

Agent banking, the revolution in financial service sector of Bangladesh

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Abstract: Agent banking is one of the most popular financial services in the world where there are difficulties in accessing geographical locations easily. And that is why agent banking is very successful in Latin America & Africa. Other developed like United Kingdom, Australia etc countries are also gradually deploying agent banking because it reduces the cost of operating of the bank. Most of the services of a bank can be provided through agents, thus people of remotest area of a country can be brought under proper financial structure by the virtue of agent banking. According to the agent banking guideline the software of any individual agent will be connected to the core software of the bank, so transactions that will take place in agent premises will be shown in the banking system real-time and those transactional statements can be used anywhere and everywhere for different purposes of the client. I have done my research on agent banking and its prospect for last one year and finally prepared this paper.

Keywords: Alternative Banking, Internet service provider, Bank, Regulation, vision

I. Introduction of Agent banking in Bangladesh:

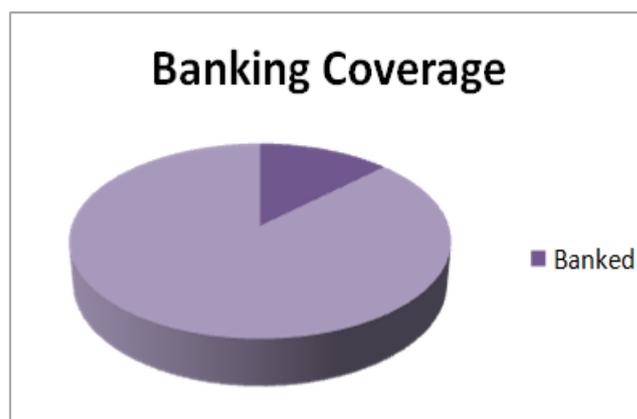
People's Republic of Bangladesh, a delta in South Asia, Bangladesh shares large borders with India and a small southern strip with Myanmar. Bangladesh is home to the Ganges, the Brahmaputra and the Meghna rivers, and networks of smaller rivers and canals. Bangladesh has a land area of 147,570 sq km and it is populated with 155 million. Out of this 155 million 115 million live in rural.

A growing economy with a GNI per capita income of US \$480, Bangladesh's GDP growth rate from 1990 to 2006 was 3.0. Bangladesh has made significant strides forward in recent years and improved its human development indicators in spite of overpopulation, frequent natural disasters and widespread poverty. It is now placed at 140 in the UNDP 2007 Human Development Index. Much of the economy is rural and agricultural based. Major exports include jute, woven garments, knitwear, seafood and leather. A huge amount of foreign remittance, monthly average approximate 1200 million BDT come into Bangladesh every year through both legitimate and illegitimate ways mainly from middle-east and Europe.

About 90% of the Bangladeshi people are engaged in agriculture, which accounts for almost BDT 53 trillion in economic activity annually. This figure represents a significant portion of the provinces' regional gross domestic product. This figure represents a significant portion of the provinces' regional gross domestic product¹. Although rice, jute, maze, vegetables, and fruit constitute the bulk of small farmer crops, about 30 percent of output is in cash crops for export. Of these, the major crops are jute and vegetable.

From last 6-7years a trend has been started, one person from every three families from rural started working in garments factories. They are sending money to their families' end of every month. And the volume of those transactions is huge in amount.

The conventional banking system of Bangladesh grabbed only 15% of the population and open accounts and amongst them only 9% accounts are active. That means almost 91% population is unbanked.



And here comes the opportunity for agent banking. In agent banking the transactions will take place as if it is taking place in the bank branch, so people will feel comfortable and secure about the transaction. As the bulk of the total transaction of Bangladesh is taking place in rural areas, agent banking will add tremendous values the banking system of Bangladesh if the service can be communicated and delivered properly and effectively to the target audience. With the help of agent banking rural people will be able to avail all the banking facilities like loan, credit cards etc.

II. Methodology:

I have chosen to interview few employees of few banks who have applied for agent banking, to have clear insight about the industries positives and negative of the industry. I also did a survey by interviewing few agent banking customers to find out the opportunity and treats of this service. Various statistical and analytical methods were used to process the primary data into presentable and understandable format.

