



# Agent Banking: Becoming a strong source of deposit for banks in Bangladesh

Dissemination of DBBL Agent Banking Roll Out Experience Facilitated by BFP-B



Feisal Hussain, Team Leader, Business Finance for the Poor in Bangladesh (BFP-B); Moderator of the session

Business Finance for the Poor in Bangladesh is a £25m facility to create economic opportunities for small businesses by changing the behaviour of market actors in the financial sector. We are improving the policy and regulatory environment for financial institutions, inducing private sector investment in expanding the frontiers of finance, and enhancing the credit worthiness of small businesses.

BFP-B is supporting the Government's ambition for private sector contribution to the country's development. We are doing this partly by deploying our Challenge Fund platform to induce the private sector to increase investment in innovation, technology and new business models and to leverage these to unlock finance for unserved and under-served businesses and people. For example, investment of 1 taka from BFP-B in the agent banking model, is generating approximately 5.72 taka investment from the private sector. Additionally, the co-investment is triggering almost 6 taka of savings in the formal financial sector and unlocking approximately 12 taka of finance for small business at reasonable rates.

The architects of BFP-B have to be commended for getting ahead of the curve in thinking about how the private sector investment can be realized. This includes the Financial Institutions Division of Ministry of Finance as the Executing Agency of BFP-B, and Bangladesh Bank and Microcredit Regulatory Authority as the implementing partners of the funder DFID, and Nathan Associates London as the implementing agent.

Today's programme focuses on sharing DBBL's pioneering agent banking experience among cross section of providers from the financial sector.

A key focus of BFP-B is to co-invest with the private sector to test new innovations in three major areas: first area is investment readiness, which deals with third party B2B solutions that address the problem of readiness of small businesses and the confidence of Financial Institutions to finance them. The second area is last mile distribution, which deals with direct B2B solutions that make established distribution channel become more customer centric and efficient. And the third area is alternative financial platforms and instruments which deal with B2B solutions that enable businesses to share or transfer risks through, for example, access to equity and insurance to finance and protect their businesses. Our theory of change depends on ultimately proving a business case, without which a lot of our business models will not take off.

We are hoping that every single co-investment we have made, including the first with DBBL, will offer much greater visibility and will de-risk investment of other providers so that board members, as well as management, are able to more confidently invest in a new model that could improve financial inclusion as well as offer medium to long term profitability in a rapidly changing market.

**Md Firoz Kabir, Head of Agent Banking Department, Dutch-Bangla Bank Limited**

The banking sector now has 57 banks with about 10,000 branches in total. But the number of villages in Bangladesh is 86,000. We have been able to reach only 10,000 villages out of these 86,000 villages. When it comes to agent banking, 16 banks with approved licenses have provided 4,905 agent outlets in the past three years. We have been able to cater to about 14,500 villages. Still we have a long way to go in order to reach all the villages in Bangladesh.

DBBL started its agent banking services only three and a half years ago. Currently, it has the highest number (60 percent) of agent banking customers. We have 1,562 agent outlets all over the country. We have covered all the 64 districts including 480 upazilas. 81% (Eighty-one percent) of our agent banking occurs in rural areas while 19 percent takes place in urban regions. Presently, we have 954,000 agent banking customers.

According to the Field survey data of Bangladesh Institute of Bank Management (BIBM), there are two existing models for agent banking. Most follow the traditional approach: Bank-Branch-Agent/Partner-Teller-Customer. DBBL has a different take on this. We have introduced the distribution model for Agent Banking operation. We have partnered with master agents who work as our distributor. These master agents help to source agent banking outlets in popular bazar areas in align with Bank own field force monitoring. This distribution model has helped us establish agent outlets all

over Bangladesh in a much easier way. We have outlets even in the remote areas such as Monpura, Swandip and Hatia. We have given great importance to ensure availability of banking services in rural areas. The agent banking outlets are open later than the usual closing time in order to be accessible to our customers.

