



INTRODUCING AGENCY BANKING IN UGANDA:

A NEW CHANNEL TO INCREASE FINANCIAL INCLUSION

The experience and lessons learned by the UN Capital Development Fund while supporting the roll-out of agency banking in Uganda



About the UN Capital Development Fund

The UN Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 47 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 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 localized investments that show how fiscal decentralization, innovative municipal finance and structured project finance can drive public and private funding that underpins local economic expansion and sustainable development.

About MM4P

UNCDF developed the MM4P programme to ensure that the opportunities and benefits of digital finance would reach low-income people in difficult markets. UNCDF provides a mix of technical, financial and policy support to policymakers, regulators, providers, distributors and users of digital finance in order to expand access to and usage of services that contribute to achieving the Sustainable Development Goals.

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The author gratefully acknowledges the following individuals for providing valuable comments and edits: Naomi de Groot, Bram Peters, Richard Ndahiro and François Coupienne.

February 2019
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List of acronyms

BoU	Bank of Uganda
DFS	digital financial service(s)
e-	electronic
MM	mobile money
MNO	mobile network operator
MTN	Mobile Telephone Networks
SACCO	savings and credit cooperative
TA	technical assistance
U Sh	Uganda shilling
UNCDF	UN Capital Development Fund
US\$	United States dollar

Executive summary

Agency banking offers the potential to increase and deepen financial inclusion across Uganda. Following regulations passed in July 2017, banks in Uganda can use agency banking—an extension of services traditionally offered in bank branches whereby third parties (agents) offer these services on behalf of banks—to expand their presence, particularly in rural areas where brick-and-mortar branches are often expensive. For instance, estimates indicate that over 9 million Ugandans need to travel more than an hour to access a bank branch.¹ For customers, agency banking means reduced travel time as well as greater access to and increased convenience of formal financial services.

Since 2014, the UN Capital Development Fund (UNCDF) has focused on improving access to financial services in Uganda through its MM4P programme. Core to this effort has been an initiative to support leading banks to implement agency banking as an alternative delivery channel. To do so, UNCDF partnered with five banks on projects between September 2016 and July 2018, providing technical assistance grants in addition to facilitating expert guidance through consultancy firms as the banks designed, piloted, and rolled out agency banking in Uganda.

This publication captures experiences from these projects, exploring key expectations, the status of digital financial services in Uganda prior to launching agency banking, regulatory aspects of the projects, insights from the projects, and future considerations. It also shares important lessons and recommendations that the projects revealed about agency banking regarding banks, agents and customers.

Banks

Agency banking offers an opportunity to reshape overall strategies. Agency banking is a complex channel to build, affecting a bank's entire distribution structure. Consequently, banks should consider agency banking within their overall strategies—not as standalone projects. Furthermore, banks should not approach this new channel as an adaptation of existing processes but rather base it on human-centred design to effectively address customer needs. Introducing this channel may incite resistance to change, especially in an institutional setting, so banks should implement and monitor a comprehensive change management strategy from the start.

An initial business case should be developed, but hypotheses should be revised as data become available.

Building an initial business case helped the partnering banks to identify key revenue and cost drivers and to adapt their strategies based on factors influencing channel profitability. As data became available through implementation, the banks updated their assumptions with actual numbers, providing a more accurate view of profitability. These results from the field informed the banks about which activities to prioritize throughout their respective agency banking pilots.

Rolling out agency banking requires sustained and substantial effort and resources. Contrary to the perception that agency banking is a plug-and-play solution, the projects revealed that the greatest consumption of a bank's effort and resources occurred after the initial implementation: there was a need for dedicated bank resources to monitor agents and their operators, in addition to a sustained need to create channel awareness and acquire, educate and retain customers. Banks must invest heavily in these activities and adopt a flexible, proactive approach to achieve their goals.

¹ Bram Peters and Naomi De Groot, 'The potential of Agency Banking in Uganda,' 3 May 2017. Available from <http://www.uncdf.org/article/2084/the-potential-of-agency-banking-in-uganda>

Agents

Schools and savings and credit cooperatives offer opportunities to increase agency banking in rural areas.

The research uncovered a perception by rural Ugandans of banks as arrogant and expensive, yet certain use cases have the potential to create a viable path for agency banking to reach rural communities. The banks identified rural schools and savings and credit cooperatives as ideal agents. Both ensure adequate customer transaction volumes in addition to sufficient liquidity of agents to handle them.

There is room for improvement with agent onboarding. Agency banking regulations require that agent candidates hold an active Bank of Uganda-regulated account for a minimum of six months prior to their application. However, in rural areas, otherwise-eligible businesses cannot meet this requirement as they often rely on mobile money or savings and credit cooperatives for their financial services. Furthermore, the current two- to three-week onboarding wait is still a challenge for banks, as it leads to loss of motivation by agent candidates. To address this issue, the partnering banks proposed process improvements to the Bank of Uganda.

Liquidity asymmetry during the roll-out of agency banking is an issue. The projects revealed that a large proportion of transactions are deposits, as early adopters tend to be merchants and traders making payments to wholesalers for the distribution of goods and/or parents paying school fees. At the same time, recipients of these deposits go to bank branches to withdraw large amounts, which are typically beyond the agent transaction limits. This situation creates a liquidity asymmetry for agents and thus a need for regular rebalancing. Some banks promote collaboration among agents, to help rebalance each other, as a mitigating measure. However, banks are looking at alternative ways to balance the levels of deposits and withdrawals by analysing fund flows.

Customers

Payments for goods, services, utilities and school fees attract early adopters. The partnering banks' use case for early adopters of agency banking revolved around the need for quick transactions for goods and services among traders who wish to avoid transportation costs and travel time. Payments for utilities and/or school fees were also highly appreciated by early adopters, allowing them to save the time spent previously queueing in banks. While these use cases offer a good starting point, additional use cases shall be explored along established value chains to increase channel adoption by new customer segments.

Fewer women adopt the channel, but when they do, they transact regularly. Based on available data,² women represent about 30 percent of both agents and customers. However, a representative study with some of the partnering banks showed that almost two thirds of agency banking business is conducted by dedicated operators, of whom the majority is female. Additionally, data from one partnering bank indicated that, while female customers represented only about 20 percent of all customers, almost all (94 percent) were active. In contrast, just over half (56 percent) of male customers were active.

Overall, the partnering banks feel that the agency banking pilots in Uganda outperformed similar initiatives in other countries at the equivalent stage. Two external factors help explain the successful start to agency banking in the country: (1) the partnering banks applied lessons learned from previous deployments at the beginning of these projects, giving them a head start and allowing them to focus solely on new challenges that arose; and (2) the status of banks' financial service distribution in the country represented a genuine need for greater penetration with alternative delivery channels.

Looking ahead, these banks will require further support beyond building out the new channel, including increasing customer awareness and providing customer education about the benefits of using formal financial products and services, as well as developing innovative products and services that formalize and digitize the cash economy to achieve deeper financial inclusion in Uganda.

² Some of the banks are unable to consistently track gender. Therefore, the figures presented are based on those from partnering banks that are best able to report on the gender metrics and are not representative of the entire agency banking project portfolio.

Introduction



EFFORTS OF THE UN CAPITAL DEVELOPMENT FUND IN UGANDA



Through its MM4P programme, the UN Capital Development Fund (UNCDF) has focused on improving access to financial services in Uganda since 2014, with a goal of 50 percent of adults gaining access to a financial service via branchless and digital technologies by 2019.

UNCDF applies a market development approach in Uganda to accelerate usage of digital financial services (DFS) and works with most private and public stakeholders at the national level.

Two areas of intervention by the programme in Uganda are (1) the digitization of payments within five agricultural value chains and (2) the support of five leading banks in the implementation of agency banking as an alternative delivery channel.

PROOF OF DIGITAL FINANCIAL SERVICES' POTENTIAL TO DRIVE FINANCIAL INCLUSION



Uganda has a phone penetration rate of 52 percent among adults, of whom 32 percent are active DFS users, as of the end of 2017.³ The majority of these services are provided by the two leading mobile network operators (MNOs) in the country, which offer mobile money (MM) services.

The adoption and regular usage rates of the current services have been relatively stable for the last four years, which hints at a two-speed market situation. On the one hand, remittance services, the main value proposition for MM customers, have reached maturity for those who actively need them. On the other hand, the rest of Ugandans, specifically those isolated in rural areas, do not find sufficient value in the existing DFS.

To serve this population, MNOs are actively looking to provide new products and services through their MM channels. Examples include MoKash (a mobile savings and loan product) and MoMoPay (a merchant payment service) by Mobile Telephone Networks (MTN) as well as Wewole (a mobile micro-loan product) by Airtel.

At the same time, aggregators are actively supporting indirect interoperability with banks. These services, however, turn out to be expensive for bottom-of-the-pyramid customers because providers that offer them rely heavily on transactional revenues in order to be profitable.

EXPECTATIONS FOR AGENCY BANKING TO HELP BANKS SERVE RURAL CUSTOMERS



While banks are willing to serve the unbanked (91 percent of Ugandan adults in 2016, an increase from 89 percent the prior year⁴) and rural inhabitants (77 percent of all Ugandans⁵), the cost to set up a brick-and-mortar branch is prohibitively expensive.

³ Financial Sector Deepening Uganda, 'FinScope Uganda: Topline Findings Report' (Kampala, 2018).

⁴ Financial Inclusion Insights, 'Uganda: Wave 4 Report, FII Tracker Survey' (Nairobi, 2017). Note: (N=3,000, 15+), July 2016–August 2016.

⁵ World Bank, 'Rural population (% of total population): Uganda,' 2017 data. Available from <https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=UG>

It is estimated that commercial banks in Uganda spend in excess of US\$100,000 to set up a brick-and-mortar branch and approximately US\$50,000 to establish a satellite branch/service centre,⁶ not to mention the high overhead costs for operation and maintenance. These costs are aggravated by low business activity levels in rural areas, especially in the first three to five years after a bank branch opens.

It is within this context that leading banks in Uganda long awaited regulation that would permit the development of agency banking as an alternative delivery channel, a channel that would allow them to provide their services closer to customers at an affordable cost. The regulation finally came when amendments to the Financial Institutions Act were passed and then approved by the Bank of Uganda (BoU) in July 2017.

SUPPORT OF FIVE LEADING UGANDAN BANKS TO ROLL OUT AGENCY BANKING

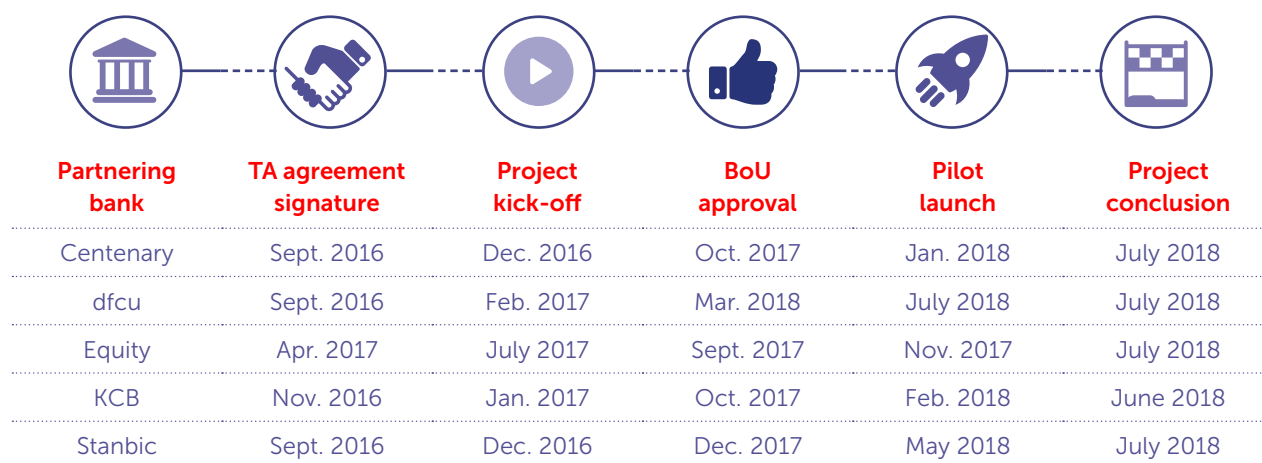


In order to support the growth of financial inclusion in Uganda, UNCDF carefully selected five leading banks⁷ and provided technical assistance (TA) grants to them.

UNCDF sought to work with banks willing to develop, and capable of developing, meaningful agency banking services that would improve access to financial services for Ugandans. Specifically, UNCDF joined Centenary Bank, dfcu Bank, Equity Bank, KCB Bank and Stanbic Bank as they set out to develop their new agency banking channels (see the timeline of these projects in figure I).

Figure I

Partnering banks of the UN Capital Development Fund in Uganda and project timelines



⁶ These estimates were provided by partnering banks in Uganda and noted in an internal concept note about agency banking.

⁷ UNCDF conducted detailed due diligence and scored nine eligible financial institutions in Uganda based on the following: (1) management and governance, (2) DFS strategy and operations, (3) operational and financial sustainability as well as scalability, and (4) suitability for UNCDF partnership. Of the nine financial institutions, UNCDF selected five to receive TA grants to develop agency banking services.

UNCDF also selected consultancy firms⁸ to provide expert services to the banks in the following project phases:⁹

PHASE 1: Market insights and strategies for agency banking

The consultancy firms completed a high-level scan of the market as well as an assessment of the internal capacities of each bank. Based on the findings, the consultancy firms, together with each bank, defined the management priorities as well as the strategic priorities for the channel as well as a route-to-market strategy, including the development of a comprehensive business case for agency banking.

PHASE 2: Detailed agency banking design and pilot preparation

Based on the route-to-market strategy, the banks started to prepare all of the elements required for the new channel. These elements included, but were not limited to, preparing the BoU licence application pack, drafting the job descriptions for the various roles required, and mapping operational and financial processes. The consultancy firms provided training workshops to each bank's core team and key staff on agency banking and on the inputs and support required for the user acceptance testing of the technical solutions.

PHASE 3: Pilot implementation support

Throughout the pilot, UNCDF regularly reviewed the performance of each bank and provided feedback to the bank on ways to improve the channel, based on early findings concerning customers' perceptions and adoption patterns, agents' insights on technical and operational performance, etc.

