

## Discussion paper

# Agent banking in Latin America

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## About AFI Discussion Papers

The AFI Discussion Paper series is intended to provide snapshots of financial inclusion policy solutions initiated in developing countries, with the aim to spark discourse among policymakers.

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# 1. Introduction

The agent banking model is one in which banks provide financial services through nonbank agents, such as grocery stores, retail outlets, post offices, pharmacies, or lottery outlets. This model allows banks to expand services into areas where they do not have sufficient incentive or capacity to establish a formal branch, which is particularly true in rural and poor areas where as a result a high percentage of people are unbanked.

Agent banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas.<sup>1</sup> In recent years, agent banking has been adopted and implemented with varying degrees of success by a number of developing countries, particularly in Latin America. Brazil is often recognized as a global pioneer in this area since it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country's municipalities. Other countries in Latin America have followed suit, including Mexico (2009), Peru (2005), Colombia (2006), Ecuador (2008), Venezuela (2009), Argentina (2010), and Bolivia (2006). Other countries around the world have also utilized the agent banking model to expand financial services, including Pakistan, Philippines, Kenya, South Africa, Uganda, and India.

The regulation, design, and implementation of agent banking vary across countries. These differences are evident in the variety of services offered by agents, the types of businesses acting as agents, the types of financial institutions that work through agents and the business structures employed to manage them. These differences ultimately contribute to the disparities in the extent to which agent banking is actually bridging the financial inclusion gap.

The term *financial inclusion* refers to a broad financial system that provides access to financing, mobilization of savings, credit allocation, risk management, as well as payment services. Financial inclusion refers to both the adequate provision of services by the financial institutions as well as the appropriate uptake or use of these services by all segments of the population. Although it is just one aspect of financial inclusion, an integrated payment system is a critical component of financial inclusion.<sup>2</sup>

This study is based on data and information from September 2011 and will compare the experiences of four Latin American countries that have implemented agent banking, with a focus on Mexico as the most recent case. This comparison will provide an overview of the differences in the agent banking model and the possible impact these differences have had on access and usage of financial services. It will also compare Mexico's early experience with agent banking to that of its neighbors and provide insights into possible future directions and impacts. Since September 2011, there have been some advances made in the various countries referred to in this study. The cited institutions should be contacted for the most up-to-date information on regulations and financial inclusion statistics.

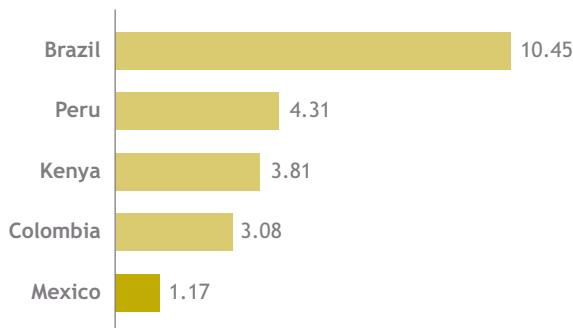
<sup>1</sup> Agent banking is known by different names in different countries. In Mexico, they are called correspondent banks, but in other parts of the world they are known as non-bank correspondents, non-bank agents, bank agents, or correspondents. In this chapter, these terms are used interchangeably.

<sup>2</sup> National Banking and Securities Commission, CNBV, 2011, "Financial Inclusion Business Models 1. Banking agents: the role of independent retailers and product distribution networks."

## 2. Greater access through agent banking

In Mexico in 2010, 12 financial institutions established more than 9,000 banking agents. This is the equivalent of just over one banking agent per every 10,000 adults in the country. Although this placed Mexico well behind its neighbors, Brazil, Colombia, and Peru (as seen in Figure 2.1) at the time of this report, it was anticipated that in 2011 approximately 26,000 additional agents would be established in Mexico, the equivalent of 4.47 agents per every 10,000 adults.

**Figure 2.1 Number of banking agents per 10,000 adults (2010)**



Source: Central Bank of Brazil, MIDAS, SBS, CNBV, 2010

Kenya, another country that implemented agent banking in 2010, already has almost 9,000 bank agents (Table 2.2). With a smaller adult population than Mexico, this amounts to nearly four agents per every 10,000 adults in Kenya.<sup>3</sup>

**Table 2.2 Size of agent network, by year the model was introduced<sup>4</sup>**

| Country               | Year agent banking was launched<br>(Year regulation was introduced) | Number of agents currently functioning |
|-----------------------|---|--|
| Brazil                | 2000 <sup>5</sup> (2000)  | 151,958 <sup>6</sup>                   |
| Mexico projected 2011 | 2010 (2009)   | 35,660 <sup>7</sup>                    |
| Colombia              | 2007 (2006)   | 9,843 <sup>8</sup>                     |
| Mexico                | 2010 (2009)   | 9,303                                  |
| Kenya                 | 2010 (2010)   | 8,809 <sup>9</sup>                     |
| Peru                  | 2008 (2005)   | 6,028 <sup>10</sup>                    |

Source: Central Bank of Brazil, MIDAS, SBS, CNBV, 2010

There is of course a strong positive relationship between the number of years of experience a country has with implementing agent banking and the number of agents in the country (see Figure 2.3). Using only years of experience as a predictive variable among this small sample of five countries (including the anticipated rollout of agents in Mexico in 2011), the linear regression model suggests that, for every additional year of experience, a country will have 0.69 additional agents per 10,000 adults. Although Mexico did not reach the predicted number of agents in its first year (2010), it is anticipated that it will exceed the predicted number of agents in 2011.

<sup>3</sup> Kenya's quick start is largely attributed to the already developed network of agents used in Kenya's highly successful mobile banking model, M-Pesa, which was leveraged in the initial implementation of the agent banking model.

<sup>4</sup> Data last updated March 2011

<sup>5</sup> 2000 is often considered the first year agent banking was implemented in Brazil (and is identified as such in this report) even though the agent banking model existed before this.

<sup>6</sup> Central Bank of Brazil, through June 2010

<sup>7</sup> This is the first principle of G20's nine "Principles for Innovative Financial Inclusion": 1. Leadership: Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.

<sup>8</sup> CNBV, operating in December 2010

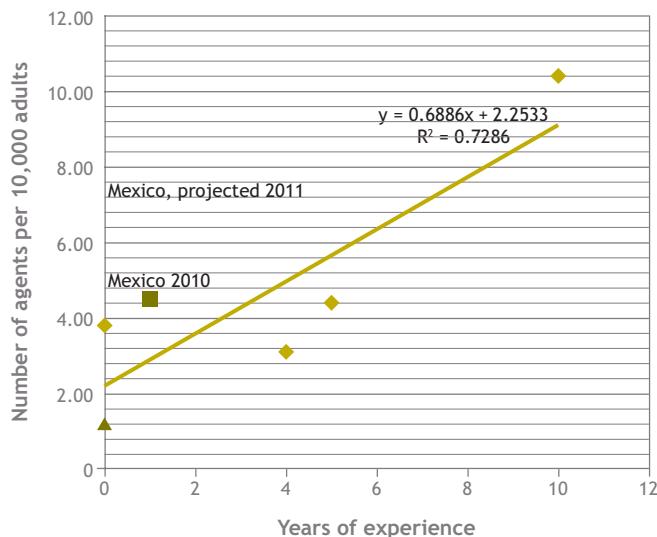
<sup>9</sup> Banca de las Oportunidades, through December 2010

