Making elephants dance

The pioneering journey of Uganda's shared agent banking network

Achievements, challenges, and lessons learned

Prepared by

MSC (MicroSave Consulting)

March, 2021

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Acknowledgments

We thank the firms and institutions that provided technical input to the study

- Absa Bank Uganda Limited (formerly known as Barclays Bank of Uganda Limited)
- Agent Banking Company (ABC), its agents, and ground staff
- Bank of Uganda (BoU)
- Diamond Trust Bank Uganda Limited
- Eclectics International
- Financial Sector Deepening Uganda (FSD Uganda)
- Postbank Uganda
- Uganda Banker's Association (UBA)
- The Agricultural Business Initiative (aBi)
- The German Corporation for International Cooperation GmbH (GIZ)

Acronyms

ABC – Agent Banking Company

ATM – Automated Teller Machine

BoU – Bank of Uganda

CCTV – Closed-circuit television

CBS – Core Banking Services

CGAP – Consultative Group to Assist the Poor

CICO – Cash-in cash-out

FCDO – Foreign Commonwealth Development Office

FSD Uganda – Financial Sector Deepening Uganda

FMCG – Fast-moving consumer goods

GIZ - Gesellschaft für Internationale Zusammenarbeit

GT Bank – Guaranty Trust Bank

KCB – Kenya Commercial Bank

KYC – Know your customer

MFI – Microfinance Institution

MNO – Mobile Network Operator

MSC – MicroSave Consulting

NGO – Non-governmental organisation

NFIS - National Financial Inclusion Strategy

NIRA – National Identification Registration Authority

NPS – National Payments System

NSSF – National Social Security Fund

PIN – Personal Identity Number

PoS – Point-of-sale

SACCO – Savings and Credit Cooperative

SME – Small and Medium Enterprise

SMS – Short Message Service

UBA – Uganda Bankers' Association

URA – Uganda Revenue Authority

UV lights – Ultraviolet lights

Terminology

- **Agent:** An entity or retail outlet where a mobile money or bank account holder can be facilitated to perform a transaction.
- **Agent banking:** The delivery of services offered by banking institutions through vetted and approved agents.
- **Aggregator:** An entity that consolidates financial transactions for processing, such as providing a single platform to execute payments via multiple financial service providers.
- **Acquirer:** An acquiring bank (or acquirer) is a bank or financial institution that processes credit or debit cards issued by another financial institution.
- **Bill payment:** A payment made by a person from either a wallet/account or over the counter to an organisation in exchange for services provided.
- **Float:** The balance of e-money, or physical cash, or money in a bank account that an agent can immediately access to meet customer demands to deposit (cash in) or withdraw (cash out) electronic money.
- **Formal financial services:** Financial services offered by regulated institutions as opposed to informal financial services, which are unregulated. Banks, remittance service providers, microfinance institutions, and MNOs can be licensed to offer certain financial services.
- **Informal financial services:** Financial services offered by unregulated entities. Examples include loan-shark lending, savings groups, etc.
- **Interconnectivity:** The ability to enable a technical connection between two or more schemes or business models, such as a bank or payment services provider to an international or regional payment network.
- **Interoperability:** Payment instruments belonging to a particular scheme or business model that are used in other systems and installed by other schemes. Interoperability requires technical compatibility between systems but can only take effect when commercial interconnectivity agreements have been concluded.
- **Issuer:** An issuing bank (or issuer) is a bank or financial institution that offers card association branded payment cards directly to consumers.
- **Mobile money:** A service in which the mobile phone is used to access financial services.

- **Mobile money account / mobile wallet:** An e-money account that is primarily accessed using a mobile phone that is held with the e-money issuer. In some jurisdictions, e-money accounts may resemble conventional bank accounts, but are treated differently under the regulatory framework because they are used for different purposes (for example, as a surrogate for cash or a stored value that is used to facilitate transactional services).

- **Mobile money operator:** A company that has a government-issued license to provide financial services through mobile devices.

- **Payment switch:** In-house or third-party service providers who provide routing services between multiple financial service providers.

- **Point-of-sale (PoS):** A retail location where payments are made for goods or services.

- **PoS Machine:** Point-of-sale Machine - A retail point-of-sale system typically includes a cash register (which in recent times may only comprise customer display and receipt printer). The majority of retail PoS systems also include a debit/credit card reader.

- **Real-time gross settlement systems (RTGS)**: A specialist funds transfer system where the transfer of money or securities takes place from one bank to another on a real-time and gross basis.

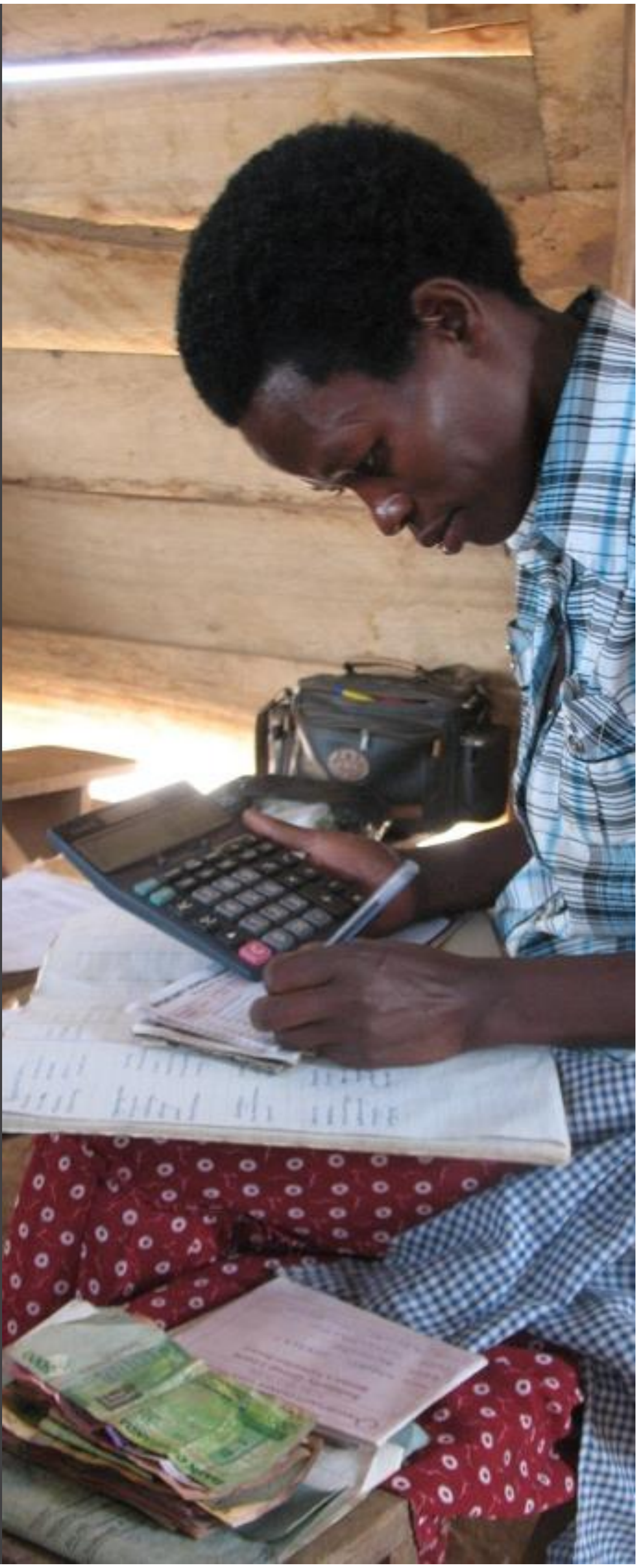
- **Service Level Agreement (SLA)**: Commitment between a service provider and a client where particular aspects of the service – quality, availability, responsibilities – are agreed between the service provider and the service user/partner.

- **Shared agent banking network:** The shared technical platform and technology service provider, and the network of participating financial service providers and their agents.

- **Shared agent banking platform:** The technical (software and hardware) platform and physical tools used to deliver agent banking services.

About the consultants

MSC (MicroSave Consulting) is a global financial inclusion consulting firm that aims to enable social, financial, and economic inclusion for everyone. We have been at the centre of the digital finance revolution since its early days. We work with governments, banks, telecommunication companies, and third-party service providers across Africa and Asia. We offer strategic and operational advice and help implement programs based on insights from meticulous field-based research that is rooted in a deep understanding of clients, their needs, perception, aspirations, and behaviour. We facilitate transformations, support strategy formulation and implementation, uncover insights, and create efficiency and lasting impact. Our advisory services help our clients to achieve sustainable performance improvements and unlock enduring value.



Foreword

The 2016 amendment of Uganda's Financial Institutions Act (FIA) has been one of the most significant milestones in the country's journey towards financial inclusion and financial sector reform, and one which FSD Uganda is proud to have supported. Several provisions made in the revised law have been foundational drivers for the successes realised under the National Financial Inclusion Strategy (NFIS) 2017-2022. Key among them was the provision of agency banking. Under the FIA amendment, banks were allowed to offer cash-deposit and cash-withdrawal services to clients beyond bank branches via agents, increasing the cash-in, cash-out density and enabling easier access to formal financial services in the country - a critical success metric under NFIS.

At the time of this change, Uganda had already reaped rewards from mobile money growth, and the density of mobile money agents outnumbered bank branch and Automated Teller Machine (ATM) access points by nearly 100 times. Cognisant of this market environment, the banking sector took an unconventional and innovative approach. They decided to build a shared agent network - investing in the shared set up and infrastructural rails upon which each of the participating banks would compete on product, price, and customer satisfaction. This led to the establishment of a new legal entity, the Agent Banking Company (ABC) of Uganda, a joint venture between the Uganda Bankers' Association (UBA) and Eclectics International, a technology company.

Operationalising Africa's first interoperable shared agent banking platform was never going to be easy. When UBA approached FSD Uganda to bring the idea to fruition, we recognised the potential of this industry driven initiative - the impact it would have on formal financial inclusion, customer choice and market competition. Along with Consultative Group to Assist the Poor (CGAP), a think tank within the World Bank, we worked with the industry to create a robust governance and participation framework, technical standards, and business model for the shared agent banking platform. Apart from technical assistance, FSD Uganda also supported the initial set-up personnel required to establish the Agent Banking Company and the platform.

The Shared Agent Banking System (SABS) was launched by the Agent Banking Company in Uganda on 25th April 2018, with two early adopter banks - Absa Bank (formerly Barclays Bank) and Bank of Africa. The platform has since seen a consistent growth - even during the economic downturn related to the effects of COVID-19 in 2020 - and now has 18 banks and 8,000 agents on the platform providing various services such as cash deposits and withdrawals, inter-bank transfers, utility payments, and statutory payments (National Social Security Fund) among others.

As detailed in the case-study, the platform is still evolving and each day the industry learns from the agents on its platform and the customers it serves. The ambitions of ABC are huge - it still plans to grow its agent network, increase agent activity, and more importantly increase affordable formal financial services to rural customers in the next couple of years.

We are proud of our support to the Bankers' Association and ABC. Our efforts led to the crowding in of several development partners, resulting in the growth of the platform. This case-study provides a snapshot of that journey, the status of shared agent banking in Uganda, challenges, and opportunities.

We thank the Bank of Uganda, Uganda Bankers' Association (UBA), the Agent Banking Company (ABC), the Agricultural Business Initiative (aBi), GIZ Uganda, Absa Bank and Diamond Trust Bank, Eclectics International, as well as the agents who were willing to share their stories and support the successful creation of this case study.

We will continue to work closely with key stakeholders to leverage these learnings to enable the sustainable development of a truly inclusive financial system in Uganda.

Rashmi Pillai

Financial Sector Deepening (FSD) Uganda Executive Director

1.0 Executive summary

Uganda is the first country in Sub-Saharan Africa that successfully rolled out a shared agent banking network. In a shared agent banking network, competing banks ride on a shared technology platform, rather than competing on the reach of their agent networks, these banks compete on price, products, and agent and customer satisfaction. A shared agent network helps banks to reduce proprietary infrastructure costs, increase their reach, broaden customer choice, and shifts market competition from reach to quality of service.

FSD Uganda commissioned MicroSave Consulting (MSC) to conduct a study and document how shared agent banking came into play in Uganda, why it was necessary, what has gone well so far, the challenges encountered, and the lessons learned. As the title of this case study suggests, uniting the vision and direction of at least 19 supervised financial institutions[1] and getting them to collaborate in a typically competitive space is a difficult task, akin to ***Making Elephants Dance***. This case study covers:

[1] The shared agent network initially only allowed commercial banks to participate. Supervised non-bank financial institutions can now participate in the scheme.

- The circumstances that led to the introduction and development of the shared agent banking network;
- The functionalities and implementation of the shared agent banking platform and how these may have contributed to the operational success of the system;
- The key successes, weaknesses, challenges faced, and opportunities for the shared agent banking network in Uganda; and
- Key lessons from the implementation of the shared agent banking network in Uganda and exploring how these may be replicated in other markets that seek to implement a shared agent network.

In January 2016, the Parliament of the Republic of Uganda passed the Financial Institutions (Amendment) Act, 2016 that enabled banks to use agents to deliver their services across the country. Agent banking envisaged enhancing financial inclusion by extending the reach of the financial services to the underserved, underbanked, and unbanked in rural, remote, and frontier markets. Digital infrastructure such as the agent banking platform reduce financial exclusion and address access barriers to financial services. Thus, such platforms deepen and broaden access to a suite of financial services such as savings, credit, and insurance.

The shared agent banking network is a shared agent network management framework and a shared interoperable agent management technology platform.

It harnesses the benefits from collaboration and convergence of formal financial institutions to cost-effectively expand the reach of banking services in Uganda using agent banking as a channel.

With support from FSD Uganda and CGAP[2], Uganda Bankers' Association (UBA) set up the shared agent banking network. UBA launched the shared agent banking network on 25 April 2018 with only two bank participants at the commencement. Nearly three years later, as of the end of 2020, 19 regulated financial institutions and **10,600 agents (62% active**) are part of the shared agent banking network. As at the end of 2020, the platform has cumulatively processed 4.6 million transactions valued at UGX 5.14 trillion (USD 1.4 billion). The total number of unique customers served between January 2020 and December 2020 was 533,532 (this figure only includes customers who have bank accounts). Thus, the shared agent banking network has significantly contributed to deepening access and enhancing the use and uptake of financial services.

FSD Uganda's initial support in capacity building for banks to launch the shared agent network helped crowd-in the support of multiple development partners and secure financial commitments towards providing further technical assistance to the shared agent banking network.

[2] Consultative Group to Assist the Poor- https://www.cgap.org

There were two key premises on which UBA founded this unique initiative:

a. **Enhance financial inclusion by cost-effectively expanding the access points:** 76%[3] of adults in Uganda live in rural areas. As part of Uganda's National Financial Inclusion Strategy (2017-2022), the banking industry committed to deliver low-cost services that increase customer choice. The shared agent banking network initiative aligned with the banking industry's commitment to cost-effectively expanding its reach through agents, especially in rural, remote, and frontier markets.

b. **Enables banks to compete with the telecommunications companies on digital financial services:** Uganda already had a highly mature mobile money market with around 60,000-70,000 unique mobile money agents. There were and still are more mobile wallet customers in Uganda than bank account holders. If all 24 banks (at the time of setting up the shared agent banking network) invested in building their platforms and rolling out their agent banking services, the cost-of-service delivery would not be feasible for a country with only 18 million adults. Most importantly, it would not be a viable competitive offering by one industry - the banking industry - against the telecommunications industry.

The UBA's member-bank CEOs agreed to approach agent banking using a shared agent network management framework and platform to benefit from collaboration. The collaborative approach means that all banking agents may provide agent banking services to customers of all or any of the 26-member banks. The individual member-banks would onboard customers and market their services.

The shared agent banking network project envisaged several benefits for stakeholders:

Benefits to banks:

1. **Increased distribution network:** Banks could expand their reach to customers and potential customers at a reduced and shared cost of expansion. The member banks of UBA were able to avoid duplicating investments in rolling out agent banking.