PHASE 4: Evaluation and roll-out plan

At the end of the pilot, UNCDF together with the consultancy firms documented lessons learned and made recommendations for the full roll-out of the channel, including an updated business case that was enriched with the pilot's findings as well as adjusted roll-out strategies that the banks will implement in the months ahead.

OBJECTIVES OF THIS DOCUMENT

This document aims to share with the wider industry the findings and lessons learned that were distilled from the agency banking projects in Uganda. It is organized as follows:

Part 1. Status of DFS ahead of agency banking (supply side) and key expectations of the channel (demand side).

Part 2. Key regulatory aspects and insights from the projects' preparations.

Part 3. Lessons learned from piloting agency banking in Uganda.

⁸ MicroSave and Seven Delta Consulting provided TA to the five partnering banks.

⁹ The exact scope of work was agreed upon jointly with each partnering bank, depending on its specific TA needs.

Status of digital financial services in Uganda ahead of agency banking and key expectations of the channel



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HIGH-LEVEL STATUS OF RETAIL BANKING AND PAYMENT SECTORS IN UGANDA

LANDSCAPE OF FINANCIAL INSTITUTIONS AND PAYMENT SYSTEMS¹⁰



The Ugandan banking sector has 33 regulated banking institutions: 24 tier one banks, 4 tier two banks and 5 tier three microfinance and deposit-taking institutions.¹¹

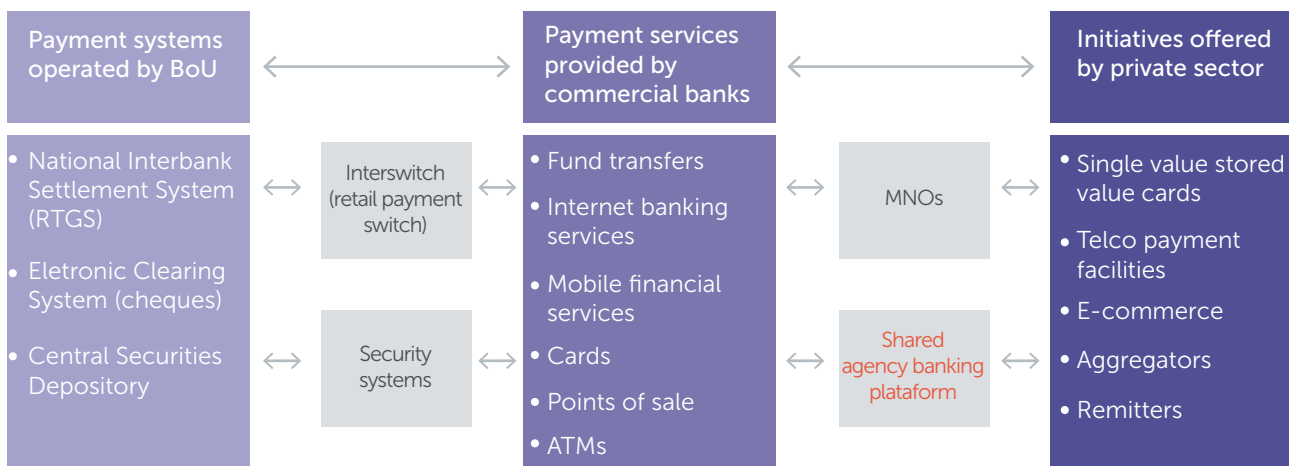
Over the last few years, the financial sector—and, more specifically, the payment sector—has seen a range of local and international companies enter the market alongside the financial institutions just mentioned. In many cases, these players partner in various ways with established providers, creating innovative payment solutions and financial services.

Many of the players in the Ugandan payment ecosystem are ‘hybrid’ providers, offering services beyond their core business. That is, they may provide services across multiple platforms such as retail point-of-sale systems, salary disbursements, international remittances and MM. Large agent networks have been established to service many of these systems. Others provide aggregation services, signing up multiple billers and merchants that integrate their services into their offerings, while still others provide infrastructure and switching services that link banks, billers, MNOs, point-of-sale devices, ATMs and cash payment kiosks.

The main players and their main delivery channels are schematized in figure II and then briefly described below.

Figure II

Overview of the payment ecosystem in Uganda



Sources: Bank of Uganda, proposed national payments system policy framework, internal document; Leon Pearlman, ‘Ugandan Payment Service Provider Mapping Report,’ internal report (Kampala, UNCDF Uganda, 2018).

Acronym: RTGS, real-time gross settlement system

Note: The shared agency banking platform is a Uganda Bankers’ Association initiative, consisting of a centralized agency banking platform to which partnering banks can connect so their customers can perform transactions on their accounts with any agent within the network, thus rendering the agents interoperable across financial institutions.

¹⁰ This section is extracted and/or modified from the following study prepared by UNCDF for Financial Sector Deepening Uganda: Richard Ndahiro and Delia Dean, ‘Digital Payment Solutions for Vulnerable Groups in Uganda: A Case Study of the SAGE Programme’ (publication forthcoming).

¹¹ These figures come from various 2018 BoU reports. See the full list of banks and their categorization in the annex.



BoU services

Uganda National Interbank Settlement System. This real-time gross settlement system is used for continuous (immediate) settlement of funds or security transfers, individually on a gross amount basis. This system is used primarily by banks for interbank transfers or the settlement of securities.

Electronic Clearing System. This system provides for the processing of paper-based instruments (cheques), electronic (e-) 'direct deposit' credit transfers such as salary payments and 'direct debits' such as bill payments. These e-payments are generally retail payments made on a recurring basis.

Central Securities Depository. This system is used for registering the ownership and transfer of government securities (treasury bills and bonds).



Commercial bank payment services

Freely onds transfer. This service provides clients of a bank with the ability to transfer funds to another individual or to a company.

Internet banking. This service is an e-payment system that enables customers of a bank or another financial institution to conduct a range of financial transactions through web-based technology offered by the financial institution.

Mobile banking. Several commercial banks in the country offer mobile banking services, either via USSD (Unstructured Supplementary Service Data) short-codes or apps. The channel enables clients to check their account balance, to conduct account-to-account transfers, to make utility payments, etc., as a self-service from the convenience of their (smart)phone.



Private sector payment services

Interswitch (retail payment switch). Interswitch operates a utility that allows card-based or e-commerce transactions to be routed between participants. As of 2018, there are at least 14 partnering financial institutions connected to Interswitch, thus their respective customers can use any of the ATMs within the network to perform transactions with the support of their respective cards.

Automated transfer system and depository. This system is operated by the Uganda Securities Exchange for the sale and transfer of securities listed on the exchange. It works in conjunction with a depository that records the ownership of securities.

MNO mobile payment systems. MNOs are the telecommunication companies (telcos) that offer payment services via mobile phone, known as MM services, such as Africell, Airtel and MTN. Their outreach through vast agent networks across the country revolutionized national and international remittances, as well as service payments and even access to micro-loans provided in partnership with commercial banks. The MM services have also been integrated with various banks in 'push-and-pull' services, allowing users to send money from their wallets into their bank accounts and/or to retrieve money from their bank accounts into their wallets as well as to easily access the funds through cash-out with an MM agent.

Stored value cards. These cards are prepaid and allow the record of funds to be increased or decreased. A stored value card could be a gift card, fuel card or e-purse.

Aggregators. These entities are service providers through which banks, non-bank financial institutions and companies can process payment transactions. Historically acting as inter-operability platforms for MM services, hence the name of aggregator (i.e., enabling transfers between leading MM players in the market), they have recently diversified by performing cross-platform payments and collections and have grown into innovation labs for value-added/business-to-business Goods/ Services, requiring customized solutions and dedicated resources.

STATUS OF FINANCIAL INCLUSION AND ITS MAIN ACTORS



Access to financial services in Uganda has grown steadily,¹² driven in the formal sector by MM services and in the informal sector by savings groups and village savings and loan associations.

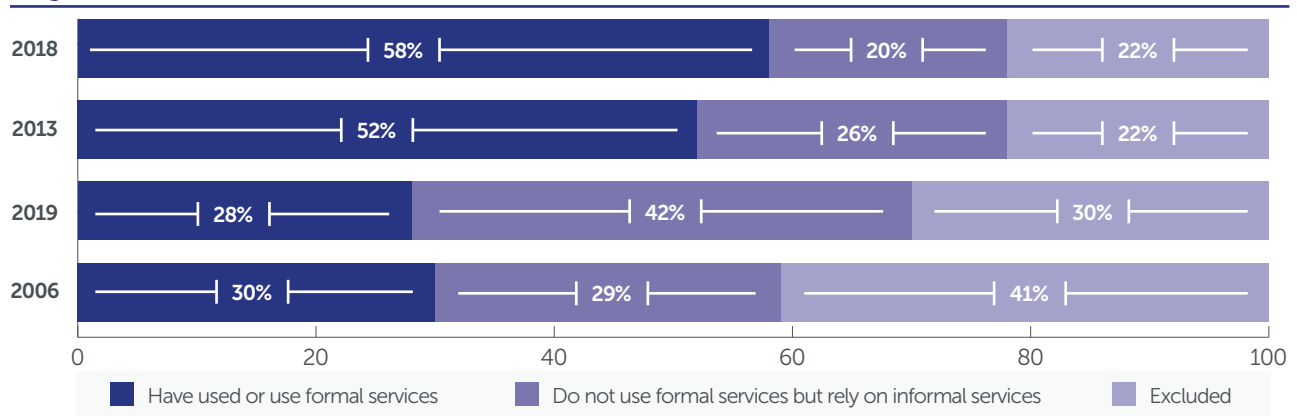
Between 2013 and 2018, where Moneylenders remained the same at 78 percent, use of formal services increased thanks to the growth of MM services.¹³ Figure III shares a number of additional metrics from FinScope 2018 that capture the state of financial inclusion in Uganda.

Figure III

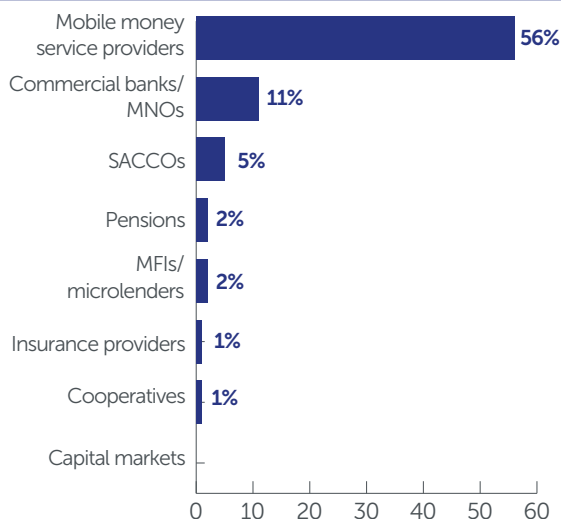
Financial inclusion in Uganda

	National	Rural
Financial inclusion	78%	75%
Formal inclusion	58%	52%
Informal inclusion*	56%	57%

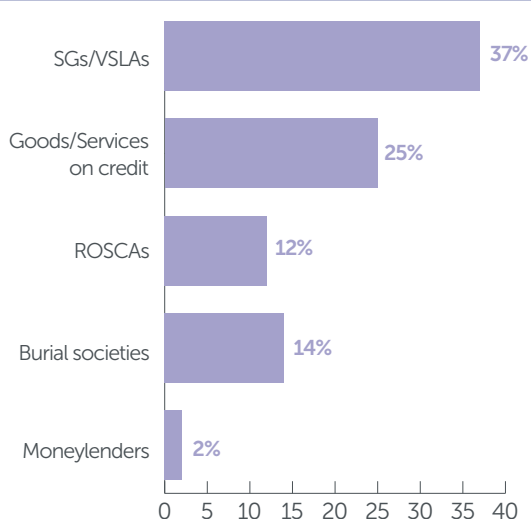
Usage of financial services



Uptake of formal services provider (percentage of adults)



Uptake of informal services (percentage of adults)



Source: Financial Sector Deepening Uganda, 'FinScope Uganda: Topline Findings Report.'

Acronyms: MFI, microfinance institution; ROSCA, rotating savings and credit association; SACCO, savings and credit cooperative; SG, savings group; VSLA, village savings and loan association

* Financial services provided by an institution/individual that is not regulated or supervised.

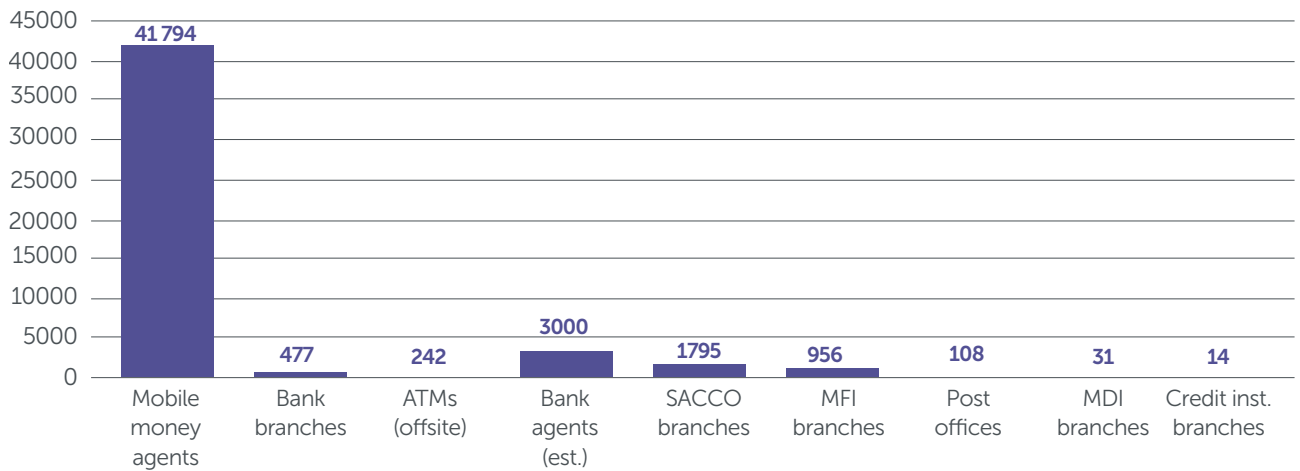
¹² Access refers to the usage of savings, credit, insurance and/or payment services (formal or informal).

¹³ Financial Sector Deepening Uganda, 'FinScope Uganda: Topline Findings Report' (Kampala, 2018).