We encourage women to take up entrepreneurship as an occupation. We have a woman entrepreneur who currently owns two agent banking outlets associated with DBBL. We started 'Uthan Boithok,' encourage rural customers to save money in accounts instead of spending all their earnings. Bangladesh Bank has a guideline which states that if one bank is established in the urban area, three must be set up in rural areas. DBBL maintains a 7:1 policy, thereby establishing seven branches in rural areas for every branch made in Urban area.

Our agent banking services include deposits, withdrawals, fund transfers, DPS, FDR, disbursements, bill payment, merchant payment, foreign remittance, loan disbursement to name a few. We have 450 master agents who are in charge of all the outlets. Customers can use person-to-person (P2P), person-to-business (P2B), Person 2 government (P2G) or even government-to-person (G2P) services at our agent banking locations. 50 percent of our Agent Banking customers are first time users of banking services. We have also introduced four loan products through agent banking channel: 'Jokhon Tokhon,' Term Loan, SME and Home Loan named 'Thikana.'

30% (Thirty) of total deposits in agent banking in Bangladesh are covered by DBBL. We are also the highest in remittance earnings through agent banking. We provide one percent additional bonus for inward remittance through agent banking. Thus, a person receiving BDT 1 lakh from a foreign country will receive BDT 1,01,000 without going through the trouble of any additional charges.

Currently, DBBL has 7.0 million core Banking customers. These customers can get almost all the banking facilities in our agent outlets. Low-income groups can even open accounts with BDT 10 through agent banking. Accounts are available to both literate and illiterate people, made possible by our fingerprint registration process. Deposit Premium Schemes (DPS) are usually activated with a monthly payment of BDT 500, but our agent banking facilities provide them at a rate of just BDT 100 per month.

One of the national benefits which we have noticed after starting this project is the increase in cash flow from rural to urban areas and urban to rural areas. Over-the-counter transactions, 'hundi' system have been minimized to a large extent. Financial literacy and education are two areas we are working on extensively at present time. We also have a road map for G2P (government to person), P2G (person to government), P2B (person to business) and B2P (business to person) transactions as we are trying to bring all such expenditures into the agent banking channel. We are diligently working to create more such accounts.

Initially, when agent banking was being set up, we had to face various challenges. Finding locations was one. Agents often couldn't rent out a place or pay advance. Another barrier we faced was availability of trade licenses and proper documentation. Currently, we have overcome those problems. In Dhaka, we currently have 101 agent banking outlets. These outlets have 77,000 accounts totaling deposits up to BDT 50 crore. We are in a progressive state in comparison to the national benchmark.

A major segment of customers of these outlets are rickshaw-pullers, CNG drivers and garments workers, who are not used to general banking procedures. Agent banking is a much more comfortable option for them.

We try to promote our brand throughout the country. However, reaching the remote chars had been a big challenge. Nonetheless, we have conducted regular awareness-building events in these areas involving local representatives to instill faith in agent banking.

Now, we have about seven such outlets based in remote char areas, where deposits have totaled BDT 8.50 crore. We hope that we can grow with time and reach all the chars and isolated islands in the country.



**Mahbubur Rahman, Deputy Challenge Fund Manager, BFP-B**  
Affordable financial services that meet the requirement of MSEs often do not reach millions of small businesses due to geographical

dispersion, poor infrastructure, and complex institutional processes. When we partnered with DBBL in late 2016, our aim was to test a model to further extend the benefits of agent-banking by deploying active door-to-door services.

To assess the impact of this project, we have done two surveys. A baseline study and an endline study. The baseline was conducted to capture the scenario of the beginning of the project (first quarter of 2016). The sample size of the baseline study was 330. An endline study was completed during July 2018 after completion of the project for which sample size was 449 including customers, agents and bank officials.