2. **Optimise scalability:** Through a shared outsourced platform, banks can save the costs of maintaining and upgrading technology. When all the banks are using the same platform, they do not individually have to involve different technology service providers to handle their technology requirements. This has reduced their overall capital expenditure on the system's support and scaling capacity.

3. **Interoperability:** The shared agent platform is interoperable so that one agent can support the agency activities of any member bank. Agents are also able to transfer float between the banks they serve thus improving their cash and float management.

[3] FinScope 2018. FinScope Uganda survey report 2018.

4. **Leverage efficiency:** Banks can aggregate the distribution network's expertise by outsourcing agent management and related issues like training, service and operations standardisation, and communications and brand management.

Benefits to other stakeholders

1. **Increased business opportunities for different players:** The shared agent network has brought new business opportunities for thousands of agents spread across the country. Additionally, the agent network managers can facilitate income growth for themselves and agents through training, operational support, KYC/AML compliance monitoring, cash management, business analytics, fraud control, and standards and brand management.

2. **Promote more industry collaborations:** Since every party including telecoms, aggregators, insurance, risk management companies, and FinTechs are involved, customers will eventually benefit from convergence and innovation of the financial ecosystem.

3. **Diversified products and services offering**: Financial and non-financial institutions have more opportunity to deliver new and existing mass-market products. Financial institutions can offer services to partners in the network such as lending to agents and other affiliates. Such partners in the network also double as the key distributors, wholesalers, and retailers in any given location and as such would have credit needs.

To operationalise the shared agent banking network, Ugandan Banks, under their umbrella body - (UBA) - established a special purpose vehicle and named it the ***Agent Banking Company*** (ABC). ABC owns and manages the shared agent banking platform jointly with Eclectics International. Eclectics is a technology service provider that manages the day-to-day operations of the shared agent banking platform. The initial technical assistance from CGAP and the de-risking grant commitment from FSD Uganda enabled UBA to set up ABC. The support from FSD Uganda acted as a catalyst to crowd-in additional development partners over the years to include the Agricultural Business Initiative (aBi), the German Corporation for International Cooperation GmbH (GIZ), and the International Finance Corporation (IFC).

With technical support from FSD Uganda, ABC resolved some of the most complex issues encountered during the set-up of the region's first shared agent banking network. Some of these issues include the decisions on optimising the business model, pricing models to make the platform inclusive, relevant, and valuable for the partners, compensation structures for the shared agent, and customer service principles at shared agents. To date, the shared agent banking network has achieved several milestones. The banks have significantly reduced their investment in expensive brick-and-mortar structures as the shared agent banking network has enhanced operational efficiency, increased access to banking services for people, and increased deposit mobilisation through agents.

The shared agent banking network has enabled the customers greater access to affordable financial services with the ability to choose from a range of service providers.

The key considerations by stakeholders in setting up a shared agent banking network are as follows:

Table 1 Summary of key considerations by stakeholders in the set-up of the shared agent banking network

Stakeholders	Strategic	Operational	Financial
Participating banks	• Defining internal strategies for agent banking • Aligning internal agent banking strategies to the shared agent banking network • Re-aligning existing agent banking strategy alongside shared agent platform	• Infrastructural limitations limiting agent activity such as network connectivity • Customer-acceptance of agents to provide financial services • Implementation of effective agent network management structures • Technical capacity to roll-out full suite of products at the agent location • Dependencies on third-party service providers for technical implementation	• High investment in setting up agent networks, particularly in rural areas (including the cost of PoS devices) • Cost of setting up internal technical infrastructure and integration with the shared agent banking platform • Extended return-on-investment (ROI) period of shared agent banking vis-à-vis other services
The Shared Agent Network (Agent Banking Company)	• Defining balanced participation schedules for member banks • Decisions on the business and pricing model • Formulation of harmonised customer service principles among institutions • Encouraging buy-in from supervised financial institutions for the shared agent banking platform	• Delays in onboarding member banks due to resistance to the business model • Facilitating coordination and collaboration among participants • High requirement of capacity building of stakeholders and customers • Marketing and communication activities for the shared network • Lack of uniformity of service offering among participants impacting user experience	• High investment in setting up agents • Investment costs for the set-up of technical infrastructure for the shared platform • High technical implementation costs due to diversity of infrastructure of participating institutions

The road to establishing this novel network has not been without challenges. The shared agent network has successfully resolved some of these challenges and is actively resolving the remaining ones. Overall, the shared agent banking network has been critical in extending financial services to the previously unbanked and under-banked populations in Uganda. All stakeholders from the financial inclusion sector in Uganda have responded well to the shared agent banking platform.

Lastly, it is important to keep in mind how each player can benefit and contribute to the platform in the design phase to ensure its success and sustainability. Through this case study, we explore how the key considerations can benefit or affect the stakeholders in the ecosystem.

2.0 Background and context

2.1 Constraints to formal financial inclusion

According to the FinScope Uganda 2018, formal financial service providers, including banks and microfinance deposit-taking institutions, marginally contributed to formal financial inclusion in Uganda. The inclusive finance landscape in Uganda is characterised by higher activity rates for mobile money compared to formal bank usage. According to the report, mobile money operators contributed significantly to formal financial inclusion as 56% of the adult population used mobile money. Only 11% of the adult population used banks and microfinance deposit-taking institutions. The relative ease of registering for a mobile money account compared to a formal financial institution account partially contributed to the stark difference in uptake of mobile money compared to that of the formal financial accounts. Furthermore, there was a significant difference in the proliferation of mobile money agents compared to the access points of the formal financial institutions. However, it is worth noting here that end-users mostly used mobile money services for inter-personal transfers.

2.2 Access to formal financial services

As of 2017, 76% of the Ugandan population4 resided in rural areas. This distribution of the population impacts the levels of access to formal financial services access points. An analysis of the proximity of financial access points for Ugandan residents in 2017 shows that most mobile money agents (62%) were within 1 km of their homes while most banks (43%) were more than 5 km from their homes.

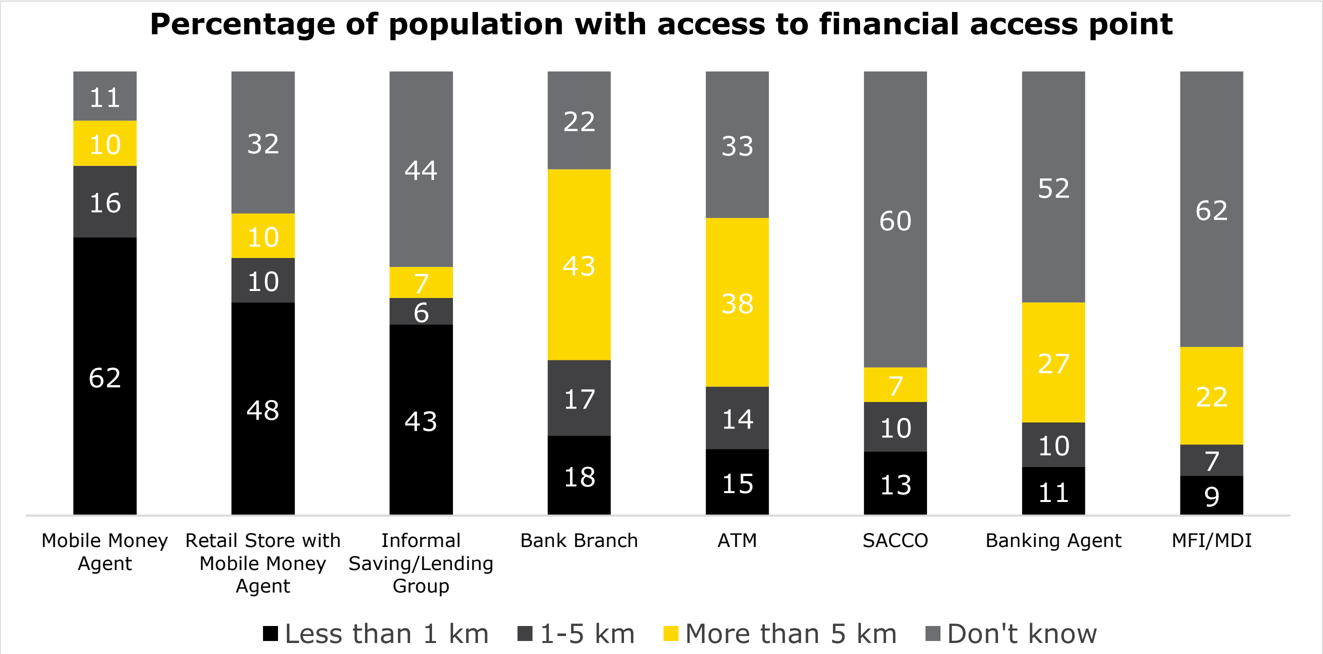


Figure 1 Illustration of access to financial access points in Uganda in 2017. Source: Uganda's Fifth Annual FII Tracker Survey

2.3 Mobile money in Uganda

Mobile financial services in Uganda began in 2009 with three mobile money offerings, namely MTN Mobile Money (MTN Uganda, 2010), M-Sente from UTL (Uganda Telecom, 2010), and Zap from Zain (Zain Uganda 2010). In the initial period of the mobile money services development, from 2009 to 2013, there was limited regulatory oversight over mobile money services. In 2013, the Bank of Uganda (BoU) introduced mobile money regulations as a late entrant among the East African Community (Kenya-2010, Tanzania-2013, and Rwanda-2011) to regulate mobile money and enhance financial inclusion using mobile financial services. The mobile money guidelines permit non-banks to offer mobile money services in partnership with a prudentially regulated institution (whose role extends beyond custody of funds). In collaboration with a regulated entity, the licensed institutions could apply for a letter of no-objection from the Bank of Uganda to roll-out mobile money services. In the initial stages of mobile money roll-out in Uganda, from 2009 to 2013, providers included exclusivity clauses in their contracts with agents that effectively prevented agents recruited by a single provider from offering services of a different provider.

[4] FinScope 2018. FinScope Uganda survey report 2018.

The providers introduced such exclusivity clauses to protect their market share and the capital investment in the agent network setup. However, the mobile money guidelines, 2013 prohibited exclusivity contracts to build a better case for agent viability and enhance customer access to increase financial inclusion.

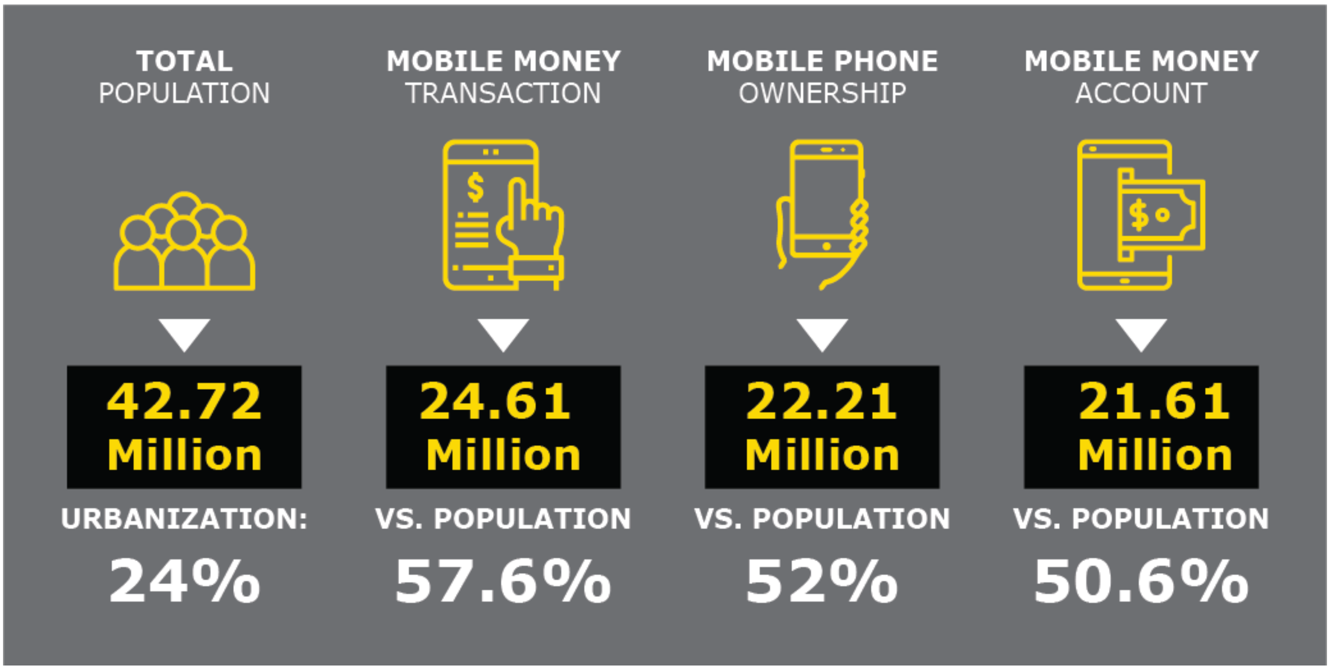


Figure 2 Illustration of mobile money penetration in Uganda in 2018

As per the FinScope 2018, almost 58% of the population had made or received a mobile payment highlighting the high degree of familiarity with digital financial services. Of the people who made or received a mobile payment, 8% relied on family or friends for assistance. Further, about 5% of people who made or received a mobile payment used an agent's assistance to do so. Only 52% of the adult population owned a mobile phone. The mobile phone ownership in Uganda is quite skewed to the urban population. 70% of the population in urban areas own mobile phones compared to 46% of the population in rural areas[5].

[5] Financial Sector Deepening Uganda (FSD Uganda) 2018. FinScope Uganda Survey Report.

2.4 The Financial Institutions (Amendment) Act

In January 2016, the Parliament of the Republic of Uganda passed the *Financial Institutions (Amendment) Act, 2016* that allowed banks to use agents to provide financial services across the country. Banks in Uganda have now adopted the agent banking model. Before this amendment, the licensed banks could only use bank branches and ATM points as their distribution channels.

In 2017, the BoU released the *Financial Institutions (agent banking) regulations* that provided a regulatory framework for agent banking services. These regulations prohibited agent exclusivity.

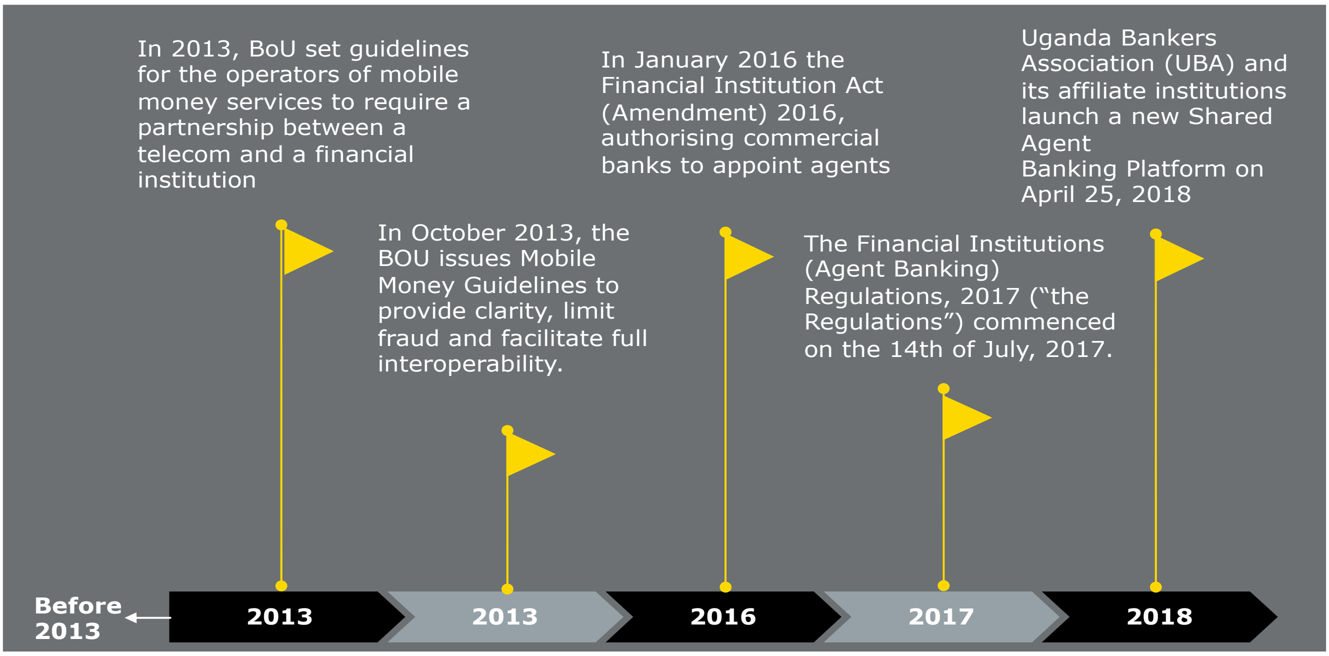


Figure 3 Brief timeline of DFS regulations in Uganda

As the agent banking industry was new and there was a limited understanding of the potential risk in the initial period, the BoU took a conservative approach. This is illustrated by aspects of the policy such as:

- **The process of review and approval of agent applications**: The BoU reviewed individual agent applications and approved individual agents rather than a batch of agent applications. The individual agent application review and approval resulted in delaying the growth of agent networks.