A look at access points confirms why MM is the main driver of financial service access, having almost 10 times the number of bank branches. However, the launch of agency banking in the last quarter of 2017 shows potential for deeper penetration of banking services. In fact, by the second quarter of 2018, there was promising growth in agent points, which were estimated at more than 3,000. Figure IV captures these numbers.

Figure IV

Financial access points in Uganda



Sources: UNCDF internal reports and FSP Maps, 'Uganda,' 2016 data. Available from <http://fspmaps.com/#/Uganda/finance/map@9.31,7.93,z6,dark>

Acronyms: MDI, microfinance deposit-taking institution; MFI, microfinance institution; SACCO, savings and credit cooperative

However, the proximity of access points to target communities remains low, especially in rural areas. Findings from FinScope 2018 reveal that only 18 percent of rural inhabitants have an MM agent in their community, as opposed to 54 percent of urban residents.¹⁴ As highlighted by data in the table, access to banks and other financial service providers is still lower.

Table I

Percentage of Ugandan adults with access to a formal financial institution in the community

	Banks	Standalone ATMs	MFIs	SACCOs	Mobile money agents	Credit companies	Insurance companies/brokers/agents	Money lenders
Rural	0%	0%	0%	4%	18%	1%	0%	0%
Urban	2%	2%	0%	9%	54%	6%	0%	3%

Source: Financial Sector Deepening Uganda, 'FinScope Uganda: Topline Findings Report.'

Acronyms: MFI, microfinance institution; SACCO, savings and credit cooperative

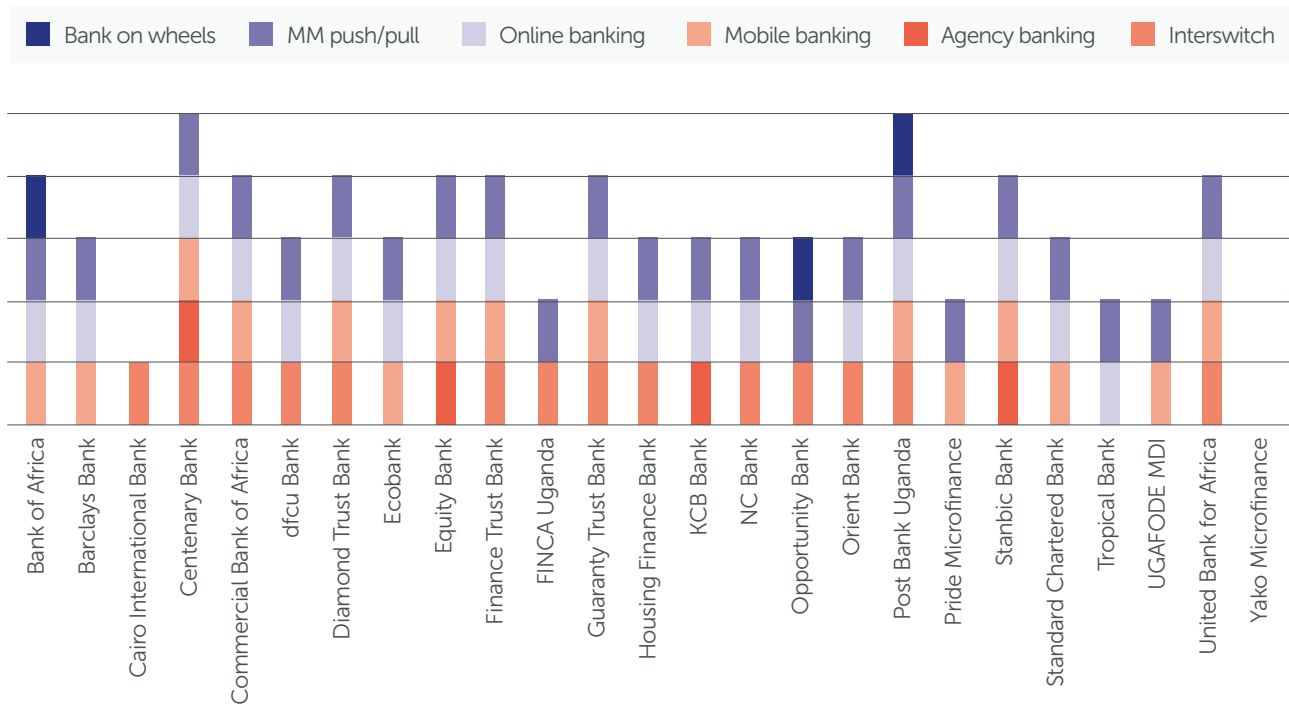
¹⁴ Ibid.

GAP IN THE BANKS' SERVICE DISTRIBUTION BEFORE AGENCY BANKING

From previous sections, it is clear that commercial banks have a central place within the Ugandan financial sector. On the one hand, they are connected into macro-systems provided by BoU, enabling interoperability among them; on the other hand, they are connected with private sector payment solutions and financial services such as MM and/or payment aggregators, providing disbursement/collection services at a large scale. Figure V provides an overview of the digital channels currently offered by the top financial institutions in Uganda.

Figure V

Digital channels currently available at the main Ugandan banks



What the banks had previously lacked was a light-touch channel to complement the existing branches and ATMs and to enable customers to perform deposits and withdrawals conveniently and within their control, whether in terms of pricing, customer experience or service quality. This is precisely where agency banking came in, as a solution among a number of alternative channels available to the banks. Although such a channel was technically possible before (i.e., by transacting through an MM agent and then conducting a push-or-pull transaction), the banks can now unilaterally adjust the charges as they do not depend on other service providers, which previously defined the fees for them (specifically the leading MNOs).

In other words, the agency banking delivery channel allows the banks to achieve end-to-end control of the relationship with their clients—from the point of contact, the bank agent, throughout the delivery of an array of services from the bank. This development is expected to positively contribute to the formal financial sector's competitiveness, both in terms of pricing as well as service quality rendered to the end user. Moreover, through the strength of this channel, the banks are expected to increase their contribution to financial inclusion in the country, both by formalizing operations within the informal sector (e.g., village savings and loan associations and rotating savings and credit associations) as well as tapping into the important pool of cash transactions taking place at all levels of the Ugandan economy.



The financial institutions primarily expect to boost their transactional revenues and reduce their operational costs, the latter being mainly driven by increased outreach at variable costs (i.e., agent commissions) rather than fixed costs (i.e., investments in branches and ATMs).

Additionally, the financial institutions will be able to mobilize local deposits¹⁵ and leverage to a greater extent their core business of funds intermediation, rather than depending on transactional revenues. By doing so, they will be able to provide increased access to capital for small and medium enterprises, thus driving deeper economic growth across Uganda.

CUSTOMER EXPECTATIONS OF THE AGENCY BANKING CHANNEL

HIGHLIGHTS OF RESEARCH CONDUCTED WITH MOBILE MONEY AS A PROXY¹⁶

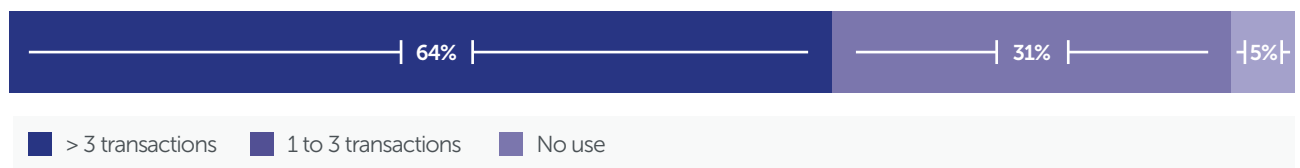


Within the scope of the agency banking projects by UNCDF with the partnering banks, market research was conducted on the demand side of DFS in order to identify key drivers motivating the potential uptake of agency banking as an alternative delivery channel for the commercial banks.

The research was eased by the fact that Ugandans already use MM services (see figure VI for more detail on their frequency of use). Hence, their experience made the questions relatable. Nevertheless, the concept of agency banking had to be explained thoroughly to the interviewees, for their understanding of how the banks would deliver their products and services through agents. This explanation was more difficult in rural settings, where people have limited awareness of commercial banks, their products and services, and their differentiating benefits compared to existing offers in the market.

Figure VI

Mobile money usage in the previous month, as reported by respondents



At the same time, the MM experience brings up some classic challenges that are directly assumed to occur for agency banking too, issues such as system downtime and/or liquidity shortage (see figure VII for the challenges most cited by respondents). Alongside the service cost, these issues represent nearly all usage challenges—issues that hint at clearly expressed frustrations that clients have when it comes to DFS and consequently underscore the importance of banks making better service a key differentiating factor.

For the unbanked, financial institutions should note the importance of personal aspirations in their selection of a bank (see figure VIII), a finding that suggests a feeling of achievement linked to having a bank account. In the choice of MM provider, proximity and transaction cost are the leading considerations (see figure IX). In comparison, for clients who are already banked, financial institutions should give special attention to the relative importance of product design over marketing efforts since these clients are likely to choose a service provider based on which products they deem to be the best and to offer the greatest user experience (see figure X). Banks can use these findings from the research to inform their medium- to long-term strategies, wherein the focus is likely to shift from customer acquisition to customer retention, by providing human-centred products and end-to-end high-quality service

¹⁵ Note: The partnering banks' loan-to-deposit ratio ranges between 45 percent and 89 percent, as of end-of-year 2017; therefore, mobilizing additional deposits is a secondary target for these banks.

¹⁶ The highlights shared in this section were drawn from research conducted in Q1 2017 by Seven Delta Consulting for KCB Bank Uganda, with a sample of 424 respondents across Uganda. Figures VI–XIII were drawn specifically from the following presentation by Seven Delta Consulting: Kimathi Githachuri and others, 'KCB Bank Uganda Agency Banking—Phase 1 Report: Demand-Side Survey,' internal presentation, 19 April 2017.

Figure VII

Single biggest challenge with mobile money, as cited by respondents

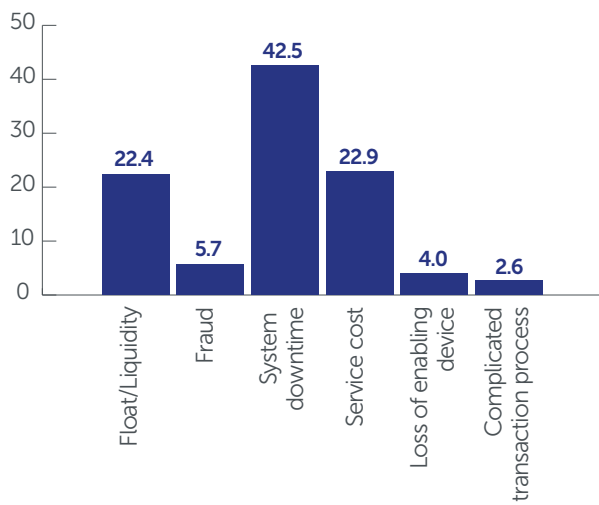


Figure VIII

Considerations in the choice of bank, as cited by respondents

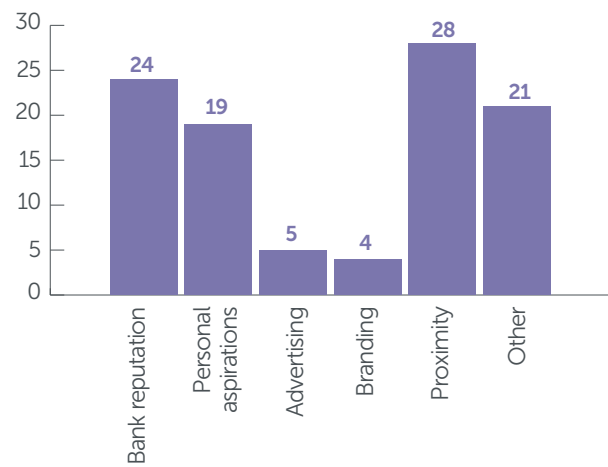


Figure IX

Motivations in the choice of mobile money service, as cited by respondents

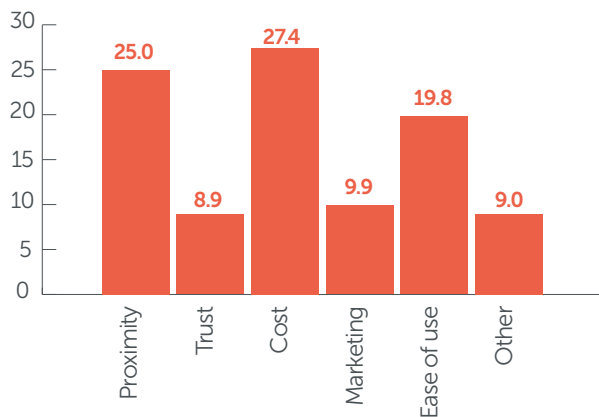
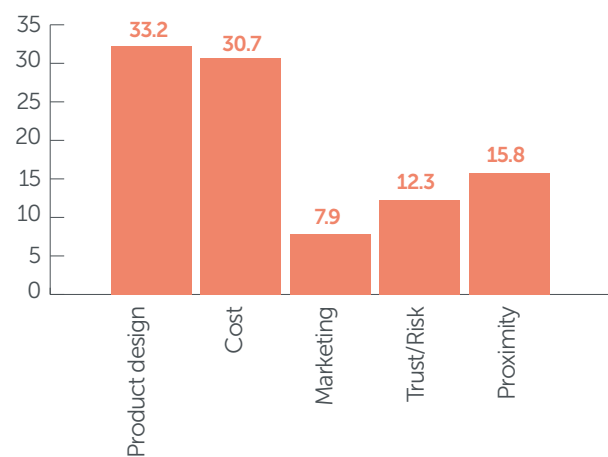


Figure X

Factors in the choice of bank, as cited by respondents



Proximity and ease of use concerns are relatively higher in rural areas.

Proximity and ease of use are also major drivers for youth in addition to cost.

Women are relatively more concerned with proximity.

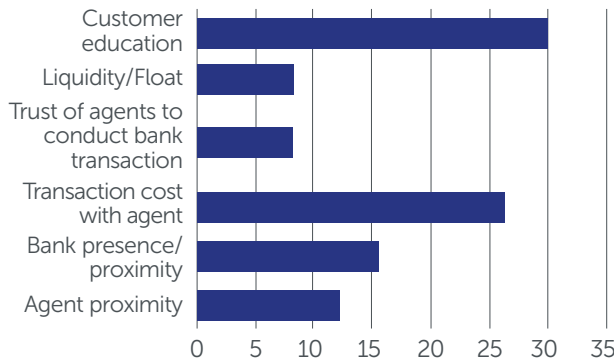
Proximity concerns are relatively higher in rural areas while product design was more significant in urban areas. Women are relatively more concerned with proximity, while cost of running an account is a major factor for youth.

