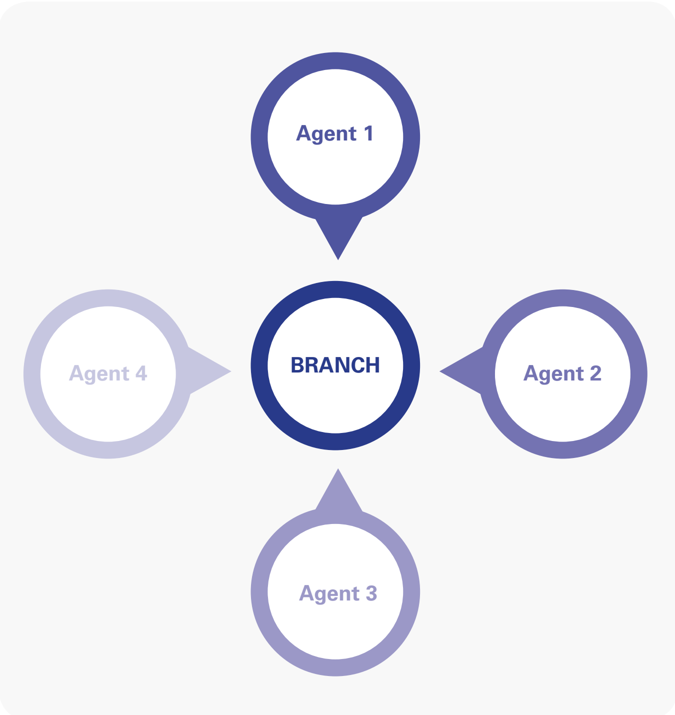
11 Description in this paragraph and in the numbered items below is based on information provided on the following webpage: Appszoom, 'Eazzy 247.' Available from https://www.appszoom.com/android_applications/business/eazzy-247_hfjem.html (accessed September 2017).

DISTRIBUTION CHANNELS

PHASE 1a – Build a foundation with branches

Equity Bank Group understood that launching a greenfield operation would mean the deployment of brick-and-mortar branches first, which would build confidence in the service by customers and which would then be complemented by ATM and POS services. This approach was meant not only to build immediate brand awareness and offer customer contact but also to allow branches to serve as the foundation for the agency banking model that would soon be deployed utilizing the hub-and-spoke model (see figure V), which had been used successfully in Kenya. In this model, agents are recruited, trained and managed by a branch (i.e., agents are attached to and managed by a branch). There is no minimum/maximum number of agents per branch (average is 108).

Figure V: Hub-and-spoke model of agency banking at Equity Bank Tanzania



PHASE 1b – Complement branches with ATMs

Equity Bank has 16 ATMs in the United Republic of Tanzania and over 560 ATMs in the region. An Equity customer can use his/her card in any ATM to transact in the Democratic Republic of the Congo, Kenya, Rwanda, South Sudan and Uganda.

Services available through ATMs include the following:

1. Withdraw cash from bank account or mobile phone account (no deposit)
2. Buy airtime
3. Transfer funds from one Equity account to another

PHASE 2 – Launch agency banking

The case made by Equity Bank for agency banking was based on three principles: access, inclusion and reach**:**

- **Access** by overcoming geographical and physical barriers to financial services
- **Inclusion** by delivering financial services at affordable cost to disadvantaged and low-income segments of society
- **Reach** by removing psychological and perspective barriers to financial services—taking banking services to the potential customer's doorstep

A value proposition was offered to each stakeholder:

- **Customers:** Convenience, low cost and increased access to bank services
- **Agents:** New revenue stream, increased foot traffic at the business, brand affiliation, financial education, and cash and people management
- **Bank:** Reduced cost, competitive pricing, profitability, faster growth and leveraging of technical infrastructure
- **Regulator and industry:** Low-cost access, sound and safe institutions, financial and institutional sustainability, competition to ensure choice and sustainability, and ability to move and keep money within formal financial ecosystems

PHASE 3 – Offer mobile banking

The purpose of offering mobile banking was to provide a solution to the challenge of moving money easily between an MM account, which 38% of the Tanzanian population had in 2014, and a bank account, which only 12% of the Tanzanian population had at the time.[12]

On 26 August 2014, Equity Bank Tanzania unveiled Eazzy 24/7 mobile banking that enabled customers to access banking services using their mobile phone, whether through Airtel, Tigo, Vodacom or Zantel.

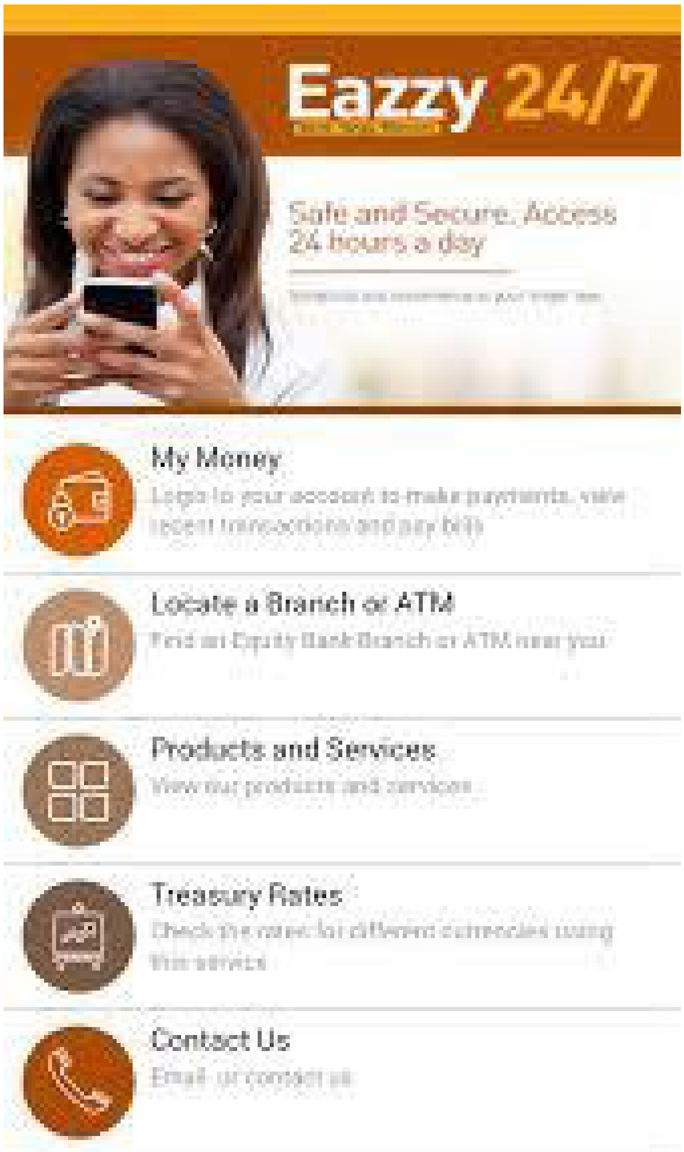
For a customer to access the service, he/she is required to have a mobile phone. The customer is then registered by Equity Bank Tanzania and given a unique password or access code on the USSD or app interface. The password gives the customer access to the interface with various options, from which he/she can choose the type of transaction to complete.

Mr. Iha, the Managing Director of Equity Bank Tanzania, described the mobile banking service at its launch this way: "The introduction of the Eazzy 24/7 mobile banking platform, which allows customers to access their banking facilities through their mobile phones, will mean that users are able to transact anywhere, anytime conveniently. The fresh innovation that we have launched is in line with our commitment to make banking services accessible and affordable for our people."[13]

INTERNAL ORGANIZATION AND OPERATIONS

Equity Bank Tanzania has a central unit at the head office that manages back-office operations. It has 15 branches, and each branch has one to four agency banking staff to manage the agents linked to it. It should be noted that as Equity Bank Tanzania launched with an ADC model in mind, the Bank didn't need to do a lot of restructuring.

Agency banking staff at the branch level are in charge of recruiting, training, managing and supporting the agents. A team at the head office carries out capacity-building for the branch office staff.



Eazzy 24/7 advertisement
Source: Equity Bank website

> *"We have been the casualties in terms of those other banks trying to look for skills in the market. I think there have been three consecutive cases. You train somebody as the head of agency banking, and within a year, they are taken away. So far, we have lost three of those we have trained to be in charge of agency banking, and even the other supervisors such as the relationship managers on the ground, because people do not want to reinvent the wheel and the easiest way is to look for people who already have the skills and offer them two or three times what they are earning. So, capacity-building is one of our biggest costs, and it is a continuous cost, which we have to keep on investing in.*
>
> *– Mr. Iha, Managing Director, Equity Bank Tanzania*

12 Financial Sector Deepening Trust, 'FinScope 2009 Survey.'

13 Baraka Jefwa, 'Equity Bank Launches Eazzy 24/7 Mobile Banking Service in Tanzania,' 26 August 2014.

Figure VI illustrates the organizational structure utilized by Equity Bank Tanzania.

Figure VI: Head office agency banking structure at Equity Bank Tanzania

Agent network management

- There is a central unit at the head office of 11 staff that manages back-office operations (for 1,200+ agents).
- Management, recruitment and training of agents has been decentralized to the branches. Back-office support staff provide capacity-building for the teams at the branch level, which is managed by the Agency Banking General Manager.
- After training, agents are appraised at the branch. This appraisal is verified by the head office. If all is satisfactory, contract documents are generated and the new agent is added to the system.

Liquidity management

As a 2014 case study explained, liquidity is managed by Equity Bank Tanzania thus:

> The agent opens a separate bank account for the agency business. With each cash transaction performed by the agent on behalf of the bank, this account is automatically debited (for client deposits) or credited (for client withdrawals). The amount of money in this account therefore determines (and limits) the amount of business an agent can handle on a daily basis, whether deposits or withdrawals. EBL provides each agent with a GSM [Global System for Mobile]-enabled POS and cell phone, at no cost to the agent, which are able to connect directly to the EBL server in Nairobi.[14]

14 Duval, 'Increasing Financial Inclusion in East Africa: Equity Bank's Agent-Driven Model,' p. 9.

TECHNOLOGY

For agency banking, agents are equipped with both a smartphone and a POS device, which can have up to three SIMS and is connected in real time to the Equity CBS.

For mobile banking, clients can either use their own mobile phone to conduct USSD sessions (*247#) or download and use an app. Equity Bank Tanzania has its own SMS platform server, which sends SMS transaction confirmations. Clients can push/pull money between their mobile wallet from their Airtel Money or M-Pesa account and their Equity account.

Agent equipment

Agents have both a smartphone and a POS device. The smartphone enables them to perform the account-opening origination. Equity Bank Tanzania provides agents with a smartphone so that they are able to take a customer photo, scan the customer ID, scan the account-opening form and download them directly to the Equity platform. If all requirements are met, an account is created and an SMS confirmation is sent to the customer.

The POS device, which is connected in real time to the Equity CBS, enables agents to facilitate deposits/withdrawals and generate receipts. The POS device is biometric and can accept debit cards and print receipts to confirm transactions. Customers receive SMS confirmations immediately.

Equity Bank Tanzania still relies on third-party MNOs for connectivity, so if a network is down, customers and agents cannot complete transactions. However, Equity Bank Tanzania uses POS devices that have three slots for SIM cards, which means that, if one MNO network is down, the other two can serve as back-up. In fact, one of the key reasons that Equity Bank Tanzania wants to become an MVNO is to deal with the connectivity issue in-house. It should also be noted that Equity Bank Tanzania (and indeed many other banks) is starting to move away from the POS model in favour of mobile phones due to cost and functionality issues.

Regional deployment and system upgrade

Mobile banking was deployed across all Equity Bank Group operations. It was part of an overall CBS upgrade to Finacle 10 that was developed internally at the group office in Nairobi, which allowed over 9 million Equity customers (at the time) to transact seamlessly across five countries: Kenya, Rwanda, South Sudan, Uganda and United Republic of Tanzania. It also provided access to a range of global international payment systems with which Equity Bank Group had partnered: American Express, JCB, MasterCard, MoneyGram, UnionPay, Visa and Western Union. Through the partnerships, cardholders of these companies could access their money through Equity branches, POS devices and ATMs.

In June 2015, one year after mobile banking launched at the Group level, Equity Bank Tanzania completed integration of its CBS with the MM wallets of Airtel Money and M-Pesa (the two main MM providers in the country) and launched its mobile banking offering. The Equity account is linked to Airtel Money, M-Pesa and Tigo Pesa wallets, with Ezy Pesa (Zantel) and HaloPesa in process. Clients can push/pull money back and forth between the accounts. The MM wallets are integrated from the telecom into the banking system, which allows customers to put money in their mobile wallet and push whatever balance is left into their bank account; vice versa, they can pull money from their bank account into their wallet to be able to conduct transactions.

FINANCIALS

An FI incurs heavy capital expenditures (CapEx) and operational expenditures (OpEx) to build its own mobile banking channel. For Equity Bank Tanzania, CapEx and OpEx went up by 271.4% and 91.9%, respectively, between 2014 and September 2016. Table 4 provides the exact expense amounts while the sections below provide further explanation.