- **Non-dedicated agents**: The BoU mandated that potential agents should have an additional business in addition to the agent business, be licensed, and have a permanent business structure ideally, a brick-and-mortar structure to conduct the agent banking business. The potential agents had to be in business for one year prior and hold an account in a formal financial institution for at least six months. As expected, this effectively shrunk the pool from which providers could recruit potential agents.

- **Need for physical receipts for all financial transactions conducted at the agent point**: The regulations mandated that agents contracted by licensed financial institutions had to provide a physical receipt for all transactions unlike that of mobile money services where an electronic receipt was sufficient evidence of a transaction. The need for physical receipts further complicated the roll-out of the agent banking as the banks had to invest in procuring devices that could provide them. This requirement meant that the banks had to procure point-of-sale (PoS) devices (costing USD 250/UGX 1M to USD 450/UGX 1.7M each) or blue-tooth printers (costing about USD 100/UGX 370,000) at agent outlets. These additional costs further exacerbated the setup costs for banks.

All these requirements collectively constrained the ability of financial institutions to obtain viable agents for their network and exacerbated provider concerns for agent exclusivity. These stringent requirements undermined the ability of banks to effectively compete with mobile money. Agent banking extended the reach of the financial services to the un(der)served, especially in rural, remote, and frontier markets. Some of the regulations that financial institutions needed to comply with as they rolled-out agent networks are highlighted in the following illustration.

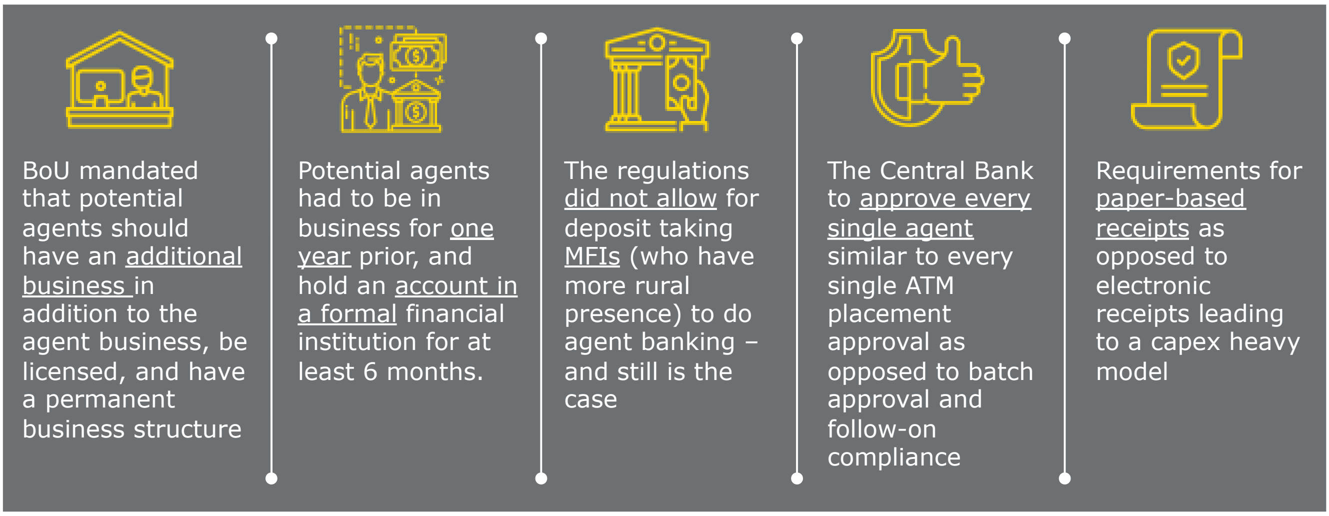


Figure 4 Illustration of key requirements for the financial institutions to comply with the agent banking regulations

Banks understood that it is expensive to enhance access and reach using brick-and-mortar branches. Thus, to cost-effectively expand their reach, they realised the need to focus on digital financial services through agency banking. For instance, potential entities that could serve as financial institution agents had to be a licensed business in operation for over a year, non-dedicated, and have a permanent business structure, which was not a requirement for mobile money agents.

Further, the regulator restricted Microfinance Deposit-taking Institutions (MDI) participation in the implementation of agent networks. MDIs have a much deeper reach in rural areas than fully-fledged banks and would have benefitted from the opportunity to further increase their reach through agent banking. One of the biggest challenges that financial institutions face as they establish an agent network is to ensure that agents maintain sufficient e-money and cash balances to facilitate cash-in and cash-out transactions. In markets like Kenya, agent banking regulations also prohibited banks from outsourcing any form of agent support to third parties. Over time, some banks in Kenya partnered with cash (or float) heavy customers such as distributors and wholesalers who would act as liquidity management and agent rebalancing actors.

These customers informally acted as ‘super agents’ by either depositing or withdrawing large sums of cash in coordination with regular agents’ outlets.[6] Such innovative approaches that worked in Kenya were not easy to implement at the nascent stages of an agent banking network deployment in Uganda.

Together, the restrictive nature of agent banking regulations impacted the ability of banks to effectively compete with mobile money services within the Ugandan context. The regulator was, however, intentional about creating an enabling environment for agent banking and financial inclusion.

[6] McCaffrey, M. and Mas, I., 2015. Designing Successful Distribution Strategies for Digital Money Equity Bank in Kenya

The agent banking guidelines did not explicitly allow for a shared agent banking platform. The Uganda Bankers' Association (UBA) then presented the concept of a shared agent network within the existing agent banking framework. BoU subsequently approved the concept and paved the way for its implementation.

3.0 The shared agent network

3.1 The case for the shared agent banking network

The introduction of agent banking guidelines in 2016 helped create a near-level environment for banks and mobile money operators. Banks could now use agent networks to offer financial products and services. Using agent networks allowed the banks to deepen their penetration across the country and enhance service to existing clients by increasing CICO points and agent service points. Banks were also eager to innovate to compete with mobile money operators. They focused on devising a strategy to roll out agent networks cost-effectively and to reduce operational costs. Deploying an agent banking network typically requires a financial institution to make a large strategic investment in building the unconventional distribution network without a guaranteed, immediate, and attractive business case[7].

The financial cost of setting up brick-and-mortar access points (branch or service centre) in Uganda is still quite prohibitive. Commercial banks in Uganda spend around UGX 367 billion or USD 100,000 to set up one brick-and-mortar branch and about UGX 183 billion or USD 50,000 to establish a satellite branch or service centre. Such a heavy investment took up to three years to break-even.

In rural and remote areas, the breakeven took even longer. Additionally, banks also faced challenges in setting up their agent systems due to factors such as:

[7] Platt, A., 2011. The Business Case for Branchless Banking - What's Missing?.

- Lack of sufficient internal budgets to support the capital cost of rolling out an agent banking network and system;
- Poor connectivity in the telecommunication system to support online transactions; and
- The need for handholding and awareness activities due to the relative novelty of agent banking in Uganda and the costs associated with such activities.

For these reasons, several traditional financial institutions hesitated to invest in developing individual agent networks. A few leading financial institutions however started to roll out their agent networks simultaneously after the agent banking regulation was enacted but before the shared agent banking platform was launched. The race to penetrating rural Uganda was on course, albeit with each institution pursuing its respective strategies.

The banks explored shared agent banking as an effective strategy to enhance the business case of individual financial institutions to invest in building agent networks. Shared agent banking further provided an opportunity to avoid duplication of costs by individual banks and support the development of a stronger agent system. Banks in Uganda explored three approaches to set up agent systems:

- The first approach is to set up individual agent networks as it happens in other countries. This implies heavy investment by each financial institution with a much slower return on investment.
- The second approach is to develop a shared agent banking system that allows the industry to share the infrastructure and compete on product, price, and customer satisfaction.
- The third approach is to use a combination of both approaches.

Without the shared agent banking platform, agents are required to possess multiple transaction devices, such as point-of-sale (PoS) devices, particularly for the banks that had already rolled out their agent networks. While the banking sector enjoyed a level of interoperability with ATMs, interoperability among agents was needed to drive transaction volumes. Agents would then be able to serve more than one financial service provider using a single PoS device. Agents also typically earn more commissions if they do more transactions. The shared agent banking platform would help resolve such issues.

3.2 Inception of the shared agent banking network

The shared agent banking network in Uganda was launched on 25th April 2018 with two banks, namely, Absa Bank (formerly Barclays Bank) and Bank of Africa. At the time, large banks like Centenary, Stanbic, and DFCU were in the initial stages of proprietary rollouts. One of the key challenges encountered, was how to ensure buy-in for a shared agent banking initiative from all the members of the Uganda Bankers' Association (UBA). Regional banks such as Equity Bank and KCB had experience with agent networks in their domicile countries. They were familiar with a majority of the agent network implementation structures including technical requirements, agent network standards, and agent network support structures. At the time, these banks were focused on the growth of their footprint in Uganda and were not keen to participate in the shared agent banking platform. However, agent banking presented an opportunity to expand their retail footprint and hence they opted for a hybrid model where there were proprietary agents who could manage high volume float and smaller value retail transactions through the shared agent banking platform.

The shared agent banking network allowed member institutions to harness the benefits of collaboration or convergence to develop and manage agent networks. This approach is meant to enable agents to provide agent banking services to customers of participating banks.

Any agent that displays the Shared Agent Banking Logo can service any customer belonging to all participating banks. This is similar to the principle of interoperable ATMs. ATMs that display Visa or MasterCard logos can service clients of any bank that participates in Visa or MasterCard schemes.

The individual banking institutions are tasked to drive customer recruitment and ensure the uptake of their banking products and services through effective marketing and communications. Several banks were also hesitant to join the shared agent banking platform due to the complex pricing structure that they had to comply with. There was a preference for proprietary models where pricing structures for the agent networks were internally determined. These are some of the factors that contributed to the delays in onboarding participating banks on the shared agent banking platform.

The shared agent banking network currently counts 19 of the 26 banks as members, of which 18 institutions are Tier-1 commercial banks and one is a Tier-2 credit institution. Banks in Uganda through their umbrella body Uganda Bankers' Association (UBA) explored the use of the shared agent banking network to address challenges related to the cost-effective expansion of their services, especially in rural areas of Uganda. Through this shared platform, banks seek to utilise agent banking to foster financial inclusion.

The Agent Banking Company is a special purpose vehicle that manages the shared agent network and implements the interoperable technology platform. A Board of Directors from among the CEOs of select UBA member-banks and the Managing Director of Eclectics International govern the company. The Board has five directors comprising the Chairperson of the Board and four board members. The CEO with the Head of Operations, the Head of Agent Network, the Head of Risk and Compliance, the Head of Communications and Corporate Affairs, and the Head of Finance and Administration manages the company. Furthermore, the company has resources that focus on the customer experience and information technology upkeep. The staff members manage the day-to-day operations of the company and work closely with Heads of Agent Banking of the participating banks.

Stakeholders from the world over have expressed interest in Uganda's unique experience in establishing the shared agent banking network, its operational framework, the challenges experienced, lessons learned, and plans.

3.3 Key stakeholders involved in developing the shared agent banking network

The development of the shared agent banking platform required support from the development partners and stakeholders. The following illustration provides an overview of the key partners and the roles they played to develop and implement the shared agent banking network.

Table 2 Development partners, stakeholders and their role in the shared agent banking network

Players	Description	Role in the shared agent banking network
fsduganda Financial Sector Deepening	Uganda's premier financial sector think-tank that provides technical assistance and catalytic grants to drive greater financial inclusion and build robust, innovative, and competitive financial markets.	• Played a foundational support role in making the shared agent banking network operational. • Provided technical assistance to formulate the strategy, business model, and pricing • Convened several banks interested in joining the platform along with the Uganda Bankers' Association. • Provided grants that helped to hire the project manager, oversee the project, develop the training curriculum that set the standards for agent recruitment and management for all banks, and train bank staff in deployment of the solution. • Credibility of FSD Uganda led to crowding-in other development partners such as GIZ and aBi.
AGENT BANKING COMPANY	A joint venture entity of the UBA and Eclectics International. A special purpose vehicle created to develop and deploy the shared agent banking platform and link all participating commercial and other third-party payment partners banks for shared agent banking purposes.	• Handles the day-to-day operations of the shared agent banking network including agent recruitment and monitoring, marketing, support to the banks on the system, and customer service-related issues. • Provides ownership and accountability by both the banks and the technology service provider in achieving efficient and sustainable services.
aBi AGRICULTURAL BUSINESS INITIATIVE	A social enterprise founded by the Governments of Uganda and Denmark that works toward private sector agribusiness development. It comprises two arms 1) aBi Finance that focuses on agribusiness and smallholder finance, and 2) aBi Development that focuses on agricultural value chain development (coffee, dairy, pulses, grain, oilseeds, and horticulture).	• Collaborated with UBA and its partners on the Agent Banking project and funded • Procurement of relevant hardware. About 1089 agent banking point-of-sale (PoS) devices (integrated with cameras, biometric scanners, and printers) and 137 tablets to facilitate the initial enrolments of agents on the platform. • Training of agents to efficiently deliver financial products and services of banks.

Players	Description	Role in the shared agent banking network
		• Publicity, awareness, and visibility of agent banking as an alternative to users for an increased understanding of agent banking operations, process flows, system usage, and the agents' and customer's obligations.
BANK OF UGANDA	Sole regulator and supervisor of all financial institutions in Uganda	• Oversees the overall safety and efficiency of payment systems, including the shared agent banking platform through the National Payments Department (NPD). • Issues guidelines on agent management activities for individual financial institutions through the Department of Commercial Banking. • Through Real-Time Gross Settlement (RTGS) enables connectivity between the shared agent banking platform and the clearing system in the central bank to facilitate settlements.
CGAP	CGAP is a global partnership of more than 30 leading development organisations that works to advance the lives of poor people through financial inclusion	• Provided initial grant support and consensus building to initiate the shared agent banking network as well as coalesce the industry players through support to the Uganda Bankers Association.
eclectics	Technology provider that offers innovative, tailor-made software solutions for banking, financial, agricultural, transport, and public sector across Africa. Selected through competitive bidding to develop and deploy the technology platform. Owns 49% of the Joint Venture - ABC.	• Provided human capital and office accommodation for resources to develop and deploy the platform. • Carried out technology and training needs assessments of each participating bank. • Designed and implemented the shared agent banking platform to enable interoperability of agent points for all financial service providers. • Provided training on the technical platform and handholding to financial institutions to support the platform's deployment.