Even though proximity was not a significant consideration in opening an account, more than 60% of banked respondents said they would close their account if the bank closed their branch.

Finally, banks in Uganda generally benefit from higher levels of trust than MM providers in the market. This situation is partly explained by the challenges experienced by users with the current MM services, such as limited agent liquidity, fear of phishing and general mistrust (i.e., customers believe they would not face these issues if interacting with a bank) as well as by the aspirational image Ugandans attach to banks. Related to that point, the research revealed a need to boost customers' expectations for the quality of services from agency banking. Additionally, interviews indicated a clear need for customer education; in fact, the clients themselves recognized their limited understanding of the channel (see figures XI and XII for more customer feedback).

Figure XI

Customer concerns about agency banking

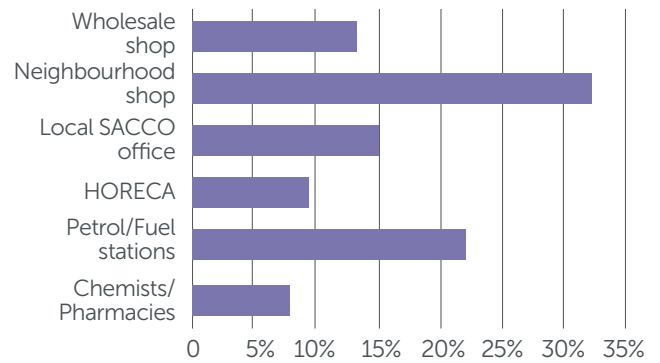


Women and rural respondents are most concerned with understanding the service and customer education, followed by cost of service.

Urban respondents are more concerned about cost and then understanding the service.

Figure XII

Customer preferences for agency banking locations



Both rural and urban respondents said neighbourhood shops are their most preferred locations for agency banking.

Rural respondents chose local SACCO offices as their second preference, while urban respondents preferred fuel stations. Both are indicative of the understanding of the need for adequate liquidity to effect transactions.

Abbreviations/Acronyms: HORECA, hotels, restaurants and catering services; SACCO, savings and credit cooperative

KEY ELEMENTS OF THE AGENCY BANKING VALUE PROPOSITION FOR CUSTOMERS



Agency banking is generally seen by banks as a channel to reach un(der)served clients and that will work within a set of enabling channels, providing services with a positive value proposition. It is within this context that full control over this channel is seen as a cornerstone in creating a flawless customer experience.

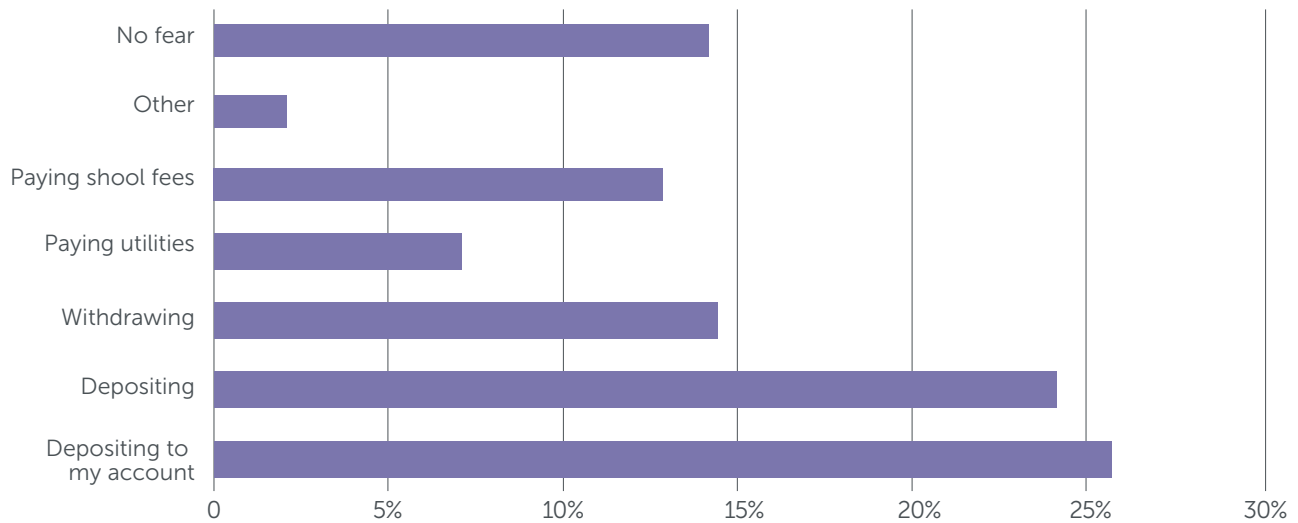
Existing mobile banking channels provide a good array of functionalities; however, when it comes specifically to payments for goods and services, a drawback is that clients must be literate and proficient in the use of technology.

With agency banking, in contrast, agents can support clients to perform their transactions. This support boosts the uptake of financial services in rural areas and specifically in cases where literacy levels are low and/or language obstacles exist. In this way, the channel directly improves access to financial services by clients who feel uncomfortable conducting the transactions themselves, because they are afraid of making mistakes, not knowing how to operate the device altogether due to literacy/language barriers, etc.

Besides the element of literacy limitations, another key element revealed by the market research involves fears of clients. To that point, interviewees expressed more reservations to make deposits and withdrawals with agents than to complete payments with agents (see figure XIII). Cash exchange transactions represent a key reason to build an agent network in the first place. Therefore, it is crucial that banks thoroughly address the underlying fears fuelling clients' responses, before claiming success with the channel. Furthermore, it is important to define a use-case-driven roadmap to introduce new services through the channel. Doing so will strengthen and solidify customers' trust in basic agent transactions.

Figure XIII

Banking transaction that respondents have the least comfort conducting with an agent



Besides considering these elements, banks should keep in mind that clients prioritize approachability, alongside proximity, when it comes to banking services in their day-to-day life; they do not expect or want to queue in uncomfortably crowded and impersonal banks. Having banking services that are close and approachable would allow them to (1) regain the time previously spent on more distant banking services and potentially reduce their transaction cost because of decreased travel and, more importantly, (2) increase their comfort level when interacting with the bank to complete transactions and activities that do not require their physical presence at a branch.

MOBILE MONEY TAXATION AS A DRAWBACK TO THE ADOPTION OF DIGITAL FINANCIAL SERVICES

1% Starting 1 July 2018, the Ugandan Government introduced a 1-percent tax on the value transacted through MM that is applied to all services (i.e., cash-in, cash-out, transfer and payment services).

A public opinion survey that was conducted two weeks after the tax was introduced with nearly 3,000 Ugandans revealed that, of the 93 percent of respondents who had used MM in the last six months, 44 percent said they conducted fewer transactions in July and 47 percent stopped using MM after the tax took effect.¹⁷ They reverted mainly to using cash. As high as 98 percent of all respondents said they do not support or strongly oppose the tax.

Though there are ongoing discussions by the Ugandan Parliament to revise and reduce the tax, its introduction alone created tremendous confusion and instilled long-lasting doubt among users. It also created an uneven playing field for DFS stakeholders in Uganda, since MM transfers are taxed and bank transfers are not.

Although the tax does not directly influence agency banking services and may be seen as an opportunity for banks at first glance, the confusion created among MM customers and the return to cash by Ugandans represent a step backwards for the confidence in and transparency of DFS in the country.

¹⁷ Anne Whitehead, 'Uganda Social Media and Mobile Money Taxes Survey Report' (n.p., Whitehead Communications Ltd, July 2018). Note: All findings cited in this paragraph are from this source.

Key regulatory aspects and insights from the projects' preparations



HIGHLIGHTS OF THE AGENT BANKING REGULATIONS



Agent banking regulations finally came into force in July 2017, about six months later than anticipated. By that time, major Ugandan banks were lining up to apply for their agency banking licence and were ready to develop this alternative channel that would allow them to join MNOs in the delivery of DFS.

Overall, there were no big surprises in the agent banking regulations, as they were very similar to what neighbouring countries had already introduced. Nevertheless, it remains an interesting market to observe from a DFS perspective, given the development of MM solutions since 2009. There is an opportunity to apply lessons learned about improved technology as well as operational and commercial processes from other countries that followed similar learning curves, while trying to catch up with other players in the market in the new regulatory environment.

Some highlights of the new regulatory framework are provided in the box, with elements in **bold** representing important issues and/or constraints to be considered by banks when designing the channel and with some specific notes from the authors preceded by 'NB.'

Box I

Highlights of the 2017 agent banking regulations

BOU APPLICATION REQUIREMENTS TO ENGAGE IN AGENCY BANKING

Any financial institution willing to engage in agency banking shall apply for a license to do so from BoU. The following are required, for the application to be considered:

- The strategy for agent banking, including:
 - **The number of agents per district for the next twelve months;**
 - Management of the agent network including agent training, agent supervision and liquidity management;
- The proposed technology platform to run the agent banking, which **must be capable of processing instructions issued electronically in real time;**
- The agent selection due diligence policy and procedures;
- The policies and procedures applicable to the provision of services through agents;
- The services intended to be provided through agents;
- A draft of the agency agreement between the financial institution and the agent; and
- A risk management framework for agent banking.

REQUIREMENTS TO BECOME AN AGENT

- Agent has for consecutive six months prior to the making of the application operated an account in a financial institution licensed by the central bank;
- Agent has a licensed business for at least twelve months;
- Agent has a physical address;
- Agent has adequate and secure premises.

BoU shall vet and approve each person selected by a financial institution to act as its agent for purposes of conducting agent banking; [...] a financial institution shall obtain approval from the central bank for each outlet of its agent.

NON-EXCLUSIVITY OF AGENTS

An agreement between a financial institution and an agent shall not include a provision prohibiting the agent from **conducting agent banking with other financial institutions.**

NB: Although well intended, this article leaves room for interpretation when it comes to potential exclusivity clauses with regards to the provision of MM services by non-financial institutions, such as MNOs or third-party service providers currently operating agent networks.

PERMISSIBLE AND PROHIBITED ACTIVITIES

NB: From the comparison below, a couple of points are worth emphasizing:

- Agents can collect and forward supporting documentation for account-opening and loan applications or act as a communication channel between a bank and a client, but they cannot effectively open an account without a bank’s validation or distribute bank cards and/or PIN mailers to the clients.
- Each transaction has to be accompanied by a system-generated receipt, which creates confusion as to whether SMS is permitted as proof of transaction.

Art.14. (1) An agent may provide any of the following services	Art.15. (1) An agent shall not
(a) the collection and forwarding of information and supporting documents for account-opening or applications for payment instruments;	(a) offer financial institution business on its own accord, except where it is the agent’s principal business as at the time of engagement;
(b) cash deposit and cash withdrawal;	(b) continue with the agency banking where it has a proven criminal record involving fraud, dishonesty, integrity or any other financial impropriety;
(c) the payment services including bill payments;	(c) provide, render or hold out to be providing or rendering any banking service which is not specifically permitted in the agency agreement;
(d) money transfers;	(d) operate or carry out a transaction when the system is down or when there is any communication failure in the system, or in the customer’s absence;
(e) facilitating disbursement and repayment of loans;	(e) carry out a transaction when a system generated receipt or acknowledgement of the transaction cannot be generated;
(f) the receipt and forwarding of documents in relation to loans and leases and any other permitted products;	(f) charge fees directly to customers;
(g) payment of retirement and social benefits;	(g) undertake cheque deposits or encashment of cheques;
(h) account balance enquiry;	(h) distribute cheque books;
(i) the provision of account statements;	(i) distribute debit cards, credit cards or PIN mailers;
(j) the provision of a communication and distribution channel for the institution;	(j) conduct foreign exchange transactions;
(k) any other activity as the central bank may approve.	(k) subcontract other persons to provide agency banking services;
	(l) provide agency banking services at a location other than the physical address of the agent;
	(m) open accounts, grant loans or advances or carry out any appraisal function for purposes of opening an account or granting of a loan or any other facility except as may be permitted by any other written law to which the agent is subject; or
	(n) be a guarantor to the financial institution’s clients.

Source: Uganda, The Financial Institutions (Agent Banking) Regulations, 2017.

INSIGHTS FROM THE PROJECTS' PREPARATION AND IMPLEMENTATION

1. First, with regards to the consultants' delivery, their primary clients were the partnering banks rather than UNCDF. Furthermore, some of them had limited experience with agency banking. As a result, the banks had difficulties identifying areas of support from the consultants and prioritizing the support in order to achieve the maximum results.

2. Second, a related issue was that the arrangement with the consultants made upstream activities such as market research relatively inefficient. The consultants (and implicitly the partnering banks) were reluctant to share their insights with other banks or the industry at large, given the competitive environment around agency banking. Consequently, the same activities were repeated by most of the partners.

3. Third, given that the scope of work was defined beforehand by UNCDF and the partnering banks, it was somewhat difficult to make timely adjustments to the work plan based on realities on the ground. Nevertheless, adjustments were taken up by the steering committees in joint agreement with the banks and the consultants, when and as needed by the projects.

4. Finally, the banks recognized the crucial role of TA in the channel's successful design, development and implementation, and they would have preferred the TA to have the same intensity throughout the pilot as in the previous phases (i.e., research, strategy and design). Namely, they felt the need for sustained support and hands-on guidance to implement the strategy. Since the TA agreements between the banks and the firms established a limited consultative role for the latter, the consultants provided high-level recommendations but were not extensively involved in the technical struggles the banks encountered during implementation. At the end of the projects, some of the partnering banks wanted more coaching, mainly oriented towards embedding the channel within the institution, whether in terms of collaboration with transverse departments or along the traditional distribution channels (i.e., branches).

HUB-AND-SPOKE AND AGENT NETWORK MANAGEMENT MODELS

Each partnering bank defined its strategy for agency banking, based on a competitive analysis of its strengths, weaknesses, perceived opportunities and eventual threats. In parallel with choosing an agency banking model (i.e., hub-and-spoke or third-party agent network management) and considering the bank's culture, each partner chose either (1) to create a dedicated sales team within the channel's management unit, in the case where branch operations were relatively decentralized; or (2) to leverage support from dedicated sales departments, in the case where support was consistent and readily available.