Table 4: Equity Bank Tanzania capital and operational expenditures, 2013–2016 ($)

	2013	2014	2015	2016
Revenues, total	658 999	2 047 907	3 844 024	2 860 446
Revenues, from agents	1 290	15 029	29 808	21 124
Investment (CapEx) *Software and integration as well as agent devices (TSh430,000,000)	-	206 131	511 166	571 910
Recurring expenses for digital channel (data connectivity)	-	6 608	10 203	9 472
Profits on digital channel	-	410	11 346	25 195

Source of data: Equity Bank Group
Conversion rates: 2013 – TSh1 = $0.00062; 2014 – TSh1 = $0.00063; 2015 – TSh1 = $0.00059; 2016 – TSh1 = $0.00047 (*Source*: Google).

Capital expenditures

CapEx consisted mainly of investment in software and integration as well as devices for agents (POS devices and mobile phones).

Software and integration

It took about a year to integrate the new agency and mobile banking software with the CBS, which was developed at Equity Bank Group headquarters, as well as the interface with the MNOs so as to have connectivity and to allow account2wallet and wallet2account transfers. This integration cost approximately $202,100.[15]

15 Conversion rate: TSh1 = $0.00047 (*Source:* Google, 2016). *Note*: This rate is used throughout this document when United States dollar equivalents are provided for Tanzania shillings, unless otherwise noted.

Agent devices

Each phone cost TSh225,000 ($100), and each POS device cost TSh200,000 ($90). For its 1,200+ agents, Equity Bank Tanzania has spent over $110,000.

Equity Bank Tanzania invested approximately $206,000 in 2014, $511,000 in 2015 and $572,000 in 2016 for its mobile banking channel (over $1.2 million in three years).

Operational expenditures

Staff recruitment and training

The main components of OpEx were staff development and training for the digital channel (HR/training and staff development/direct cost).

Marketing awareness plan

Equity Bank Tanzania spent an initial TSh180,000,000 ($111,600[16]) on awareness-raising.

Other expenses

Marketing

Equity Bank Tanzania did not disclose yearly marketing expenses.

Data connectivity

Equity Bank Tanzania spends approximately $10,000 for data connectivity.

Fees and commissions

Commissions are the primary reason for individuals to become Equity agents. Agents receive commissions on a monthly basis. Table 5 shows the fees customers pay and the actual commissions earned by agents, plus a percentage based on maximum amounts in the tier.

Table 5: Equity Bank Tanzania mobile banking fees and commissions

		Customer fee (TSh)	Agent commission (TSh)	Customer fee (%)	Agent commission (%)
Amounts from (TSh)	Amounts to (TSh)				
Cash-in (Deposit)					
0	100 000	0	650	0	0.65
100 001	200 000	0	750	0	0.38
200 001	400 000	0	850	0	0.21
400 001	1 000 000	0	1 050	0	0.11
1 000 001	and higher	0	2 000	0	variable
Cash-out (Withdrawal)					
0	20 000	400	160	2.00	0.80
20 001	50 000	650	260	1.30	0.52
50 001	100 000	750	300	0.75	0.30
100 001	150 000	1 000	400	0.67	0.27
150 001	200 000	1 500	600	0.75	0.30
200 001	250 000	2 000	800	0.80	0.32
250 001	and higher	3 000	1 200	variable	variable

Additional commissions that can be earned by an agent include the following:

1. Customer enrolment: TSh2,000 ($1) per funded account opened
2. Additional fees for customer transfer transactions: Equity Bank Tanzania did not disclose fees paid to agents

16 Conversion rate: TSh1 = $0.00062 *(Source:* Google, 2013).

CASE STUDY OF EQUITY BANK TANZANIA— ACHIEVEMENTS

All Equity Bank Tanzania KPIs have shown impressive improvement and positive trends, especially considering it was a greenfield operation. It has reached 1,292 agents in three years and opened 48,000 accounts. Objectives set for DFS have been reached. Yet breakeven has not yet been achieved, with a $1.2 million investment to offset. Equity Bank Tanzania has enjoyed increased deposit mobilization and brand visibility, while clients have enjoyed easier access to finance, savings in time, money and transportation, and increased security.

ADOPTION AND USE OF THE DIGITAL FINANCIAL SERVICE CHANNEL

Agency banking in the United Republic of Tanzania is expanding and performing well. Since the inception of agency banking in 2013, all Equity Bank Tanzania KPIs have shown significant improvement and positive trends. The number of branches, agents, clients and transactions have all increased (see table 6). Daily, agents open 200 new accounts and serve 1,700 clients.

Table 6: Equity Bank Tanzania alternative delivery channel results, 2013–2016

	2013 (basis)	2014	2015	2016
Branches	6	9	10	15
Agents	43	383	625	1 071
Agency banking transactions	190	140 644	439 524	764 439
Agency banking accounts	2 181	12 719	28 162	48 294
Deposit portfolio, total (TSh billion)	107.9 ($66.9 million)	212.5 ($133.9 million)	261.7 ($154.4 million)	315.3 ($148.2 million)
Deposit portfolio, agency banking (TSh billion)	1.3 ($806 thousand)	14.9 ($9.4 million)	48.9 ($28.9 million)	87.6 ($41.2 million)
Withdrawals per month, agency banking	35	138	217	244
Total transactions per agent	97	557	703	792

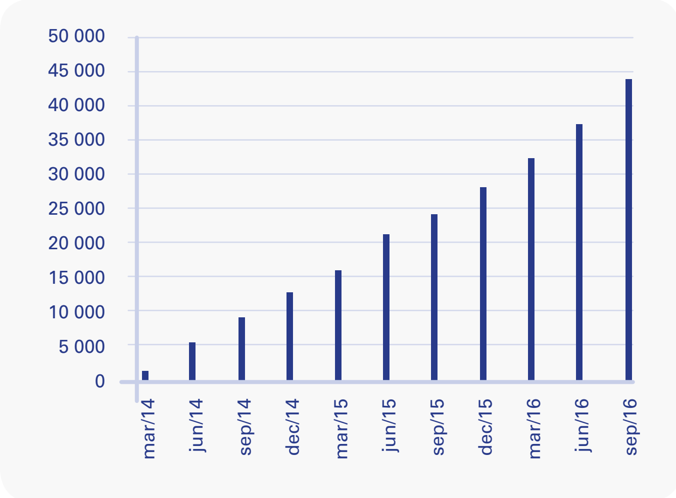
Conversion rates: 2013 – TSh1 = $0.00062; 2014 – TSh1 = $0.00063; 2015 – TSh1 = $0.00059; 2016 – TSh1 = $0.00047 (*Source:* Google).

In three years (2013–2016), Equity agency banking clients increased by over 46,000 (64% year-by-year increase). Clients completed 765,000 transactions through 1,292 agents (see figures VII and VIII).

FULFILMENT OF DIGITAL FINANCE OBJECTIVES

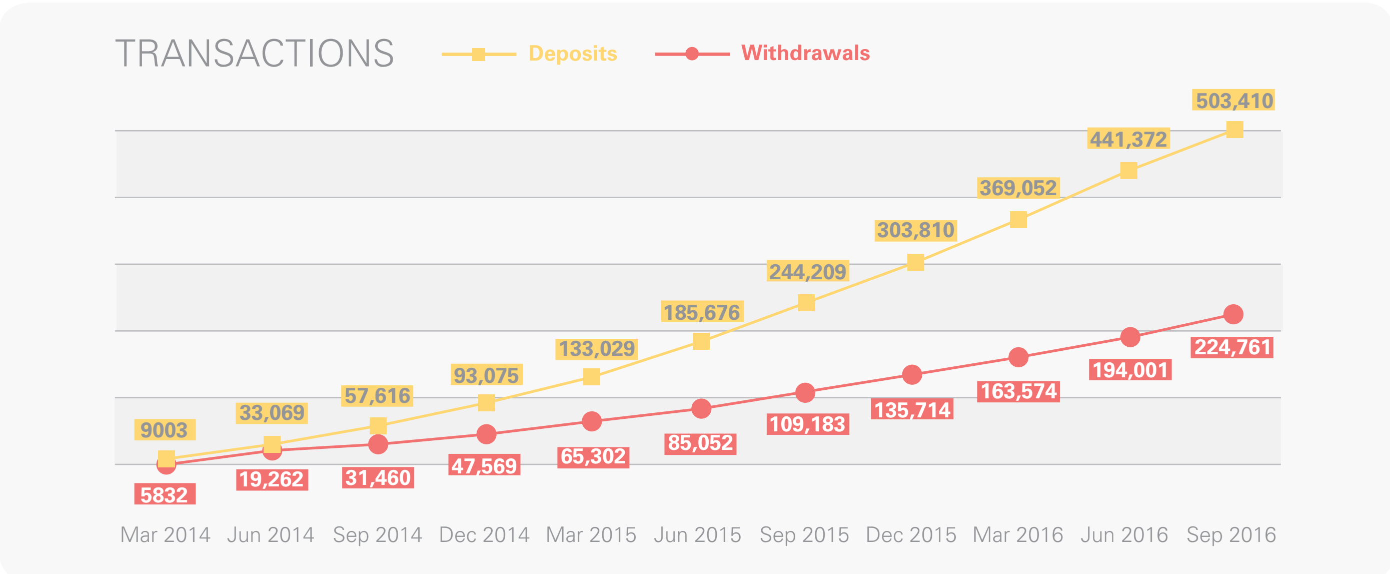
In light of the objectives Equity Bank Tanzania had for digital finance, it can be seen from table 6 and figures VII and VIII that the objectives have been fulfilled. There have been significant increases in all the indicators (see table 7).

Figure VII: Account mobilization at Equity Bank Tanzania, 2014–2016



Source of data: Equity Bank Group

Figure VIII: Agent transactions at Equity Bank Tanzania, 2014–2016



Source of data: Equity Bank Group

Table 7: Fulfilment of digital finance objectives by Equity Bank Tanzania

Objective	Comment
Provide financial services and products at the doorstep of the unbanked population	Achieved: Unbanked people were reached first through the deployment of agency banking and then by mobile banking
Increase outreach to customers who cannot easily or conveniently access its urban and/or rural branches	Achieved: Customer numbers have significantly increased since launch, reaching nearly 50,000 clients
Reduce the cost of transportation in accessing financial services	Achieved: Customers can now complete banking services from the comfort of their home on a mobile phone
Offer novel banking services in the country	Achieved: Other banks are now following the same model

COST/BENEFIT ANALYSIS

Additional revenues

Revenue or profit maximization is the ultimate aim of most DFS business models. However, few end up being satisfied with the revenue earned. For EBL, since the beginning of agency banking in the United Republic of Tanzania in 2013, revenue levels have improved dramatically. Revenue was $658,999 in 2013 but reached $2,860,446 by September 2016, representing an increase of more than 334%. Equity attributes some of this growth to agency and mobile banking without being able to precisely identify the additional revenues that these new channels have brought, in particular in terms of new customers and cross-selling.

Equity Bank Tanzania is not yet at breakeven. Yearly revenues contributed by agents account for approximately $20,000. A $1.2 million investment must be offset to reach breakeven.

Table 8 provides a helpful comparison of revenues versus costs.

Table 8: Equity Bank Tanzania cost/benefit summary, 2013–2016

Revenues	Costs
Revenues contributed by agents increased by nearly 22-fold, from TSh2,081,260 ($1,290) to TSh44,930,040 ($21,117).	Costs increased nearly twofold (91.7%) from TSh10,500,256 ($6,510) to TSh20,145,988 ($9,469). Most costs involved training, staff development, devices and other OpEx.

Conversion rates: 2013 – TSh1 = $0.00062; 2016 – TSh1 = $0.00047 (*Source:* Google).

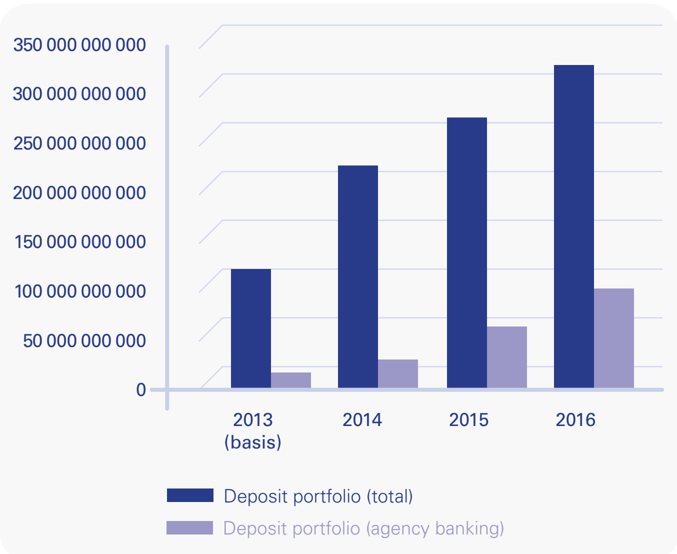
BENEFITS FOR THE FINANCIAL INSTITUTION

Benefits for Equity Bank Tanzania are both intangible and financial.

Increased deposit mobilization

Significant deposits have been mobilized through the agent and mobile channel (see figure IX), which can be attributed to EBL building a strong relationship with its customers. The introduction of agency banking has enabled EBL to get closer to its members and slowly gain their trust.