<sup>10</sup> Central Bank of Kenya, December 2010

<sup>10</sup> SBS Peru, data from 2009

**Figure 2.3 Agents per 10,000 adults by years of experience**

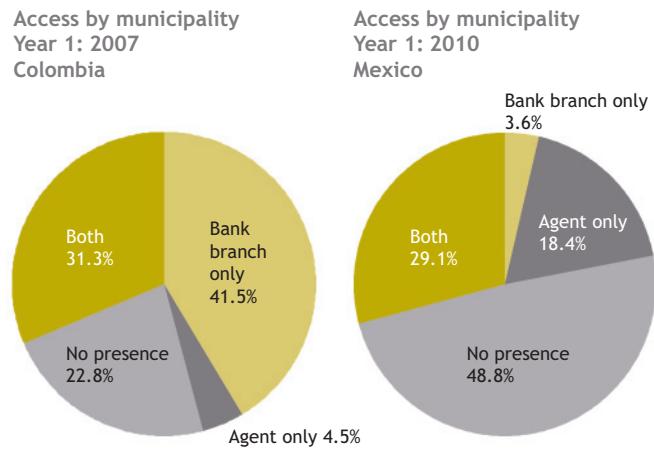
Agents per adult population as a function of years of experience



After only one year of agent banking, just over half the municipalities in Mexico have some type of banking presence.<sup>11</sup> With a complex geography and dispersed population outside its cities, branch coverage in Mexico's rural areas has historically been low. Given this challenge, agent banking is already contributing significantly to financial services coverage in the country, with agent banks being the only formal banking presence in 18% of the country's municipalities.

**Figure 2.4 Banking coverage in the first year of agent banking in Colombia (2007) and in Mexico (2010), by municipality**

Access by municipality  
Year 1: 2007  
Colombia



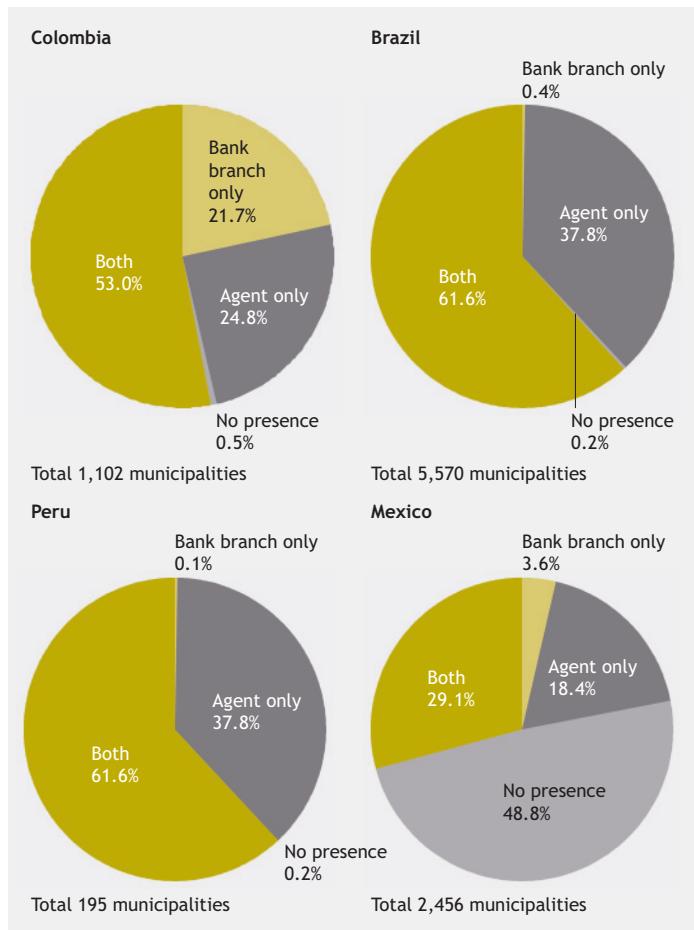
Source: Fajury and Gomez, 2009 and CNBV, 2010

If Colombia in 2007 is compared to Mexico in 2010, it is clear that the two countries had two distinct starting points in terms of banking coverage and, therefore, the rate of expansion of agent banking. As shown in Figure 2.4, in 2007, bank branches were already serving nearly 73% of Colombian municipalities, compared to 33% in Mexico. In the first year of implementation, the percentage of municipalities with neither banks nor agents was therefore higher in Mexico (nearly 49%) compared to Colombia (23%). However, agents filled the coverage gap quickly in Mexico during the first year. In 2010, agents represented the only source of financial services in 18% of municipalities in Mexico, compared to only 4.5% of the municipalities in Colombia in 2007.

<sup>11</sup> In this chapter, the term *banking coverage* is used to refer to bank branches or agents operated by commercial or state-owned financial institutions and MFIs in countries where MFIs are regulated and allowed to operate through agents. It does not take into account the presence of cooperatives or other unregulated financial institutions. It also does not take into account the presence of ATMs and other points of service that generally do not offer the same breadth of services as a branch or agent.

**Figure 2.5 Percentage of municipalities with access points**

**Current**



Source: Central Bank of Brazil, MIDAS, SBS, CNBV, 2010

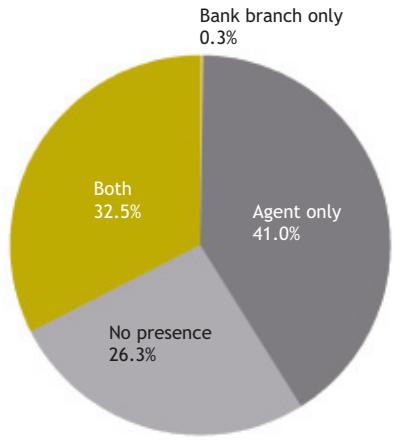
With 11 years and five years of experience respectively, coverage in Brazil and Colombia is extremely high, with nearly 100% of the municipalities in each of these countries having access to financial services. In Colombia, agents are contributing to greater access to financial services, representing the only banking presence in almost 25% of the municipalities. In Brazil, agents are the only banking presence in almost 38% of municipalities (Figure 2.5).

In 2011, during its second year of implementation agents were anticipated expand their coverage in Mexico significantly (Figure 2.5), narrowing the percentage of municipalities with no coverage from 49 percent to only 26 percent. With the projected expansion, agents would be the only banking presence in 41% of the municipalities in Mexico, more than either Brazil or Colombia.

**Projection**

Municipalities in Mexico projected to have banking agent coverage in the second year of implementation