Some of the banks chose the hub-and-spoke model, relying on their branch network to manage the agents as a natural extension. In this scenario, the bank takes on the channel's end-to-end operations—from owning and managing the technical systems to identifying, selecting, equipping, training, regularly monitoring, and managing a proprietary agent network.

Others opted for the agent network management model. In this scenario, although the bank is still legally responsible for the agents and the quality of service provided to the clients, some technical aspects related to the regular management of the agent network are outsourced to third-party service providers. One factor in the banks' choice of this model was the anticipation of efforts by the Uganda Bankers' Association to provide a shared platform for agency banking, with interoperable agents providing the services from a unique device. Nevertheless, the partnering banks who chose this model acknowledge that it does limit their ability to control the channel and to ensure that a uniform, personalized experience is provided to their customers. Thus, they envisage switching to a hybrid model of both hub-and-spoke and agent network management.

PRIVATE SECTOR INVESTMENT MULTIPLIER AS OUTCOME OF THE TECHNICAL ASSISTANCE GRANTS

The total TA grant amount provided through UNCDF to partnering banks was US\$850,000. Based on this amount, UNCDF observed an average multiplier effect of 3.4 for private sector investment to date, meaning that the partnering banks have invested in the channel 3.4 times the amount of the grant from their own sources (whether in terms of staff, technology, marketing, etc.). Moreover, based on the financial forecasts developed by the partnering banks, it is expected that the multiplier effect will reach an average of 8.3 by the time the channel breaks even.

Lessons learned from piloting agency banking in Uganda

1524

ACCOUNT NUMBER: 1156001

SIGNATURE

TRANSACTION

DATE	CUSTOMER NAME	A/c No	PHONE NUMBER	Phone No	ID/ PASSPORT No
	Kabeera Cyprian				
	Namata Teddy	3020541452		0750962485	
	Mingiima Jackline	6020417899		0776204796	
	Rwashande Steven	"		0752540618	
	Nantale Prossy	"		0774044665	
	Lukuwata Joseph	6120800006		0750766360	
	Tugume Charles	6020014828		0752595323	
	Tugume Charles	"		0757239525	
	Baayesu Emmanuel	"		0787239525	
	Kibetu Aaron	"		0774044665	
	Bukenya Robert	"		0754882288	
	Mankunda Jesca	"		07523859886	
	Muhwezi Daniel	"		0784179826	
	Muganzi Umar	"		0779524121	
	Kampijja Justine	"		0751325677	
	Qsimire Claire	"		0777457118	
	Agere Ibrahim	"		0785016901	
	Gire Scholarstic	"		0703156183	
	Gertrude	"		0794044148	
	Innocent	3020144918			
	Richard	6020014828			

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LESSONS LEARNED FOR BANKS

CONSIDER THE NEW CHANNEL AS AN OPPORTUNITY TO RESHAPE THE OVERALL STRATEGY

Building a new channel, especially a complex one like agency banking, is not an easy task as it has the potential to impact the entire distribution structure of a bank. There are two highly important considerations when a bank is given the opportunity to start one from scratch:

1. **The channel should be considered within the strategic breadth of the bank**, rather than as a standalone project, given the fact that it has tremendous implications for all departments and functional dimensions of the bank (i.e., for interactions with traditional channels, for products and services offered and their core features, and for back-office processes and procedures). If the channel is not considered in this broader context, it may be perceived primarily as a source of costs (e.g., cost to acquire and manage agents and commissions to pay on transactions), even as it records some of its benefits at the institutional level (i.e., deposits mobilized and feegenerated from transactions via other channels).

2. **The channel's processes should not just be a continuation or adaptation of the existing ones;** rather, the processes should be based on human-centred design (e.g., user brainstorming sessions), which will shape them to the needs and requirements of end users rather than base them on imported or expanded traditional approaches that may not work in the digital space (i.e., paper forms, analogue records and approvals).

For as much as these considerations seem intuitive when described, there is a **natural resistance to change, even more so if the transformation is structural and if the topic is entirely new for the institution**. It is therefore important to involve in the project subject-matter experts who have practical experience with agency banking (e.g., market research, strategy and business modelling, product and channel design, internal organization and processes), representatives of the user community (i.e., agents and customers), as well as representatives from all departments within the bank (e.g., legal, risk and compliance, products and services, marketing, sales and communications, channels, finance, information technology and back-office staff) and from different levels within the bank (i.e., head office, regional and branch levels). Within the design process of these projects, the focus was on defining the best way to intuitively respond to users' needs, while considering legal, financial and technical constraints and addressing risk and sustainability concerns.

Finally, it is important for the institution to acknowledge the time and effort it takes to successfully transform its current practices. Thus, a **change management approach should be defined and implemented, including thorough training, coaching and close monitoring** at the start.

DEVELOP AN INITIAL BUSINESS CASE AND REVISE ITS HYPOTHESES AS DATA BECOME AVAILABLE



For all the UNCDF agency banking projects, one key deliverable within the strategy definition phase was the development of a tailored business case that considered the strategic particularities of each bank. This activity helped them to identify key revenue and cost drivers early on, to realistically adjust their strategy and to adapt implementation based on key factors influencing the profitability of the channel.

Given the fact that limited data on the subject were available at that early stage, the business cases were developed under assumptions and hypotheses for best/normal/worst case scenarios. As implementation progressed and real data became available, **the partnering banks revisited the assumptions and replaced them with actual figures, thus providing a more accurate image of the channel's profitability**. When the pilot phase ended, there were discussions and additional strategic amendments based on the insights provided by the updated business case.

The key benefit of this approach is that, from the beginning, each partnering bank had a strategic profitability framework to follow, one that guided strategic decisions as it progressed through the pilot. This approach informed the bank as to which activities to prioritize (e.g., agent set-up, customer acquisition, or marketing campaigns to boost usage), based on practical results from the field.

Moreover, building a comprehensive business case that looks across all of the institution’s channels and along transactional flows gives the bank an opportunity to align pricing and incentives throughout the institution and to limit occasions for misuse of the services (e.g., efforts to generate commissions through agent-customer collusion or to conduct third-party deposits as a form of remittance).

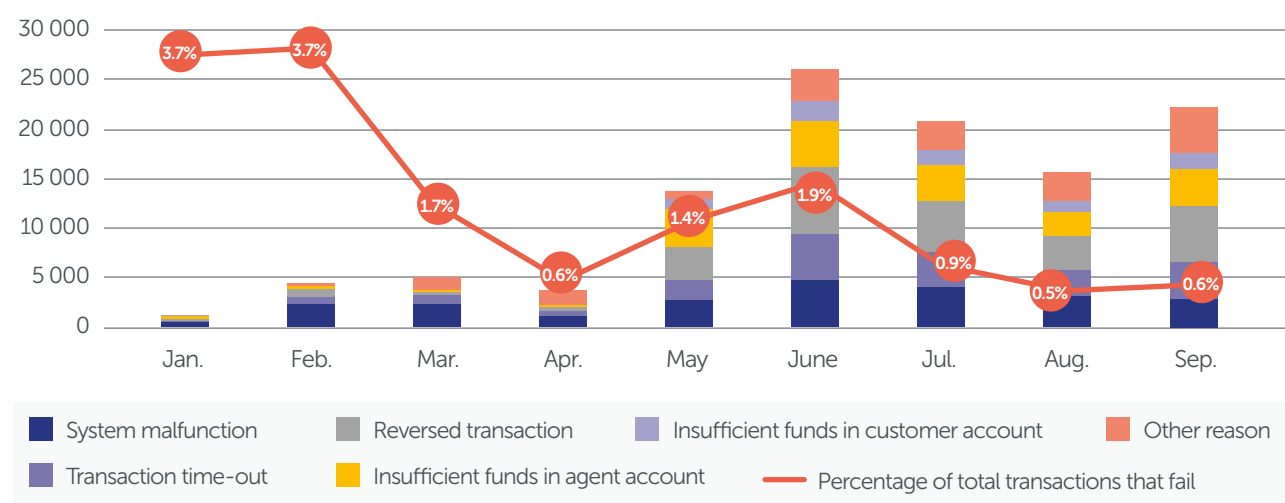
BE READY TO ADDRESS THE UNEXPECTED CHALLENGES THAT THE PILOT REVEALS ‘ON THE GO’

A critical condition for launching the agency banking pilots was the issuance of the agent banking regulations by BoU. Most of the project agreements were signed at the end of 2016, but the regulations did not come into effect until July 2017. The banks used the gap to conduct market research and to define their strategy. Consequently, as soon as the regulations came into force, several of the banks were ready with their licence application and, when their licence was granted, were ready to roll out their pilot by the end of 2017.

When it came to pilot roll-out, the banks were eager to enter the market as soon as possible, which proved to be a winning strategy since **many unexpected technical and operational challenges were discovered and addressed on the go** in the early days of the pilot but with limited impact on customers (see figure XIV to get an idea of some of the problems encountered).

Figure XIV

Failed transactions, by reason, in projects with partnering banks (January 2018–June 2018)



As the banks gained confidence in their agency banking channel and received a positive response from the market, **some of them used the allocated pilot time to move into full roll-out of the channel and to progressively add new products** (e.g., school fees, tax payments and utilities).¹⁸

As a result, in the first semester of 2018, the banks supported by UNCDF registered over 200,000 customers on the agency banking channel, including more than 30,000 new customers, about 30 percent of whom were women. In total, 3,445 agents were active, performing almost 4 million transactions (mainly deposits) worth U Sh1,475 billion (US\$386 million) (see figures XV and XVI for more specifics).¹⁹

¹⁸ As of July 2018, Centenary Bank and Equity Bank have stabilized and are scaling up a compelling agency banking solution.

¹⁹ Conversion rate: US\$1 = U Sh3818.14 (Source: <https://treasury.un.org/operationalrates/OperationalRates.php#U>, 1 October 2018). Note: This rate was used anywhere in this report where United States dollar equivalents were provided for Uganda shillings.

Figure XV

Transactions completed by agents in the projects with partnering banks (January 2018–June 2018)

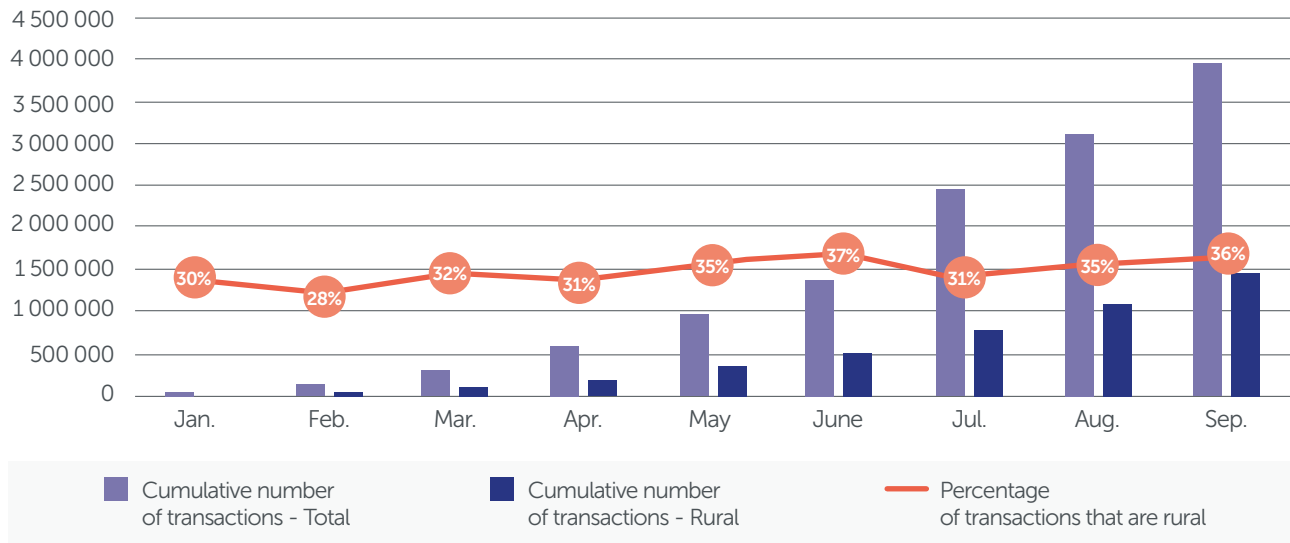
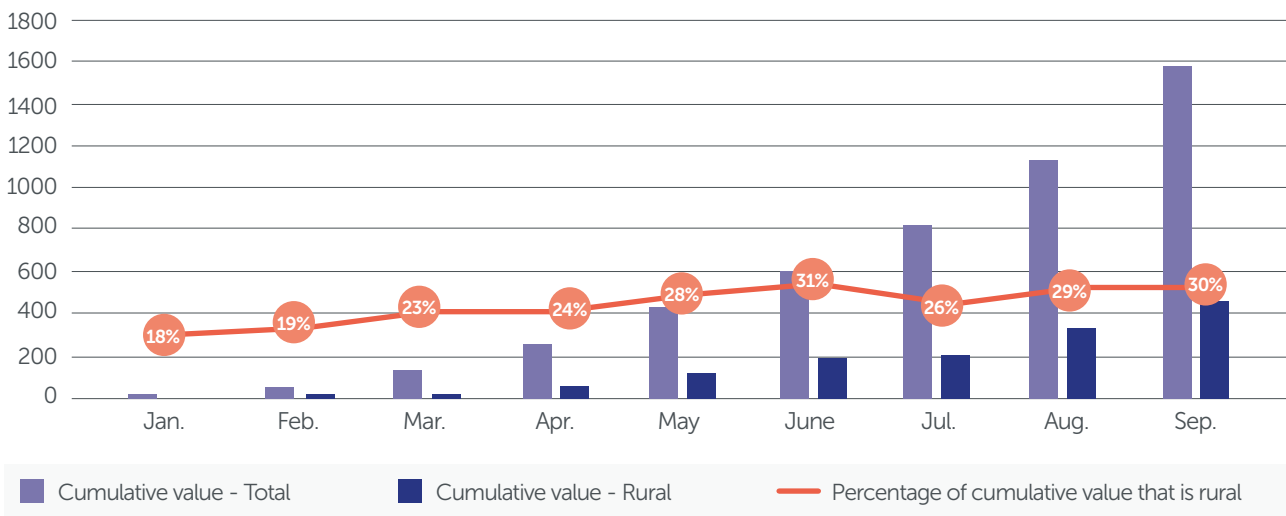


Figure XVI

Cumulative value of transactions completed by agents in projects with partnering banks (January 2018–June 2018)

- Billion UGX



KEEP IN MIND THAT ROLLING OUT AGENCY BANKING REQUIRES SUSTAINED EFFORT AND SUBSTANTIAL RESOURCES



Although the core infrastructure for agency banking has become increasingly available in recent years, the deployment and the scale-up of agency banking are still unfolding at many institutions due to limited awareness of the channel.