The key outcomes of this project were creating agent outlets involving Medium and Small Enterprises (MSEs) and the total number of clients. When this project started, less than 2,000 customers were using DBBL's agent banking services. Currently, that number stands at almost a million. Among these, there are approximately 20,000 MSEs who have updated trade licenses and proper documentation. However, if we include the informal small business (who do not have a valid trade license) the number is more than 200,000. Our study shows that 47 percent of the transactions that are taking place through DBBL are business transactions. The project has seen an increase in the number of account holders who are women. We have also seen that on average each DBBL's agent banking outlets is employing two workers, thus the total number of jobs created so far is about 3,000 (1,562 outlets).

The agent banking channels of DBBL has triggered great deal of savings from its clients. At the baseline survey, the 134 agent outlets that were in operation had a cumulative savings portfolio of BDT 15 crore. Until June 30, 2018, that number has increased to BDT 427 crore.

There are two major reasons as to why customers are increasingly using this channel: lesser costs of transactions and greater convenience. In Bangladesh, there are roughly six bank branches in the rural areas for every 100,000 adults. But the agent banking platforms have facilitated the customers in such a way that they needn't travel too far to benefit from banking services. Before agent banking was introduced on a large-scale, rural customers had to on average, travel seven kilometres to reach banking services. Now, the average has come down to two kilometres.

**Md Abul Kashem Khan, SEVP & Chief Technology Officer, Dutch-Bangla Bank Limited**



Dutch-Bangla Bank has always been a pioneer in the effort of financial inclusion and providing services to the last-mile-people. DBBL agent banking is a part of this endeavor.

In terms of agent banking we found that branch model is not effective for reaching remote areas. Also, it is difficult to provide 24/7 services through branches. That's why we have adopted the distribution model in line with Bangladesh Bank Agent banking Guideline that can overcome both of these limitations.

We started our journey in 2015. Currently, we are at the investment phase. Recently, we have started giving MSE loans and individual loan and Home loans through agent banking. Since, Dutch-Bangla Bank is very popular & well-known bank throughout the country; we don't face any problem of "Trust" to the Bank from the customer. We are running different awareness programme through Uthan Boithok, discussion meeting and electronic media.

In our agent banking system, we provide agents with all the necessary infrastructural support including furniture and two POS machines. The agent is required to have the money to run daily transactions. Agent selection is very important to make this model successful. We choose an agent after thoroughly reviewing his or her financial capability and investment capacity. Many of our agents are still making loss. According to our plan, an agent can make profit within two years.

All our banking services including Core Banking, Rocket and agent banking are interoperable. The agent banking itself is core banking. Customers who have core banking accounts can withdraw and deposit money through the agent banking system

without opening new accounts. Agent Banking customer can also use our 176 Branches, 820 Fast Tracks, 77 Business Development Centres and 24 hour hotline services. In addition the customer can use all the facilities of DBBL APPS "NexusPay" where customer can use the latest technology like QR Code & NFC. Moreover, we have a dedicated cash counter for agent banking services at every branch.

**Md Arafat Hossain, Challenge Fund Manager, BFP-B**



The most important lesson we learnt from the DBBL project is that doing the same thing repeatedly and expecting a different result will not help in improving the financial inclusion scenario in Bangladesh. I would like to congratulate the DBBL team for being bold enough to break out of the traditional model and adopt an adventurous model. It proves that the financial sector needs to come up with an alternative channel for reaching out to the customers. This initiative excites me more as DBBL has been a great example of private sector leading from front. In implementing this project DBBL spent 78% of the total project cost and we have contributed 22%. It is also evident from our end-line impact assessment that with every BDT 1000 investment from BFP-B, 3 small business had access to the formal financial sector.

To drive innovation, we can't follow a linear process where one will only execute pre-set activities. There must be scope for drawing lessons and incorporating them into the design for making the product or services market relevant. DBBL used learning from MFI sector and conducted regular courtyard meetings to educate people about banking services which significantly helped the community to place their trust on DBBL's agent banking.

**Mohammad Jasim Uddin, Assistant Vice President, Bank Asia**



Agent banking has tremendous potential. Bank Asia has been a pioneer in this business. Recently, when the banking sector was going through a tumultuous time we found that although our core banking was affected, agent banking kept growing. There are large unexplored areas in the country where we can expand our agent banking services. This kind of diversification also reduces risks for banks.