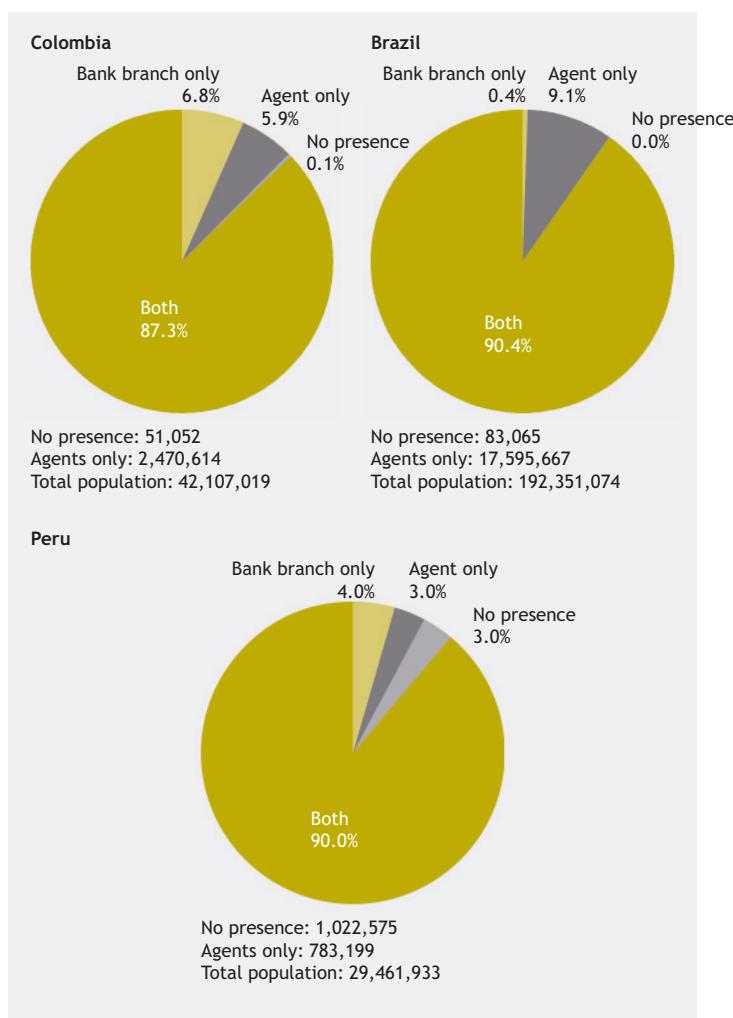
**Mexico (2011)**



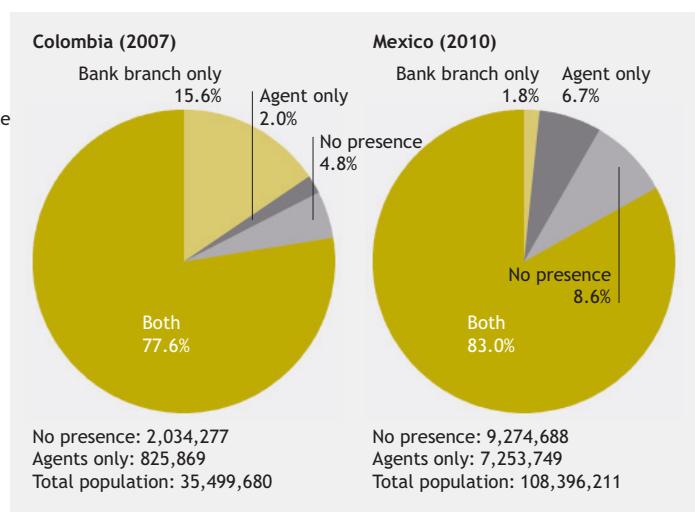
When comparing Colombia in 2007 to present day, bank branch presence has remained relatively steady (72.8% in 2007 and 74.7% in 2010). Agents have expanded into municipalities that did not have any banking presence in 2007, as well as into those that already had branches. This implies that banking agents can serve two important roles for financial institutions: 1) to complement bank branches, easing customer traffic and augmenting coverage in high potential municipalities; and 2) to act as a substitute for bank branches as an outlet for serving the population.

**Figure 2.6 Percentage of population served by banking services, by country**

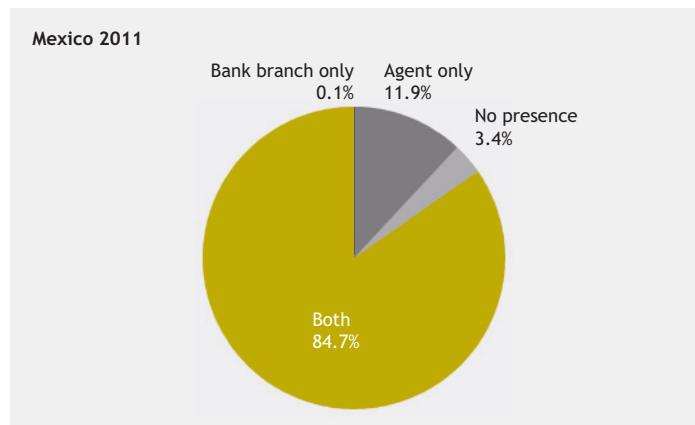
Current bank coverage



Bank coverage in Colombia and Mexico in the first year of implementation



Banking coverage projected in Mexico's second year of banking agent implementation



The proportion of the population with the potential to access agent banking within their municipality is high in Colombia, Mexico, and Brazil. Nearly everyone in Brazil and Colombia lives in a municipality that has at least one bank branch or banking agent (see Figure 2.6). In Mexico, despite the early stage of implementation and less expansive geographical coverage, more than 93% of the country's population live in a municipality that has at least one bank branch or banking agent (see Figure 2.6).

In terms of population with the possibility of access to financial services, Mexico's progress in its first year of implementation is comparable to Colombia's first year of implementation. In 2007, about 95% of the Colombian population lived in a municipality with bank coverage. With the anticipated expansion of Mexico's anticipated banking agent network in 2011, 97% of the country's population should be living in a municipality with banking coverage.

# 3. Usage of agent banking services

In 2010, banking agents in Colombia performed more than 29 million transactions, with a value of approximately US\$ 27 million. In 2009, agents performed 67 million transactions in Peru and 2.6 billion transactions in Brazil. Agent banking is

clearly an important channel through which people can access financial services. However, the contribution of agent banking to financial inclusion also depends on the variety of financial services that customers can access.

## Box 3.1 Financial services offered by banking agents

In Brazil, banking agents are allowed to perform the following transactions:

- receiving and forwarding applications for deposit accounts, term deposit accounts, and savings accounts;
- receipts and payments relative to deposit accounts, term deposit accounts, and savings accounts, as well as contributions and withdrawals in investment funds;
- receipts, payments, and other activities linked to accords for the rendering of services kept by the contractor in the form of the current regulation;
- payments;
- receiving and forwarding loan requests and financing requests;
- credit analysis and registration;
- execution of collection services;
- receiving and forwarding credit card applications;
- other control services, including data processing, from convened operations;
- international money transfers to a limit of US\$ 3,000 per transaction; and
- other activities permitted by the Central Bank of Brazil.

Source: World Bank, Central Bank of Brazil, 2010

In Colombia, agents are allowed to perform the following transactions:

- collection and payment of bills;
- transfers of funds between parties;
- sending and receiving national remittances;
- deposits and withdrawals of cash to and from savings and checking accounts, or deposits to terminals;
- transfers of funds between accounts;
- balance inquiries for savings and checking accounts;
- disbursements and payments for loans;
- collection of documents in relation to opening of accounts and credit appraisals; and
- interviewing clients prior to connecting them to a savings account in the bank branch.

Source: Fajury and Gomez, 2009

In Peru, agents are allowed to perform the following transactions:

- loan payments;
- withdrawals;
- transfers;
- deposits to a customer's or third party's account;
- Opening and closing of simplified bank accounts;
- payments on goods or services; and
- other functions permitted by SBS.

Source: SBS, 2011

In Mexico, agents are allowed to perform the following transactions:

- payment of public services (by cash, card, or check from the operating institution);
- deposits (by cash or check from the operating institution) and withdrawals;
- payment of credit (by cash, card, or check from any institution);
- purchase of pre-paid debit cards;
- check cashing (checks from the operating institution);
- balance inquiries;
- bank statements; and
- transfers of funds between parties.

Source: CNBV, 2011

Although services offered by banking agents differ between financial institutions and from agent to agent, by law, agents in all four countries can offer a variety of banking services, usually quite similar to those performed at a bank branch. These can be categorized into five main types of transactions: payments, deposits, withdrawals, applying for a savings account, and disbursement and/or repayment of loans (see Table 3.2). Colombia and Brazil allow for certain kinds of transactions in all five areas. As of March 2011, Mexico allowed only certain types of payments, deposits, and withdrawals; however, at the time, regulation was in fact being planned to allow the opening of savings accounts.