Players	Description	Role in the shared agent banking network
german cooperation DEUTSCHE ZUSAMMENARBEIT giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	German development agency that provides services in the field of international development cooperation for sustainable development.	• Provided grant support for communication, awareness, and visibility of the shared agent banking network—in terms of development and production of logos, tag lines, message translation, and promotional advertisements on media—building up to the launch. • Supported the platform on public awareness and sensitisation in Lango and Acholi sub-regions in terms of production of information, education, and communication (IEC) materials and sensitisation activities, such as farmer groups sensitisation meetings, roadshows, radio talk shows, ads, and messages.
IFC	The International Finance Corporation is an international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in less developed countries.	• Support from FSD Uganda and other development sector actors played a big role in showcasing the viability of Shared Agent Banking in Uganda. This initial investment was critical to attracting the support of other strategic partners. IFC, has provided technical assistance to enhance Shared Agent Banking in Uganda. The technical assistance, which spans a period of three years, is aimed at developing agent recruitment and network management materials, agent banking risk management tools, a low KYC account, a financial modelling tool and a data analytics tool. IFC will also provide training to ABC and bank staff as part of this technical assistance.
Uganda Bankers' Association Promoting Partnerships. Transforming Banking.	Umbrella body that brought together the supervised financial institutions in Uganda to develop and implement the shared agent banking network. Owns 51% of the Joint Venture - ABC through its members. Members contributed to the ABC based on the size of their balance sheet.	• Proposed the network and championed its establishment through the Executive Directors of the banks, and the BoU. • Played the role of rallying the banks to join and set up the ABC. • Sought the regulatory 'No Objection' approval and was the

Players	Description	Role in the shared agent banking network
		central point of correspondence for all development partners. •

4.1 Strategic and financial considerations for the setup of the shared agent banking network

As the stakeholders moved from the conceptualisation stage to the design and implementation of the shared agent banking network and the platform, they assessed the strategic and financial considerations and formulated effective organisational and operational structures to encourage participation from members. Initial considerations that informed the setup of the shared agent banking network were as follows:

4.0 Operationalisation of the shared agent banking network

Stakeholders	Shared agent banking	Typical agent banking model
Banks	• All participating banks to agree and sign off on the scheme rules for participation on the shared agent banking platform. • Agree on common pricing principles for participants of the platform, namely, acquiring bank, issuing bank, and ABC. • Compliance with the network's rebalancing processes and systems for their agents. • Enter into a service level agreement (SLA) with ABC including the binding commercial terms.	• Individual banks decide on their agent banking strategy and approach to deployment. • Determine the customer pricing and agent commissions based on costs incurred, the competitors' pricing, and value propositions to their stakeholders. • Engage their technology service providers (TSPs) to develop their agent banking platform. • Enter into service level agreements (SLAs) with their TSPs and negotiate commercial terms.
Agent	• High float capability since agents are dealing with customers of multiple banks. • Can pay for one PoS machine (ranging between UGX 1 million or USD 272 or UGX 1.7 million or USD 463 each) to service multiple banks. • Familiarise themselves with tariff and commission structures of various banks. • Consider rebalancing options (electronic transfer and/or distance or time for physical transfer) for the various banks served. • Capacity to raise enough cash or float to serve all banks served.	• Float capability required for agents to serve customers of one bank • Can pay for a PoS machine (ranging between UGX 1 million or USD 272 or UGX 1.7 million or USD 463 each). This means paying for more machines if the agent has an individual contract with each bank. • Familiarise themselves with tariff and commission structures of the individual bank. • Consider rebalancing options (electronic transfer and/or distance or time for physical transfer) from the individual bank. • Capacity to raise enough cash or float to serve individual banks.
Customer	• Familiarise themselves with ABC as a service provider of their banks and the location of ABC registered agents. • Understand different bank tariff structures since there are no uniform principles. For example, some banks charge for deposits (while they do not do so at bank branches).	• Familiarise themselves with their bank agents and the location of their bank's registered agents. • Understand the tariff structure of their bank.
Bank of Uganda	• Approve agent applications from all banks recruiting agents via the ABC. • Monitor compliance of the individual bank (and their agents) with agent regulations.	• Approve agent applications from the individual bank. • Monitor compliance of the individual bank (and their agents) with agent regulations.

Stakeholders	Shared agent banking	Typical agent banking model
	• Settlement of issuer and acquirer accounts through electronic funds transfer.	

4.2 Operational considerations for the setup of the shared agent banking network

The Uganda Bankers' Association played a crucial role in driving the participation of all industry stakeholders on the shared agent banking network, including financial institutions that already started to set up their agent networks. This further required formulating attractive value propositions for each of the participants to encourage participation. The Bank of Uganda and the participating banks needed to:

- Understand the key drivers of transaction volumes and values to inform the profitability and sustainability of the Agent Banking Company of Uganda (ABC).
- Assess the requirements for the increased density and accessibility of cash-in and cash-out (CICO) points.
- Define operational considerations to create a company (Agent Banking Company) to implement and run the Shared Agent Banking system including human capital resources, capital requirements, profitability, and sustainability.
- Define the expected outcome and impact of the shared agent banking network on the growth of CICO points and financial inclusion.

Once the stakeholders agreed to the key players and their roles in the shared agent banking network, all that was required was an operational framework that could address the interests of all participants, while ensuring the profitability and sustainability of the shared agent banking platform.

Operationalisation of the network would however not be a simple endeavour as some stakeholders have inherently divergent and/or convergent business models. In this section, we explore some of these operational considerations, that cannot be de-linked from their impact on the business cases of each of the banks.

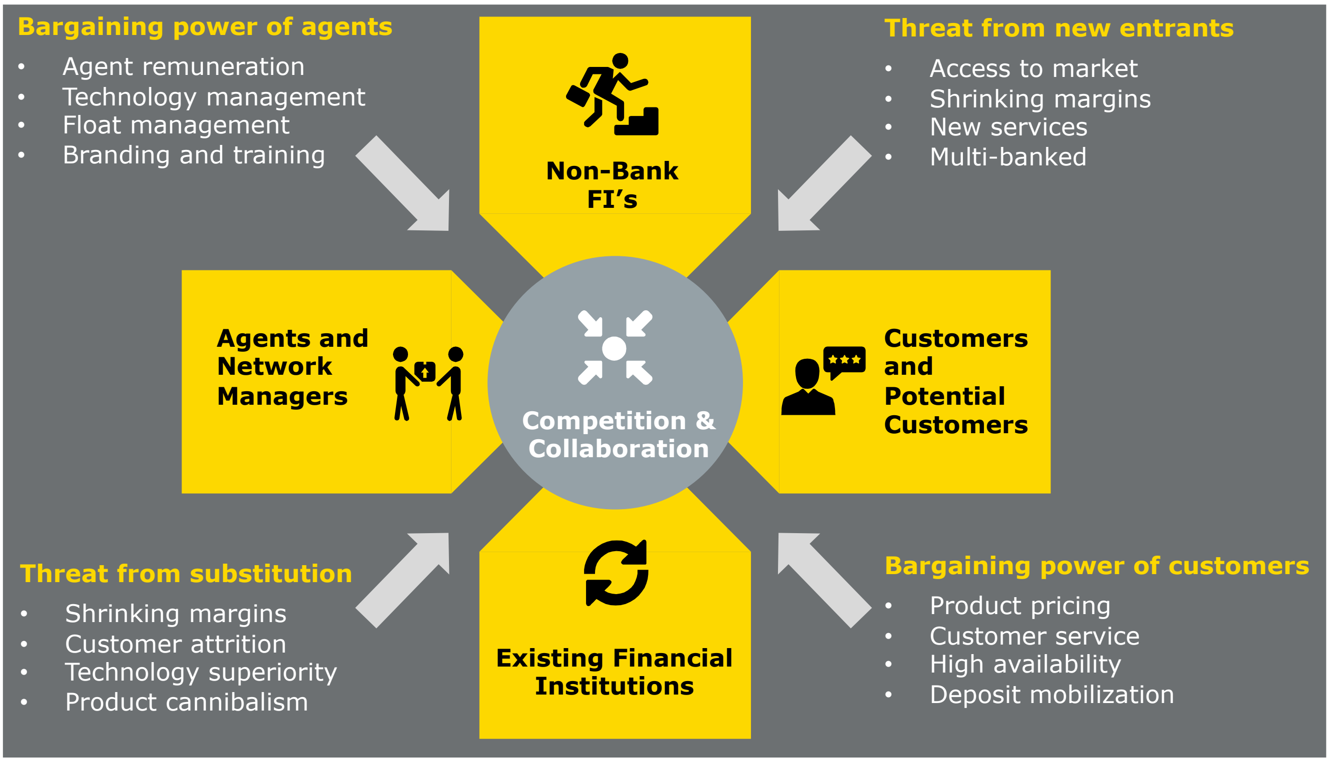


Figure 2 Illustration of the competitive forces that impacted the design of the business model for the shared agent banking network

4.2.1 Agent network management

As the mobile money industry had been operational since 2009, there were common practices in place for agent network management. The 2013 BoU guidelines for mobile money operators had also set standards for agent network management. The 2017 regulations for agent banking demanded different and more stringent management structures that some banks had already begun adopting. As the agent banking regulations did not explicitly define the compliance frameworks for a shared agent network, there were further implications on how the shared network will comply with it.

Table 3: Differentiation of agent network operations for the shared agent network and individual agent banking

Aspects	Shared agent banking network	Individual agent banking networks
Agent selection and recruitment	Member banks each recruit their agents that meet internal selection criteria and in compliance with regulations.	Bank staff selects and recruits agents as per their internal selection criteria and in compliance with regulations.
Agent on-boarding	Agents are onboarded to the member bank's portal on the ABC systems.	Agents are onboarded to the individual bank's system.
Agent training	ABC to provide initial training with follow-up training provided by individual banks.	Bank staff trains the agents and provides follow-up support as per the bank's training schedule.
Agent liquidity	Agents rebalance through bank branches and electronically between different bank float accounts[8].	Agents rebalance through bank branches.
Branding	Member banks co-brand the agent outlet.	Individual bank brands the agent outlet.
Reconciliation and settlements	The ABC team generates the performance reports for transactions done by one bank on behalf of another.	Bank generates network performance reports from Core Banking System (CBS).
Commissions	Parent member bank pays to the agents contracted.	Bank determines and pays agent commissions.
Grievance redressal	Parent member banks as the first point of contact for agents with an escalation matrix to the ABC.	Bank provides direct support to agents.
Agent tools	The ABC[9] bank and/or individual bank issues a point-of-sale terminal or a mobile phone (with printer) for free or with a payment plan.	The individual bank issues a point-of-sale terminal or a mobile phone (with printer) for free or with a payment plan.

[8] The ABC reports that balancing float electronically between different banks on the shared agent network is a recently added feature of the shared agent network

[9] It was noted that the Agricultural Business Initiative (aBi) facilitated the subsidisation of 900 PoS machines and 137 tablets that banks were able to distribute to their first registered agents on a pro-rata basis.

Banks that would pursue either the shared or individual agent banking routes needed to be cognisant of both the financial and operational implications of setting up the distribution network. They also considered the resources needed for capital and operating expenditure, which were highly dependent on the investments required to manage the agents.

4.2.2 Participants in the individual versus shared agent network

It is worth noting that the banks that had already begun rolling their agent banking network and subsequently joined the shared agent banking network had distributed PoS machines for both networks. Banks with individual networks did not immediately transition all their pre-existing agents to the shared platform for various reasons, not limited to the fact that the shared agent network was still in the pilot phase. Some agents mentioned that having PoS devices issues by their bank and by the shared agent network is redundant, especially when there was a network problem. The evolution of agent banking led to three models, namely

1. The individual agent banking model, as illustrated below

Figure 3 Participants in the individual agent banking model

2. The shared agent banking model, as illustrated below

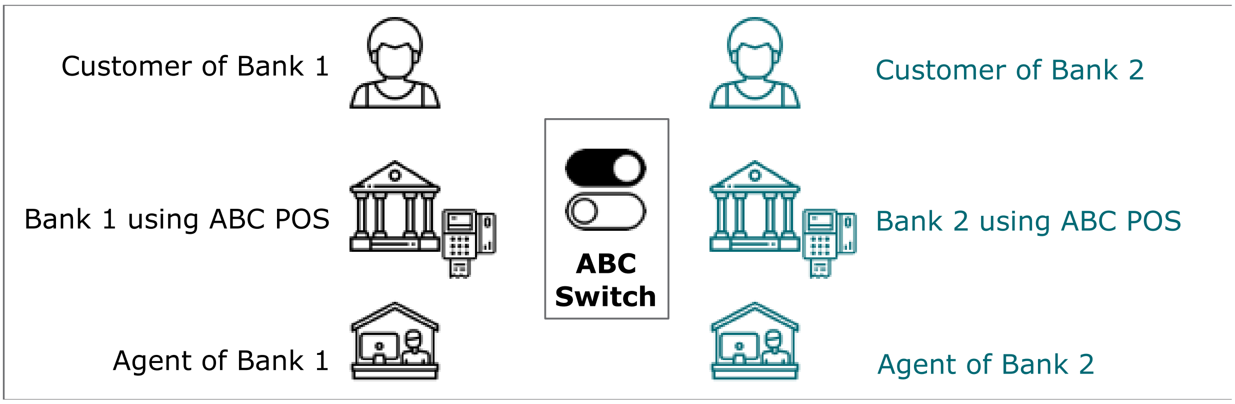


Figure 4 Participants in the shared agent banking model

3. The hybrid agent banking model, as illustrated below

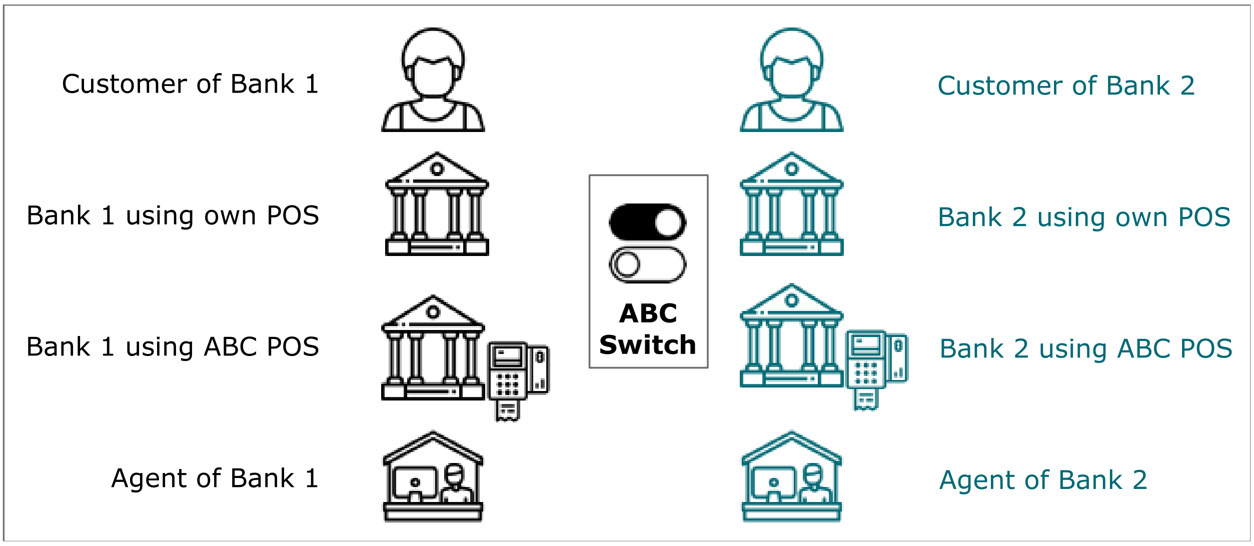


Figure 5 Participants in the hybrid agent banking model – both individual and shared agent banking models

4.2.3 Customer pricing and agent compensation structures

Doing cash-in/out (CICO) transactions through agent banking for financial institutions usually costs much less than CICO through mobile money operators. Agent banking, like mobile money, allows various players to implement different pricing structures for the services offered at the agent outlets. Pricing tariffs did not change for customers with the introduction of the shared agent banking network. Each bank had its distinct pricing structure. Pricing is one of the factors that customers use to choose which bank they held an account with. The ABC mandated (with consensus from the UBA) that a customer will pay what their bank had listed as fees at any agent point regardless of the bank that recruited the agent.