Figure IX: Deposits mobilized at Equity Bank Tanzania, 2013–2016 (TSh)



Source of data: Equity Bank Group

Greater control over agents

This benefit stems from the hub-and-spoke model, whereby several agents are attached to a bank branch for close supervision and monitoring.

Improved brand visibility

Launching agency banking in the United Republic of Tanzania has given EBL visibility in the country and promoted the image of EBL in the region. As EBL is associated with trusted MNOs across the region, these partnerships have also translated into a better perception of the EBL brand.

BENEFITS FOR THE CLIENTS

Savings in time and money

Agency banking has afforded clients considerable savings in time and money compared to what they would have previously spent to transfer/receive money. It also translates into gains in client productivity (more time for income-generating activities) and peace of mind.

Savings in transportation time and costs

Having greater proximity to services translates into significant savings for clients, both in terms of transportation time and costs. The farther clients have to go to access a financial service, the longer they have to spend on the road. This time could be put to better use, particularly for entrepreneurs who have to close their business to travel to the nearest access point. Time spent on transportation is not the only problem—so is cost of transportation. Someone who wants to make a deposit can spend more on transportation than the actual amount he/she wants to deposit/transfer.

Easier access to a wider range of services

Tanzanians face difficulties travelling because most roads are poor, making it particularly difficult for rural people to physically access basic services (including financial services). Thanks to Equity Bank Tanzania, rural populations benefit from being able to access a range of services that would not have reached their area otherwise.

Greater security

As a consequence of the proximity benefit, there is a direct gain in terms of security as well. Clients living far away spend less time carrying cash, which reduces the risk of theft or loss (a common concern in the United Republic of Tanzania).

SUMMARY OF BENEFITS

Table 9 summarizes benefits for all stakeholders involved.

Table 9: Summary of benefits of agency and mobile banking for Equity Bank Tanzania, customers and agents

Bank	Customers	Agents
Profit	Savings in transportation time and cost	Improved revenue streams
Increased deposit mobilization	Diversified products from agent points	Increased foot traffic at the business and growth in customer base
Improved brand visibility	Benefit from the Equity brand	Increased efficiencies in cash management
Greater control over agents	Deepened financial access	Benefit from the Equity brand
Increased bank outreach	Improved convenience and cost and demystified banking	Additional volume of transactions

CASE STUDY OF EQUITY BANK TANZANIA — KEY INFLUENCING FACTORS AND LESSONS LEARNED

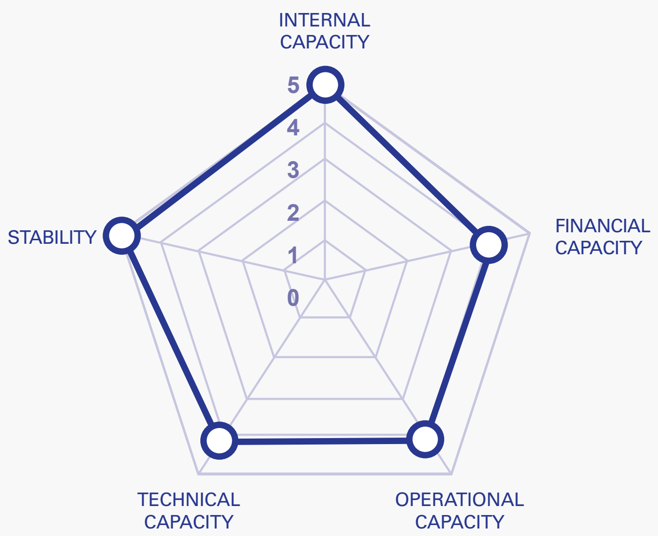
The key influencing factors were to learn lessons from the deployment of agency and mobile banking in Kenya and to ensure there was an appropriate level of commitment from Equity Bank Group. The key success factors were a value proposition for all stakeholders, strong investment in capacity-building of HR and IT, and a significant budget dedicated to ADCs. Relying on its branch network (hub-and-spoke model) for agent network management was also key to the success of agency banking launched by Equity Bank Group in both Kenya and the United Republic of Tanzania.

READINESS AT THE TIME OF DIGITAL FINANCIAL SERVICE ENGAGEMENT

Figure X summarizes the institution's readiness at the time of launching mobile banking, including the following:

- Internal capacity (management, staff capacity, and HR policy and training)
- Financial capacity (financial self-sustainability and financial resources to pursue the business model)
- Operational capacity (liquidity/cash management, operational self-sufficiency and regulatory compliance)
- Technical capacity (connectivity, management information system [MIS] and interfaces)
- Institutional stability (portfolio at risk and governance)

Figure X: Readiness of Equity Bank Tanzania at time of digital financial service engagement



MEETING RECOMMENDED PREREQUISITES

All dimensions are further described in table 10.

Table 10: Assessment of prerequisites for Business model #5 met by Equity Bank Tanzania

Dimension	Prerequisite	Description of the basics needed	Status of Equity Bank
Internal capacity	Management	An ADC manager (at senior management level) needs to be recruited/appointed at headquarters and should be exclusively dedicated to all non-staff channels (to mobile banking, agency banking, POS, ATMs, etc.), as appropriate. The ADC manager should inform the CEO of channel activity on a regular basis (e.g., initially through weekly reports that can later evolve to monthly ones). The CEO should report channel activity to the board of directors.	• Equity Bank Tanzania recruited an ADC Manager who is located at the head office.
	Staff capacity	A project manager and a project team should be recruited whose responsibility it is to manage the relationship/project with partners. This responsibility is especially important when developing the service and for building the interfaces, though it should also be an ongoing task in an 'account management' type role. There also needs to be a permanent dedicated support team, including marketing staff, IT staff in charge of system integration and management, and back-office staff in charge of service-level monitoring, partner settlement, KPI monitoring, etc.	• Equity Bank Tanzania has a project team, which is led by a Project Manager, as well as IT staff.
	HR policy and training	Someone with agent experience should be recruited for the positions of ADC manager and project manager, as these are full-time positions. Job descriptions need to be adapted/created, and staff involved in the new channel must be trained.	• Equity Bank Tanzania appointed a person in charge of alternative channels and another person in charge of agency banking.
Financial capacity	Financial self-sustainability	The FI should have reached financial breakeven for at least two years.	• Equity Bank Tanzania reached breakeven in 2012 and launched mobile banking in 2014.
	Financial resources	Purchasing the platform, building interfaces and conducting marketing require significant financial resources, which could range anywhere from $100,000 to $1,000,000+ depending on specifics. The FI can use its own or external resources, though a part of the investment should come from its own resources.	• The project cost exceeded $1.2 million over three years, and investments are still ongoing. Equity Bank Tanzania is using resources from other products and client segments at the Bank to subsidize the mobile banking channel.

Table 10: Assessment of prerequisites for Business model #5 met by Equity Bank Tanzania (continued)

Dimension	Prerequisite	Description of the basics needed	Status of Equity Bank
Operational capacity	**Liquidity/Cash management**	Automated liquidity management and clear rules and procedures should be in place.	• Liquidity is managed as follows: 'The agent opens a separate bank account for the agency business. With each cash transaction performed by the agent on behalf of the bank, this account is automatically debited (for client deposits) or credited (for client withdrawals). The amount of money in this account therefore determines (and limits) the amount of business an agent can handle on a daily basis, whether deposits or withdrawals.'[a]
	Operational self-sufficiency/ Breakeven	The FI should be over the operational self-sufficiency breakeven level. Ideally, operational self-sufficiency should be higher than 130% to handle the effort required to implement this model.	• Operational self-sufficiency was at 116% at the time of launch in 2013.
	Regulation	The FI should have a regular FI licence. There is likely a need for a specific mobile banking licence for this model.	• Equity Bank Tanzania has a banking licence and received authorization from the central bank to perform agency banking.
Technical capacity	**Connectivity**	This model requires good phone network connectivity. It also requires Internet access with a back-up plan (e.g., satellite-based very small aperture terminals [VSAT]). The FI should develop a mitigation strategy as part of the risk management plan, specifically in relation to loan repayment, in case connectivity is lost.	• Connectivity is okay, and a back-up plan is in place via a data centre in Nairobi, Kenya.
	MIS	The FI must have a centralized CBS/ MIS, which needs to include mobile-banking, SMS and call-centre modules. The MIS must be interfaced in real time between headquarters and branches. Depending on the current MIS functionalities and the interface required, the FI likely needs to invest in this new hardware and software.	• Equity Bank Tanzania has a centralized CBS with a module for mobile banking. Agents' POS devices and mobile phones are interfaced in real time. Equity Bank Tanzania also has its own SMS platform server.
	Interfaces	The FI interfaces with a range of partners (MNOs, switches, utility companies, etc.) for mobile banking, either on a one-on-one basis or through the aggregator model. The FI must be able to reconcile all transactions on a daily basis (between the MM wallet and bank account in particular) and know which partners need to be compensated as per the commercial agreements signed.	• Equity Bank Tanzania has developed interfaces with MNOs to link its bank accounts and the MNO wallets.

Table 10: Assessment of prerequisites for Business model #5 met by Equity Bank Tanzania (continued)

Dimension	Prerequisite	Description of the basics needed	Status of Equity Bank
Institutional stability	**Quality of portfolio**	Portfolio at risk greater than 30 days should be less than 5% for at least three years in a row.	• Portfolio at risk greater than 30 days is not an indicator followed as such by Equity Bank Tanzania.
	Governance	The FI should have stable governance to be able to plan and roll out mobile banking and should not have experienced a governance crisis in the past.	• Equity Bank Tanzania has a stable board of directors, with members from Equity Bank Group.

a Ann Duval, 'Increasing Financial Inclusion in East Africa: Equity Bank's Agent-Driven Model,' p. 9 (n.p., UNCDF-MicroLead, July 2014).

KEY SUCCESS FACTORS

Strong commitment from management and Group

Equity Bank Tanzania had the commitment to agency and mobile banking from Equity Bank Group and, in turn, received substantial resources to invest in technical and human resources. However, the investment was in technology and agencies rather than branches and ATMs.

Value proposition for all stakeholders (institution, clients, agents)

For the institution, EBL has reduced costs incurred in setting up branch and ATM networks. Profits have increased, and growth is not constrained by physical infrastructure. EBL has also leveraged its technical infrastructure, namely achieving economies of scale from the regional roll-out. It has increased brand visibility and achieved greater outreach, leading to more customers and more transactions.

For clients, financial services have become more accessible.

For agents, they have gained a new revenue stream and benefitted from association with the Equity brand.

Strong internal capacity and capacity-building

Capacity-building of the people who deal with agency banking is crucial. An ability to deal with clients and technical skills are both required. Training is key. Equity Bank Tanzania has invested in training its staff at Kenyan headquarters on agency and mobile banking. Agents are supported by Equity staff at the branch level and a dedicated team at the head office.

Hub-and-spoke model that relies on branches

Branches are crucial in the Equity approach to managing agents, as it uses the hub-and-spoke model whereby agents are attached to a branch. Branches support agents, and the agency and branch network expansion strategies are aligned.

Robust information technology platform

As Mr. Iha, the Managing Director of Equity Bank Tanzania, explained, "The IT platform has to be very robust; it has to [be] scalable, operable with various other systems." The robust Equity CBS was crucial, integrating a mobile banking module and enabling real-time connection to both the agents' POS devices and mobile phones for agency banking as well as between Equity accounts and MM wallets for mobile banking. The integration and the real-time aspect are key for the adoption of the new channels by customers and for reconciliation by the institution.

Budget and financial resources

Developing agency and mobile banking is a costly endeavour that requires significant resources for equipment, publicity and awareness. It represents both a considerable initial investment as well as a recurring cost. Refer to the 'Cost/Benefit analysis' section for more details.

CHALLENGES EXPERIENCED AND MITIGATION STRATEGIES DEPLOYED

Table 11 describes the challenges EBL and Equity Bank Tanzania faced as well as the mitigation strategies they deployed to deal with them.