**Table 3.2 Services permitted to be performed by bank agents in each country**

|   | Colombia | Brazil | Peru | Mexico             |
|---|----------|--------|------|--------------------|
| Payments                                    | ✓        | ✓      | ✓    | ✓                  |
| Deposits                                    | ✓        | ✓      | ✓    | ✓                  |
| Withdrawals                                 | ✓        | ✓      | ✓    | ✓                  |
| Application for/opening of savings accounts | ✓        | ✓      | ✓    | Regulation planned |
| Disbursement/repayment of loans             | ✓        | ✓      | ✓    |                    |

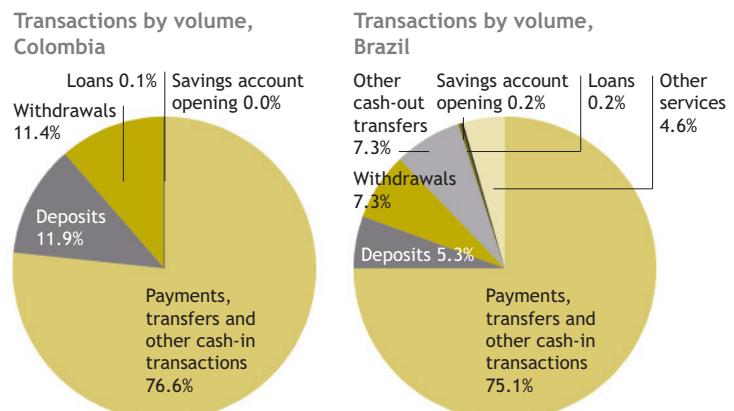
Source: World Bank, Central Bank of Brazil, Fajury and Gomez, SBS, CNBV, 2010

### 3.1 Payments

In both Brazil and Colombia, payments are the most commonly used service. These include payments of utilities, taxes, and other public fees, payments of bills and other fees to the agent's parent financial institution, and transfers between individuals. As shown in Figure 3.3, payments make up more than 75% of the transactions in both these countries.

In a 2006 study of low-income users and non-users of agent banks conducted by the Consultative Group to Assist the Poor (CGAP), 99% of respondents who used agent banking reported using the agents to make payments.<sup>12</sup> This was also the most frequently used service. On average, users made a payment 1.03 times per month.<sup>13</sup> In Brazil, among all the distribution channels of financial services, banking agents process the greatest number of payment transactions (overtaking bank branches in 2007). In 2009 alone, agents performed 1.9 billion payment transactions (75% of all transactions performed by agents).<sup>14</sup>

**Figure 3.3 Types of transactions performed by agent banks in Colombia and Brazil, by number of transactions**



Annual distribution, 2010  
Total transactions in 2010:  
29,065,735

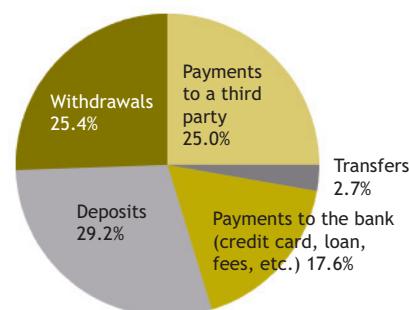
Annual distribution, 2008  
Total transactions in 2010:  
2,589,000,000

Source: Banca de las Oportunidades 2011 and IFMR, 2010

In Colombia, 22.3 million payment transactions were performed by banking agents in 2010, representing 77% of all transactions performed by agents.<sup>15</sup> More than three of every four transactions performed by an agent represent some form of payment service, but payments make up less than half the value of these transactions. In other words, deposit and withdrawal transactions tend to be relatively larger in value than payment services and account for 54% of the value of all transactions (see Figure 3.4).

**Figure 3.4 Types of transactions performed by agent banks in Colombia, by value of transactions**

Transactions by value, Colombia



Annual distribution, 2010  
Total value of transactions: US\$ 27 million

Source: IFMR, 2010

<sup>12</sup> Surveys of 750 users and non-users of agent banks randomly selected from households with average per-capita income equal to or less than half the minimum wage (i.e. less than \$175) in 12 municipalities in the state of Pernambuco (poverty levels similar to northeastern Brazil), with critical numbers of banking agents, in 50% rural and 50% urban locations.

<sup>13</sup> Siedek, 2007a

<sup>14</sup> Central Bank of Brazil, 2010

<sup>15</sup> Payment to a third party, payment to the bank, or a transfer

The high number of payments made through banking agents (and the relatively low average value of these transactions) support the idea that a significant portion of those using agents are still formally unbanked (i.e. do not have an account at a regulated financial institution). In fact, the CGAP survey showed that among a random sample of 750 low-income households, 90% were users of agent banking, and of these, 53% were still unbanked. This is consistent with usage patterns since unbanked users are not able to use deposit services and seem to take advantage of lower value cash-based financial activities, such as making payments toward public utilities, taxes, and other fees.

For policymakers, the current challenge is how to capitalize on agent banking as an effective entry point into the formal financial sector. For example, in Brazil, Caixa Economica has migrated thousands of welfare recipients to simplified bank accounts, which are operated primarily through banking agents.<sup>16</sup> The Central Bank of Brazil believes that as agents and financial institutions better understand the profile of their users, they can begin to offer other, more appropriate financial products.

This dilemma highlights the importance of data, particularly demand-side data, in financial inclusion. Policymakers and financial institutions need more information to develop an effective strategy for offering a full range of financial services through agents, particularly to unbanked populations. More research is needed to fully understand the behavior, needs, and barriers facing those using and not using agents and banks.

### 3.2 Account opening

In 2010, Colombian bank agents facilitated the opening of 9,652 new accounts. Facilitation of account opening is perhaps one of the most meaningful services that a banking agent can offer with respect to financial inclusion. Facilitating account opening is significant because it means creating a new formal bank customer. In some countries regulators have decided that the risks involved with allowing an agent to facilitate the opening of an account, such as those related to anti-money laundering or know-your-client procedures, outweigh the potential benefits. For example, until recently agents in Peru were explicitly prohibited from receiving account or loan applications from customers; however, with a new resolution released in February 2011, agents are now allowed to open and close simplified bank accounts.

In Colombia and Brazil, agents are not permitted to open a bank account for a new client, but they are able to facilitate the process and act as a liaison between the new client and the bank. In Brazil the agent can collect and forward the paperwork for account openings. In Colombia the agent is able to facilitate the application and, since 2009, is even able to conduct the mandatory interview with the potential client on behalf of the bank. Therefore, while the account is not opened in real time, the potential client no longer has to physically visit the bank branch to open an account.<sup>17</sup>

Recognizing the importance of account opening services for financial inclusion, Mexico is planning to pass new regulation that would allow agents to open accounts. Linking this service to a new basic savings account product mitigates the risk involved. The basic savings account will require only legal identification. This new regulation and product offering will serve low-income clients much more effectively and is anticipated to have a significant impact on financial inclusion in Mexico.

<sup>16</sup> CGAP 2010

<sup>17</sup> Alarcon et al, 2010

# 4. Operating models

## 4.1 Financial institutions operating through banking agents

When Brazil's agent banking regulation was passed in 2000, only banks were allowed to operate through banking agents. Later in 2003, the Central Bank of Brazil expanded this to allow all financial institutions and other authorized institutions to provide agent banking services, including investment banks, finance companies and savings and loans associations.

In Colombia, the original agent banking regulation was passed in 2006 and specified that any commercial bank, commercial finance company, or regulated savings and credit cooperative could use the agent banking model. Later that same year, the regulation was extended to include savings and credit cooperatives and other "multiactive" cooperatives with a savings and credit section supervised by the Superintendence of Economía Solidaria.