Contrary to the perception of this channel as a plug-and-play solution, the pilots' lessons learned and the updated business cases reveal that **the phase with the most heavy-lifting in terms of effort and consumption of resources comes after the initial implementation.**

On the one hand, **there is a need for close, permanent monitoring of the agents and their operators**, requiring dedicated resources to the tasks involved. To this point, the partnering banks observed high turnover in their agent locations' staff, which called for repeated and/or refresher training every time staffing changes occurred. Sometimes, turnover was not even announced and was only discovered during routine visits at the agents' premises and/or through inconsistencies in operations due to lack of formal training. Therefore, between the theoretical roll-out plan and the reality on the ground, there is a critical gap that requires a flexible, proactive approach on the part of the bank in order to address unforeseeable though impactful events on the service quality rendered.

On the other hand, **there is a need for sustained effort to create awareness of the channel, as well as to acquire, educate and retain clients.** Initially, it was thought that the clients' experience with MM services would facilitate the adoption of agency banking. In fact, MM experience mostly proved detrimental to adoption of agency banking due either to clients' poor experience with MM (e.g., they had already lost trust because they were overcharged by agents, received fake currency or were the victims of information phishing and were defrauded) or, conversely, to clients' positive experience with MM (e.g., they felt that a bank account would not add sufficient value compared to their current services). The take-away is that banks must invest heavily in marketing and communication in order to change the market's perception and eventually get the chance to prove their products and services indispensable to clients. These marketing efforts should be conducted through a mixture of above- and below-the-line techniques. When customers see or hear commercials over the radio or on television, they are able to see the channel is well managed by the bank; when customers are approached by sales staff within their community who introduce them to agents, they can confirm their relationship with the bank.

LESSONS LEARNED ABOUT AGENTS

EARLY FEEDBACK FROM THE FIELD SEES OPPORTUNITIES WITH SCHOOLS AND COOPERATIVES

One of the key questions for banks about the roll-out of agency banking in Uganda was how to deal with being perceived as arrogant and expensive by rural communities, a perception revealed by research, in a market where MM services have penetrated deeply over the past decade. In other words, what would banks have to offer in order to provide a sufficiently positive value proposition to agents and clients in rural areas?

The work by UNCDF with its partnering banks unveiled a viable path to reaching rural areas with agency banking, with vast potential for rapid scale-up of the channel in the medium term. It all starts with finding the right use case, which agents can leverage to create greater awareness within their community, with benefits provided by the channel and services delivered by the bank..



In concrete terms, some of the partnering banks identified two major opportunities to roll out agency banking in rural areas, namely by targeting rural schools and savings and credit cooperatives (SACCOs) as agents.

This approach ensured, on the one hand, that the transaction volumes were adequate from the start (given the number of parents paying school fees and the number of SACCO members within the communities) and, on the other hand, that the agents had sufficient liquidity to handle the transaction values.



“My husband and I are both teachers at the school in the village. We own this little shop, and when we have been approached to do agency banking, we have seen the opportunity. We struggle at the school with the payments; we cannot keep large amounts of money there. Now, we advise the parents to open an account here, and they can pay directly through us. They know the money arrives safely on the account. Also, the school can pay the teachers from the money collected, and they can also come and withdraw from the shop at any time. We have over 20 transactions every day already, but more and more people get interested to open accounts, and we tell them the benefits.”

– Tekla Namaganda, school teacher and bank agent, Masaka

For as much as targeting school fee payments seems relatively obvious, given that it links to salary payments for teachers from the same bank account, approaching SACCOs to become bank agents seemed counterintuitive at first since they may have a potential competitive disadvantage against bigger players. When discussing the idea with some of the SACCOs that are active in agency banking, it became obvious that the value for them lies primarily in greater brand recognition and increased trust because of the association with first-class banks. They do not express a fear, as previously expected, of losing clients to banks (at least for now), as they are well aware of the strength of the social ties they have with their clients. Anecdotally, one of the SACCOs interviewed envisaged a future in which they would act as service brokers for the commercial banks. For the banks, observations from agents, like those shown here and below, are early signs of success, and they expect many more such stories to come. The average commissions earned by rural agents, as shown in figure XVII, also reflect positively on their rural approach.



“As a SACCO, the more we partner with banks, the higher the confidence of existing clients. Secondly, by doing this, we increase our outreach, as some bank customers may opt for our services. We have teachers and civil servants who want to withdraw at the end of month. They can do that from our branch, and we earn commission from the transaction.”

– SACCO Manager, Masaka

“

“I think [agency banking] is a big revolution, as it increases the accessibility of bank services for the customers, within their comfort area. People today still feel they need to take a shower and get dressed when they go the bank; with agents, they can jump straight from the garden, do the transaction and go back to work.”

– Edgars Muhimbo, Centenary Bank Regional Financial Inclusion Supervisor, Western Uganda

“

“Agency banking is working for us! We have less customers in the branch, [and] since we started we have been able to reassign three out of six tellers in the branch. There is still a long way to go; [it] takes time to change the perception of customers. Let’s do one, two things, but do them well. We are miles ahead from the others when it comes to school fee collections. When we start doing withdrawals, we will blow them away.”

– Bryan Katamba, Stanbic Bank Branch Manager, Masaka

“

“For the flower companies nearby, another bank has installed ATMs awhile back for salary payment. But that didn’t work: they were always breaking down, [and] it was taking a long time to repair them. We were skeptical when we heard about this [agency banking], though the board approved it and we became an agent. Now we work together with the bank and flower companies, to make sure that we are prepared on paydays so people can get their money here.”

– Operator, Xclusive SACCO, Mairy Ntinda village, Kiwenda

“

“I ... put an announcement at my shop. I am hiring people to help me grow this business. My goal is for everyone at the [nearby] market and around to know they can transact here. I hope the bank will also support me with this. It is really helpful for the image when their people come by!”

– Doreen, Agent, Kampala

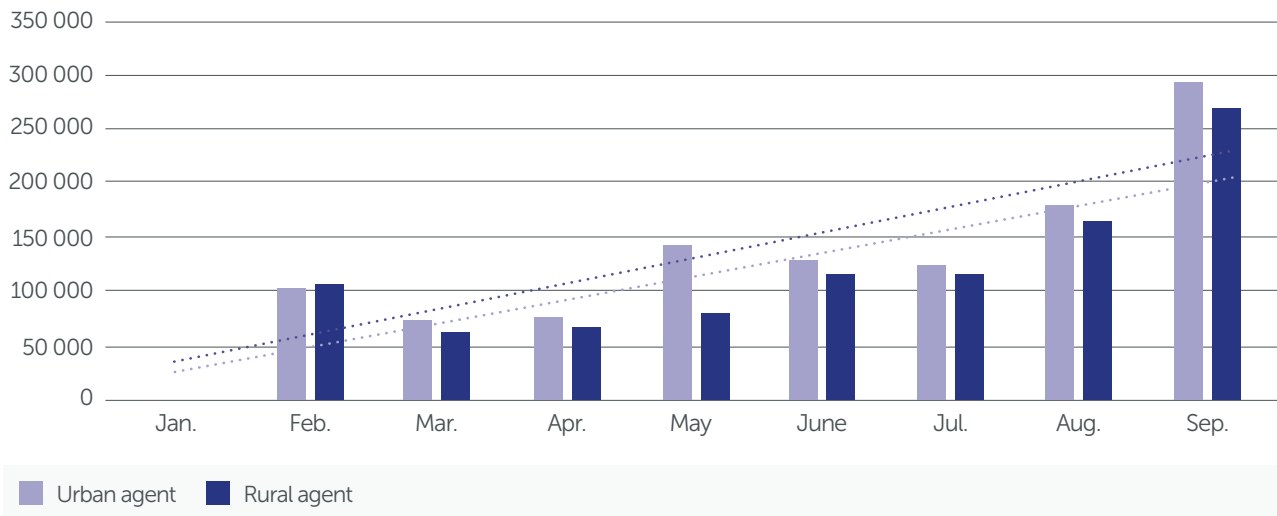
“

“We used to do mobile money and forex. When we [were] approached by the banks for this business, we ... dropped the forex business and focused only on being an agent. We opened ... a second outlet in Rubaare [1.5 hours from Mbarara]: this is convenient because many people want to transact from there, and we can support [rebalancing] from here [Mbarara]. The mobile money business is going better for now, but we are sure that very soon the banks will bring us more money.”

– Ronah Akampurira, GN Associates, Mbarara

Figure XVII

Average commission paid to urban versus rural agents in projects with partnering banks (January 2018–June 2018)



Note: Agent commission includes client acquisition fees, suggesting that rural agents open more accounts.

AGENT ONBOARDING PROCESS IS RESTRICTIVE AND TIME-CONSUMING



The agent banking regulations established the requirement that agent candidates have an active BoU-regulated account (i.e., primarily at a bank or a microfinance deposit-taking institution) for at least six months prior to their application.

However, in rural areas where banks wish to penetrate through agency banking, otherwise-eligible businesses fall short of this requirement as they currently use MM and/or SACCOs for their financial needs. Allowing statements from these institutions as an alternative means to meet the regulatory requirement would accelerate the roll-out of the channel in the areas that need it the most, improving financial inclusion by bringing rural Ugandans into the formal banking ecosystem.

The agent banking regulations also established that the due diligence for any agent selected by a bank shall be submitted to BoU for approval, prior to the bank engaging in the contracting process with the candidate. Although the BoU process for vetting agents took up to three months in the beginning (likely due to the number of applications received), the observed turnaround time from application to approval improved to two to three weeks by June 2018. It is noteworthy that, to date, BoU has not rejected, or asked for clarification on, any of the applications submitted by the partnering banks.

In spite of the tremendous improvements by BoU in terms of turnaround and process since the regulations came into force, the delay of two to three weeks is still a challenge for the banks when it comes to the successful onboarding of agents. The primary reason is that the gap can lead to a loss of motivation by the agent candidates, who are willing to start setting up, training and operating right away. Or, such a delay—coming after the substantial time and effort the agent candidates already invested in providing all required documentation—is perceived as a lack of proactive effort by the banks, regardless of the procedural explanations provided.

Based on this situation, several partnering banks approached BoU to propose a way to improve the process. They proposed that, after the banks submit their agent lists and applications to BoU, the banks could proceed with onboarding the agents (i.e., contracting and setting up locations) without waiting for approval from BoU. Meanwhile, they proposed, BoU could spot-check the submitted applications and, if BoU found any irregularities, it could ask the bank to correct them and/or to close the agent location. This proposal would both allow BoU to fulfil its regulatory role on the matter and allow banks to leverage the momentum created with the agent candidates by engaging with them sooner in contracting, thorough training, and operations.

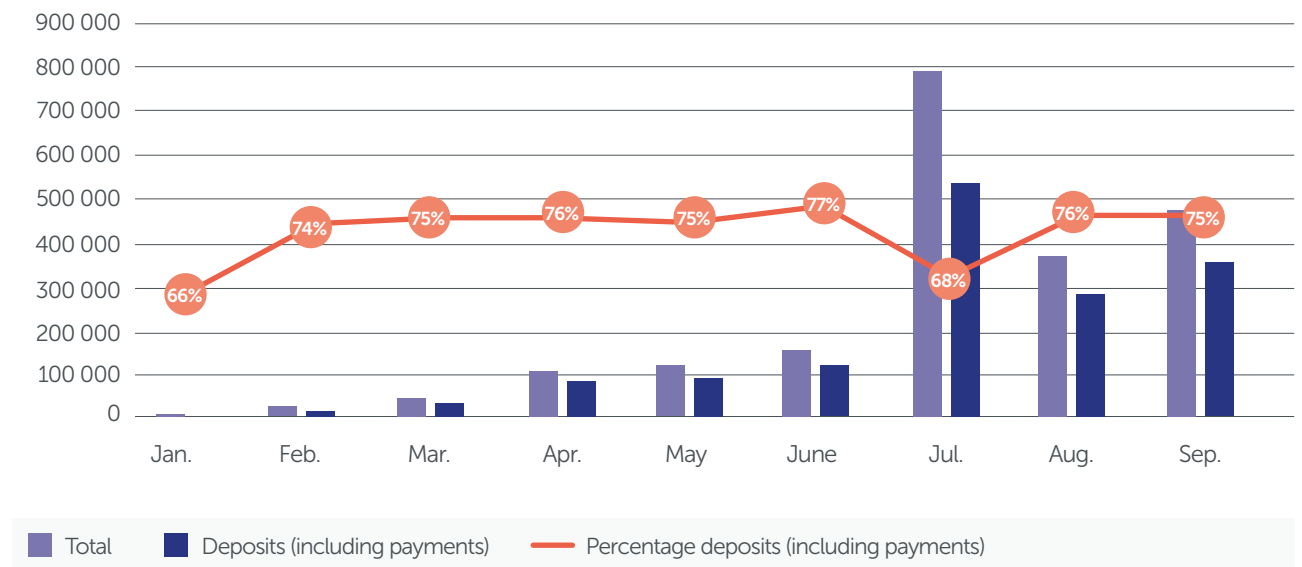
EARLY ADOPTERS' TRANSACTIONAL PROFILE HAS LIQUIDITY MANAGEMENT IMPLICATIONS

Interestingly, an **overwhelming proportion of agent transactions are deposits**, with ratios as high as 77 percent of the total volume of transactions performed through the channel (see figure XVIII). Given the fact that early adopters of the agency banking channel are primarily merchants and traders, parents paying trimestral school fees, and MM agents using bank agents to replenish their float levels, the amounts transacted are relatively high (see figure XIX). At the same time, recipients of these deposits—mainly large traders/wholesalers—go to branches to withdraw the money, either because they do not feel secure conducting transactions in such large amounts with agents or simply because the amounts are beyond the level authorized at agent locations.