Table 11: Challenges experienced and mitigation strategies deployed by Equity Bank Group and Equity Bank Tanzania

Challenge	Mitigation strategy
Licence delay	EBL experienced a delay in receiving approval for agency banking: BOT issued agency banking guidelines in February 2013 and approved the EBL application to undertake agency banking in May 2013, and EBL received the licence in August 2013. In order to generate business, the Bank 'captured the value chain,' meaning it generated transactional income from corporate accounts to provide the means to generate business 'down the chain.' It capitalized on the institutional relationship to bring in individual (low-balance and low-cost) accounts from employees, suppliers and distributors. EBL worked with SACCOs, VSLAs and village community banks—the linkage helping to accelerate its initial growth.[a]
Competition from MNOs and connectivity issues	The long-term strategy of Equity Bank Tanzania is to become an MVNO, so as to control pricing and address connectivity issues internally.
Connectivity issues	Equity Bank Tanzania plans to invest in POS devices that can accommodate three SIM cards so that, when one network is not functioning well, the agent can switch to another.
Need for investment finance	Equity Bank Tanzania must ensure commitment at the Group level to make finance available, as well as have a strategy to get revenue quickly.
Need for CBS upgrade	Equity Bank Tanzania will be part of a regional upgrade to benefit from economies of scale.
Staff recruitment and retention	Equity Bank Tanzania will take staff to train in Kenya.
Need for customer education	Bank staff provided financial education to customers on a one-on-one basis and also through marketing and communication activities.
Low-quality agent management	Equity Bank Tanzania follows the hub-and-spoke model, whereby branches and their agent staff are responsible for the performance of their agents.
Unknown product/channel and unknown bank	Currently, the marketing EBL conducts on behalf of agents has been limited to branding agents' premises (painting the storefront in EBL colours, including the EBL logo). In the United Republic of Tanzania, where establishing agents has been more challenging, EBL tested the idea of identifying clients on behalf of the agents and bringing them to the agents' door (at no cost to agents). This idea did not prove sustainable. However, EBL is still considering the allocation of staff time for door-to-door marketing together with agents or their employees in order to generate more business, as well as the addition of more traditional marketing techniques such as the production and distribution of branded t-shirts, caps and flyers and the organization of small marketing events in tents set up near agents' businesses.
Delayed or hard-to-access debit cards	EBL acquired the technology necessary to produce its own debit cards in late-2013. The equipment to produce the cards was sent to Equity Bank Tanzania in January 2014 and was to be tested in one branch by the end of February 2014. After the trial proved successful and the technology was rolled out, each branch ultimately was able to produce its own 'instant' debit cards onsite.
Effective geographic distribution	Equity Bank Tanzania managers are considering a more rational and effective distribution of both agents and the staff that supervise them. The Bank plans to adopt a more strategic approach to recruiting agents in the first place, requiring agent supervisors to identify which neighbourhoods and streets have the most potential for agency banking and focusing the recruitment of new agents in those locations.
Need for agent training	Continued intensive training will be part of an ongoing strategy for the foreseeable future. With more staff dedicated to developing the agent business, EBL greenfields will not only continue with but intensify regular training for agents and their employees.

a Being a MicroLead partner and thus being able to tap into learnings from other partners could have contributed to/sustained this strategy.

WAY FORWARD

After a few years of experience with agency and mobile banking, Equity Bank Tanzania wants to broaden its horizons with a deeper involvement in DFS. This involvement implies both building more partnerships and offering more services (see table 12).

Table 12: Next steps for Equity Bank Group and Equity Bank Tanzania

Next step	Explanation
Deepening presence	This step involves focusing first on strengthening the existing 'core' while contemplating regional expansion. Mr. Iha, the Managing Director of Equity Bank Tanzania, explained it thus: "We haven't changed our overall Africa vision. We would love to be present in all of the East African countries, even though some of them would be a huge challenge. But, we learned from our first three greenfields, and we will be more cautious going forward." Other directors echoed this sentiment, saying that the priority is deepening the presence of EBL in existing markets. This focus means, in the United Republic of Tanzania, increasing the number of agents to scale up the agency banking network. Equity Bank Tanzania plans to have 3,000 agents by end-2018.
Developing capacity	This step means continuing to invest in people. EBL established a new department for Learning and Leadership Development, which is separate from its HR department. The new department collaborates with HR to identify key competencies for now and for the future and to identify talented staff capable of rising to the challenge. EBL is already partnering with Ivy League business schools in the United States of America to provide advanced education opportunities for executive staff, and it is piloting an internal education and advancement programme for middle and line managers.
Capitalizing on technological infrastructure	This step signifies capitalizing on the technological infrastructure in which EBL has invested heavily and moving EBL to the forefront of 21st Century banking. Mr. Iha summarized the Bank's future this way: "We have seen that bricks and mortar are no longer viable to overcome banking barriers, both geographical (dealing with the distance to branches) and psychological (overcoming the banking myth). In addition, the dynamics of current demographics, with a high percentage of youth in the population, dictate a need for more flexible and responsive products. Society is moving to virtual banking via mobile phones and payment cards. The goal is to make banking accessible to the larger populace so that the move to a 'cashless' economy can be facilitated."
Developing new products and services	This step comprises developing new business lines, including insurance, brokerage services and more agency banking services, as well as enabling some agents to conduct other services like Western Union and MoneyGram transfers as well as bill payments.
Becoming an MVNO	This step will allow Equity Bank Tanzania to perform loan disbursements and loan reimbursements and will be based on scoring potential customers.

CREATING A MOBILE BANKING CHANNEL — THE CASE OF FIDELITY BANK IN GHANA

Fidelity Bank is a large bank (1.2 million customers, $295 million loan portfolio, $703 million deposit volume) that has created a network of ~900 agents in three years and serves ~290,000 new customers. These achievements are a result of large financial, human and organizational effort.

Fidelity Bank downscaled to address the un(der)banked and used its financial resources from serving high net worth individuals to finance its digital journey. Breakeven for a channel/agent deployment is a long-term strategy. Not all FIs have the means and resources to engage in this approach. The digital path Fidelity Bank followed (developing its own agent network and mobile banking channel) is not the right path for every institution. Depending on the position of an FI in its market, on competition and on the environment (e.g., presence of strong existing agent networks), leveraging an existing agent network may be a better option for an FI. It is not an exclusive option either. Fidelity Bank developed its own agent network, yet it is currently in discussions with MNOs to leverage their large agent networks in order to reach scale.

Fidelity Bank is an interesting example of the digital journey of an FI. In addition to being the partner bank for MTN Mobile Money and Airtel Money services, it started agency banking in 2013 by creating its own agent (both fixed and roving) network (Model 4) and introduced mobile banking at the same time (Model 5). Fidelity Bank tested both POS devices and mobile phones, ultimately choosing the latter. Fidelity Bank is contemplating opening its proprietary platform in the future to other microfinance institutions that cannot afford their own platform (Model 6). It is also considering getting an e-money licence; see annex II for a detailed context of the country (in 2015, the regulator enabled FIs to request an e-money licence) as a possible option to become a provider (Model 6). Finally, in May 2016, Fidelity Bank released a mobile savings and loan product called Airtel Money Bosea, with Airtel Money and the credit-scoring provider Tiaxa (Model 6).

OVERVIEW OF THE DIGITAL MODEL

Fidelity Bank became a licensed universal bank in Ghana in June 2006, having operated as a finance discount house for nearly eight years. A key to its success in reaching the mass market for savings and deposits in Ghana has been its pioneering of and expertise in agency banking. Fidelity Bank is credited as the first bank to launch the agency banking model in Ghana, having done so in 2013 with the approval of Bank of Ghana (BOG), the country's central bank, to offer an easy-to-access, low-requirement bank account named Fidelity Smart Account. Fidelity Bank developed its own agent network (Model 4) as well as a mobile banking USSD interface (Model 5) with Airtel and MTN. Both channels were launched at the same time.

Only one form of national ID and a passport-sized photo are required to open either a current or a savings account, with a turnaround time of five minutes, through any of the over 800+ Smart Agents. Smart Agents are the Bank's own agents—so-called 'e-tellers' who are dedicated mobile banking agents currently located in about 40 branches—as well as third-party agents throughout the country.

Fidelity Bank Smart Agents performing transactions for clients
Courtesy of Fidelity Bank

The Fidelity Smart Account comes with a chip card and a personal identification number (PIN) linked to an account for basic transactions, mainly cash deposits, withdrawals, bill payments, e-transfers and airtime top-ups.

Transactions can be performed by both clients (mobile banking) and agents (agency banking). Customers use a mobile banking USSD platform, while agents perform transactions through a mobile phone (formerly a POS device) provided to them by Fidelity Bank. Agents of Fidelity Bank are retail locations (grocery stores, supermarkets, pharmacies, phone shops, etc.) that are recruited and trained to conduct banking transactions on behalf of Fidelity Bank and that are allowed to hold float with the Bank to boost cash management. As highlighted on the Fidelity Bank website, 'agents are easily identified by clearly displayed Smart Agent signage at agent points. Transactions are completed securely via a POS machine.'[17] Fidelity Bank is also negotiating with partner MNOs to use their agent networks in order to reach scale.

17 Fidelity Bank, 'Fidelity Smart Agent Network.' Available from https://www.fidelitybank.com.gh/products-services/financial-inclusion/agency-banking/fidelity-smart-agent-network/ (accessed September 2017).

CREATING A MOBILE BANKING CHANNEL — THE CASE OF FIDELITY BANK IN GHANA (continued)

OBJECTIVES FOR GOING DIGITAL

The main objective of Fidelity Bank for going digital, by leveraging the agency banking model, is to provide 'world-class banking services' to the unbanked population of Ghana: 'Fidelity is currently the only bank licensed by BOG to do so. Fidelity's Agency Banking model comprises [the] Smart Account and Smart Agent network combining a low requirement, easily accessible account and convenient, trustworthy branchless banking.'[18] These efforts are done in partnership with MNOs—Airtel and MTN—to serve a previously untapped market of the un(der) banked. Fidelity Bank is leveraging the wide network coverage and MM customers of the MNOs to reach the unbanked.

Fidelity Bank also seeks to increase its customer base by roping in MM accountholders through its mobile banking offering, to attract cheap deposits from the mass market as a source of funding and to empower its clients through financial training programmes to improve their lives and financial literacy levels.

SERVICES AND CHANNELS USED

Fidelity Smart Account

As explained on its website, 'Fidelity has permission from BOG to use reduced KYC [know-your-customer requirements] (picture of ID or passport and … picture of the customer); hence, only one form of national ID and no additional documentation is required to open an account.'[19] Account-opening is conducted by Smart Agents (fixed agents) and Smart Friends (roving agents) using a custom mobile phone.

The Smart Account comes with a chip-and-PIN ATM card (linked to the account, not bearing the customer name), but it can also be accessed using mobile banking (with USSD). Clients can contact the Bank's own agents at branches as well as third-party agents to perform the following transactions: open an account, deposit money, pay bills, top up airtime and transfer money from an account linked to an MM wallet, and vice versa, in real time. When an account is opened, it is automatically set up with mobile banking, which enables the client to receive SMS alerts and push/pull money between his/her Fidelity account and mobile wallet.

Fidelity Smart Agent network

Fidelity Bank has two types of proprietary agents: fixed agents called Smart Agents and roving agents called Smart Friends. The Fidelity Bank website describes them thus: 'Smart Friends are Fidelity's itinerant sales ambassadors, who can be spotted around Ghana in their bright orange Fidelity Smart Account t-shirts. Smart Agents are retail locations (grocery stores, supermarkets, pharmacies, phone shops), recruited, contracted and trained by Fidelity to conduct banking transactions on [its] behalf.'[20] Smart Agents are equipped with mobile phones to perform transactions.

Fidelity Bank agent registering a client
Courtesy of Fidelity Bank

Fidelity Bank uses a combination of its own agents and third-party agents to open and support usage of the Smart Account. It had 500 agents one year after having launched agency banking (2015) and about 890 active agents a year later (end-2016). Table 14 lists the services offered through the different distribution channels.

18 Fidelity Bank, 'Agency Banking.' Available from http://www.fidelitybank.com.gh/products-services/financial-inclusion/agency-banking/ (accessed June 2017).

19 Ibid.

20 Ibid.

CREATING A MOBILE BANKING CHANNEL — THE CASE OF FIDELITY BANK IN GHANA (continued)

Table 10: Fidelity Bank services offered by distribution channel

Service	Fidelity Smart Agent	ATM	Mobile/Internet
Account-opening	✓	✗	✗
Cash deposit	✓	✗	✗
Cash withdrawal	✓	✓	
Balance enquiry	✓	✓	✓
Mini-statement	✓	✓	✓
Card-less transfer	✓	✓	✓
Funds transfer	✓	✓	✓
Utility bill payment	✓	✓	✓
Airtime top-up	✓	✓	✓
PIN change	✗[a]	✓	✓✗[b]

a PINs cannot be changed at a Smart Agent point.
b PINs cannot be changed via Internet.

Source: Fidelity Bank, 'Fidelity Smart Agent Network.' Available from https://www.fidelitybank.com.gh/products-services/financial-inclusion/agency-banking/fidelity-smart-agent-network/ (accessed September 2017).

Mobile banking

Fidelity Bank gives customers the opportunity to link their MM wallet to their Fidelity account, to enable them to push/pull funds between their MM wallet and their bank account. Customers can perform transactions from their mobile phone using a USSD session, accessed by dialling *775#.

Fidelity Bank is working on developing an app that will enable customers to perform transactions from their mobile phone using the app instead of the USSD session.

DIGITAL JOURNEY

The digital journey started for Fidelity Bank in 2012, with a market study on the agency banking landscape and opportunities in Ghana as well as study tours to Kenya and the United Republic of Tanzania to understand the agency banking models in those markets. Fidelity Bank completed a detailed market assessment as well as a business and technical requirement assessment. After a pilot, Fidelity Bank launched agency and mobile banking services in March 2014, with the main objectives to bring affordable products to the mass market and the unbanked, to mobilize cheap deposits as a source of funding and to improve client literacy levels through capacity-building programmes.

Regulation

Fidelity Bank is the first universal bank licensed by the regulator, BOG, to launch the agency banking model in Ghana. It has permission from BOG to use reduced KYC requirements for account-opening, using a custom mobile phone.

MNOs in Ghana have to form non-exclusive partnerships with banks in order to issue MM due to BOG regulations. Bank branches, such as Fidelity branches, also act as MNO agents.