The differentiated pricing was a deliberate move by the participating banks to keep healthy pricing competition in the market.

The ABC mandated that none of the banks would charge customers for deposits but only charge customers for withdrawals. The banks would only charge an absolute switching fee of UGX 147 or USD 0.04 if deposits are made by a customer of one bank through the agent of another bank.

The core difference between the tariff structures of the individual and shared agent tariff structure is the commission split between the participants in the agent network. There are three distinct scenarios for the commission split between the participants.

Scenario 1: When a customer of Bank 1 withdraws money from an agent of Bank 1 using Bank 1's PoS machine

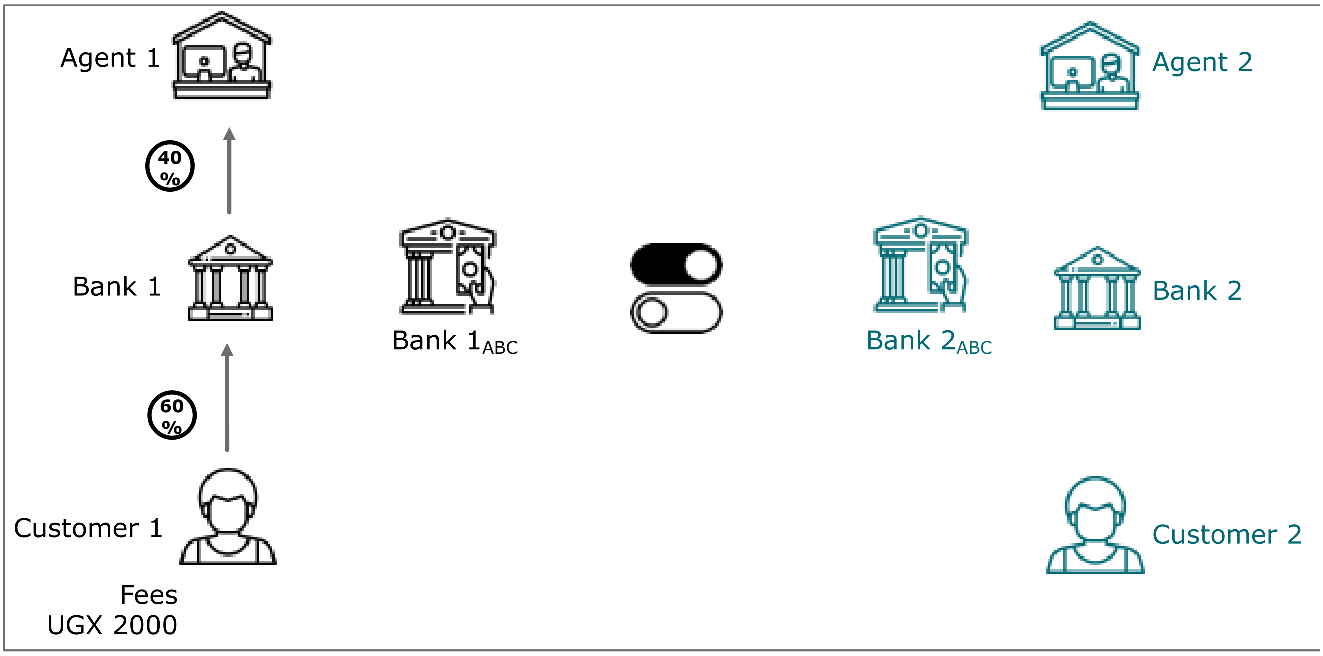


Figure 6 Scenario 1 - Customer withdrawing from their bank's agent

- Fee/commission charged (e.g., UGX 2,000 or USD 0.54) to the customer is only split among Agent 1 (of Bank 1) and Bank 1.
- Agent 1 gets 40% (i.e., UGX 800 or USD 0.22) of the commission.
- Bank 1 gets 60% (i.e., UGX 1,200 or USD 0.33) of the commission.

Scenario 2 When a customer of Bank 1 withdraws money from an agent of Bank 1 using Bank 1's ABC PoS machine

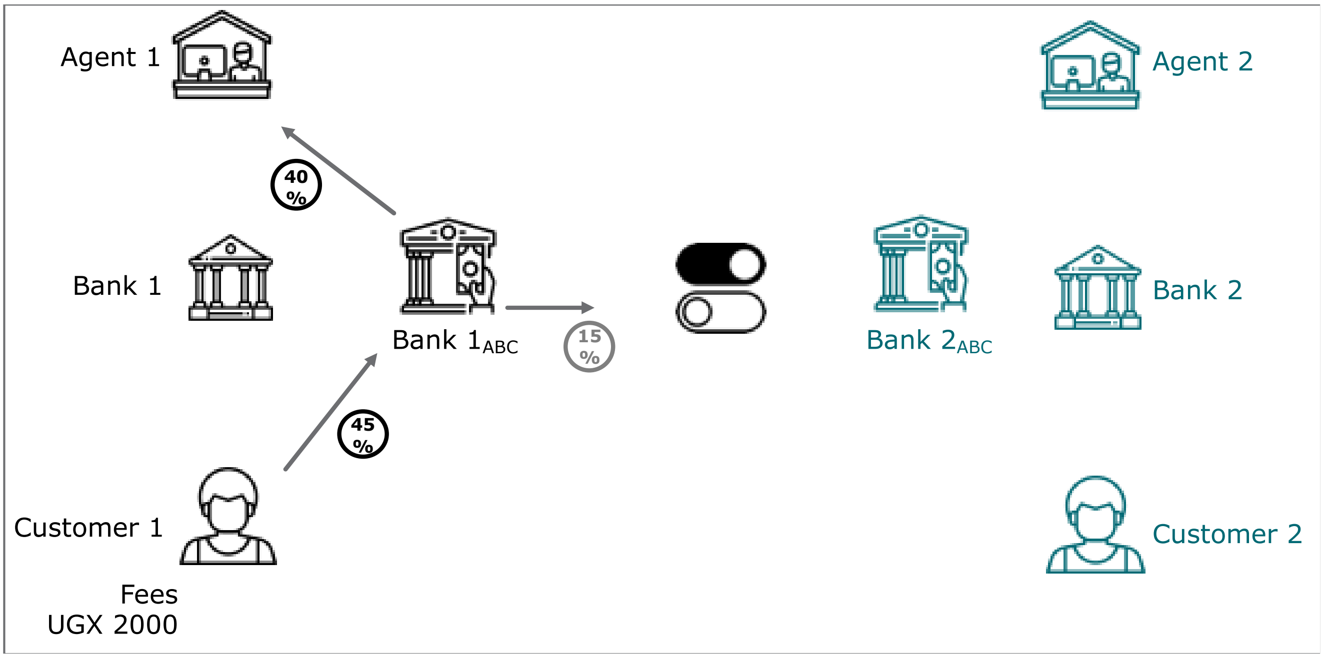


Figure 7 Scenario 2 - Customer withdrawing from their bank's shared agent

- The same fee/commission (e.g., UGX 2,000 or USD 0.54) is split between Bank 1, Agent 1 (of Bank 1), and the ABC.
- Agent 1 gets 40% (i.e., UGX 800 or USD 0.22) of the commission.
- Bank 1 gets 45% (i.e., UGX 900 or USD 0.25) of the commission – 30% as the issuer and 15% as the acquirer.
- ABC gets 15% (i.e., UGX 300 or USD 0.082) of the commission.

Scenario 3 When a customer of Bank 1 withdraws money from an agent of Bank 2 using Bank 2's ABC PoS machine

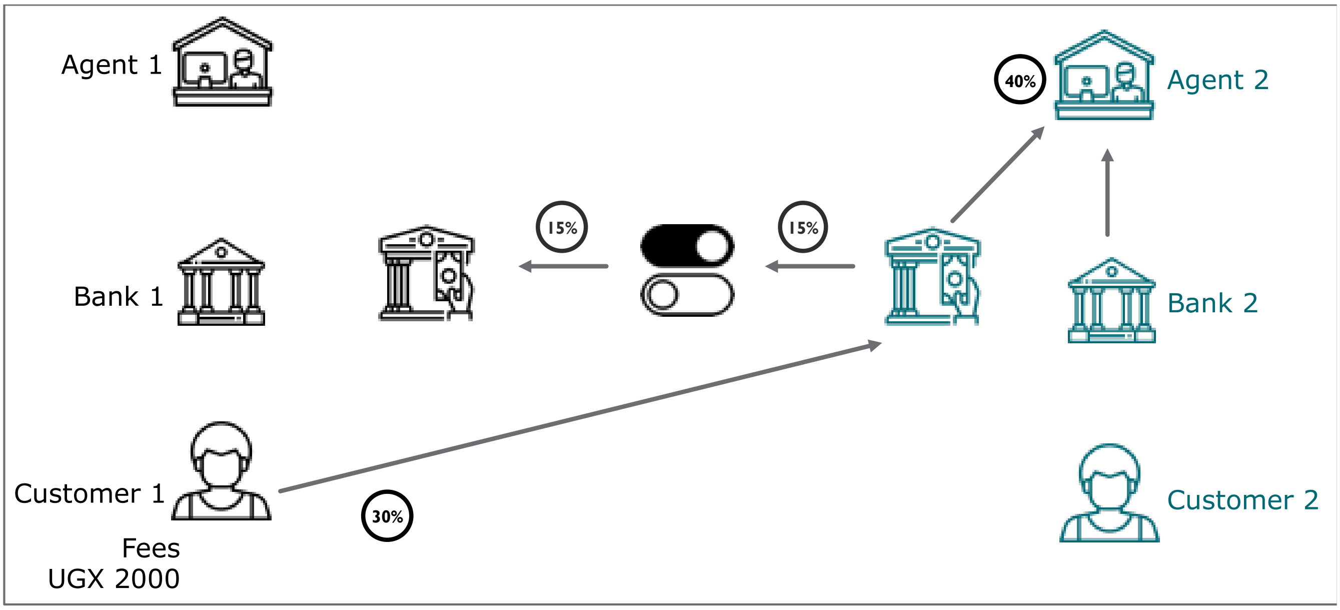


Figure 8 Scenario 3 - Customer withdrawing from another bank's shared agent

- The same fee/commission (e.g., UGX 2,000 or USD 0.54) is split between Bank 1, Agent 2 (of Bank 2), the ABC, and Bank 1.
- Agent 2 gets 40% (i.e., UGX 800 or USD 0.22) of the commission.
- ABC gets 15% (i.e., UGX 300 or USD 0.082) of the commission.
- Bank 2 gets 30% (i.e., UGX 600 or USD 0.16) of the commission – as the acquirer.
- Bank 1 gets 15% (i.e., UGX 300 or USD 0.082) of the commission – as the issuer.

In all three scenarios, for this example, the customer is charged the same fee (i.e., UGX 2,000 or USD 0.54). We also note that in all three scenarios that the agent gets the same amount of commission (40% i.e., UGX 800 or USD 0.22). However, the issuing and acquiring bank get different commissions in each of the three cases as observed in the following table.

Table 4 Commission distribution among participants in the hybrid (individual and shared) agent network – Scenarios based on Customer 1 of Bank 1 withdrawing money – Withdrawal fees is UGX 2,000 or USD 0.54

Scenario	Fees/ Commission	Agent 1	Bank 1	ABC	Bank 2	Agent 2
Scenario 1 (Own Bank's Individual Agent)	100% (UGX 2,000) (USD 0.54)	40% (UGX 800) (USD 0.22)	60% (UGX 800) (USD 0.22)	N/A	N/A	N/A
Scenario 2 (Own Bank's ABC Agent)	100% (UGX 2,000) (USD 0.54)	40% (UGX 800) (USD 0.22)	30%+15% (UGX 900) (USD 0.25)	15% (UGX 300) (USD 0.082)	N/A	N/A
Scenario 3 (Other Bank's ABC Agent)	100% (UGX 2,000) (USD 0.54)	N/A	15% (UGX 300) (USD 0.082)	15% (UGX 300) (USD 0.082)	30% (UGX 300) (USD 0.082)	40% (UGX 800) (USD 0.22)

The commission split between the participants is the same when any customer withdraws from any agent. However, the absolute amount earned by the participants varies depending on the fees charged by the bank that holds (owns) the customer's account. This is illustrated in the next set of scenarios where another bank's withdrawal fee is UGX 1,000, and not UGX 2,000, like the previous example

Table 3 Commission distribution among participants in the hybrid (individual and shared) agent network – Scenarios based on Customer 2 of Bank 2 withdrawing money – Withdrawal fees is UGX 1,000 or USD 0.27

Scenario	Fees/ Commission	Agent 2	Bank 2	ABC	Bank 1	Agent 1
Scenario 4 (Own Bank's Individual Agent)	100% (UGX 1,000) (USD 0.27)	40% (UGX 400) (USD 0.11)	60% (UGX 600) (USD 0.16)	N/A	N/A	N/A
Scenario 5 (Own Bank's ABC Agent)	100% (UGX 1,000) (USD 0.27)	40% (UGX 400) (USD 0.11)	30%+15% (UGX 450) (USD 0.12)	15% (UGX 150) (USD 0.041)	N/A	N/A
Scenario 6 (Other Bank's ABC Agent)	100% (UGX 1,000) (USD 0.27)	N/A	15% (UGX 150) (USD 0.041)	15% (UGX 150) (USD 0.041)	30% (UGX 300) (USD 0.082)	40% (UGX 400) (USD 0.11)

In the above set of scenarios (4 to 6), we observe that it is the reverse situation although all the participants realise lower absolute commissions because the second bank is charging lower fees to the customers.

In as much as ABC does not prescribe charges on the channel, it ensures the charges are reasonable. ABC monitors the transaction tariffs to ensure they cover the acquirer bank and the agent compensation fees while protecting the customer from exploitation. Any customer who sees the ABC logo at an agent would expect to transact at the same cost as they do at their bank's agent. The model is so far working well for the shared agent network.

The ABC reports that that the pricing and compensation model is not satisfactorily serving all stakeholders due to several industry dynamics summarised as follows:

Table 4 Quadrant showing motivational levers[10] from analysis of the shared agent network

Banks' motivational levers	**High**	• Withdrawals by customers via own agents • Withdrawals by customers via ABC POS • High deposit volumes from own customers • High withdrawal values	• High customer charges • High withdrawal volumes • High deposit values • Bill payments via own agents
	Low	• High deposit volumes from non-customers • Withdrawals by non-customers via ABC POS • Bill payments via ABC POS	• Low deposit values • High deposit volumes • Inter-bank transfer
		Low	**High**
		Agents' motivational levers	

The shared agent network has noted that different banks would have different motivational factors to join the agent banking network occasioned by the pricing and compensation structure.

Some key considerations that ABC are looking at in consultation with the banks are as follows

Table 5 Considerations for customer pricing and agent compensation for the shared agent network

Customer pricing models	The customer pricing model has worked well so far for the customers. • Customers are not charged different fees for withdrawals regardless of where they transact. • Customers appreciated a tiered (or fixed) fee for withdrawals which is simpler to identify. A percentage-based fee would be perceived as punitive and more difficult to calculate. • Customers are not charged for deposits. Only two among the 19 banks in the shared agent network have been reported to charge customers for deposits. This is reportedly done to compensate their agents for a higher relative volume of deposits done on behalf of other banks customers.[11] • Most banks have preferred to provide other self-initiated avenues like mobile banking for 'non-transactional' services such as balance inquiries and interbank transfers. This lowers the amount of commission they need to pay out to agents for such services.
Agent compensation structures	The agent compensation structure has had mixed appreciation from different stakeholders depending on where they fall in the quadrant of motivational levers depicted in table 6 above. • Most large banks that had already rolled out their agent networks report that they still realise more commissions from their agent networks. This is both a factor of the large size of their existing individual distribution network and the lower commissions earned from transactions going through the smaller shared agent network. • There is a discrepancy in commission earned by all actors depending on what the bank owning the customer (holds their account) charges as withdrawal fees - as illustrated in tables 4 and 5. This is because commissions are split as a percentage of the withdrawal fees.