**Syed Abdul Momen, Head of SME, BRAC Bank**



BRAC Bank has 450 unit offices through which we operate our lending services. These offices do not have transaction facilities. Our deposit is brought by retail and corporate business. There is a huge opportunity of providing low-cost finance across the country through agent banking. We want to embark on agent banking to provide transaction capacity to all 450 units. In the future we will be able to fund our lending business with our own deposit.

**Md Khirkil Nowaz, EVP & Head of Agent Banking, United Commercial Bank Limited**



We are following the mini-branch model. Our goal is little different than DBBL's at this moment. We want to start small and gradually expand. We would like to ensure an agent can have equivalent of GBP 300,000 in his or her savings portfolio. This will help them to reach breakeven within one year of operation. We have 180 branches all over the country. We will start with agent banking around the branches where the branch manager will be the cluster head of all the outlets in respective territory.



**Madan Mahan Karmoker, Head of Agent Banking, Mutual Trust Bank Limited**  
We started our agent banking service in 2016. We are following the mini-branch model. As of now, we have 59 agent banking outlets. We

have at least ten agents who have deposit of BDT 4 crore and above. More than 30 agents are now making profit from their agent banking business. Our agent banking outlets provide all the facilities of a branch. All of our outlets are supervised from the head office through CCTV.

**Rabeya Yesmin, Manager MF-CIB, Business Finance for the Poor in Bangladesh**



There is a great possibility of partnerships with the development sector regarding this. I have learnt from my experience of working in the development sector that after completion of project, beneficiaries face great challenge with their savings and financing requirements. If partnerships can be made between agent banking providers and NGOs both sides will be benefited. It will ensure sustainability, easier access and informed clients.

**Feisal Hussain**  
I want to highlight some important points from today's discussion.

- **Public money to de-risk private sector investment**  
Even though 16 banks have been given license for agent banking in the past three years, only two were to capture significant market share, both partnered with development organisations to expand the business. Public-private partnership can help de-risking private sector investment to test out alternate innovative solutions.

- **Value Proposition**  
It is evident from DBBL's experience that micro and small enterprises prefer to keep their money in a safe place if it is easily accessible. In a market which is experiencing liquidity shortages this provides an alternative approach to generate significant liquidity and helps to spread risk of the lending portfolio of the balance sheet.

- **Investment decision: market share vs payback period**  
There are two models emerging for agent banking. One is patient capital approach with a longer payback period but deeper reach geographically serving groups who are underserved or unserved. The other has a quicker payback but shorter horizon. There is space for both. However, in any market, the player who has been able to move faster and acquire customers quickly has been to acquire significant market share faster. Hence, it is evident that gaining market share requires a decision to take a patient capital approach.

- **Collaborate where you can, compete where you must**  
We also need to think about what the common infrastructures are where industry players can collaborate so that there is no need for making independent investments and, how they can compete on areas such as brand and services so that the industry grows.

- **Disruption**  
It is very likely that technology will be disruptive and our banking models have to adapt to that. In future one potential disruption the agent banking will have to manage is the advancement of mobile phones for mobile financial services. As customer become more familiar with technology, the value proposition of agent banking has to be very different than the value proposition those are offered through low cost channels such as MFS.

**Afsana Islam, Private Sector Development Advisor, DFID**



There is funding available both for micro-institutions and large corporates but small businesses could neither go to large banks nor MFIs. We want to fill this gap by providing finance to small and medium enterprises which will be affordable for them both in terms of locality and prices. Agent banking is such a model that pushes down prices and reaches their doorstep. This is one of the reasons why we became interested to invest in this agent banking model of both Dutch Bangla Bank Limited and Bank Asia.

I would like to request all the banks that while you design your business plans, please bring in the regulators and provide them with the information and tools they need to understand your business better so that they can support you better.