These factors together create a critical liquidity asymmetry at this stage in the roll-out of the channel, with a significant need for funds in agents' accounts, as well as a need for regular rebalancing to keep the transactions going. Some agents have already raised their level of investment to over U Sh50 million (US\$13,095) to keep up with the high deposit demand and/or to reduce the number of rebalancing trips to the branch.

Figure XVIII

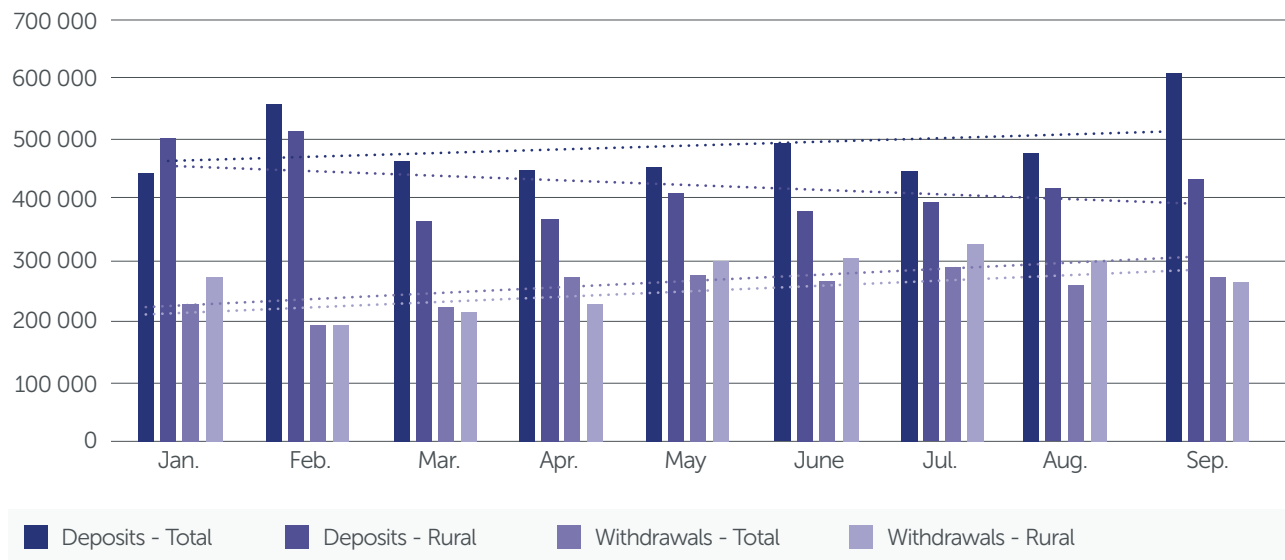
Monthly agent transactions (total versus deposits, including payments)* in projects with partnering banks (January 2018–June 2018)



Note: Due to consolidation considerations, deposit transactions include payments (e.g., utilities, school fees and taxes). Also, one of the banks is excluded from this analysis as it currently offers only deposits.

Figure XIX

Average deposit and withdrawal transaction value in rural versus urban areas in projects with partnering banks (January 2018–June 2018)



As a mitigating measure, some banks promote collaboration among agents, so they can help rebalance each other. For example, remote/rural agents rebalance with other agents who are located closer to town, thereby creating a liquidity rebalancing chain back to the branch. Besides making the initial introduction among nearby agents, the banks leave this practice deliberately unstructured under a super/master agent model; they allow agents the choice to seek such support as well as the freedom to make any potential financial arrangements at the agents' discretion.

Another mitigating measure that banks use to deal with liquidity is targeting multi-outlet agents operating from a central account. Under this approach, remote outlets are constantly supplied with funds that are easily rebalanced by those outlets situated near the branch, thus limiting their number of trips to offload accumulated cash, often to once a day.

Although these measures are important to help alleviate the current liquidity imbalance, they are not enough in the long term as the agents (and implicitly the banks) feel the pressure of dealing with significant amounts of cash at their premises, to the point that cash insurance is an explicitly required service by the agents in order to limit the risk related to handling such liquidity levels.

Meanwhile, the banks are looking at ways to balance the levels of deposits and withdrawals, starting by analysing the fund flows and eventually proposing services that would limit the need to conduct transactions outside bank accounts and go back and forth to and from cash. Moreover, as awareness of the channel increases, it is expected that new customer segments with a more balanced transactional profile will join it, naturally reducing the liquidity pressure on agents.

“

“You people are only in town. Bring more agents to the rural areas...”

– Bank client, Fort Portal

“

“We came to the ATM to withdraw some money, but it doesn't give us the right amount. We learned there is an agent nearby, but we didn't try that. What do we need to transact there?”

– Bank client, Lukaaya

“

“On my way to the market, I saw an Equity agent and I decided to open an account. I didn't know if I could trust him, but I do now. The agent is on my way to work so I can make deposits at the end of my day, and I don't have to worry about how I look.”

– Market lady, Kampala

“

“People fear the bank for no reason, they think it is a corporate bank for only people with money.”

– Bank client, Moroto

“

“I have a shop nearby the branch, but I work alone and it has always been difficult for me to go there because of the long queues. I cannot just close my shop! Because of that, I used to have a lot of cash with me and was afraid I would get robbed. But now I just go to the agent several times a day. There is no queue there, and they serve me well.”

– Shop owner, Mbarara

“

“The clients are rigid. They are asking why they haven't heard from the bank... Are you sure this is true?”

– Shop owner, Mbarara

LESSONS LEARNED ABOUT CUSTOMERS

PAYMENTS FOR GOODS, SERVICES, UTILITIES AND SCHOOL FEES ATTRACT EARLY ADOPTERS



At this stage of the journey, clients are still slowly discovering the channel, considering its benefits and—only when interested—actively looking for confirmation from banks before joining.

Although this behaviour would seem to be a normal step on a client journey, the banks were expecting customers to be more comfortable given their previous experience with MM services.

Alongside the need to create greater awareness of the channel itself, in rural areas the primary need is to first overcome classic misconceptions and/or ignorance related to the banks and their products (views such as “banks are expensive,” “only wealthy people can access them,” “they come for your assets,” “they may go bankrupt,” “I’m not sure what products they offer,” and “I don’t see a need for their services”).

Early adopters of agency banking tend to be existing clients who are accustomed to MM services. Some of the target profiles by the banks at this stage are found in larger markets, in cities and towns as well as in trading centres along the main roads that crisscross the country. The banks’ use case for adoption of agency banking revolves around the need for **quick payments for goods and services among different levels of traders** who wish to avoid transportation costs and travel time to perform the transactions.

Within cities and towns, **payments for utilities and/or school fees** are also highly appreciated by early adopters, as they allow them to save the time they previously spent queueing in banks. Most of the banks placed at least one agent near each branch, to redirect transactional traffic there as a way to introduce clients to the channel and to improve the quality of service in the branch.

FEWER WOMEN ADOPT THE CHANNEL, BUT WHEN THEY DO, THEY TRANSACT REGULARLY

Based on the data collected,²⁰ the gender split for both agents and clients is around 30 percent female/70 percent male. Nevertheless, realities in the field draw a more balanced picture:



For agents, many women are fully in charge of and operate the business, although their husbands are the ones who typically register the shop due to know-your-customer requirements and/or cultural habits.



For clients, many women operate from their husband’s account and, when probed about opening their own, they do not see a benefit as they already have access to bank services.

A representative study with some of the partnering banks revealed that the agency banking business is conducted directly by the owners in around 40 percent of the cases, while approximately 60 percent hire dedicated operators. Most of the time, the owners are men, while women are more likely to be hired as the operators (see figures XX, XXI and XXII for more gender-specific data).

²⁰ Some of the banks are unable to consistently track gender. Therefore, the figures presented are extrapolated from partnering banks that are best able to report on the gender metrics and are not representative of the entire agency banking project portfolio.

Figure XX

Gender split of agent operators and owners in projects with selected partnering banks

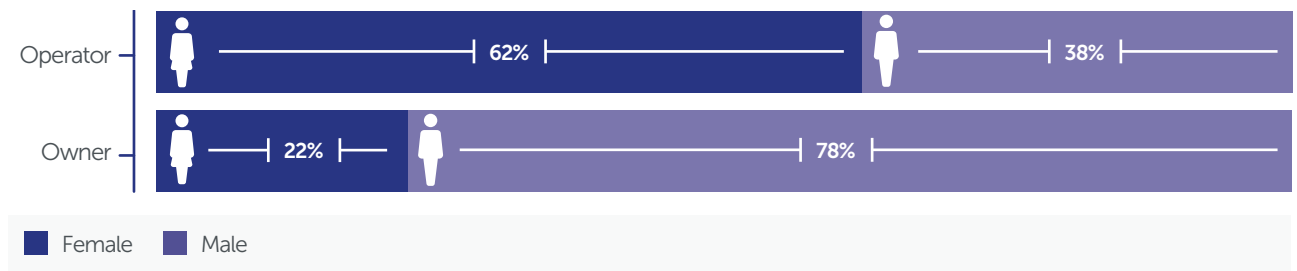


Figure XXI

Registered agents: total versus female in projects with partnering banks (January 2018–June 2018)

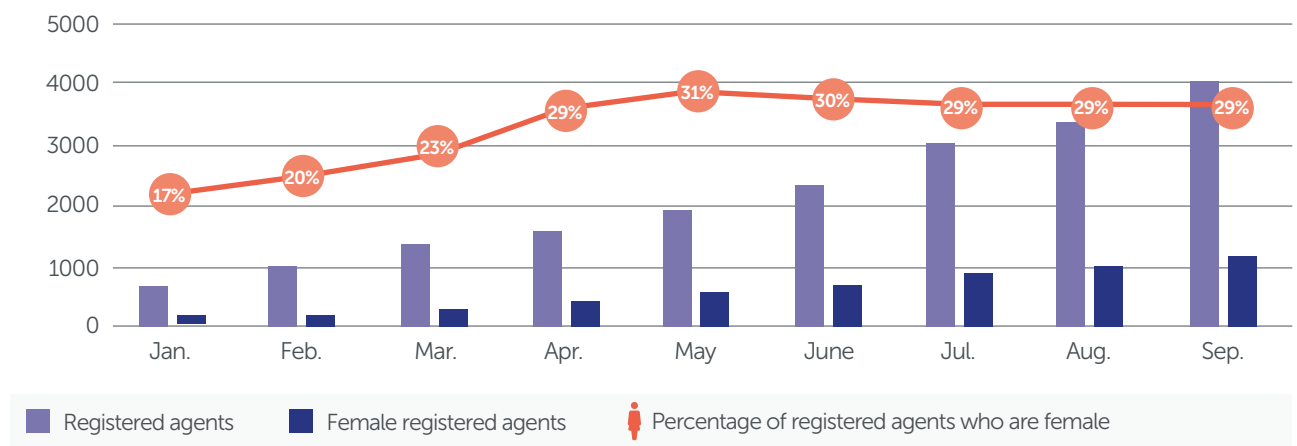
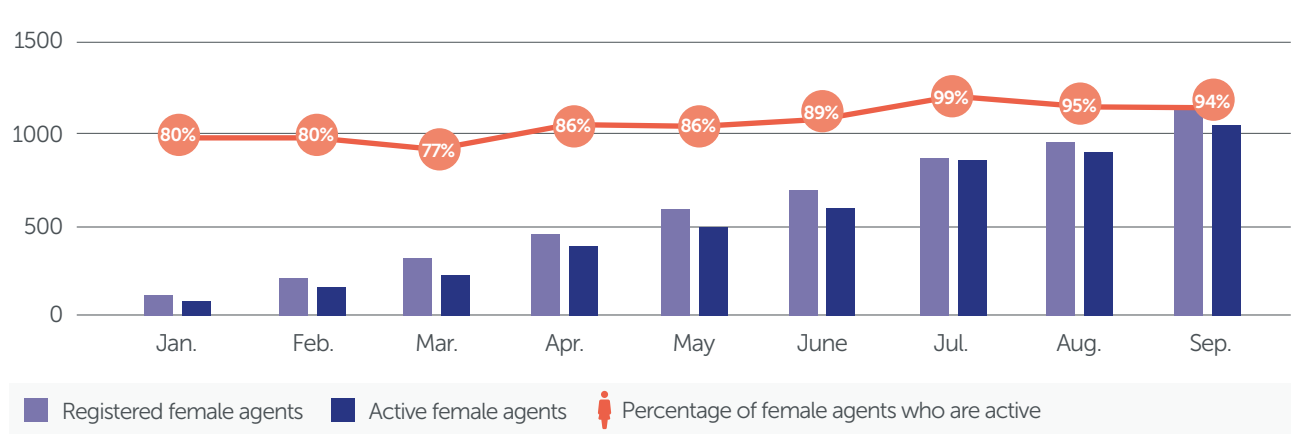


Figure XXII

Female agents: registered versus active (90 days) in projects with partnering banks (January 2018–June 2018)



In regards to age, about 90 percent of operators are 35 years old or younger. As seen with the gender split, some of them own and operate the business in practice, though it may be registered under their parents' name due to stringent know-your-customer requirements and/or cultural habits.

Given these issues, it is difficult to get a clear picture of the actual demographics for agents and clients of the agency banking channel. A dedicated study would be required to seek clarity on the subject, by considering the realities on the ground as described.

Finally, in regards to activity levels, data from one of the partnering banks indicate that, although the female clients registered with the channel represent only about 20 percent of the total registered clients, they are almost all (94 percent) active; in contrast, only about half (56 percent) of registered male clients are active. This finding hints at the fact that women subscribe to the channel when they find clear value in it, which explains both the relatively low registration rate and the high activity rate. From a bank's perspective, understanding what makes the channel's value proposition appealing to women and focusing on their onboarding could be a good strategy to maximize client acquisition.

THERE IS BUSINESS IN RURAL AREAS, BUT CLEAR USE CASES ARE NEEDED TO FACILITATE ADOPTION

Given the level of investment required to serve rural areas through traditional delivery channels, rural areas have been out of reach for banks until now. Agency banking finally offers banks the opportunity to reach rural clients within their communities with (more) advanced products and services than those already available from MM providers and/or microfinance institutions and SACCOs (figure XXIII indicates agents' performance in the pilots with the partnering banks, while figure XXIV focuses on rural agents' performance).