[10] These motivational levers have been clustered in order of priority for both banks and agents.
[11] The ABC is in discussion with the banks to eliminate charges on deposits. It is also noted that the ratio of deposits to withdrawals has been decreasing on a month-on-month basis across the board for the last year i.e., from 9:1 to 3:1.

The ABC is considering mandating this to be a nominal fixed amount to ensure agents and banks are not incentivised to serve customers whose banks charge the highest withdrawal fees.

- Banks were mandated not to charge customers for deposits. Some smaller banks observe that they need to pay out their agents for a high number of deposits conducted on behalf of other banks relative to deposits conducted into accounts they hold. Such small banks fear that their only source of income to compensate their agents for deposits, the commissions from withdrawal done through their agents may not be sufficiently commensurate.
- Between the individual agent network and the shared agent network, agents would typically promote bill payments through the channel that provided them with the highest commission. The amount of commission was considered first aside from factors such as uptime and efficiency platforms. The ABC would need to consider ensuring they pay competitive commissions compared to those paid by banks through their networks.
- It was noted that higher volumes of transactions are still pushed through mobile money compared to bank agents12. Although banks are generally paying more commissions to bank agents than mobile money agents, agent banking is yet to gain as much traction as mobile money operators since volumes on agent banking are still comparatively lower. As of February 2021, the ABC noted that 60% of their agents were active. This was quite commendable given this figure had significantly reduced because of the COVID-19 lockdown. The average agent activity rate for mobile money operators in Uganda as of 2017 was 60%.[13]

4.2.4 Customer service and grievance redressal

A shared agent network demands that customers of several institutions are provided with a high and standard level of customer service. Different institutions had varying approaches to maintain customer service standards. The institutions also had different protocols to manage customer grievances. This required defining clear operational processes to originate, report, investigate, and resolve issues for customers who transact through the shared agents. The ABC took a leading role in facilitating agent training for the member banks that joined the shared agent network.

[12] Most bank agents also operate as mobile money agents.
[13] Bersudskaya, V. and McCaffrey, M., 2017. Agents Count - The True Size of Agent Networks in Leading Digital Finance Countries.

Image 1 Training-of-trainers for the staff members from UBA's member banks.

Through support from FSD Uganda, ABC organised 'training of trainers' sessions to benefit member institutions' staff from the skills and capacities required to manage the shared agent network. Such training sessions enabled participants to gain knowledge about the working of the shared agent network. The banks also arrived at a consensus on common grievance redressal mechanisms. The member banks agreed to collaborate in ensuring the resolution of customer complaints. It was, however, crucial that member banks committed to first-level management of their own account holders' issues. The ABC is the second level of support for grievance redressal.

The critical service standards developed for the shared agent banking network included the resolution of customer grievances. The protocol includes clear operational processes to originate, report, investigate, and resolve issues for customers who transact through the shared agents.

4.2.5 Branding, marketing, and communication

One of the critical goals of the shared agent network was harmony in communication and messaging to customers of all member institutions. Traditionally, each financial institution would invest in marketing campaigns for their brand. For the shared agent network, the Agent Banking Company was not a familiar brand to customers of financial institutions in Uganda.

Each bank on the network committed to driving the visibility of the shared agent network as an industry initiative. The banks displayed the ABC brand at each of their agent locations that were participating in the shared agent network.

Image 3: the financial institutions that are connected on the shared agent banking network.

Image 2: ABC Branding

5.0 The performance of the shared agent banking network

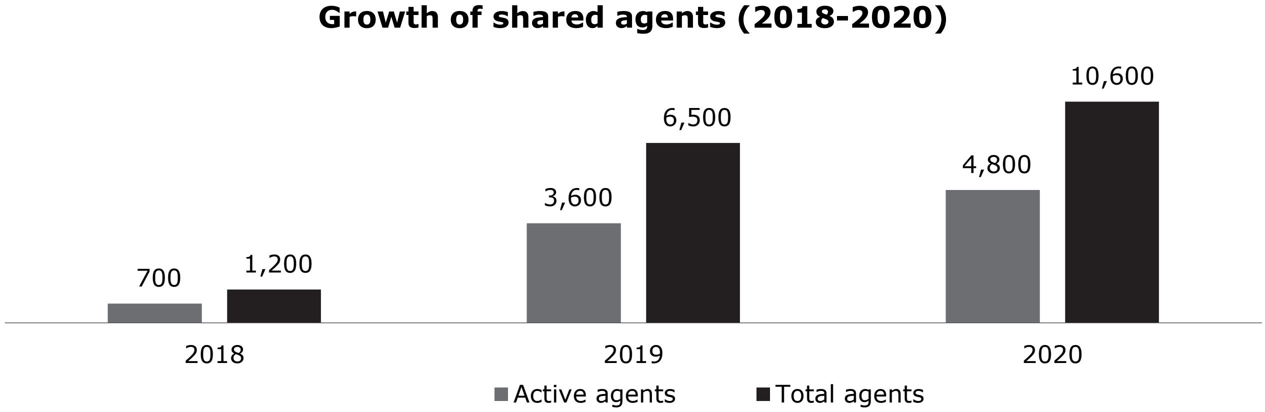
5.1 Growth in numbers, volume, and value

As of February 2021, 18 commercial banks and a tier-2 financial institution are part of the shared agent banking network. These are Absa, Bank of Africa, Centenary Bank, DFCU, Diamond Trust Bank, Exim Bank, Finance Trust Bank, GT Bank, Housing Finance Bank, KCB, NCBA, Opportunity Bank, Post Bank, Stanbic Bank, Standard Chartered Bank, Tropical Bank, United Bank of Africa, and Orient bank. aBi estimates that as of June 2020, about 9,000[14] new jobs have been created directly and indirectly since the shared agent banking network was setup.

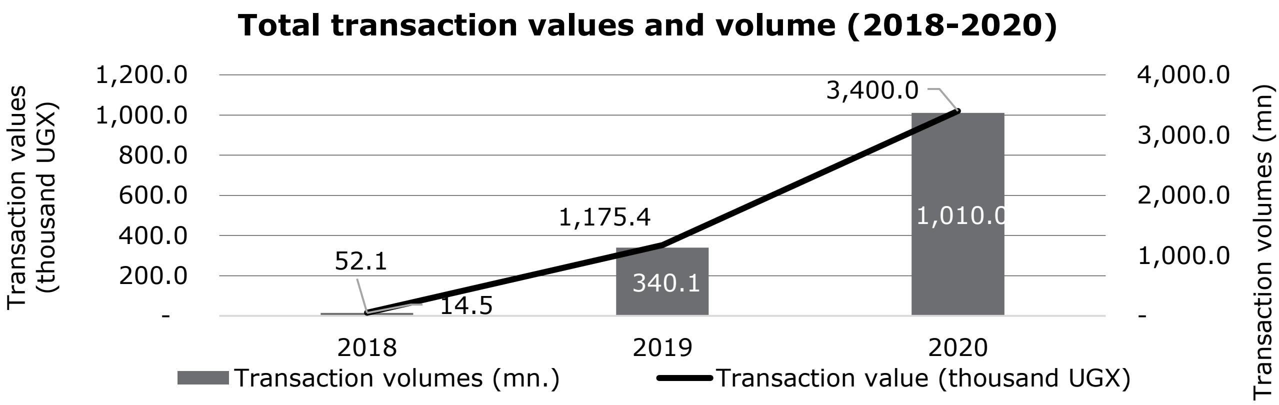
> “Agent banking, in general, has contributed to the creation of job opportunities. Through the provision of a wide range of services to the customers of different Financial Institutions, the agency banking network leads to increased income for business owners, in line with enhanced economic development.”
>
> **– Robert Ocaya, Head of Component I & III, GIZ Promoting Rural Development Programme (PRUDEV).**

[14] Estimated job opportunities through the hiring of agents, staff, and other actors along the value chain, as reported by aBi.

The shared agent banking network started at a slow pace. However, the transactions grew as customers gained familiarity with the transaction processes at the agent outlet.



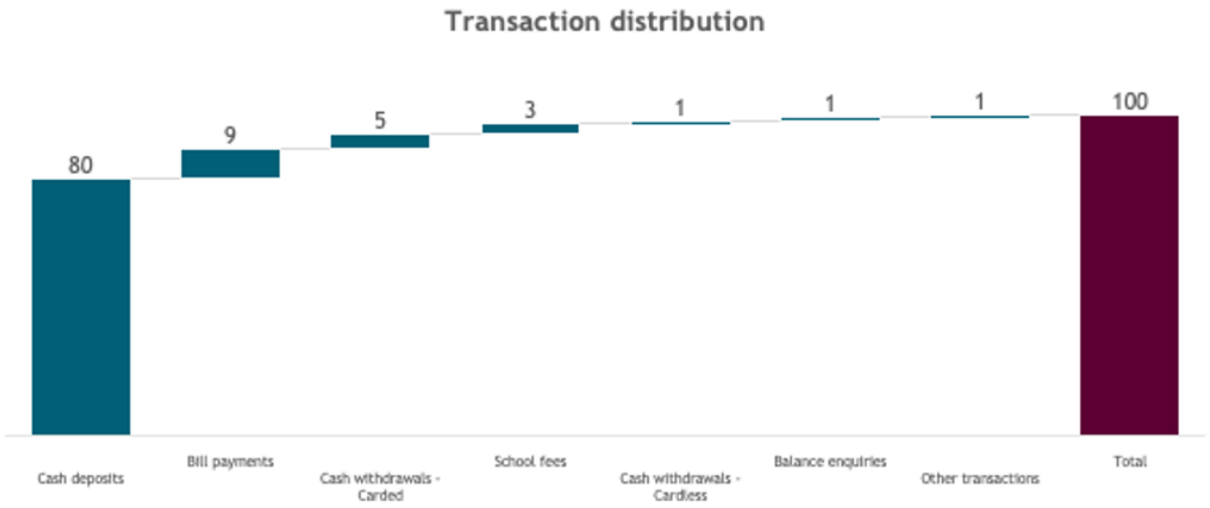
Graph 1 Growth of shared agents (2018 – 2020)



Graph 2 Total transaction values and volumes (2018-2020)

We have observed that the shared agent network has realised steady growth in both activity rates for the agents and volume and value of transactions despite the disruption to the industry occasioned by the COVID-19 pandemic. The first year of operations (2018) saw an agent activity rate of 58%, followed by a dip in activity rate to 55% in 2019. The dip was expected as banks were aggressively recruiting new agents in 2018. In 2020, the agent activity rate increased to 60%. MSC had conducted qualitative research[15] with cash-in and cash-out (CICO) agents in Uganda in July 2020. We found that the income of urban and rural agents has reduced significantly. The agents were conducting fewer transactions on account of the reduced mobility of customers during the COVID-19 lockdown. The shared agent network has thus proved resilient and sustainable amid the difficult economic times.

[15] Impact of the COVID-19 pandemic on CICO agents in Uganda



A closer look at the transaction data shows that the average transaction values are gradually increasing as customers get more confident with transacting on the shared agent network. During the first year of the platform's launch, the average transaction value[16] was UGX 278 or USD 0.076 that has since increased to UGX 304 or USD 0.083 as of the end of 2020. It signals greater customer confidence in the shared agent banking network.

The financial services portfolio on the shared agent banking network continues to expand. Currently, deposits dominate the transactions on the platform. As per the ABC, the proportion of deposit transactions has steadily declined in the last year. Most banks had initially only enabled deposit transactions at the inception of the shared agent network since these required significantly lower technical and operational integration requirements with their core banking systems. Implementing the withdrawal process to the existing banking system is a bit more complicated. Withdrawal or cash-out, by design, demands the exchange of sensitive information, such as Personal Identification Numbers (PIN), and requires significant capital investments in maintenance of security protocols, especially where third-party service providers are involved[17]. Many banks engage third-party service providers for such integrations.

Currently, the services provided by banks through the shared agent network include cash deposits (18 banks), cash withdrawals (card-based – 13 banks and cardless – 4 banks), bill payments (7 banks), school fees payments (7 banks), National Social Security Fund (3 banks), and inter-bank transfers (4 banks). As banks continue to roll out more services through the shared agent network, customers have more choices to access affordable financial services.

[16] The average transaction value includes all types of transactions including those that do not include the transfer of value like airtime top-up and balance inquiries.

[17] One bank, in particular, noted that technology service providers charge over UGX 147 million or USD 40,000 for a system upgrade to incorporate the withdrawal function on the shared agent network.

ABC considers having an interoperable shared agent banking platform —the first of its kind in Africa— as its principal achievement. It helped in proving the value of collaboration and coordination among financial sector stakeholders toward addressing existing challenges. The ABC anticipates breaking even in 2021, just about four years after its launch. Various other stakeholders note several achievements and successes. Below, we discuss these achievements.

Key Pillars of The National Financial Inclusion Strategy (NFIS) 2017-2022

1. Reduce financial exclusion and barriers to access financial services.

2. Develop the credit infrastructure.

3. Build the digital infrastructure.

4. Deepen and broaden formal savings, investment, and insurance usage.

5.2 Achievements in enhancing financial inclusion in Uganda

5.2.1 Contribution to the achievement of the first and fourth pillars of the National Financial Inclusion Strategy (NFIS)

The shared agent banking network has helped banks to better serve under-served populations, and potentially reduce financial exclusion through facilitating Ugandans to open accounts with participating banks. This is especially so in the urban and peri-urban areas where 95% of the agents are based.

In Uganda, like most countries, rural residents have less access to and use financial services less than their urban counterparts. However, because a large percentage of residents live in rural areas, the relative impact for Uganda on financial inclusion is greater than in other countries.

Women, youth, and rural populations are a key priority area for the NFIS. The shared agent banking network has enabled the proximity of access points to women and created income opportunities for youth and rural populations to serve as agents.

The shared agent banking network still has a long way to go, especially in rural and remote areas where most that are financially excluded reside. However, the journey has just begun.

5.2.2 Reduced overall investment for enhanced outreach

Through the shared agent banking network, banks have been able to grow their outreach at a lower cost compared to the setting up of bank branches or individual agent networks. The banks on the platform noted increased brand visibility through increased presence even in rural areas through the agent networks.

As more agents sign on to the shared agent banking platform, the program will work to deploy at least 615 agents or more for every 100,000 people. A few banks reported closing some of their branches to focus on enhancing financial access through the shared agent network.

> “Diamond Trust Bank (DTB) was one of the first banks to join the shared agent banking network. If we had started agent banking on our own, the costs would have been extremely high. It made sense to join the platform—in terms of commercial, economic, and outreach-wise aspects. We now could reach not only our account holders but a general customer in the banking sector. We felt that we could achieve our goals through the platform, so we joined.”
>
> **– Mr. Varghese Thambi, CEO, DTB**

5.2.3 Enhancement of the agent banking business model

ABC has been able to develop and activate capabilities within the platform, such as the super agency module and the master agency module. The super-agency module supports a new category of agents called super-agents who can provide liquidity management services to other agents. Agents have been relying on banking halls that have limited operational hours to rebalance. The introduction of new services like super agency through fast-moving consumer goods (FMCGs) businesses as providers will ease the pressure on access to float and cash for the agents.

With support from development partners, ABC has trained more than 1,000 agents in the course of the next year. Some of the topics that the agents have are to be trained on to include how to conduct the transactions, book-keeping, customer care, and financial management. Training has had a direct impact on the level of service that customers receive on the shared agent network. Skilled agents will also play a critical role in upselling the services available on the shared agent network.

The interoperability of the system enables any participating bank agent to serve customers, thus improving the availability of service, choice of services, and improved competitiveness among the institutions to provide a better customer experience. The platform also provides increased income for business owners who are agents, in line with the government's target to enhance economic development.

5.2.4 Enhanced operational efficiency and mobilisation of deposits

According to FinScope 2018, only 34% of the adult population in Uganda keeps their savings at formal deposit-taking institutions. As of the time of writing this report, the UBA reported that deposits make up approximately 80% of the transactions conducted on the shared agent banking platform. Thus, the shared agent banking network has become an avenue for the banks to mobilise deposits. Also, the customers find it easier and convenient to access formal financial accounts and to save.