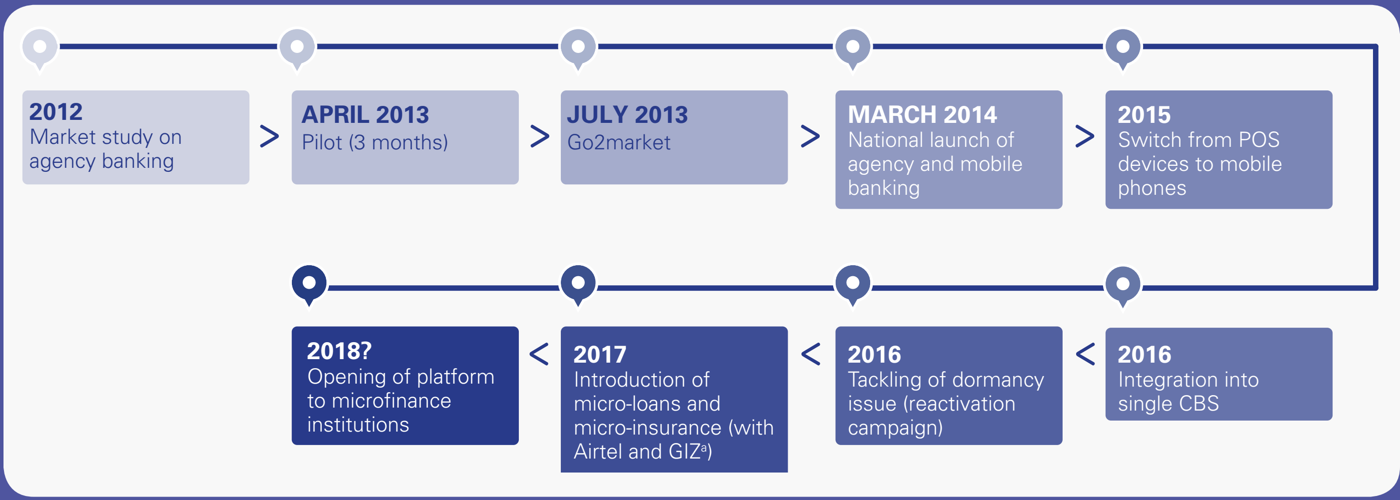
Since 2015, FIs can develop their own DFS and be licensed as e-money issuers in Ghana.[21] This change will bring additional competition from other FSPs in the market. More FIs are looking at following the same journey, such as First Allied Savings and Loans. Fidelity Bank does not have an e-money issuer licence at the moment, yet it might consider getting one.

21 In 2015, the Ghanaian DFS sector changed when BOG issued e-money issuer guidelines (replacing the 2008 branchless banking guidelines) and agent guidelines. BOG was widely praised by stakeholders in the financial service sector for coming out with such a framework for agency banking and mobile banking. The agent guidelines made it possible for agents to participate in e-money business, with clear rules/guidelines covering their activities in the Ghanaian DFS space. The guidelines clearly defined the commission structure for agents, amount limits that agents can hold, and transaction limits for individuals/customers per day. The guidelines made the DFS space more engaging and participatory, allowing even non-banks and telecoms to be licensed as e-money issuers, in order to drive financial inclusion in Ghana. This change is expected to bring about increased uptake and user adoption of DFS in the country since FIs can now develop their own DFS.

CREATING A MOBILE BANKING CHANNEL — THE CASE OF FIDELITY BANK IN GHANA (continued)

Figure XI summarizes the digital journey taken by Fidelity Bank.

Figure XI: Digital journey taken by Fidelity Bank



a GIZ, Gesellschaft für Internationale Zusammenarbeit

MODEL IN ACTION

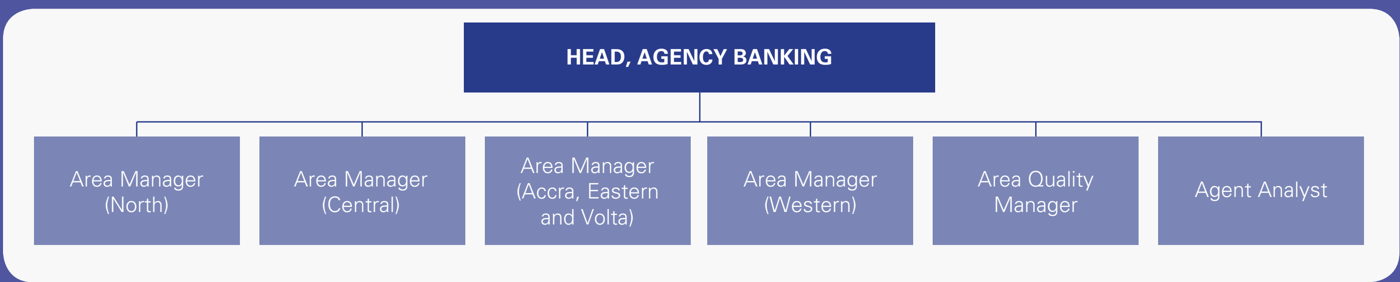
Internal organization

Fidelity Bank has an Agency Banking Department. The Head of Agency Banking leads the team, with Area Managers overseeing activities and tracking transactions and agent complaints coming from assigned zones (see figure XII).

Responsibilities are split as such:

- Agent Officers and Area Managers recruit agents and are responsible for agent branding. Currently, about 18 Agent Officers are in the field managing Fidelity agents' complaints and float issues on a daily basis. These agents are third parties who Fidelity Bank has recruited and branded as Fidelity agents.
- Proprietors of small and medium enterprises (grocery stores, supermarkets, pharmacies, phone shops, etc.) are recruited as agents.
- Fidelity Express Centres located at various shopping malls also facilitate customer transactions.

Figure XII: Agency Banking Department at Fidelity Bank



CREATING A MOBILE BANKING CHANNEL — THE CASE OF FIDELITY BANK IN GHANA (continued)

Agent network management

Third-party agents (grocery stores, supermarkets, pharmacies, phone shops, etc.) are recruited, trained and certified by Fidelity Bank to conduct basic banking transactions on its behalf and become Fidelity agents (proprietary network). Agents are recruited by Area Managers, who are assigned to various zones, and then trained and equipped with a mobile phone (previously a POS device), 'with which they assist clients in making deposits, withdrawals, bill payments and other basic banking transactions. … Agents are easily identified by clearly displayed Smart Agent signage at agent points.'[22] The Bank's own agents, dubbed 'e-tellers,' are currently in 40 branches and are supervised by Branch Managers.

Fidelity Bank Express Centre
Courtesy of Fidelity Bank

Fidelity Bank has also introduced Fidelity Express Centres at select shopping malls, which are each managed by a maximum of three staff and serve both bank and non-bank customers.

Liquidity management

E-float management is a key risk for Fidelity Bank, as most agents do face float issues even when business volumes are low. As explained in a *MicroSave* presentation, 'Depending on the relative volumes of cash-in or cash-out transactions in any given day, the retail agent can become either cash-rich, with too much cash on hand, or cash-poor.'[23] This concern about float informed the decision by Fidelity Bank to initiate the current liquidity management model, which takes two forms (see also figure XIII):

1. Managing the e-value/float effectively to accept clients' deposits and cash-in transactions
2. Managing the physical cash to service clients' cash withdrawals and cash-out transactions

Figure XIII: Liquidity management model at Fidelity Bank

WHEN AGENT NEEDS E-CASH	WHEN AGENT NEEDS PHYSICAL CASH
Agent sends request to branch/Master Agent via agent app	Agent sends request (and e-cash) to branch/Master Agent via agent app
Branch Manager/Master Agent receives and approves request	Branch Manager/Master Agent receives request, confirms receipt of e-cash and approves request
Branch Operations/Liquidity Officer processes and credits agent float account	1. Agent picks up cash from branch, 2. Master Agent sends cash to agent, or 3. Branch sends MM equivalent to agent
Agent expected to pay back within 24 hours (via MM, branch visit, Master Agent)	Agent withdraws cash from wallet from closest bank/MM agent (for option 3 above)

a GIZ, Gesellschaft für Internationale Zusammenarbeit

22 Fidelity Bank, 'Fidelity Smart Agent Network.'

23 Vartika Shukla, 'State of Business Correspondent Industry in India – The Supply Side Story,' presentation (*MicroSave*, 23 September 2015).

CREATING A MOBILE BANKING CHANNEL — THE CASE OF FIDELITY BANK IN GHANA

(continued)

Technology

Fidelity Bank operates two separate CBS, on Oracle and FLEXCUBE platforms. Smart Accounts are on a separate CBS from other Fidelity accounts. Plans are in place to integrate both platforms (with Enterprise Business Technology serving as a bridge) into one CBS on a FLEXCUBE platform. Fidelity Bank has a proprietary, custom-developed agency banking platform that is supported by Enterprise Business Technology developed by the Kenyan aggregator Eclectics, which is also responsible for maintenance of the platform. All transactions happen in real time.

Agents use mobile phones provided by Fidelity Bank. The technology currently used evolved from POS devices that were later progressively replaced in favour of mobile phones.

COST/BENEFIT ANALYSIS

Costs

Fidelity Bank made some investments (CapEx) in the following:

- Establishment of Fidelity Express Centres at select shopping malls
- POS devices ($500 per device) at the start, later replaced with mobile phones ($90 per phone)
- Back-up generators, purchased at a high cost to Fidelity Bank

Fidelity Bank has some OpEx for training of third-party agents, top agents, and Agent Officers and Managers in the field as well as for fuel cost to power the back-up generators across the branch network.

Fidelity Bank preferred not to disclose specific amounts invested, neither in terms of CapEx nor OpEx; therefore, table 14 simply summarizes cost categories.

Table 14: Fidelity Bank capital and operational expenditures

Investment costs (CapEx)	Recurring costs (OpEx)
• Establishment of Fidelity Express Centres at various locations	• Training of third-party agents and top agents
• Initial purchase of POS devices	• Training of Agent Officers and Managers
• Subsequent purchase of mobile phones	• Fuel to power generators at branches
• Back-up generators for various branches	

Results achieved

With the introduction of agency banking, Fidelity Bank achieved the following outcomes over the 2013–2016 period:

- Agents increased from 500 in the first year to 890 active agents by end-2016.
- Customer accounts increased from 55,000 to 290,000 in three years. This growth has mainly been attributed to a swift account-opening turnaround time (maximum of five minutes).
- Deposit inflows increased from ¢3,003,029 ($681,457) in 2015 to ¢3,100,614 ($703,601) in 2016.[24]

Benefits

For Fidelity Bank

- Greater footprint across the country and improved brand visibility
- Increased deposit mobilization by way of cheap deposit inflows
- Larger customer base by roping in MM accountholders through the Y'ello Save account offering
- Improved relationship with customers through the introduction of the agency banking model and greater trust by customers in the Fidelity brand

For clients[25]

- Easy way to make bill payments
- Convenient access to bank accounts, such as after banking hours (so long as agents are open)
- Access to all ATMs and dedicated Fidelity branches
- Ability to open an account in five minutes and receive an ATM card immediately
- Safe and reliable way to save
- Effective mechanism to pay wages to low-income workers who find it difficult to open other bank accounts
- Easy and secure way to collect small amounts of money such as savings, insurance premiums and loan repayments
- Efficient cash management services that reduce the cost of moving cash

24 Conversion rate: ¢1 = $0.2269 (*Source:* www.xe.com, 9 August 2016). *Note:* This rate is used throughout this document when United States dollar equivalents are provided for Ghanaian cedi.

25 Fidelity Bank, 'Fidelity Smart Account.' Available from https://www.fidelitybank.com.gh/products-services/financial-inclusion/agency-banking/fidelity-smart-account/ (accessed September 2017).

CREATING A MOBILE BANKING CHANNEL — THE CASE OF FIDELITY BANK IN GHANA
(continued)

KEY SUCCESS FACTORS

Formation of the right partnerships

Fidelity Bank formed a partnership with the United Nations Capital Development Fund (UNCDF) programme MicroLead that helped Fidelity Bank to stress test its business models in rural areas and make adjustments to its modus operandi.

Fidelity Bank has good partnerships with key non-governmental organizations and donors as well: CARE International, Gesellschaft für Internationale Zusammenarbeit (GIZ), International Fund for Agricultural Development (IFAD), IFC, United States Agency for International Development (USAID) and the World Bank. It also continues to partner with existing MNOs and e-money issuers like Airtel Money, MTN Mobile Money and soon Tigo Cash, as Fidelity Bank explores the option of linking clients' MM wallets to Fidelity accounts. These partnerships enabled Fidelity Bank to leverage key learnings from various partners throughout its digital journey.

The partnerships specifically address the following:

- CARE (funding from UNCDF): To link VSLAs with banks
- GIZ: To develop financial literacy material for clients (how to use an ATM, how to use agency banking) and training of trainers for agents
- IFAD: To create customer icons and interface for smallholders
- UNCDF – MicroLead: To stress test business model in rural areas; to test partnership with MNOs
- USAID – Feed the Future: To provide smallholder clients
- USAID – Genesis: For change management
- World Bank: To get women to save (to be launched)

Conducive environment: new regulation

Fidelity Bank received permission from the regulator, BOG, to launch agency banking in Ghana. It pioneered agency banking in the country and managed to leverage networks of outlets to convert them into agents.