III. Agent banking opportunities in Bangladesh:

- 1.1 With agent banking, banks are optimistic to target the outmost population of the country. The instruction provided by Bangladesh bank is as such banks will only have their agent banking operation in rural areas and pouroshova, Metropolitan cities and City corporation will be excluded from agent banking operation. The ration of agents in rural and pouroshova is 2:1 that means if a bank opens one agent point in pouroshova it needs open two agents in rural places according to the guideline of Bangladesh Bank.

The main target customers will be,

- Rural families having one member working in different cities
- Rural families having one member working in abroad
- Rural families have members studying in the city
- Farmers who buys fertilizers and seeds from distant market
- Farmers who normally do contract farming
- Rural families who receive funds from different national and international NGOs
- Freedom fighters and other group who receives grant from the government
- Workers participating in food for work program of Bangladesh Government

- 3.2 The infrastructure:

The major cities of Bangladesh all have reasonable bank penetration levels, with multiple branches and ATMs available. However, the availability of bank facilities is very limited outside the major population centers.

Bangladesh has good mobile coverage. The major service providers (e.g., Grameen Phone, Robi & Banglalink) all provide services in the almost all parts of the country. One of the basic requirements for agent banking is data connectivity with the participating bank and with the help of these service providers that connectivity is very much possible.

A viable agent banking ecosystem can be developed in Bangladesh by leveraging the incoming foreign remittance & cash transfer of garments workers to their families. With remittance disbursement as the catalyst, agent banking providers — both banks and agents — will invest in agent networks and other agent banking infrastructure and work to develop a broad-based mobile money network. This network will not only serve currently unbanked and under-bank rural population but will also provide a wider platform for financial inclusion in the country.

3.3 Agent can provide the following services:

- Collection of small value cash deposits and cash withdrawals (ceiling should be determined by BB from time to time);
- Inward foreign remittance disbursement;
- Facilitating small value loan disbursement and recovery of loans, installments;
- Facilitating utility bill payment ;
- Cash payment under social safety net program of the Government ;
- Facilitating fund transfer(ceiling should be determined by BB from time to time);
- Balance inquiry; Collection and processing of forms/documents in relation to account opening,
- loan application, credit and debit card application from public,;
- Post sanction monitoring of loans and advances and follow up of loan recovery.

- Receiving of clearing cheque.
- Other functions like collection of insurance premium including micro insurance

3.4 The overall strategy of agent banking in Bangladesh:

The overall strategy for expanding agent banking in Bangladesh is to gain commitments from government, donor, and private-sector stakeholders to use agent banking for a selected set of recurring cash payment streams.

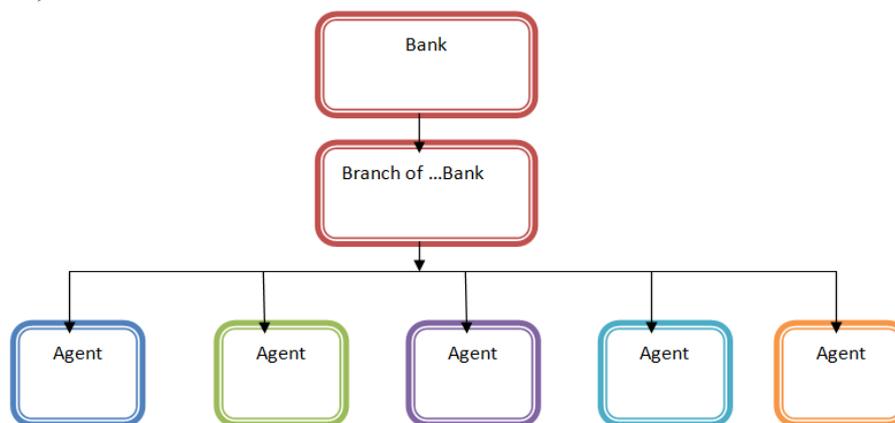
Critical mass can be achieved by concentrating agent banking activities in a specific geography, and the economics for deploying agent networks and recruiting participating merchants becomes more viable. Including additional geographies tied to domestic remittance corridors, will also add scale and support future nationwide expansion. Studies indicate that developing the correct pricing strategy for agent banking products and services is critical to the venture's commercial success and sustainability. A recommended fee structure was developed by using benchmark data from other mobile money markets and discussing pricing strategies with major mobile money providers in Indonesia. This fee structure was incorporated into the financial projections for the business plan.