The shared agent banking platform enables round-the-clock payments, which means it can facilitate the transfer of funds during weekends and holidays. This has been a value-add for customers who cannot transact during regular banking hours. Further, the platform exclusively allows online validation—when the technology system is available and accessible—and restricts offline agent transactions. When the transaction completes, the customer gets a receipt that confirms that the transaction was successful. This has improved customer confidence in conducting transactions at agent outlets and reduced issues that arise there.

5.3 Socio-economic achievements realised

Agents and customers reported that they spent more time on their businesses instead of spending time in queues in the banking halls.

> “Some of the banks are so congested so you may spend an entire day there. However, now that I serve several banks on the shared agent banking platform, I take the opportunity to transact between my different accounts from my outlet. I am thus able to give more time to my business.”
>
> **– Ebyarimpa Medard, Agent, Kampala**

One of the banks with slightly over 4,000 agents noted a 25% year-on-year increase in transactions processed through the platform. This helped reduce the crowds in the banking halls considering the COVID-19 pandemic and social distancing requirements.

A physician-turned shared agent banking agent in Kampala also noted that debtors at his clinic, which also houses his agency banking business, have reduced. Customers who would previously claim inability to make payments as banks were closed, or had money in their mobile wallets, can now withdraw cash from his outlet. He likes the fact that most of the agents operate a non-dedicated outlet. This means that most agents run other businesses along with the agent banking business.

> “I can now kill two birds with one stone. People come, buy handbags from me and also do some banking.”
>
> **– Mwanza Nasser, Agent, Jinja.**

The agents note that this has helped to increase traffic to their other businesses. The agents who would earlier process mobile money transfers have realised that banks now pay higher commissions in comparison to mobile network operators, which they are happy with. This will likely attract more people to join the agency business, increasing employment opportunities for Ugandans.

> “I no longer have to spend money on transport to access the bank branch. My community now has an agent.”
>
> **– A customer in Jinja**

One of the objectives of the shared agent banking network was to provide affordable financial services closer to the people. It has significantly been achieved, especially for the urban and peri-urban-based population, although more efforts to enhance reach are needed in rural areas.

6.0 Key considerations in the implementation of a shared agent banking network

The shared agent banking network has made considerable progress. However, during its implementation, it experienced several unique challenges. However, many of the challenges faced by the shared agent banking network are not specific to the network but impact the agent banking sector in Uganda. Below we discuss some of these challenges.

6.1 Considerations for financial service providers to build a shared agent banking network

6.1.1 Adequacy of connectivity infrastructure

The lack of 3G and 4G telecommunications systems in some areas can be a significant challenge. The commonly available 2G system in rural areas does not adequately support the shared agent banking platform.

> “ Network interruption is a big challenge for us. While bank X can be available, but bank Y is not. This kind of transaction tends to fail, which angers the customers who feel unsatisfied with the service. ”
>
> **– Daniel Opiyo, Agent**

The ABC, thus, focused solely on setting up the shared agent banking platform in locations that have 3G network reach to reduce failure of transactions at the agent point. Uganda’s National Broadband Policy (2018)[18] stipulated that telecom companies must expand 3G and 4G coverage across the country. Telecommunications service providers announced that they intended to implement 3G and 4G services across the country. Though not achieved yet, the government still aims to ensure broadband connectivity in all parts of the country.

6.1.2 Pricing models and stakeholder compensation

Different players still perceive that they cannot influence the pricing model for the shared agent banking platform. The smaller banks on the shared agent banking platform perceive the bigger banks as having more influence in determining pricing and compensation to agents and other network partners.

Uganda's shared agent network uses percentage-based compensation where the participants (agents, the ABC, and acquiring banks) are paid based on the fees charged by the issuing bank. The ABC, however, currently charges a static fee for deposits (UGX 147 or USD 0.04). In the case of deposits, banks that process more deposits for other banks than withdrawals end up with significantly huge bills to settle in remuneration to their agents. The ABC is considering different models of pricing and compensation that would fairly cater to the different customer dynamics for institutions in the existing market. Some of the key considerations for financial institutions and partners joining a shared agent network include:

- The existing distribution network of financial institutions;
- The existing market share of financial institutions on the shared agent network;
- Existing and projected transaction flow and transaction types; and
- Static versus percentage-based pricing of all transactions on the shared agent network.

Several institutions have taken the initiative to actively migrate non-cash-based transactions such as funds transfers and balance inquiries to self-assisted channels such as mobile banking. Migration to self-assisted channels has effectively reduced compensation requirements to agents on the shared agent networks. Several financial institutions pursued the integration of withdrawal transactions via mobile banking channels. Technical integration of new agent-based services through mobile channels is cheaper[19] for financial institutions compared to card-based channels.

[18] National Broadband Policy launched in 2018 envisaged optimising usage and increasing the efficiency of broadband infrastructure.

[19] Financial institutions reported that technology service providers billed significantly higher to integrate the agent functions through the card channel as compared to the mobile channel.

> In tariffs that we are given, the central bank says that we should not charge for deposits but some banks have now introduced charges on deposits. Explaining to a customer who deposited money in one bank at no cost and then is asked to pay for a deposit to another bank has been difficult for us. Our customers think that we are trying to cheat them. Many people end up going to the bank where they can deposit at no cost than use an agent who levies a charge.
>
> **– Ebyarimpa Medard, agent, Kampala**

6.1.3 Cost of agent tools such as point-of-sale (PoS) devices

The typical agent considers the cost of the device to be relatively high. Agents in rural areas often evaluate the cost of the transaction devices against the number of potential customers in the village. In comparison, the cost of a PoS device is much higher than that of the mobile phones that agents use to operate a mobile money business. A PoS device at the time of writing costs at least UGX 1 million or USD 272. The requirement for a receipt for every transaction necessitates the use of a PoS.

The ABC anticipates that regulations developed for the implementation of the recently passed National Payments Systems Act will do away with the requirement for physical receipts for agent transactions. Electronic receipting through SMS notifications would enable agents to use the much cheaper option of mobile phones instead of a point-of-sale device.

> One of the reasons agent recruitment has been slow is the high cost of the PoS device. We have up to 2,000 agents approved by BoU who have not deployed their services. They have to raise the funds to purchase the devices. Smartphones will be a better option.
>
> **– ABC staff**

6.2 Considerations for agents joining a shared agent banking network

6.2.1 The multiplicity of agents' transactional devices

While the shared agent banking platform is built to have any agent work with only one point-of-sale (POS) device, it is common to find an agent on the platform with several devices. Some of the banks had previously issued PoS devices to the agents recruited as part of their agent networks before the launch of the shared agent banking platform. Many banks had not initially activated the withdrawal option on the shared device requiring the agents to switch to the individual bank's devices to conduct withdrawals. Agents need to consider providing services for institutions that have activated the widest range of transactions demanded by their target market. This ensures that they only need a single point-of-sale device. It also means that an agent's float is not tied up in various float accounts that are not connected to the shared agent banking platform[20].

6.2.2 Customer awareness and acceptability of new channels for financial services

Despite considerable efforts to create awareness of the shared agent banking network, customers continue to struggle with low levels of awareness and digital illiteracy. Customers are concerned about the safety of depositing money with agents on the platform. Some of the banks on the shared agent banking network have tried to build customer confidence by having the agents work from inside their banking halls to reassure the customers that the services offered by agents are at par with those available at a bank branch.

The key lesson for financial institutions is that they need to also invest in the compensation of agents to facilitate digital literacy for customers.

> "Some clients do not believe that they can successfully conduct their bank transactions at an agent point. They do not understand how the Bank of Africa platform is being used to conduct an Absa transaction. When you give them the receipt, they say that they want their money back."
>
> **– Mwanza Nasser, Agent, Jinja**

6.2.3 Electronic KYC and customer identity

Agents struggle to verify the identity of customers they serve which limits their ability to offer various services at the agent banking outlet. Unlike the bank that can easily and electronically validate multiple customer details including KYC, photo, and signature, most customers who seek agent banking services only have a National Identity card. Agents do not have access to the bank system that they can use to validate the authenticity of the identity card.

Uganda's Data Privacy and Protection Act (2019) indicates that the information about a customer is confidential and cannot be shared with third-party service providers without the customer's specific permission. This has also limited the possibility of third-party technical service

[20] The ABC reports that they have since activated the electronic transfer of float between banks.

providers from developing authentication solutions that would solve this issue.

The current account opening process also requires banks to manually verify every account opening application initiated by a bank agent. In an effort to address this concern, Bank of Uganda, in close collaboration with Uganda Bankers Association (UBA), National Identification and Registration Authority (NIRA) and Financial Sector Deepening (FSD) Uganda signed a contract with fintech company Laboremus Uganda in January 2020 to develop a digital ID verification system that will be used by all banks and other licensed financial service providers in the country. This kind of framework will improve the process of verification and authentication of their current and prospective customer information against records maintained at NIRA thus supporting institutions in customer identification for account opening, and/or account validation purposes and during transaction processing It is anticipated that banks will soon be able to integrate with the National Identification Registration Authority (NIRA) to enable customer identity verification at agent points. The ABC anticipates that they will also integrate the shared agent banking platform with NIRA, which would also allow all banks on the platform to provide account-opening services through agents. This has the potential to grow the agent-customer base, increase transaction volumes, and subsequently, increase agent commissions.

6.2.4 Coordination and collaboration in marketing and awareness efforts

Some banks in the shared agent network had initially been running their marketing campaigns for their agent networks. This had resulted in the crowding of each bank's marketing material at agent outlets with little information on the shared agent banking network. The ABC thus developed a marketing and communication strategy that ensured that each agent outlet is only branded with the ABC communication material on which all the banks on the shared agent banking network are indicated.

> “Agency banking requires increased exposure. Each bank has been focusing on its products without indicating the availability of a shared platform. Customers do not know that they can transact with customers in other banks through the platform.”
>
> **– An agent in Kampala**

6.3 General considerations for the set-up of the shared agent network ecosystem

6.3.1 Capital requirements for agent banking

Agents observed that the agent banking business is capital-intensive. Agents are expected to hold initial transaction float amounts ranging from UGX 1,000,000 or USD 272 to UGX 5,000,000 or USD 1,362. This amount of float is frequently inadequate to facilitate the high values of transactions that most agent banking customers conduct. As compared to mobile money, which involves low-value and high-volume transactions, agent banking sees high-value, low-volume transactions with the average ticket size being up to UGX 900,000 or USD 245. Further, agents run out of float much faster and experience challenges with rebalancing particularly when banking halls are closed.

> "You need to have the capital to earn out of the business. During the COVID-19 lock-down, even banking institutions were unwilling to give loans to agents because they are uncertain if we will pay back since the business has been slow."
>
> **– An agent**

Due to fraud and security risks, agents also need to invest in security and currency verification tools. Agents have reported that fraudsters deposit fake notes or prey on agents who do not record transactions[21] to claim that they deposited more than they did. Banks are actively training agents to increase awareness of types of fraud targeted at agents and tightening their monitoring controls.

6.3.2 Incentivisation of penetration of agents in rural areas

According to the UBA, 70% of the agents on the shared agent banking network are based in urban areas, 25% in peri-urban areas, while 5% are in rural areas. Several factors have contributed to the low number of agents in rural areas. These include:

- Urban areas see many more high-value transactions and the bulk of these are transfers sent to recipients in rural areas. The agents, therefore, find it more viable to do business from urban locations.
- Potential agents believe that the business requirements to become an agent are stringent. One commonly-cited requirement is the need for the business to be fully registered. Most businesses in rural areas are not

[21] Bank policies mostly require that the agents record details of all transactions. However, they do not employ strict monitoring to enforce this.

formally registered. For some, this could be deliberate to avoid paying taxes. Many agents in rural areas also lack information on how to go about the process of registration, while others consider the process of formalisation expensive and avoid it.

- Other business requirements include a mandate for the potential agent to have been in operation for at least one year and the requirement of a bank statement for the past six months. Many of the businesses in rural areas lack bank statements. Some banks ask for a certificate of good conduct from the Directorate of Interpol and International Relations, which many find cumbersome to get, especially since they have to travel to Kampala to obtain it. Some banks request various fees, such as search fees worth UGX 60,000 or USD 16 to do a company search. Potential agents often resist this particular request because they reason that they should not pay for this since they are not applying for credit.

It is imperative that stakeholders in a shared agent network actively incentivise agents, especially in rural areas to provide agent banking services. One of the key success drivers for the agent banking business in Kenya is that agents who opened up businesses in rural areas were given preferential approval by the financial service providers.

The BoU has also recently provided in-principle approvals for Tier-2 financial institutions to provide cash-in and cash-out facilities through agent banking. Tier-2 financial institutions that have deeper penetration in rural areas are anticipated to further deepen financial inclusion through agent banking.

7.0 Lessons learned

7.1 Perspectives from the Agent Banking Company (ABC) and development partners

7.1.1 Faster and better onboarding processes are possible if well managed

Typically, the optimal speed of deploying agent banking and having the banks fully operational on the shared agent banking platform is six weeks. However, joining the shared agent network requires significantly high investments. Many institutions took three to four months to get onboarded to the shared platform. The process of onboarding financial institutions would have been faster and better managed if the institutions were aware and prepared for the anticipated capital and operational investment requirements to participate in the shared agent banking platform.

Budgeting and costing for the shared agent network rollout is a complicated exercise. The ABC indicates that a thorough assessment of an institution's readiness to integrate with the shared agent network is a crucial step that should not be overlooked before the commencement. The investment required for any institution to roll out an agent network is dynamic based on its strategic, operational, and financial appetite. An institutional readiness assessment enables interested participants to effectively do forecasting to reserve adequate financial and operational resources.

7.1.2 The business case for banks and agents

The institutions that had invested in their agent networks were required to perceive the business value of opening up their agent networks to other providers. The way the initiative was commercialised and monetised was critical. The ABC had to ensure that the banks that had participated in recruiting agents were compensated adequately for their investment in on-boarding the agents. This meant achieving a delicate balance in developing the pricing and commission models that factored in commensurate compensation for each bank, and agent, participating in the scheme.

7.1.3 Data collection is critical during system implementation

When deploying novel concepts, such as the shared agent banking network, it might be difficult to make accurate financial projections or determine the most effective business model without empirical data. Participants in the system needed to have a good understanding of baseline, mid-term, and long-term performance expectations. They could not foresee several unexpected technical and operational challenges that delayed effective deployment of some services to the banks, and at the last mile for agents and customers. Such unforeseen challenges included market dynamics such as dominant transaction flows, costs of integration, regulatory inhibitions, and customer digital literacy, among others. Elaborate market research and iterative pilot exercises for the shared agent banking platform could have been useful to provide baseline data and lessons with which participants could test and learn before scaling-up.

7.1.4 Impact of high capital and operational costs on agent network roll-outs in urban and rural areas

The high cost of last-mile hardware, such as PoS devices contributed to the high capital and operational costs of delivering services via agent banking. Higher transaction volumes and values as a result of higher population density in urban and peri-urban areas enabled agents to quickly recoup the cost of this hardware. This has not been the case in rural areas where agents still struggle to break even. Stakeholders learned that taking services deeper into the rural areas required consideration of subsidies for agent tools such as PoS devices.

7.1.5 Importance of public awareness campaigns

Public awareness and support are key to build the capacity and confidence of consumers in the uptake of agent banking services, particularly for a shared agent network. The network participants must utilise their understanding of the target market when developing communication materials and messages. They should contextualise these messages and branding to the target market. What speaks to urban consumers may not necessarily trigger the same response from a consumer in a peri-urban or rural setting.

Further, continuous capacity development must be conducted for all stakeholders i.e., the staff of the financial institutions, existing bank agents, and customers. This would ensure that the network participants use the right approaches to deliver services and thus contribute to the effective operationalisation and performance of the network.