Large bank size

Fidelity Bank is a large bank with 1.2 million customers. It is the fourth largest bank in Ghana in terms of assets and the fifth largest in terms of deposits (end-2016). As such, it had the financial resources to engage in agency banking. Fidelity Bank also had the internal capacity and management to support it. In addition, as Fidelity Bank notes on its website, it has 'state-of-the-art technology, exceptional corporate governance standards, good knowledge of the local market, financial capital and, above all, a customer-centric culture. Fidelity Bank is contributing its quota to the development of the banking industry and by extension the Ghanaian economy.'[26]

It is also important to note that Fidelity Bank acquired ProCredit Savings and Loans Company Limited, a non-bank FI that provides saving and lending services to Ghanaian small and medium enterprises, which originally was a subsidiary of ProCredit Holding Germany and the DOEN Foundation of the Netherlands.[27] This acquisition increased the number of Fidelity branches to 75, making financial transactions more accessible for clients across the country.

CHALLENGES AND LESSONS LEARNED

Challenges faced

Fidelity Bank experienced a number of challenges on its DFS journey:

- Being the first bank to introduce agency banking in the Ghanaian market meant there was no baseline and there were no lessons to leverage. This challenge affected agents' profitability. Fidelity Bank is yet to reach breakeven after three years. The plan is to reach breakeven by the end of the first quarter of 2017.
- Investing in people in terms of building staff skills to achieve high KPIs was key to Fidelity Bank; however, as a result, the Bank incurred high OpEx by way of staff training cost. This cost was borne mainly by donors (UNCDF – MicroLead, World Bank, USAID, GIZ, etc.).
- Fidelity Bank started its digital journey with the purchase of POS devices, at a cost of $500 per device. Realizing that the POS devices were not robust enough, Fidelity Bank soon moved towards using mobile phones, which were cheaper at a cost of about $90 per phone. Fidelity Bank only provides its agents with mobile phones. Third-party agents use their own phones to support transactions.
- Electricity outages that the country experienced some years back, especially in the 2013–2015 period, had a big effect on the service experience across the Fidelity branch network and touchpoints and on OpEx (i.e., purchase of back-up generators).
- There were some issues with the mobile banking platform. It was sometimes impossible for clients and agents to use the USSD code to access banking services, due to MNO network problems. Fidelity Bank is working on shifting from USSD to its own app, and it is in the process of getting an app (Mistral) to facilitate the process. This change will mean clients will need a Java-enabled phone to access services—preferably a smartphone for a more engaging experience.

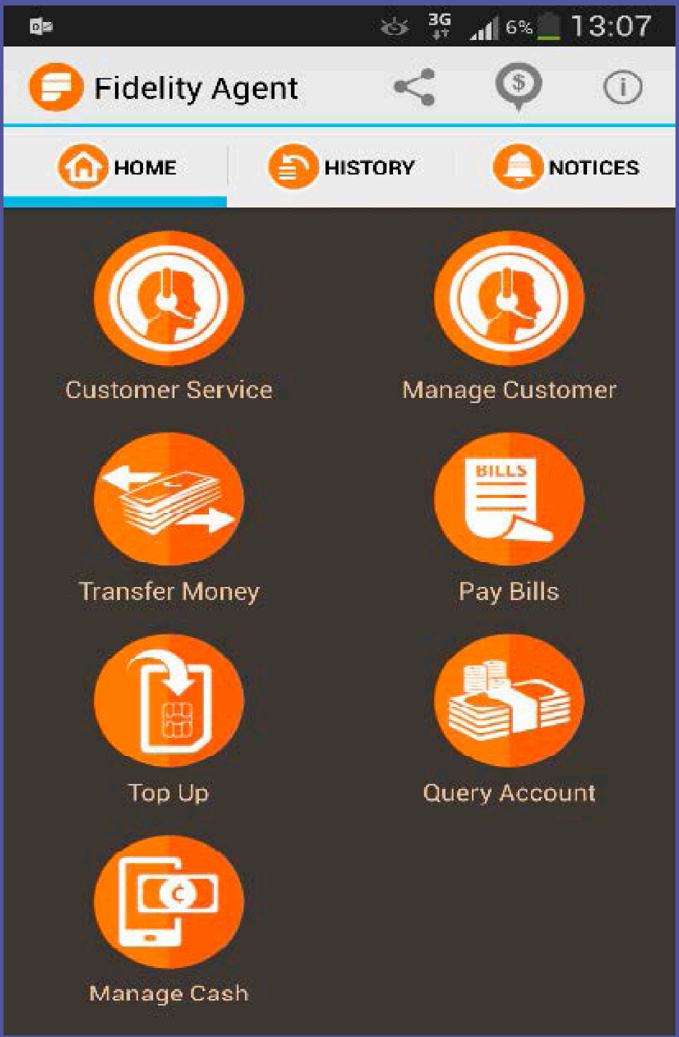
26 Fidelity Bank, 'Corporate information.' Available from https://www.fidelitybank.com.gh/who-we-are/corporate-information/ (accessed September 2017).
27 Ibid.

CREATING A MOBILE BANKING CHANNEL — THE CASE OF FIDELITY BANK IN GHANA
(continued)

- Competition is increasing. Fidelity Bank was the first mover in agency banking in Ghana, but new regulation on agency banking has opened the way for new competitors, which might impact the business model.

Lessons learned for other financial service providers

- Having a unified platform for the agency banking offering, integrated into the main CBS, would have improved uptake and offered enormous benefits.
- Investing in staff and third-party agents in terms of capacity-building and skill-building, through targeted trainings, to achieve high KPIs was key to the success of Fidelity Bank.
- Fidelity Bank constantly engages with inactive clients (those with no transactions for six months or more) to avoid dormancy.
- Marketing and publicity campaigns were crucial in creating the right attitude among the masses to accept the product offering, which was how Fidelity Bank brought the agency banking model to scale.



Fidelity Bank agent app on smartphone
Source: Fidelity Bank website

NEXT STEPS

- Equip agents with more phones to facilitate transactions—agents might have more than one phone to perform transactions.
- Negotiate with partner MNOs to use their agent networks in order to reach scale (Model 3). This model was already explored under the MicroLead project but was unsuccessful because of the commission requirements that were unsustainable for low-income rural populations and the lack of training of MNO agents on specificities of transactions for savings group customers.
- Reduce dormancy in the near future (as of end-2016, the dormancy rate was 45% of deposits in an account base of 294,245)—Fidelity Bank has already begun a process of calling clients to reactivate their accounts.
- Expand on the product offering by introducing micro-loans and micro-insurance products in 2017, leveraging the partnership with Airtel Money for its client base and the support of GIZ respectively.
- Change the MIS-based reporting platform in the near future to a more complex off-the-shelf agent dashboard to track agent KPIs at various touchpoints.
- Transition Smart Accounts, which are currently on a separate CBS, to the main CBS to have a single platform by the end of the first quarter of 2017.
- Explore the option of opening the platform to select microfinance institutions in order for them to have a ready-to-use mobile banking platform without having to invest in an expensive platform.

KEY FIGURES[28]

- Date received bank licence: 2006
- Date started the digital journey: 2014
- Clients (March 2017): 1.2 million accounts bank-wide
- Branches (March 2017): 75
- Other channels (March 2017): 117 ATMs and 1,200 agents
- Loan portfolio (December 2016): ¢1.3 billion ($295 million)
- Deposit portfolio (December 2016): ¢3.1 billion ($703 million)

RESULTS ACHIEVED THROUGH DIGITAL CHANNELS (MARCH 2017)

- Clients registered with agency banking: 294,245
- Clients registered with mobile banking: 294,245 (Smart Account automatically comes with the mobile banking offering)
- Registered agents: 1,200
- Active agents: 890

28 Fidelity Bank, *Annual Report 2016* (Accra, n.d.). Available from http://www.fidelitybank.com.gh/media/photos/reports/Fidelity%20Bank%202016%20Annual%20Report.pdf (accessed June 2017).

CREATING A MOBILE BANKING CHANNEL — THE CASE OF FIDELITY BANK IN GHANA
(continued)

- Transaction volume: 1,500 transactions per month in terms of deposits
- Channel mix: 25% of transactions at branches, 75% through agents

See also table 15 for a summary of the results achieved over the 2013–2016 period.

Table 15: Evolution of digital channels at Fidelity Bank, 2013–2016

	End-2013	End-2014	End-2015	End-2016
Smart Accounts	32 683	201 868	282 244	294 245
Total deposits (¢ million)	1 ($226,923)	8 ($1,815,385)	15 ($3,403,846)	NA
Average balance (¢)	30 ($7)	40 ($9)	53 ($12)	NA
Active agents	61	361	696	890
Locations	Accra and Kumasi	Accra, Kumasi and Tamale	Countrywide	Countrywide

SUMMARY OF BENEFITS

Table 16 summarizes benefits for all stakeholders involved.

Table 16: Summary of benefits of agency and mobile banking for Fidelity Bank, customers and agents

Fidelity Bank	Customers[a]	Agents
Greater footprint across Ghana and improved brand visibility	Easy way to make bill payments	Increased revenue streams (although business case still to be improved)
Increased deposit mobilization by way of cheap deposit inflows	Convenient access to bank accounts, such as after banking hours (so long as agents are open)	Increased foot traffic at the business and growth in customer base
Larger customer base by roping in MM accountholders through the Y'ello Save account offering	Access to all ATMs and dedicated Fidelity branches	Benefit from the Fidelity brand
Improved relationship with customers through the introduction of the agency banking model and greater trust by customers in the Fidelity brand	Ability to open an account in five minutes and receive an ATM card immediately	Additional volume of transactions
	Safe and reliable way to save	Access to a smartphone with an app to perform transactions
	Effective mechanism to pay wages to low-income workers who find it difficult to open other bank accounts	
	Easy and secure way to collect small amounts of money such as savings, insurance premiums and loan repayments	
	Efficient cash management services that reduce the cost of moving cash	

a Fidelity Bank, 'Corporate information.' Available from https://www.fidelitybank.com.gh/who-we-are/corporate-information/ (accessed September 2017).

CREATING A MOBILE BANKING CHANNEL—THE CASE OF MWANGA COMMUNITY BANK IN THE UNITED REPUBLIC OF TANZANIA

SUMMARY

Mwanga Community Bank Limited (MCBL) was established in the United Republic of Tanzania in 2000 with individual and institutional shareholders, all originating from Mwanga District. Its original licence from BOT authorized MCBL to only operate in Mwanga District. However, in 2009, MCBL became a regional bank, allowing it to operate in the entire Kilimanjaro Region. As of end-2016 MCBL had ~122,000 clients.

MCBL follows the community-bank model that was pioneered in Ghana in the 1980s and has the objective to provide affordable financial services to over 80% of poor people, living in rural areas within the Kilimanjaro Region. This model is distinctly different and fits between that of an NGO-based microfinance institution, which is unregulated and cannot accept deposits, and a commercial bank, which can operate nationally. There is some similarity in terms of operations and mission to a regulated deposit-taking microfinance bank.

In 2011, MCBL became a member of UmojaSwitch, which is a shared switch/technical platform that provides the technical backbone for ATM services, agency banking and mobile banking. Through UmojaSwitch, member banks can integrate with other service providers, such as MNOs, as well as be interoperable so as to extend their range of services to their customers. As of March 2017, there were 27 UmojaSwitch members in the country, providing a national footprint of 220 ATMs.

In 2012, MCBL started linking VSLAs that had been formed by CARE to MCBL accounts using M-Pesa. In 2014, MCBL began to provide mobile banking (through UmojaSwitch) to individuals.

KEY FIGURES

- Launch: 2000
- Gross loan portfolio (end-2016): TSh10.7 billion ($5.0 million)
- Deposits (end-2016): TSh8.7 billion ($4.1 million)
- Clients (April 2017): 122,121
- Linked VSLAs (end-2016): 1,211
- Branches (end-2016): 4

DIGITAL JOURNEY

MCBL launched its ATM card service in 2011, after becoming a member of UmojaSwitch. In 2014, to support the roll-out of its VSLA-linkage partnership with CARE, MCBL successfully applied for an agency and mobile banking licence. Agency and mobile banking were developed jointly. In the same year, MCBL launched its mobile banking service, which enhanced its service offering to customers. MCBL offers mobile banking to individuals, allowing savings group members to access their own account. Village Agents (recruited by CARE) specifically work with VSLAs (from a capacity-building perspective), and MCBL agents work with all customers.

SERVICES AND PRODUCTS OFFERED VIA MOBILE BANKING FOR INDIVIDUALS

MCBL mobile banking is available on all types of mobile phones and is accessed via the UmojaSwitch short code *150*17# on a USSD menu. On the back-end, the MCBL CBS is connected to Selcom, which is a technology aggregator for MNOs. Services offered include the following:

1. Bank2wallet transfer (from MCBL bank account to MNO mobile wallet: Airtel Money, M-Pesa or Tigo Pesa)
2. Wallet2bank transfer (from Airtel Money, M-Pesa or Tigo Pesa wallet to MCBL bank account)—Halotel is currently in the integration process
3. Inter-bank transfer
4. Intra-bank transfer
5. Prepaid airtime
6. Bill payment
    a. Electricity: LUKU (Lipa Umeme Kadiri Utumiavyo)
    b. Water: Dar es Salaam Water and Sewerage Corporation (DAWASCO)
    c. Landline phone: Tanzania Telecommunications Company Limited (TTCL)
    d. Internet: Prepaid WiFi, Smile
    e. Television: DStv, National Examinations Council of Tanzania (NECTA), StarTimes, Zuku
    f. Azam Marine Ferry

Customers can cash-in/cash-out on their mobile wallet with an agent and then can pay bills, make transfers and push/pull money between their MM wallet and their MCBL bank account by themselves.