Another critical element needed to ensure adoption and usage is incentives. As with any new product or service, there will be consumer anxiety and reluctance to try something new. Developing the right incentive packages to encourage and reinforce initial usage is extremely important; this has been essential to mobile money market development in other countries. The most common forms of incentives include:

- Merchant discounts (e.g., free product for using mobile money)
- Air time bonuses
- Payment discounts (e.g., 2 percent discount for paying electric bill with mobile money)
- Matching funds (e.g., linkage to commitment savings programs)

These incentives can be paid for by individual stakeholders or as part of a donor-driven pilot program. The key factor is that the incentives encourage immediate usage and give end users the opportunity to discover additional product benefits and incorporate mobile money into their personal economic frameworks.

3.5 The process flow and the stakeholders involved in agent banking are expressed in the following diagram,



3.6 Agents & agents' selection criteria:

- Non Government Organization-MFI's regulated by Micro credit Regulatory Authority of Bangladesh;
- Other registered Non Government Organizations;
- Cooperative Societies formed and controlled/ supervised under Cooperative Society Act,2001;
- Post Office and its branches;
- Courier and Mailing Service Companies registered under Ministry of Post & Telecommunications
- Companies registered under 'The Companies Act, 1994';
- Agents of Mobile Network Operators;
- Offices of rural and urban local Government institutions;
- Union Information and Service Centre (UISC);
- Educated Individuals capable to handle IT based financial services, agents of insurance companies, owners of pharmacies, chain shops and petrol pumps/ gas station

Bank normally has limited number of branches through the country, using this branch network agents will be created. The branch will select the agents using the guideline and approval provided by the Bank Management. Bangladesh Bank imposed a condition in deployment of agents, and that is for every agent in urban there should be two agents in rural. Keeping this ration in mind the branches have to allocate the agents statically.

3.7 Working procedures of agents:

- Agents will have a device connected with bank's core banking software to do real time transaction;
- Banks will do the branding of agents so that people understand about their services;
- Agents will deposit a certain amount of money get the limit from the bank and up to that approved limit they can do their transactions with customers
- Agents will not be allowed charge any bank customers directly
- An outlet can be agents of four individual banks but they need to have separate premises for each of the banks
- An agent will operate under a designated and nearest branch of a bank.
- Agents will work on fixed commission basis, after a certain interval the commission will be credited to their

IV. Findings

- 4.1 In remotest villages they are arranging a drama or Jari gan shava on the hat day (Usually all the farmers bring their goods for sale on a hat to fixed market place in a fixed day of every week). As there is no scope of amusement those areas they are having a very large audience for their show. In those shows they are communicating the procedure of agent banking, its security and benefits in the form of drama. And this is working like magic, more and more people are becoming keen to make their transactions through proper financial structure.
- 4.2 This service will make the life of the garments owners and many factory owners very serene because they can pay the wages of the workers through agent banking and show proper documentation to foreign buyers which is a mandatory regulatory requirement.
- 4.3 At the same time the government of Bangladesh is emphasizing on the agent banking so that they may able to serve the people in better way than before. Government has to disburse huge amount of fund every year to the rural population of the country for various reasons. And in most of the cases the beneficiary receives a portion of the amount he or she was supposed to receive. The major portions of their earning earnings are going in the pockets of some corrupted intermediaries. Agent banking can eliminate those intermediaries completely by enabling government a scope to disburse the funds to directly to the beneficiary account.

V. Suggestions

- 1.2 Banks should take this service more seriously and should try to spread agents throughout the country as soon as possible
- 1.3 All Non-government organizations should disburse their grants through agent banking channels
- 1.4 The government should some benefits to the banks implementing agent banking
- 1.5 The government should take initiative to make this service popular amongst the rural people using the government departments' operating in those rurals like LGRD, Education office, health office etc.

VI. Conclusion

Agent banking has a huge possibility in Bangladesh. Few banks are taking different initiatives to make this service popular in Bangladesh. Banks like Bang Asia, Eastern Bank Limited, ONE Bank Limited, Farmers Bank have already launched agent banking and many more are waiting to get clearance from Bangladesh Bank. This service opens the separate epoch for accessible banks and financial institutions. More and more people will use this service because of the convenience it will provide to them in their daily life. Bangladesh bank has proper guideline and policies for agent banking; now the banks have to be very vigilant employing those policies to make it the biggest triumph story.

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