7.1.6 Importance of collaboration and competition of financial institutions

Financial institutions need to collaborate and compete on a shared agent banking network. Ugandans typically consider banks in Uganda as expensive, particularly because of the perceived high-interest rates for credit services. Financial institutions justify the cost of credit as stemming from the high costs of operations. Collaboration through initiatives like the shared agent banking platform is one way for banks to reduce operational costs. A few institutions have reported a reduction of up to 80% in costs-per-transaction at agent locations compared to branches.

Stakeholders in the shared agent banking network recognised the unserved demand for financial services in rural areas Some of these areas previously considered unprofitable have emerged as new frontiers where financial service providers can now afford to provide financial services due to the lower costs associated with a collaborative penetration strategy.

7.1.7 An enabling regulatory and policy framework is key for the success of the shared agent banking network

From a regulatory point of view, the policies and procedures that relate to the recruitment, management, and supervision of the agents had been crucial in enabling a robust and secure onboarding process for banking agents in general and those on the shared platform. Industry stakeholders have, however, also observed that some of the requirements were deemed too stringent to apply across the board. The industry stakeholders observed that less prescriptive regulations would allow financial institutions to prudently broaden the eligibility criteria to onboard banking agents, thus allowing banks to lower the barrier for agent recruitment and deepen penetration into rural and remote areas.

Overall, the ABC, financial service providers, and development partners agree that the shared agent banking network will still go through several iterations in its operational dynamics and business models to become a self-sustainable unit. The collaborative approach coupled with developmental support from multilateral partners played a crucial role in its initiation but will still need to play a part in ensuring the shared agent banking network matures to a self-sustainable model.

7.2 The impact of COVID-19 on the agent banking business

According to ABC, the ongoing pandemic has had mixed and unexpected impacts on the expansion of agent banking. While transaction volumes saw a 27% decline, the value of transactions fell by 28% in Q2 versus Q1 of 2020. The government mandates on the closure of all businesses resulted in 90% of agents becoming inactive between March and July. Agent network management activities, such as agent training also stopped during the lockdown.

The services on the shared agent banking network were also interrupted since some of the banks were not fully operational as a result of the national lockdown. Financial services were considered an essential service that would continue during the country-wide lockdown. However, agents faced challenges while accessing the bank branches to rebalance. Consequently, agent transactions and revenues dropped significantly during the lockdown. Once the country loosened the restrictions on the lockdown, economic and agent banking activities started picking up. On a positive note, the willingness to take up digital payments increased among customers who had previously not made digital payments. Banks also encouraged their customers to conduct basic transactions like cash withdraws, deposits, utility bill payments at the agent outlets, and mobile banking. For a temporary period during the lockdown, bank-to-wallet and wallet-to-bank transactions were free. The Bank of Uganda mandated that mobile-to-bank transactions and vice-versa were to be offered free of charge. In a recent research study conducted by MSC in Uganda, insights indicated that agents face twin challenges—reduced income due to lower transactions, and increased expenses due to the need for greater hygiene and safety measures. Stakeholders in the financial service industry should ensure the business model of agent banking continually encourages people to migrate to a more cash-lite economy.

> “If you had an issue, you would ring the bank but the staff members were not available as the banking halls were closed due to the lockdown. The lack of support affected our operations in agency banking.”
>
> **– An agent**

8.0 The opportunities and way forward for the shared agent banking network

8.1 Facilitation of efficient customer on-boarding through the shared agent banking platform

According to the FinScope survey, 2018, only 58% of the Ugandan adult population are formally financially included. This means that there is a huge opportunity to get unbanked and underbanked to use the shared agent banking network. The shared platform provides an avenue for banks to streamline and securely provide the account opening function through agents, and KYC verification facilitated through the National Identity Registration Authority (NIRA). The Bank of Uganda (BoU) together with Uganda Bankers Association and National Identification and Registration Authority (NIRA), have launched a shared E-Gateway between NIRA, Supervised Financial Institutions (SFIs), and BoU that will improve on the process of the verification and authentication of SFIs current and prospective customer information against records maintained by NIRA.

8.2 Increase the participation of financial and non-financial institutions on the shared agent banking network

Nineteen out of the 26 commercial banks in Uganda are part of the network. There is still room to increase the participation of other financial institutions, such as MFIs, SACCOs, and non-bank financial service providers. Existing agent banking regulations allow only commercial banks to participate directly in agent banking. Other institutions can partner with commercial banks to offer the services and provide settlement on their behalf.

Any financial or payments institution is currently technically and legally allowed to offer its services in partnership with commercial banks. The extension of such a facility as the shared agent banking platform to smaller financial institutions and payment service providers will increase the appeal of the shared agent banking network, customer confidence, and service choice for Ugandans.

8.3 Increased agent on-boarding by targeting more small and medium enterprises (SMEs) and FinTechs

The ABC notes that the current number of agents on the shared agent banking network is still far below their targeted number. Through the network, small and medium enterprises (SMEs) increasingly have a chance to invest in agent banking, not only because it is profitable but because SMEs are adequately positioned to have the resources, and the required experience in handling customers and large sums of money. As the shared agent network matures, the business case for SMEs is quickly becoming more validated. The ABC's technical infrastructure is now more robust and reliable meaning agents can comfortably operate with the shared agent banking's POS[22] only. Other barriers to entry such as the regulatory requirements for printed receipts are under consideration for review by the Bank of Uganda.

Currently, agents on the shared agent banking network are paid up to 1% of the transaction value. The small and medium enterprises (SME) sector has an opportunity to take advantage of the agent banking network and diversify its sources of income. The ABC also notes that FinTechs also have an opportunity to work with it to offer those services that are not yet available. Through the shared agent network, one of the FinTechs interviewed reported conducting more than double the total transactions carried out by a leading bank that was hosting them. The shared agent banking platform is now adequately versatile and 'Fintech-ready' since the Core Banking Systems (CBS) of most Ugandan Banks have already been integrated.

8.4 Enhancing the scope of services available on the shared agent banking platform

The shared agent banking platform intends to ensure the availability of all basic transactional services of every institution through agents on the platform. The platform has the scope to facilitate lending origination services[23]—including to sectors that are critical to the economy, such as agriculture—as the platform allows the receipt of credit applications and loan disbursements through agents. There is also a scope to add a credit-scoring engine to push an overdraft facility for agents,

[22] Some agents previously reported requiring more than one PoS to serve customers if the ABC PoS had technical issues.

[23] Agents are not allowed by law to provide credit services on behalf of banks. They are, however, not prohibited from facilitating the process through the collection of documentation required by banks for lending.

especially for those agents who are sole proprietors, to boost their liquidity. Development and roll out of other payment services such as Universal QR Code for merchant payments, mobile wallet solution as well as switching of ATM cash withdrawals.

The ABC can also consider facilitating insurance, especially agricultural insurance, and other micro-insurance solutions, available on the shared agent banking network. Other services that ABC plans to introduce to further promote cashless payments include merchant services, collections, and bulk payments. Having a variety of services makes transacting on the shared agent banking platform even more attractive to both agents and customers. Doing this increases the value proposition for agents and will likely attract more potential agents to sign up.

8.5 Evolution of tariff structures for service pricing and agent commissions

Pricing and commission structure management is a delicate balance between what is reasonable to customers and what compensates the banks and agents adequately. Participating financial institutions should focus on the long-term benefits of the shared agent banking platform, which depend critically on how well players can offer competitive products, rather than focus on the immediate transactional revenue of deposits and withdrawals. Digital transformation continues to lower the margins on transactional revenue and financial institutions must consider more innovative ways to compensate agents who provide these services on their behalf.

8.6 Increased liquidity support services for agents

The ABC is aware that currently, agents rely solely on banking halls to get the float. The company, therefore, has plans to introduce super-agents who could include Tier-IV institutions like SACCOS, financial NGOs, and other non-deposit-taking institutions to support agent liquidity, especially when the banking halls are closed. The agents will then continue to serve their customers with minimal interruption.

8.7 Enhanced awareness campaigns and capacity building efforts

Development partners like aBi and GIZ have previously supported investments in consumer sensitisation for the shared agent banking network. More needs to be done to drive usage of the platform through active participation, encouragement, and collaboration by financial service providers, agents, and customers.

These efforts should target all network stakeholders and should focus on creating awareness of the platform and its benefits, sharing knowledge on operations and usage of the shared platform, and improving the customer experience. This involves ensuring that avenues for customers to resolve grievances, such as call centres and customer care points, are readily available and well equipped to handle complaints. Marketing and branding efforts should also focus on enhancing the transparency of the pricing structure.

8.8 Enhanced agent network management structures

Financial institutions need to invest in establishing streamlined agent network management structures and activities, such as agent monitoring, liquidity management, agent training, and risk and fraud management. Financial institutions can take advantage of the collaboration provided by the shared agent banking network to coordinate agent management activities that reduce duplication of efforts by respective members of the consortia. Enhancing the financial management skills of agents is one of the key agent management functions that will require dedicated focus.

8.9 Use of data analytics to enhance agent network management

Data collected on the access and use of financial services provided by agents can help to plan and project insights and intervention to aid decisioning. This may include recruitment of agents, liquidity management, monitoring and evaluation, risk and fraud, pricing and commissions, as well and marketing and communication

Looking forward, the Agent Banking Company (ABC) Uganda Ltd has developed a 3-year strategic plan 2021-2023.

> “We need more training. Some of us are not good at managing finances. For example, I run my business for a full week without balancing. I needed somebody to let me know how to manage this effectively to not fall short. How do you get to know that your business is growing and you are making a profit? How do you counter the risks? At times, we are not able to be professional with this business. We need help.”
>
> **– An agent**

9.0 In conclusion

Overall, the shared agent banking network is a great innovation for Uganda's financial sector. It has been critical in the country's journey to attain deeper financial inclusion; enabling financial institutions to benefit significantly from the reduced cost of expansion. The industry achieved an unprecedented feat in onboarding 75% of all commercial banks in the industry to collaborate on a relatively unfamiliar concept, and that has provided benefits to stakeholders involved. The shared agent banking network has enhanced employment opportunities that provide an extra source of income for local business owners.

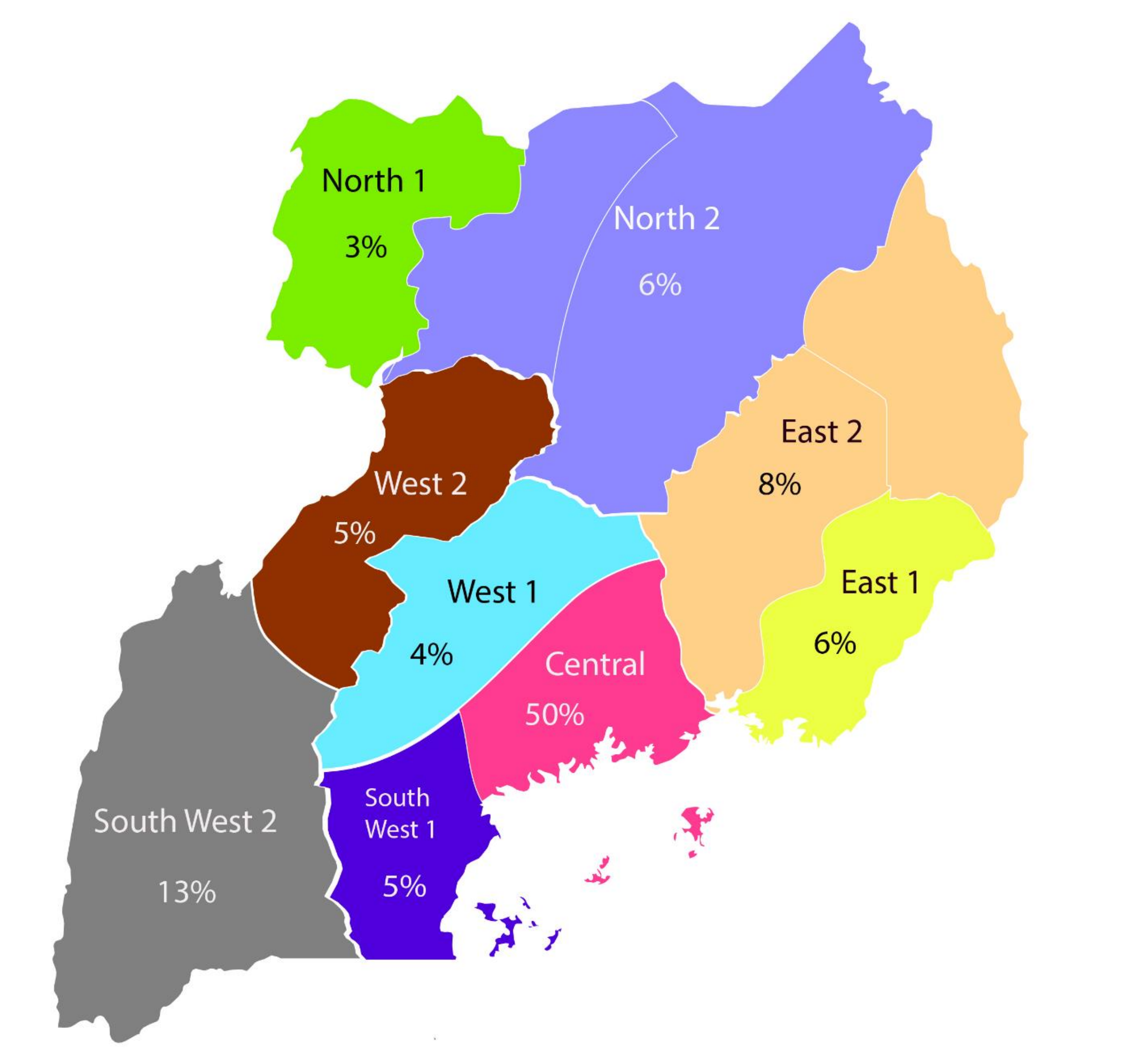
However, there is a need for the shared agent banking network participants to implement concerted efforts to enhance rural coverage. Currently, 95% of the agents are located in urban and peri-urban areas, of which 60% are in Kampala alone. Financial institutions need to enhance their capacity to not only access the shared agent banking platform but also to reap the full benefits from participation in a shared network. This is especially relevant for tier-IV banks that have the resources and capacities to take agent banking services closer to the remote and rural communities.

A few measures such as establishing better internet infrastructure, consumer education, and consumer protection efforts, can help to improve the efficiency and effectiveness of the shared agent banking network. The stakeholders are committed to ensuring that the objectives of the shared agent banking platform are achieved, including policy advocacy with the national government. They have been doing their part to invest more in both the network and the platform.

Financial service providers in other markets, including those in Uganda, can derive critical lessons from what the shared agent banking network in Uganda has achieved. These learnings can be used to implement similar systems or improve on what exists in their jurisdictions.

10.0 Annex

Overall Banking Agent Network Geographical Distribution in Uganda



The map on overall banking agent network geographic distribution reflects the current total count of banking agents in Uganda. Majority of these agents have joined the Shared Agent Banking network, and in the short term, the growth and spread of Shared Agent Banking is likely to follow a similar geographic pattern.

Zones	Locations/Towns	Agent Spread
Central	Kampala (5 Divisions & the Suburbs); Wakiso, Mukono, Kayunga.	**50%**
East 1	Jinja, Mayuge, Kamuli, Lugazi, Iganga, Bugiri, Namutumba.	**6%**
East 2	Busia, Tororo, Palisa, Mbale, Soroti, Kapchorwa, Karamoja sub-region and surrounding areas	**8%**
South West 1	Mpigi, Kalangalala, Kyotera, Lyantonde, Rushere, Sembabule, Masaka.	**5%**
South West 2	Bushenyi, Ibanda, Rukungiri, Kanungu, Ntungamo, Mbarara, Kabale.	**13%**
West 1	Masindi, Hoima, Kiboga, Luwero, Nakasongola.	**4%**
West 2	Mubende, Mityana, Fort Portal, Kasese, Kyenjojo, Bwera, Bundibugyo.	**5%**
North 1	Apac, Lira, Gulu, Kitgum, Pader.	**3%**
North 2	Pakwach, Nebbi, Paida, Zombo, Koboko, Adjumani, Yumbe, Moyo, Arua.	**6%**

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