Nevertheless, reaching rural areas is still not an easy task for banks, as it takes sustained efforts to create awareness and sometimes to change negative perceptions of banks in rural communities. Based on the early results of the pilots, two successful approaches to ensure quick uptake in rural areas are (1) approaching schools and recruiting agents in their vicinity in order to leverage school fee payments, which represent up to 30 percent of the deposits received by one of the partnering banks; and (2) approaching SACCOs to become agents in order to leverage both their customer base as well as their investment capacity and network for easy rebalancing between outlets.

The trading chain between cities and rural trading centres represents another practical use case for early adoption of the channel. In this case, rural merchants use bank agents to deposit/transfer funds to their wholesalers against the distribution of goods directly to their locations. Most of the time, these transactions take place as third-party deposits (i.e., senders ask the agents to deposit the cash directly in the receivers' accounts). Unlike MM providers, whose income mainly comes from the transfer fees collected from their customers, banks do not have a problem with funds moving from one account to another. Rather, as long as the funds stay on the banks' balance sheets, the funds are available for lending, which is the banks' main revenue source.

Figure XXIII

Agents: registered versus active (90 days) in projects with partnering banks (January 2018–June 2018)

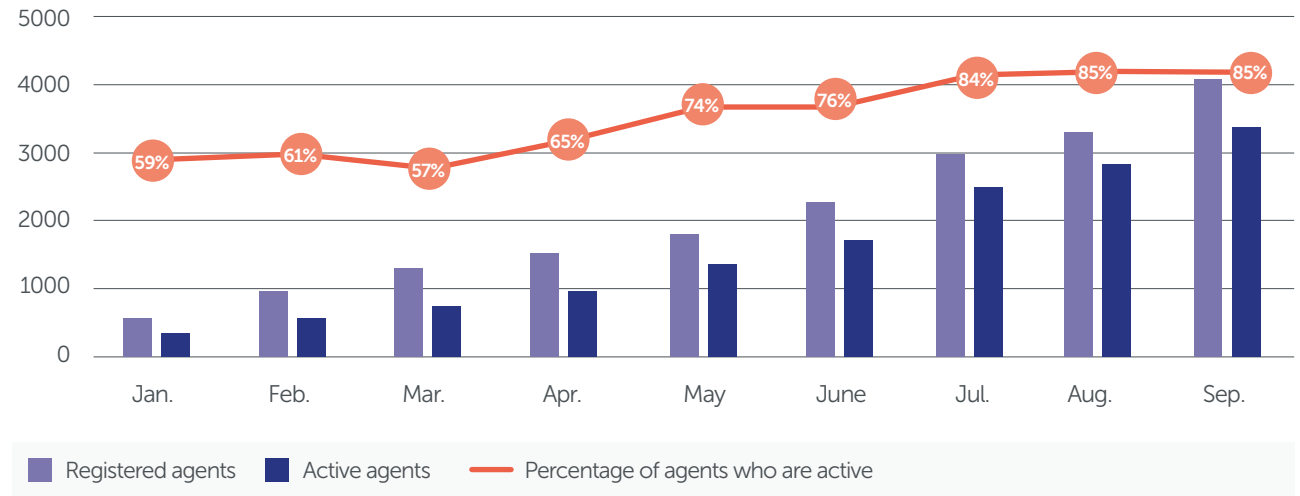
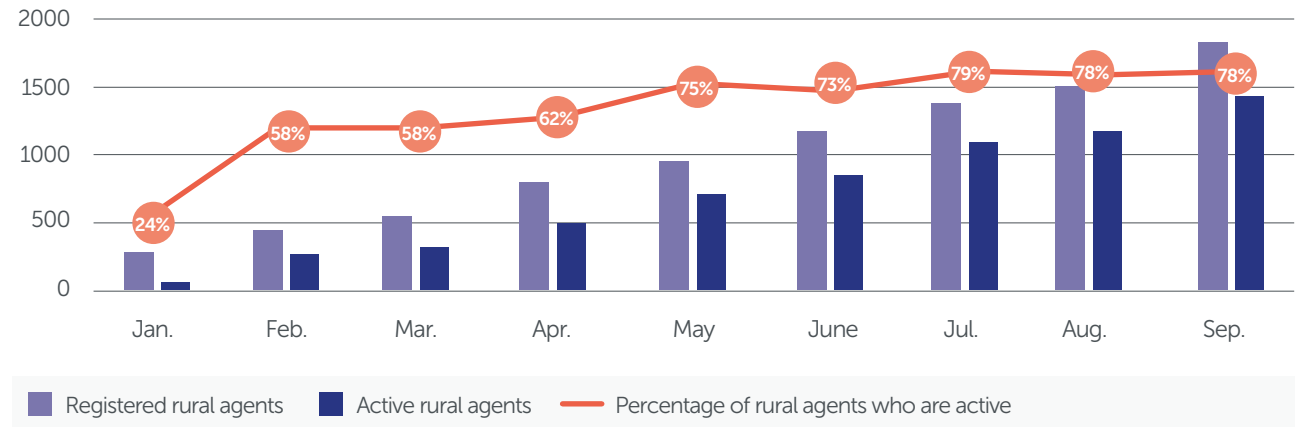


Figure XXIV

Rural agents: registered versus active (90 days) in projects with partnering banks (January 2018–June 2018)



Beyond the basics: The future of agency banking in Uganda





Overall, the partnering banks feel that **the agency banking pilots in Uganda outperformed similar initiatives in other countries at an equivalent stage.**²¹

Members of agency banking teams from neighbouring countries are coming to Uganda to gather insights into what made these deployments successful and which lessons can be applied across the border. Alongside internal success factors specific to each bank, a couple of external factors are noteworthy to explain the tremendous start that agency banking has had in Uganda, namely: (1) by applying lessons learned from previous deployments at the beginning of these projects, the banks had a head start and were able to focus on new challenges that arose rather than on those that already have documented mitigation measures; and (2) the status of financial service distribution in the country (i.e., the leading banks cover the territory with around 70 branches) created a need for greater penetration with alternative delivery channels.

That being said, the banks do require further support, beyond that required for the channel itself. The support is mainly related to the following: (1) increasing customer awareness as well as providing financial education to customers on the banks' role within the ecosystem and the benefits of using formal financial products and services, and (2) developing innovative products and services that support deeper penetration of Ugandans' transactions by focusing on formalizing and digitizing the current quotidian cash economy (e.g., petty cash payments for groceries or moto-taxi rides) for the benefit of financial inclusion.

Coming from the basic deposit and withdrawal transactions available with agents at the beginning of the pilots, the partnering banks are now actively **expanding the relevance of agency banking by adding new services**, through integration with **utility companies** such as water, electricity and communications for service payments and/or with government agencies for revenue collections.

Some banks developed solutions to **digitize the operations of SACCOs**. The digital solutions, together with the opportunities afforded by becoming bank agents, represent an attractive value proposition for SACCOs to join the formal(ized) financial sector and bring countless people closer to banks. In addition, some banks developed instant credit scoring capabilities and now offer micro-loans based on client transaction history.

The agency banking channel also gave the banks the chance to efficiently and sustainably address some critically **underserved client segments**, such as the refugee population and the predominantly rural agricultural sector. UNCDF supported the partnering banks that were interested in serving these segments by introducing them to development partners that are active in these communities (i.e., DanChurchAid, World Food Programme and agri-processors in the tea and dairy value chains). Although achieving uptake by these challenging population segments will undoubtedly take time, the enthusiasm driving the banks' efforts is certainly inspiring.

At the same time, there are important potential synergies between the MM services offered by telcos and the agency banking channels offered by banks, mainly in terms of interoperability among themselves (i.e., bank to bank) and across industries (i.e., bank to/from MNO). In the medium to long term, these channels are expected to be in 'co-petition' in some aspects, rather than total competition. Examples of such synergies include the following:

Exchange of liquidity within the digital ecosystem, between MM and bank agents. This exchange is already happening to a certain extent, when bank agents rebalance through MM agents when branches are far away and inversely when MM agents rebalance through bank agents when there is better cost and greater convenience in terms of time.

Use of MM services (push/pull) by banks as an additional channel to reach clients, where it is impractical for them to do so through their own agents (e.g., to cover remote areas with limited transactional potential). Competition is detrimental to the ecosystem, as none of the players is able to reach sufficient scale to break even; therefore, relying on each other makes sense.

Interoperability between MM and bank systems to leverage a shared infrastructure. Such collaboration could have cascading benefits, such as these: (1) it would reduce the investment required by agents (i.e., operating from the same float for all service providers) and consequently increase the alternative delivery channels' availability; and (2) it would capture a higher volume of transactions and improve outreach to previously sceptical customers.

²¹ This statement is based on opinions shared by the partnering banks that are part of regional groups (i.e., Equity Bank and KCB Bank) that deployed similar channels in other countries (e.g., Kenya, Rwanda and United Republic of Tanzania).

A 'co-petitive' approach among service providers is considered the best way to increase financial inclusion in Uganda. As an example, the Uganda Bankers' Association and several of its members, through the 'Agent Banking Company' (a special purpose vehicle company), developed a shared agency banking platform. The aim is to host a unique, interoperable agent network for partnering banks, through which their clients will be able to perform transactions on their accounts with any agent within the network. While the main banks are attached to the idea of owning (or at least developing in parallel) their own proprietary agent network, the progress made with this initiative reveals a clear understanding of the limited stake that competing at the channel level (versus at the product level) would have.

The next crucial challenge for the banks will be to deliver a sustainable way—most likely digital—to capture small payments made on a regular basis by clients (i.e., transportation, groceries and market purchases). By combining the strengths of their digital channels, with agency banking acting as a convenient entry/exit point for funds and mobile banking enabling affordable and convenient account-to-account transactions, the banks are likely to significantly increase their client bases and transactional volumes with no or limited need for extra investment.

Agency banking is off to a great start in Uganda, as the early results of the pilots conducted by the banks that partnered with UNCDF show. At the same time, it is just the beginning of a long and complex journey for the channel to achieve complete success in tangibly impacting financial inclusion.

Within this context, the most valuable asset for the banks will be their deep understanding of their client segments—their respective needs, habits, interests and preferences. Exploring new products and services, with their clients at the centre of their design, and identifying practical use cases that reinforce regular and affordable transactions, will be the next frontier in the quest to transition from cash to DFS: agency banking will be an enabler/catalyst to take this next step.

Annex: Regulated banks and microfinance deposit-taking institutions by category

	Category	Institution	Market focus		
			High end	Mid	Low end
1	Bank-Tier 1	Stanbic Bank	x	x	
2	Bank-Tier 1	Standard Chartered Bank	x		
3	Bank-Tier 1	Centenary Bank	x	x	x
4	Bank-Tier 1	dfcu Bank	x	x	
5	Bank-Tier 1	Barclays Bank	x	x	
6	Bank-Tier 1	Bank of Baroda	x	x	
7	Bank-Tier 1	Citibank Uganda	x		
8	Bank-Tier 1	Diamond Trust Bank	x	x	
9	Bank-Tier 1	Housing Finance Bank	x	x	
10	Bank-Tier 1	KCB Bank	x	x	
11	Bank-Tier 1	Equity Bank	x	x	x
12	Bank-Tier 1	Tropical Bank	x	x	
13	Bank-Tier 1	Finance Trust Bank		x	x
14	Bank-Tier 1	Bank of Africa	x	x	
15	Bank-Tier 1	NC Bank	x	x	
16	Bank-Tier 1	ABC Capital Bank	x	x	
17	Bank-Tier 1	Bank of India	x	x	
18	Bank-Tier 1	Guaranty Trust Bank	x	x	
19	Bank-Tier 1	Exim Bank	x	x	
20	Bank-Tier 1	Cairo International Bank	x	x	
21	Bank-Tier 1	United Bank for Africa	x	x	
22	Bank-Tier 1	Commercial Bank of Africa	x	x	
23	Bank-Tier 1	Ecobank	x	x	
24	Bank-Tier 1	Orient Bank	x	x	
25	CI - Tier 2	Top Finance Bank		x	
26	CI - Tier 2	Post Bank Uganda		x	x
27	CI - Tier 2	Mercantile Credit Bank	x	x	
28	CI - Tier 2	Opportunity Bank		x	x
29	MDI - Tier 3	Pride Microfinance		x	x
30	MDI - Tier 3	FINCA Uganda		x	x
31	MDI - Tier 3	UGAFODE MDI		x	x
32	MDI - Tier 3	Yako Microfinance		x	x
33	MDI - Tier 3	EFC Uganda		x	x

AGENT CODE

1 0 4 0 0 0 1

Agent Services Available

- | | |
|---|---|
| <input checked="" type="checkbox"/> Cash Withdrawal | <input type="checkbox"/> Mini Statement Print |
| <input checked="" type="checkbox"/> Account Opening Origination | <input type="checkbox"/> Domestic Money Transfers |
| <input checked="" type="checkbox"/> Cash Deposit | <input checked="" type="checkbox"/> Facilitating Loan repayments |
| <input checked="" type="checkbox"/> Bill Payments | <input checked="" type="checkbox"/> Payment of Retirement and Social Benefits |
| <input checked="" type="checkbox"/> Balance Enquiry | |
| <input checked="" type="checkbox"/> Airtime Purchase | |

Agency Banking Customer Tariff Guide

Transaction Amount	Cash In Charge	Cash Out Charge
5,000 - 10,000	0	600
10,001 - 60,000	0	900
60,001 - 150,000	0	1,400
150,001 - 300,000	0	2,000
300,001 - 600,000	0	3,200
600,001 - 1,000,000	0	4,000
1,000,001 - 2,500,000	0	5,500
2,500,001 - 4,000,000	0	10,000
Account Opening Deposit		0
Account Minimum Balance		0
Monthly Charges		0

Polite Notice

- Services shall be provided subject to availability of funds
- When making a transaction, your National ID is required for identification
- In the event that the Equity Bank systems are down, no transactions can be conducted
- Never disclose your PIN to anyone. **Your PIN is your secret**

* ALL CHARGES ARE SUBJECT TO GOVERNMENT TAX
Terms And Conditions Apply.

Days of Operation

MON - SAT

Hours of Operation

8:30AM - 7:00PM

For more information, call our Contact Centre on 0800200144, 0312327000, 0772290000
In case of queries concerning the services offered in this outlet, kindly contact us.

Parent Branch Name

NEW TAX PARK

Branch Telephone Number

0703210479

Branch Physical Location

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