In Peru, any licensed financial institution is permitted to operate through a banking agent. Under Mexico's current regulation, only commercial and state-owned banks can provide services through agents. In 2011, it was anticipated that one state bank, Bansefi, would begin to use agents. Regulation was also planned for 2011 to allow cooperatives and microfinance institutions to use agents. Table 4.1 provides a summary of the types of financial institutions that are permitted to operate and that are actually operating in Colombia, Peru, and Mexico.

**Table 4.1 Types of banks permitted to operate through banking agents and number of agents in Colombia, Peru and Mexico**

|                               | Colombia                          | Peru                             | Mexico             |
|-------------------------------|-----------------------------------|----------------------------------|--------------------|
| Commercial bank               | ✓ 9 banks<br>9,262 agents         | ✓ 7 banks<br>8,543 agents        | ✓ 12 banks         |
| State-owned development banks | ✓ 1 bank<br>294 agents            |                                  | ✓ 0 banks          |
| Cooperatives                  | ✓ 0 cooperatives                  |                                  | Regulation planned |
| MFI                           |                                   | ✓ 4 MFIs<br>542 agents           | Regulation planned |
| Finance company               | ✓ 1 finance company<br>142 agents | ✓ 1 finance company<br>55 agents |                    |

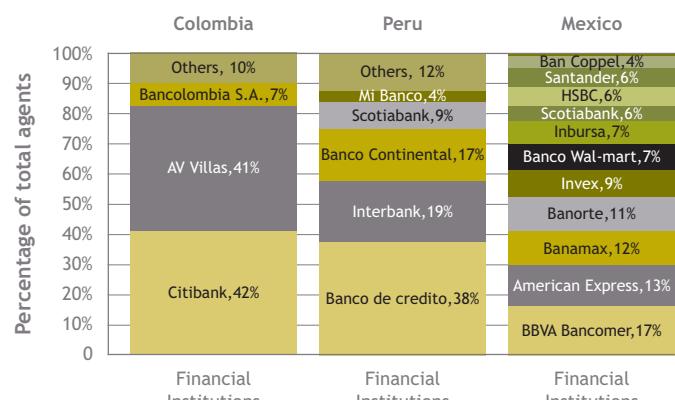
Source: MIDAS, SBS, CNBV, 2010

In Colombia, 11 financial institutions are currently using agent banks to increase their physical presence in the country, including commercial banks, one development bank (Banco Agrario), and one finance company (Sufinanciamiento SA). The use of banking agents is not evenly distributed, with Citibank and AV Villas making up the majority of agent bank coverage. As seen in Figure 4.3, together the top three banks account for 90% of all agents in the country, while the other 8 banks account for the remaining 10 percent. Table 4.2 provides a complete list of financial institutions operating through banking agents in Colombia.

**Table 4.2 Financial institutions in Colombia and the number of agents**

| Financial institution              | Number of agents |
|------------------------------------|------------------|
| Citibank                           | 4,045            |
| AV Villas                          | 3,980            |
| Bancolombia SA                     | 693              |
| Banco Agrario De Colombia SA       | 294              |
| Banco Popular SA                   | 177              |
| BBVA Colombia                      | 171              |
| Compañía de Financiamiento Tuya SA | 142              |
| HSBC Colombia SA                   | 75               |
| Banco de Occidente                 | 51               |
| Banco de Bogotá                    | 38               |
| Banco Caja Social BCSC             | 32               |
| <b>TOTAL</b>                       | <b>9,698</b>     |

**Figure 4.3 Distribution of agents among financial institutions in Colombia, Peru, and Mexico**



Source: MIDAS, SBS, CNBV, 2010

In Brazil there are currently 200 financial institutions using the agent banking model. Of these, 81 have fewer than 10 agents, 64 have 11-100 agents, 33 have 101-1,000 agents, 18 have 1,001-10,000, and the four largest agent networks each have more than 20,000 agents (see Figure 4.4).

**Figure 4.4 Financial institutions and size of agent networks in Brazil**

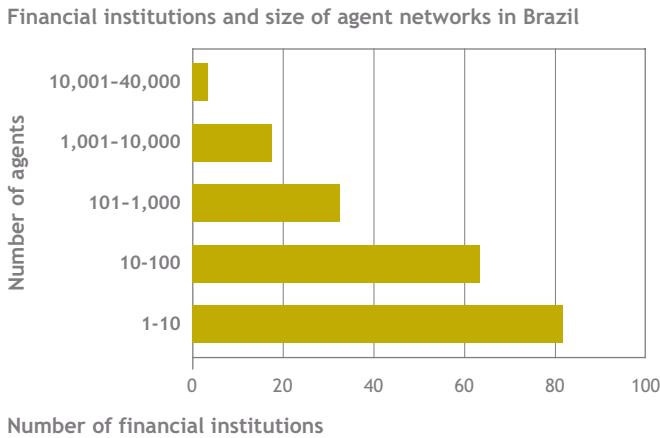


Table 4.5 shows the financial institutions with the top 10 largest agent networks. With the most agents in the country, Caixa Economica is a national development bank that primarily operates agent banks in lottery houses and is responsible for distributing social benefits. Bradesco, with the second largest agent network, is a commercial bank that has won exclusive rights to provide financial services through the national network of post offices. The bank led the first major rollout of agent banks in Brazil, by establishing the first postal bank in 2002.

Banco do Brasil, with the fourth largest network of agents, is state-owned like Caixa Economica and has been promoting basic bank accounts through various types of agents, such as supermarkets, pharmacies, bakeries, and hardware stores.<sup>18</sup>

**Table 4.5 Financial institutions with the 10 largest agent networks in Brazil and number of agents**

| Financial institution                    | Number of agents |
|--|------------------|
| Caixa Economica Federal                  | 32,535           |
| Banco Bradesco S.A.                      | 32,443           |
| Aymore CFI S.A.                          | 24,822           |
| Banco do Brasil S.A.                     | 20,382           |
| HSBC Bank Brasil SA Banco Multiple       | 7,264            |
| Banco Trangulo S.A.                      | 6,475            |
| Banco Bracce S.A.                        | 5,918            |
| Banco Itaucard                           | 5,820            |
| Unibanco-Uniao Bancos Brasil S.A.        | 3,905            |
| Banco Santander (Brasil) S.A.            | 3,629            |
| <b>TOTAL of all 200 agents in Brazil</b> | <b>179,804*</b>  |

\* Agents that operate on behalf of more than one bank were counted once for every bank they represent, resulting in double counting.

Source: Central Bank of Brazil, 2010

In Peru, there are 13 financial institutions using agent banks, including one finance company and four microfinance institutions.

**Table 4.6 Financial institutions in Peru and number of agents**

| Financial institutions   | Number of agents |
|--------------------------|------------------|
| Banco de Credito de Peru | 3,513            |
| Interbank                | 1,764            |
| Scotiabank               | 789              |
| Banco Continental        | 1,598            |
| Mi Banco                 | 406              |
| Allabella                | 256              |
| Ripley                   | 217              |
| Financiera Universal     | 64               |
| Crediscotia Financiera   | 55               |
| CMAC Arequipa            | 232              |
| CMAC Piura               | 109              |
| CMAC Sullana             | 51               |
| CMAC Huancayo            | 150              |
| <b>TOTAL</b>             | <b>9,204</b>     |

Source: SBS, 2010

<sup>18</sup> Kumar et al, 2006

In Mexico, 12 financial institutions are currently using banking agents (see Table 4.7). Unlike in Colombia, the use of agents is relatively evenly distributed. (See Figure 4.3, which compares Mexico to Colombia.)