CREATING A MOBILE BANKING CHANNEL—THE CASE OF MWANGA COMMUNITY BANK IN THE UNITED REPUBLIC OF TANZANIA (continued)

ALIGNMENT WITH RURAL OUTREACH STRATEGY – SAVINGS GROUP LINKAGES

As MCBL started its digital journey, it was also implementing a rural outreach strategy that aimed to increase its client base from 11,000 to 112,000, with these primary objectives:

1. Providing financial services to the low-income population in the Kilimanjaro Region
2. Mobilizing deposits so as to increase the capital base for lending and to reduce the cost of borrowing

In 2012, MCBL signed a tripartite memorandum of understanding with CARE Tanzania, a non-governmental organization that mobilizes VSLAs, and Vodacom/M-Pesa (before UmojaSwitch had its interface with M-Pesa). The purpose was to develop and deploy a service whereby VSLAs could transfer their accumulated savings into an MCBL account, thus reducing the risk for VSLAs of holding cash while at the same time increasing financial inclusion. It was facilitated through M-Pesa, and it offered a win-win for all stakeholders. UNCDF – MicroLead provided funding for technical assistance to assist with this partnership.

Partnership in action

The savings group linkage strategy aims to link regulated FSPs (such as MCBL) with informal or semi-formal savings groups, by addressing both the demand side (from the savings groups) and supply side (MCBL) with the outcome of increased financial inclusion (of the savings groups) on the one hand and improved financial sustainability (of MCBL) on the other.

On the supply side, CARE supported MCBL in developing new saving products to offer to the VSLAs as well as helping MCBL integrate the new products and technology into its mainstream operations through trainings of MCBL staff. The trainings focused on how to deliver the products to VSLAs.

On the demand side, CARE increased the outreach of VSLAs using local Village Agents to form new groups in populations that had previously been completely excluded. CARE also built the capacity of mature VSLAs and linked them to MCBL to help these groups graduate, so that they could access financial services from MCBL.

Please refer to the publication from UNCDF on the specific CARE-MCBL partnership for more details on the partnership and lessons learned from this experience of linking VSLAs to a community bank.

MICROLEAD

Process for CARE VSLA members to deposit savings
Courtesy of MCBL

Key activities by CARE to develop group mobile banking with Mwanga Community Bank

CARE has performed the following activities to help create links between saving groups and MCBL:

- Formed new VSLAs and identified their financial needs
- Helped MCBL design appropriate group saving and loan products
  - Saving product (Wekeza Saving Account)
    - No monthly ledger fee
    - 3% interest earned
    - Easy and free-of-charge deposit through M-Pesa
  - Credit product (Wekeza Loan)
    - Loan for groups
    - First loan equals amount of last share-out | Second loan equals twice amount of share-out | Third loan equals three times amount of share-out
    - Fast processing to meet needs
- Helped MCBL design processes for MCBL product delivery through mobile channels

CREATING A MOBILE BANKING CHANNEL—THE CASE OF MWANGA COMMUNITY BANK IN THE UNITED REPUBLIC OF TANZANIA (continued)

- Helped MCBL integrate new products, processes and technology within MCBL operations and CBS
- Built capacity of MCBL staff in product delivery through agents and mobile channels
- Provided financial literacy and capacity-building to VSLA members
- Built capacity of a pool of Village Agents and franchisees who can form and link VSLAs in the long run through a sustainable business model

COST/BENEFIT ANALYSIS

Revenues

Current revenues are less than costs incurred. Table 17 provides specific numbers on the accounts, transactions and fees collected.

Table 17: Mwanga Community Bank mobile banking performance, 2014–2016

	2014	2015	2016
Registered accounts	254	1 025	2 719
Transactions	7 813	17 213	25 945
Fees collected ($)	1 225	2 116	4 426

Conversion rate: $1 = TSh2,227 (*Source*: www.xe.com,16 August 2017).

Capital expenditures

The VSLA linkage strategy required the following investment from CARE, though the technology involved could also be used for individual accounts:

1. **TECHNICAL SUPPORT from consultant** – $22,500
2. **ROLL-OUT OF AGENCY AND MOBILE BANKING**
   a. Purchase of software linking agents/field officers with CBS to capture real-time information through use of mobile phone or POS device – $20,000
   b. Purchase of POS devices – $10,500
   c. POS device integration with CBS – $10,000
   d. Branding of agents – $3,000
3. **MCBL MOBILE GROUP WALLET**
   a. Integration of group wallet menu in MCBL Mobile – $3,000
   b. Training of franchisees and Village Agents on menu uses – $2,500

Operational expenditures

MCBL did not wish to disclose the details of recurring expenses required for this model.

EXPECTED OUTCOMES OF STRATEGY FOR AGENCY AND MOBILE BANKING FOR GROUPS (SAVINGS GROUP LINKAGES)

MCBL has implemented ADCs for groups and individuals with a view to achieve the following results:

1. Provide access to financial services through VSLAs to over 70,000 people who were formerly completely excluded as well as access to formal financial services to around 50,000 members
2. Make 100,000 members financially literate
3. Build capacity of MCBL, through design of appropriate financial products, processes and alternative delivery mechanisms
4. Institutionalize the strategy, through capacity-building of 200 Village Agents and franchisees on financial linkage
5. Increase the liquidity of MCBL, as most VSLAs will deposit using nearby agents or by using the group wallet
6. Reduce travel cost for group leaders to conduct deposits or withdrawals with MCBL
7. Ensure that loan/field officers are able to access the CBS using a mobile phone for transactions while in remote rural areas
8. Increase access and utilization of the accounts to reduce the dormancy rate

CREATING A MOBILE BANKING CHANNEL—THE CASE OF MWANGA COMMUNITY BANK IN THE UNITED REPUBLIC OF TANZANIA (continued)

It is still too early for MCBL to measure the achievement of these different objectives, yet it will be interesting to perform this analysis to determine whether mobile banking can be a relevant channel for linking informal groups with the more formal banking system.

RESULTS (DECEMBER 2015)

- VSLAs linked to MCBL: 450
- Other groups linked to MCBL (village community banks, savings and internal lending communities): 500
- Average number of cycles: 2
- Average share-out: TSh13,952,039 ($6,557)
- Total share-out: TSh4,771,597,499 ($2,242,651)
- Average distance to MCBL: 94 km
- Average distance to branch/service point: 54 km
- Average distance to MNO point (M-Pesa, Tigo Pesa): 3.5 km
- Sustainability model: 15 franchisees and 143 Village Agents
- Female inclusion: 73% women
- Savings: >TSh315 million ($148 thousand)

CHALLENGES WITH STRATEGY FOR AGENCY AND MOBILE BANKING FOR GROUPS (SAVINGS GROUP LINKAGES)

The main challenges identified for linking savings groups with MCBL through mobile channels are as follows:

1. KYC:
    a. There are too many documents and procedures for client/group registration, which the groups find intimidating
    b. There is unfriendly regulation for community banks to reach more rural segments, specifically in relation to KYC requirements
2. Infrastructure: Roads to reach rural communities and phone network coverage are poor the farther from the main road the VSLAs are located
3. Education: Most VSLA members have a low level of education, which is an impediment for members to get a bank account in the first place and a reason they use VSLAs
4. Liquidity: At the start of a cycle, most VSLAs do not have much liquidity to deposit, as the funds are often used to buy agricultural inputs
5. Bank financials:
    a. The Bank has a limited capital base to invest in rural outreach considering the expected returns
    b. There is a high cost of funding to meet the customer demand, considering the average amount deposited by an individual member and the amount of credit required is low
6. There is inactivity/dormancy of some VSLAs that did not perceive clearly the benefits of using mobile channels for their savings.

LESSONS LEARNED

For both groups and individuals

MCBL has drawn the following lessons that can benefit other FIs interested in implementing a mobile channel strategy for groups and individuals:

1. Have a variety of digital devices and channels to facilitate the delivery of financial services (i.e., ATMs, POS devices, mobile phones) in order to have the greatest amount of flexibility possible when implementing a joint strategy for individuals and groups
2. Develop menus and communications in the local language (e.g., Kiswahili is more widely spoken than English in the country)
3. Make fees appropriate to the customer segment (i.e., differentiate between individual and group accounts and between group [general] and VSLA [specific] accounts)

Specific to mobile banking for groups

1. Work with a consortium of partners (e.g., in the case of MCBL, the consortium included CARE, UNCDF, We Effect [a non-governmental organization that provided technical assistance], Vodacom/M-Pesa, the regulator, and the technical providers of UmojaSwitch and Selcom), though bear in mind that each has different priorities and approaches
2. Remember that rural communities are bankable provided the right products and channels are developed for them
3. Consider that VSLAs can be good group accounts, though it is important to partner with an organization that has specialist knowledge of the segment (in order to conduct appropriate financial education)

Specific to mobile banking for individuals

1. Simplify KYC procedures for account-opening as much as regulatorily possible
2. Provide flexibility for individual customers when withdrawing from their bank account to transfer to their MM wallet (e.g., in the case of MCBL, to their Airtel Money, M-Pesa or Tigo Pesa accounts)

NEXT STEPS

MCBL would like to become a licensed microfinance bank so that it can operate outside of the Kilimanjaro Region.[29] MCBL is also looking for a strategic investor and to mobilize shares from existing shareholders to meet the requirements of BOT.

SUMMARY OF BENEFITS

Table 18 summarizes benefits for all stakeholders involved.

Table 18: Summary of benefits of agency and mobile banking for Mwanga Community Bank, customers and agents

Bank	Customers	Agents
Profit	Savings in transportation time and cost	Increased revenue streams due to velocity of transactions
Increased deposit mobilization	Linkage to a formal FI	Increased growth in customer base
Improved brand visibility	Benefit from the commitment of MCBL to being community focused	Brand association
Reaffirmation of community banking	Deepened financial access	Possible linkage to other community-related projects
Increased bank outreach	Improved convenience and cost and demystified banking	Additional volume of transactions and business opportunities

29 The Citizen, 'Mwanga bank aims at massive expansion,' 12 January 2017. Available from http://www.thecitizen.co.tz/magazine/businessweek/Mwanga-bank-aims-at-massive-expansion/1843772-3514828-r2ohmn/index.html.

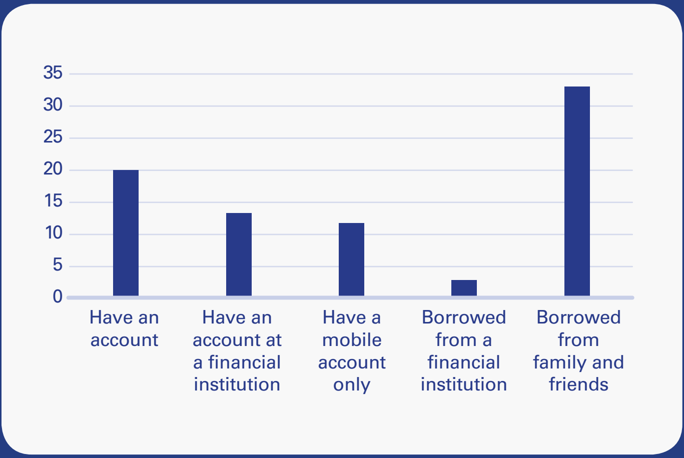
ANNEX I: CONTEXT OF THE UNITED REPUBLIC OF TANZANIA

MARKET SITUATION FOR FINANCIAL INSTITUTIONS

The United Republic of Tanzania was the second country, after Kenya, to introduce agency banking. It did so for two main reasons: first, out of a population of 45 million, only 12% was banked in 2009; and second, access to financial services in the country was limited as evidenced by the fact that 81% of adults (age 15+) didn't have an account at an FI.[30] Despite the presence of many banks, the majority of Tanzanians were financially excluded. Figure I.I and table I.I provide specific financial-inclusion data in the country.

In its 2014/2016 National Financial Inclusion Framework, BOT set a target of 80% of the adult population using a financial access point by end-2016.[31]

Figure I.I : Financial inclusion in United Republic of Tanzania (% age 15+)



Source des données : Banque mondiale, Global Findex : Tanzanie, données de 2014. Disponible sur datatopics.worldbank.org/financialinclusion/country/Tanzanie

Table I.I: Financial institutions in United Republic of Tanzania

Commercial banks	40
Development financial institutions	3
Community banks	11
Microfinance banks	5
Microfinance institutions[a]	170
SACCO initiatives	5 845
Credit bureaux	2
Gross national savings (% of GDP)	22.6
Commercial bank prime lending rate (%)	16.1

Sources of data (unless otherwise noted): Tanzania National Council for Financial Inclusion, 'National Financial Inclusion Framework: A Public – Private Stakeholders' Initiative' (n.p., n.d.); BOT, 'Directory of Banks and Financial Institutions Operating in Tanzania' (n.p., April 2017).

a BOT, 'Directory of Banks Operating in Tanzania.' Available from http://www.bot.go.tz/BankingSupervision/registeredBanks.asp (accessed September 2017).