**Table 4.7 Financial institutions operating in Mexico and number of agents**

| Financial institution | Number of agents |
|-----------------------|------------------|
| BBVA Bancomer         | 4,112            |
| American Express      | 3,268            |
| Banamex               | 2,916            |
| Banorte               | 2,749            |
| Invex                 | 2,253            |
| Banco Walmart         | 1,761            |
| Inbursa               | 1,749            |
| Scotiabank            | 1,588            |
| HSBC                  | 1,582            |
| Santander             | 1,577            |
| BanCoppel             | 866              |
| Compartamos           | 156              |
| <b>TOTAL</b>          | <b>24,577*</b>   |

\* Agents that operate on behalf of more than one bank were counted once for every bank they represent, resulting in double counting.

Source: CNBV, 2010

## 4.2 Agents

The types of businesses acting as agents on behalf of banks vary from country to country. Often an agent can be any type of legal entity or business. Mexico and Peru have the additional condition that an agent cannot be an entity whose primary business is financial services. On the other hand, in Brazil and Colombia, MFIs, Savings and Credit Cooperatives, and other financial entities are acting as agents for larger financial institutions.

In all four countries, banks are held fully liable for the services delivered by their agents. However, there is usually regulation that sets minimum requirements that agents must fulfill, such as number of years in business or a credit record from the agent. The stricter the requirements the lower the risk to the financial system, but strict requirements can also limit the ability of financial institutions to expand into areas where there are fewer qualified businesses to act as agents.

For example, in Mexico, in addition to being a qualifying business, agents must also fulfill the following requirements:

1. Have a permanent address
2. Have the necessary infrastructure to complete banking operations
3. Have staff certified to operate the required equipment
4. Have an acceptable business and credit record
5. Have a clear criminal history (felonies and frauds)

Financial institutions will also likely set their own policies regarding who can be contracted as an agent, according to the institution's corporate image, business strategy, or tolerance for risk. In Brazil, for example, although there is no law prohibiting it, financial institutions in practice do not work with the following businesses as agents because they tend to be more vulnerable to robberies:

- gas stations
- night clubs
- funeral homes
- bars.<sup>19</sup>

<sup>19</sup> Fajury and Gomez, 2009

**Figure 4.8 Types of agents operating on behalf of banks in Brazil, Colombia, and Mexico**

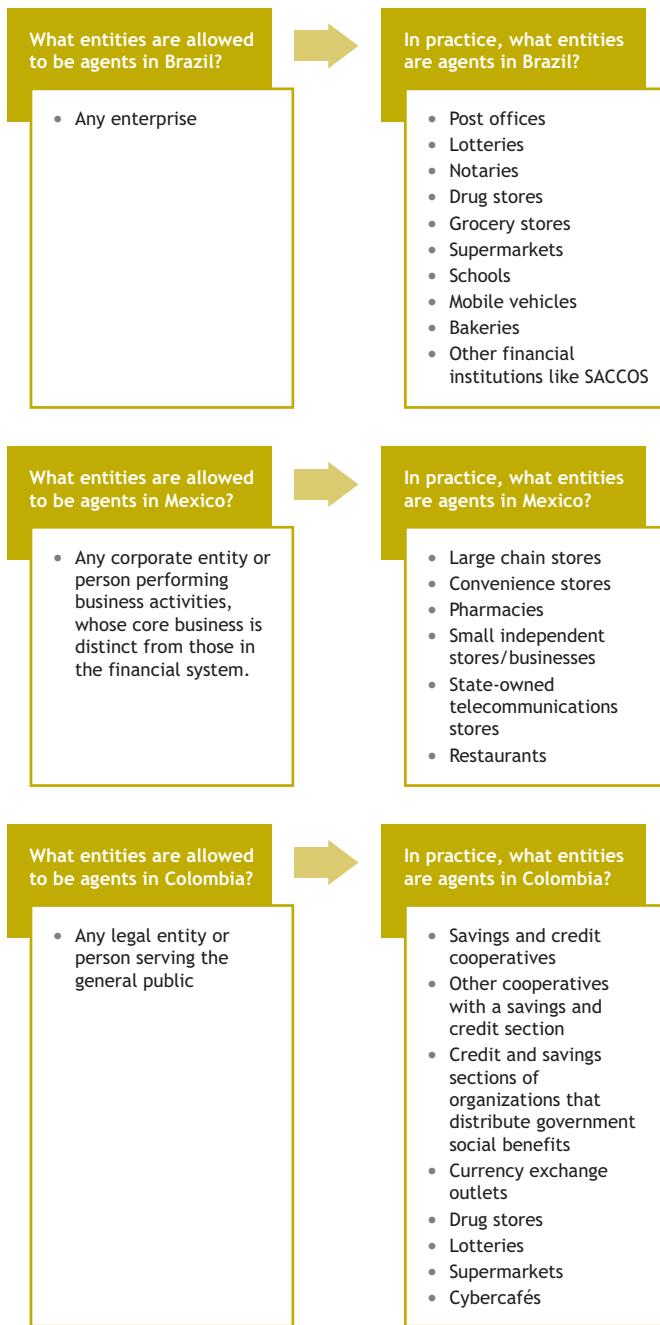


Figure 4.8 summarizes the regulations in Brazil, Colombia, and Mexico that govern the types of entities that are permitted to act as agents, and in practice, what types of entities are currently operating as agents on behalf of financial institutions in each country.

In Colombia, the profile of agents is relatively evenly split among pharmacies, supermarkets, stores, and telecommunications centers. In Mexico, the majority of agents are retail stores, followed by pharmacies and telecommunications centers (see Figure 4.9). However, with the projected addition of 26,000 agents in Mexico, the profile of agents will diversify significantly, adding gas stations and post offices for the first time (see Figure 4.10).

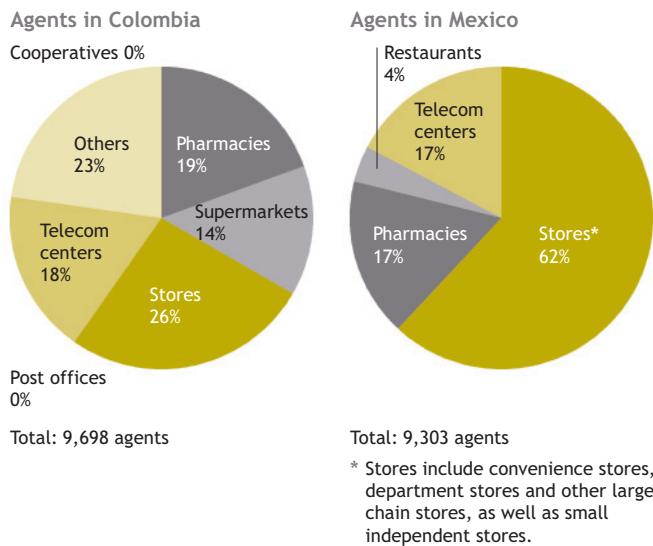
Source: Central Bank of Brazil, MIDAS, CNBV, 2010

## 4.3 Management of banking agent networks: The role of network managers

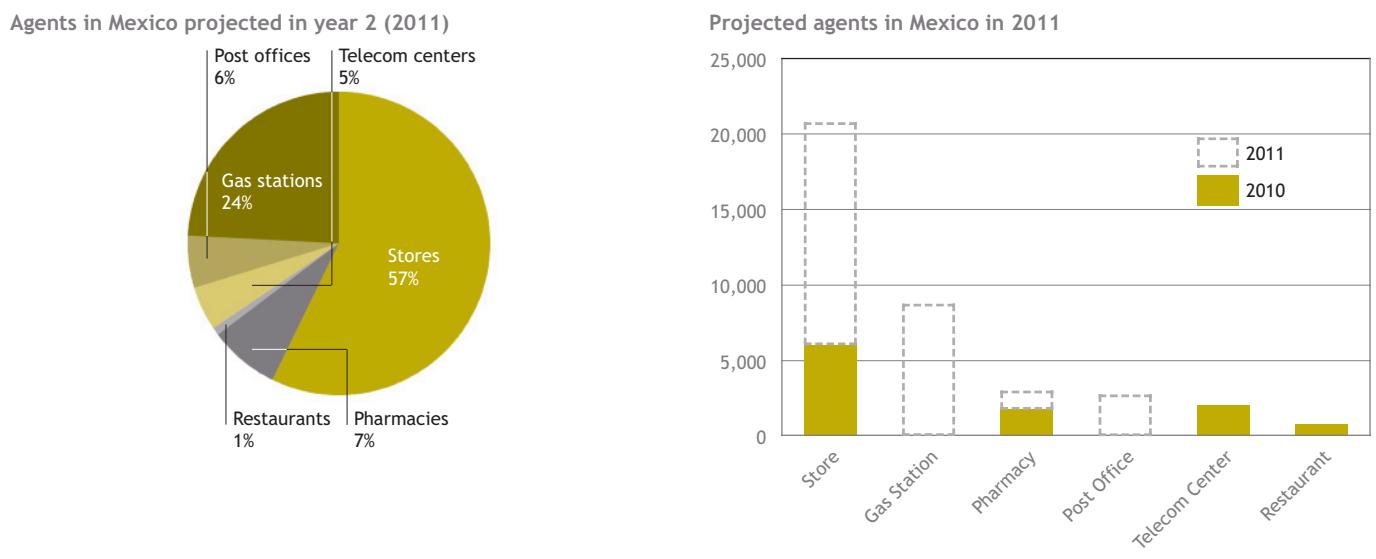
In Mexico, Brazil, and Colombia, financial institutions can work either directly or indirectly with banking agents. A direct relationship with banking agents is one in which a financial institution uses its own staff to identify and evaluate potential agents and then contract and manage them. An indirect relationship involves contracting an

external management company to manage the entire process (see Figure 4.11). There is also a hybrid approach in which a financial institution assumes responsibility for part of the process, for example, selection and contracting, while a management company is contracted to oversee the day-to-day management of the agent networks.<sup>20</sup>

**Figure 4.9 Distribution of entities acting as bank agents in Colombia and Mexico**



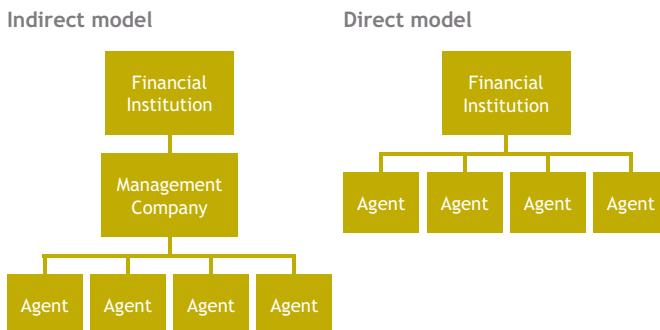
**Figure 4.10 Projected agent distribution in Mexico in 2011**



Source: CNBV, 2010

<sup>20</sup> Fajury and Gomez, 2009

**Figure 4.11 Models used to manage banking agent networks**



A management company's tasks can include:<sup>21</sup>

- seeking new agents;
- hiring and contracting agents;
- installing technical infrastructure needed for agent operations;
- training agent staff that will operate correspondent systems at stores. Includes both technical (system functions) and business training (characteristics of financial products and services);
- operating a help desk and providing remote assistance to agents through PBX, to solve problems related to systems operation;
- providing technical support and on-site repair and replacement of malfunctioning equipment;
- supplying materials (e.g. receipt paper); and
- managing risk related to losses at the agent level (due to fraud, theft, etc.).

Even within the direct model, there are many practical differences between working with large chain stores that have multiple outlets and with micro and small independent businesses. In Mexico, the agent banking model has so far focused mainly on leveraging chain stores as agents, for example, Walmart and OXXO. Not counting the 889 independent businesses contracted by Banamex, there are 16 large entities providing agent banking services in Mexico, amounting to 8,414 separate physical agents. Working with mature chain stores provides some of the benefits of working

### Box 4.12 Advantages and disadvantages of each model

| Model                                     | Advantages   | Disadvantages   |
|---|--|---|
| Direct                                    | <ul style="list-style-type: none"> <li>• Complete control of the design, strategy, and execution of the operation</li> <li>• Complete knowledge of agents</li> <li>• Control of information systems</li> </ul>   | <ul style="list-style-type: none"> <li>• Greater operational responsibilities</li> <li>• Greater personnel and technical support costs</li> <li>• Lack of sufficient capacity to manage agent operations</li> </ul>   |
| Indirect (Third Party Management Company) | <ul style="list-style-type: none"> <li>• Better technical and operational support and maintenance for agents</li> <li>• Rapid response to problems with agents</li> <li>• Reduced operational responsibility for the financial institution</li> <li>• Financial institution and management company can focus on their own comparative advantage</li> <li>• Less time to build up and roll out network</li> <li>• Companies have more experience and existing relationships/infrastructure</li> </ul> | <ul style="list-style-type: none"> <li>• Higher costs</li> <li>• Less internal learning and data capture for institution</li> <li>• Less control of network and operations</li> <li>• Requires ongoing management and auditing of the management company</li> </ul> |

Source: Fajury and Gomez, Siedek, 2007b

through a contracted management company, such as built-in structures and resources for general oversight of the network, training, technical support, and cash flow management. However, these large chains generally do not reach into the very rural and remote areas where agent banks are needed most.

With a network of 2,916 agents in Mexico, Banamex is currently the only bank using independent stores as agents (889 stores). Banamex has selected, trained, and contracted these individual businesses directly using its own resources.

In Brazil, Banco do Brasil contracts centralized management companies to manage its dispersed agents.<sup>22</sup> Also in Brazil, Lemon Bank purchased a network management company to manage its agents on its behalf.<sup>23</sup>

<sup>21</sup> CGAP, (2010)

<sup>22</sup> Kumar et al, 2006

<sup>23</sup> Siedek, 2007a

## 4.4 Non-exclusivity of agents

To understand how physical coverage translates into improved usage and how particular banking models can impact financial inclusion, it is important to consider the issue of the non-exclusivity of agents. Non-exclusivity improves outreach by allowing agents to represent more than one financial institution, in effect allowing them to serve more customers.