Note: No more recent data could be obtained.

TELECOM SECTOR

Policy reforms have led the Tanzanian telecom sector to become one of the most liberal in Africa. Operators are regulated by the Tanzania Communications Regulatory Authority. About **12 MNOs** are currently operating or in the process of starting business. There are **5 leading MNOs** in the country, with **Vodacom Tanzania** holding the largest market share. Mobile penetration has reached 83%, with nearly 40 million subscribers.[32] Table I.II offers more specifics on the telecom sector.

30 Financial Sector Deepening Trust, 'FinScope 2009 Survey.'

31 Tanzania National Council for Financial Inclusion, 'National Financial Inclusion Framework: A Public – Private Stakeholders' Initiative' (n.p., n.d.). Available from https://www.afi-global.org/sites/default/files/publications/tanzania-national-financial-inclusion-framework-2014-2016.pdf (accessed September 2017).

32 Paul Budde Communication, 'Tanzania - Telecoms, Mobile, Broadband and Digital Media - Statistics and Analyses.' Available from https://www.budde.com.au/Research/Tanzania-Telecoms-Mobile-Broadband-and-Digital-Media-Statistics-and-Analyses (accessed September 2017).

ANNEX I: CONTEXT OF THE UNITED REPUBLIC OF TANZANIA
(continued)

DIGITAL FINANCIAL SERVICE INITIATIVES

The Tanzanian DFS landscape has developed very rapidly. In 2008, there were just two non-bank e-money issuers. The sector has since grown to include five leading MNOs as MM providers as well as 14 banks that offer DFS. Among banks, some such as CRDB Bank, Ecobank and National Microfinance Bank have developed their own agent network.

The MM services of the five MNOs are M-Pesa for Vodacom (41% market share of MM), Airtel Money for Airtel (25%), Tigo Pesa for Tigo (32%), HaloPesa for Halotel and Ezy Pesa for Zantel. More than 160,000 agents are operating with about 20,000 financial access points.33

In 2013, when agency banking started, there were 97 transactions per user and 31.5 million mobile accounts (representing 64% of the population), of which 11 million (22%) were active.[34] By end-2015, registered active users of mobile financial services amounted to 19 million.[35] Forty-five percent of Tanzanians lived within a 5-km radius of a financial access point due to the expansive MM agent network.[36] There are now more mobile accounts than FI accounts. Table I.III summarizes the different access points to digital finance available in the country.

Table I.II: Market share of mobile network operators in United Republic of Tanzania

Telecom operator	Ownership	Market share (%)
Vodacom Tanzania	Vodacom (65%); Mirambo Ltd (35%)	32
Tigo	Millicom (100%)	28
Airtel	Bharti Airtel (100%)	26
Halotel	Viettel (100%)	9
Zantel	Millicom (85%); Zanzibar Government (15%)	2
Tanzania Telecommunications Company Limited	State (100%)	1
Others	-	2

Source of data: Tanzania Communications Regulatory Authority, March 2017 statistics.

Table I.III: Digital financial access points in United Republic of Tanzania

Digital finance access points	Number
Mobile money	16 551
Microfinance institutions	1 084
Commercial banks	478
Bus stands	403
Offsite ATMs	367
Post offices	202

Source: Table from PHB Development with e-MFP Digital Innovations for Financial Empowerment Action Group, 'FINCA EXPRESS Tanzania: Mobilizing Savings Through Agency Banking,' p. 5 (n.p., October 2015).

REGULATION OF MOBILE FINANCIAL SERVICES

BOT issued agency banking guidelines in February 2013,[37] which allowed FIs to appoint retail agents as banking agents for the first time. Further, in 2014, the United Republic of Tanzania became the first country to successfully develop and implement standard business rules for interoperable DFS transactions.

33 PHB Development with e-MFP Digital Innovations for Financial Empowerment Action Group, 'FINCA EXPRESS Tanzania: Mobilizing Savings Through Agency Banking' (n.p., October 2015).
34 WSBI and PHB Development with e-MFP Digital Innovations for Financial Empowerment Action Group, 'Tanzania Postal Bank: Digital Financial Inclusion Through Popote' (n.p., October 2016).
35 Ibid.
36 Financial Sector Deepening Trust, 'GIS Census of Financial Access Points: Highlights 2014' (Dar es Salaam, 2015).
37 BOT, Guidelines on Agent Banking for Banking Institutions, 2013.

ANNEX II: CONTEXT OF GHANA

DFS in Ghana are helping expand financial access. However, many Ghanaians are left out from any form of financial services.

MARKET SITUATION FOR FINANCIAL INSTITUTIONS

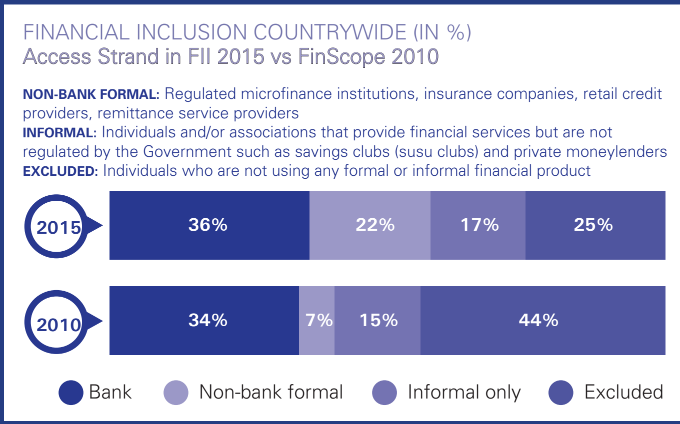
Over the past decade, there have been positive developments in the financial services industry that are helping to increase financial inclusion in Ghana. The number of clients of microfinance institutions has grown over fivefold (515.4%), from 1.3 million in 2001 to 8 million by the end of 2013.[38] FIs have reached a wide range of market niches, from rural smallholders to traders and urban small enterprises, due to the variety of FSPs (both formal and informal) engaged in microfinance. These FSPs include rural and community banks, savings and loans companies, credit unions and financial non-governmental organizations (see table II.I and figure II.I for more detail on financial access and inclusion in the country).

Table II.I: Financial access in Ghana

Commercial banks	28
Commercial bank branches	900+
Microfinance institutions	661
Savings and loans companies	27
Rural and community banks	143
Rural and community bank branches	651
Credit unions	555
Financial non-governmental organizations	38
Susu collectors	2000+
Commercial bank prime lending rate	27%

Source: BOG, *Annual Report 2015* (Accra, 2016).

Figure II.I: Financial inclusion in Ghana



Source: Figure from Peter Zetterli, 'In Ghana, DFS Helps Spur 41% Increase in Financial Inclusion,' 17 December 2015. Available from http://www.cgap.org/blog/ghana-dfs-helps-spur-41-increase-financial-inclusion

TELECOM SECTOR

Out of a population of more than 25 million people, more than half of the country has access to Internet; currently, mobile penetration in Ghana stands at 67.63%.[39] Today, Ghana has over 35 million mobile subscribers from six telecommunication companies. MTN is the market leader (47% market share), but Airtel, Tigo and Vodafone are actively competing (see table II.II for specifics).

Table II.II: Market share of mobile network operators in Ghana

Telecom operators	Subscribers	Market share
MTN	17 192 534	47%
Vodafone	7 976 348	22%
Tigo	5 213 398	14%
Airtel	4 942 197	13%
Glo	962 338	3%
Expresso	108 292	0.3%

Source: National Communications Authority, 2016 'Industry Information - Telecom Subscriptions for April 2016' (Accra, 1 June 2016).

38 GHAMFIN, 'Performance Monitoring and Benchmarkings of Microfinance Institutions in Ghana: Trends in the Industry During the 2000s (2006 – 2012)' (Accra, 2014).
39 National Communications Authority, 'Industry Information - Telecom Subscriptions for April 2016' (Accra, 1 June 2016).

ANNEX II: CONTEXT OF GHANA (continued)

DIGITAL FINANCIAL SERVICE INITIATIVES

From 2010 to 2015, DFS helped spur a 41% increase in financial inclusion in Ghana: as explained in a CGAP article, 'the main driver of this change is a substantial increase in access to nonbank formal financial services, which tripled in the last five years, from 7% in 2010 to 22% in 2015.' [40] As the article goes on to explain, 'half of the expansion is directly attributable to mobile money, which was virtually nonexistent in 2009 but is now actively used by about 25% of Ghanaians.' [41] Fifty percent of the population is now registered for MM. MNOs have been largely leading MM services – Airtel Money, MTN Mobile Money, Tigo Cash and Vodafone Cash. Yet, they had to form non-exclusive partnerships with banks in order to issue MM due to central bank regulations. Bank branches act as agents of MNOs as well. MNOs are also in partnerships with some FIs to develop the DFS landscape (e.g., Fidelity Bank). A total of ~80,000 independent agents (of whom ~56,000 are active) serve DFS clients.

REGULATION OF DIGITAL FINANCIAL SERVICES

In 2015, the Ghanaian DFS sector changed with the introduction of e-money issuer guidelines (replacing the 2008 branchless banking guidelines) and agent guidelines issued by BOG. BOG was widely praised by stakeholders in the financial services sector for coming out with such a framework for agency banking and mobile banking. The new guidelines came with agent guidelines as well, making it possible for agents to participate in e-money business, with clear rules/guidelines covering their activities in the DFS space in Ghana. The guidelines clearly defined agents' commission structure, amount limits that they can hold and limits that individuals/customers can transact in a day, thus making it more engaging and participatory for even non-banks and telecoms to be licensed as e-money issuers and operate in the DFS space to drive financial inclusion in Ghana. These changes are expected to bring about an increase in uptake and growth in user adoption of DFS in Ghana since FIs can now develop their own DFS.

40 Peter Zetterli, 'In Ghana, DFS Helps Spur 41% Increase in Financial Inclusion,' 17 December 2015. Available from http://www.cgap.org/blog/ghana-dfs-helps-spur-41-increase-financial-inclusion

41 Ibid.

ABOUT MICROLEAD

MicroLead, a UNCDF global initiative which challenges financial service providers to develop, pilot and scale deposit services for low income, rural populations, particularly women, was initiated in 2008 with support from the Bill & Melinda Gates Foundation and expanded in 2011 with support from Mastercard Foundation and LIFT Myanmar. It contributes to the UN's Sustainable Development Goals, particularly SDG 1 (end poverty), SDG 2 (end hunger, achieve food security and promote sustainable agriculture) and SDG 5 (achieve gender equality and economic empowerment of women), as well as the Addis-Abeba Financing for Development Agenda (domestic resource mobilization).

MicroLead works with a variety of FSPs and Technical Service Providers (TSPs) to reach into previously untapped rural markets with demand-driven, responsibly priced products offered via alternative delivery channels such as rural agents, mobile phones, roving agents, point of sales devices and informal group linkages. The products are offered in conjunction with financial education so that customers not only have access but actually use quality services.

With a specific emphasis on savings, women, rural markets, and technology, MicroLead is a performance-based programme that supports partnerships which build the capacity of financial institutions to pilot and roll out sustainable financial services, particularly savings. As UNCDF rolls out the next phase of MicroLead, it will continue to focus on facilitating innovative partnerships that encourage FSPs to reach into rural remote populations, build on existing digital financial infrastructure and emphasize customer-centric product design.

For more information, please visit www.uncdf.org/microlead. Follow UNCDF MicroLead on Twitter at @UNCDFMicroLead.

ABOUT PHB ACADEMY

PHB Academy provides training and coaching aimed at improving financial inclusion. We focus on increasing the take-up and usage of digital financial services (DFS). PHB Academy offers training and coaching face-to-face and online, as well as in blended format (a mix of face-to-face and e-learning). Workshops and programmes can be custom-designed and tailored to our clients' specific needs. The design of our programmes is based on the latest insights in adult learning and executive coaching. We change behaviour by doing more than just transferring technical knowledge. We focus on the development of the practical skills and positive attitudes that managers and field staff need to design, manage and deliver DFS in a sustainable manner. Experiential learning methods and a focus on self-management are key to our success. Our offer is available to financial institutions, mobile network operators, remittances & payment providers and development agencies that pursue financial inclusion through innovative delivery channels.

PHB Academy is the Training & Development Practice of PHB Development, a specialist consulting firm with operations across the world. Since 2006, PHB Development has been committed to increasing financial inclusion in underserved markets. PHB has helped its clients develop viable financial services and delivery channels throughout more than 100 projects.

For more information, please visit http://phbdevelopment.com/. Follow PHB at @PHBDevelopment on Twitter.

ABOUT UNCDF

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

For more information, please visit www.uncdf.org and sign up for our Newsletter at http://uncdf.org/en/content/subscribe-our-newsletter. Follow UNCDF at @UNCDF on Twitter and Facebook.

ABOUT MASTERCARD FOUNDATION

Mastercard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest private foundations its work is guided by its mission to advance learning and promote financial inclusion to create an inclusive and equitable world. Based in Toronto, Canada, its independence was established by MasterCard when the Foundation was created in 2006.

For more information and to sign up for the Foundation's newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MastercardFdn on Twitter.

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