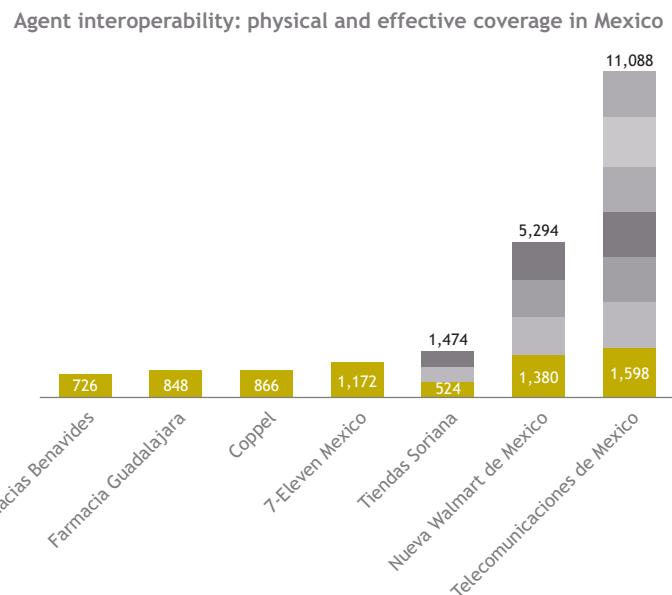
Non-exclusivity of agents is especially important in rural areas where bank branch coverage is minimal and qualified agents are also scarce. In rural areas, an agent will often be the only banking outlet available to the local population. It is critical that these agents are allowed to serve as much of the local population as possible, which would mean representing multiple financial institutions, from mainstream commercial banks to state-run development banks that cater to the needs of low-income populations.

In all four countries, banking agents are permitted to represent more than one financial institution. In Brazil and Mexico, for example, it is quite common for agents to represent more than one financial institution. However, Mexico's agent banking model is still quite new and has spread only to the more urban and easy-to-access regions of the country. As banks reach out into rural areas where agents are costly to equip and train, banks may begin to form exclusive relationships with their agents so as to reap the maximum benefit from their initial investment in the agent. For example, in Colombia, while agents are permitted by law to represent more than one financial institution, in practice most agents represent only one institution at a time due to the competition among banks.

Of the 16 major businesses currently contracted as agents in Mexico, seven are providing financial services on behalf of multiple financial institutions.<sup>24</sup> The non-exclusivity of agents has had a multiplier effect on access to financial services. Technically, there are 9,303 agents operating in Mexico, but because of their non-exclusivity, the total number of new access points for each bank is 24,577, more than twice the number of actual physical agents.

Graph 4.13 illustrates the multiplier effect. The first four agents currently represent one financial institution exclusively. For example, 7-Eleven provides services on behalf of Banorte through 1,172 physical stores. The last three are examples of businesses that are working as agents for multiple financial institutions. For example, there are 1,380 physical Walmart stores providing services on behalf of four different financial institutions: BBVA Bancomer, American Express, Invex, and Banco Walmart. These four financial institutions have each augmented their physical points of sale through their relationship with Walmart stores, creating 5,294 new access points. Telecomm is a banking agent associated with the greatest number of banks: Banamex, Banorte, BBVA Bancomer, HSBC, Inbursa, Santander, and Scotiabank.

**Graph 4.13 The physical and effective coverage of banking agents in Mexico**



Source: CNBV, 2010

<sup>24</sup> In order of most to least agents: Telecomunicaciones de Mexico, Walmart, 7-Eleven, Coppel, Farmacia Guadalajara, Farmacias Benavides, Tiendas Soriana, Operadora VIPS, Tiendas Comerciales Mexicana, Oxxo Express, Sanborns Hermanos, Tiendas Chedraui, Suburbia, Sears Roebuck, Productos de Consumo Z, and Assis Tu Vestir.

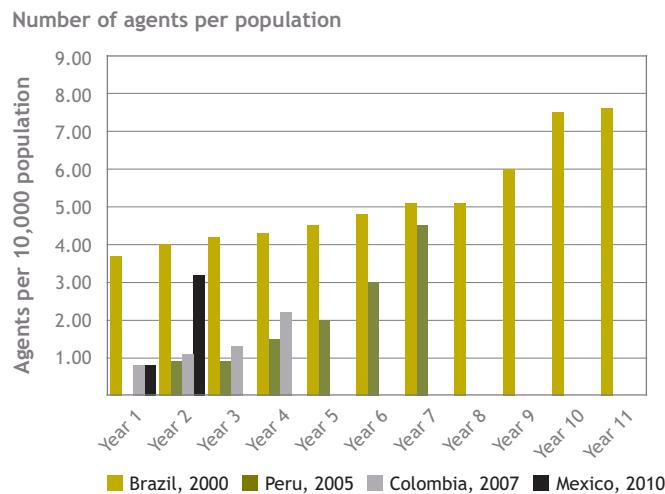
## 5. Historical perspective<sup>25</sup>

In terms of the ratio of agent banks to population, countries varied in their first year of implementation, from 0.04 agents per 10,000 people in Peru to 3.67 in Brazil.<sup>26</sup> After 11 years of implementation, today Brazil has 7.65 agents per 10,000 people. Peru, in its sixth year, has 3.09 agents per 10,000 people and projected 4.48 in 2011, nearly as many as Brazil in its seventh year. Colombia, in its fourth year, has had a similar trajectory to Peru, with just over two agents per 10,000 people. Mexico, with 0.84 agents per 10,000 people, reached the end of its first year in a comparable position to Colombia's first year.

The trend for Brazil, Peru, and Colombia seems to indicate that countries usually roll out agent banking at a slow and steady rate during the first few years and then begin to increase at a more rapid rate after the third or fourth year as shown in Graph 5.1.

However, the anticipated rollout of agents in Mexico over the coming year will likely lead to a sharp increase in banking agents which would place Mexico at approximately the same level Peru was in its sixth year of implementation and beyond where Colombia was in its fourth year.

**Graph 5.1 Changes in the number of agents over time**



Source: Central Bank of Brazil, MIDAS, CNBV, 2010

## 6. Conclusions

When comparing Mexico to its Latin American counterparts, it is clear that Mexico has had a successful first year implementing agent banking. The examples of Brazil, Colombia, and Peru demonstrate that agent banking has significant potential to increase access to financial services throughout even the most remote areas. In Mexico, it is anticipated that agent banking will have a similar, if not greater, impact on financial inclusion given the relatively low level of bank branch coverage in rural areas and the potential to fill this market gap with agent banks.

We can learn from the experiences of other countries that as financial institutions reach into more rural communities, many of the rural users are formally unbanked and primarily use agents for low-value payment services. For agent banking to significantly contribute to financial inclusion, agents must be able to offer a broad range of financial services that are appropriate to the population.

Mexico's planned regulation to allow agents to open simplified savings accounts could have a significant impact on financial inclusion in rural areas, not only because agents will be able to make more transactions but because people will be more willing to make deposits and withdrawals using their accounts.

Additional regulations that allow more types of financial institutions to operate through banking agents could broaden the range and coverage of financial services throughout the country even more. As discussed previously, there are municipalities where the presence of cooperatives and microfinance institutions generate greater trust among the population in the banking system, and allowing other financial institutions to operate through banking agents is an important mechanism for achieving greater financial inclusion.

These new regulations, together with momentum from the rollout of new agents in 2011, will quickly place Mexico among Latin American leaders in agent banking.

<sup>25</sup> Historical data on agent numbers were obtained from different sources. Where possible, data were used from country regulators. For Brazil, 2000-2002 data are from Prieto Ariza; 2003-2007 data from Feltrim; 2008-2009 data were estimated from graphs in the Central Bank of Brazil report; and 2010 data are also from this report. Mexico data and projections for 2011 are from CNBV. For Peru, 2005 data are from Prieto Ariza; 2006 data were estimated by taking the average of 2005 and 2007; 2007 data are from Mas; and data for 2008-2010 and 2011 projections are from Superintendencia de Banca, Seguro y AFP (SBS) Peru. Data for Colombia are from Banca de las Oportunidades.

<sup>26</sup> For a historical perspective we based calculations on agents per population rather than adult population because historical data on adult populations were not available. Historical population data were obtained from <http://www.indexmundi.com>. In cases where 2010 data were not available for 2011 projections, 2009 population data were used instead.

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