

Agent banking for bangladesh

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Bangladesh Bank mulls agent banking for financial inclusionM S Siddiqui

Agent banking is a financial service offered to customers by a third party on behalf of a financial institution (FI). An agent is an entity that is engaged by an FI to provide specific financial services on its behalf using the agent's premises.

It is an additional delivery channel that can enhance the convenience, the outreach of quality and affordable financial services, particularly to the underserved, in a more cost-efficient manner. Such an arrangement is a cheaper way for FIs to reach out to the underserved population. The use of the term 'agent' is not necessarily a reference to an agent in the traditional legal sense of a party authorised by a principal to act on the principal's behalf and for whom the principal is liable with respect to activities taken by the agent within the scope of its agency relationship or contract.

An agent is any third party acting on behalf of a bank, whether pursuant to an agency agreement, service agreement, or other similar arrangement. In most countries, the principal banker is liable under a law for the actions of its agents, whether such actions are explicitly or implicitly authorised. Liability for the actions of a non-agent entity acting on behalf of the bank may be different and will often depend on the contractual agreement.

However, a bank's liability (whether by law or contract) for third-party actors will likely impact the bank's policies and procedures, which will in turn impact the supervisor's oversight of the bank. The Bangladesh Bank has many recent projects for inclusive financial packages to reach out to non-bankable citizens. Achieving financial inclusion therefore requires innovative

business models that dramatically reduce costs for everyone and thus pave the way for profitable extension of financial services to the poor citizens.

A major obstacle to financial inclusion is the cost-not only the cost incurred by banks in servicing low value accounts and extending banking infrastructure to underserved, low-income areas, but also the cost incurred by poor customers, in terms of time and expense in reaching bank branches. The banking agent method emphasises greater efforts towards achieving the vision of an inclusive financial system that best serves all members of society, including the underserved, to have access and usage of quality and affordable essential financial services. FIs can reach an additional client segment or a geographical area.

Reaching poor clients in rural areas is often prohibitively expensive for financial institutions, since transaction numbers and volumes do not cover the cost of a branch. In such environments banking agents use their existing retail infrastructure. Lower set-up and running cost can play a vital role in offering many low income people their first time access to a range of financial services. Also, low income clients often feel more comfortable banking at their local store than walking into a marble branch. The clients benefit from the agents' banks with lower transaction cost and service, but closer to the client's home.

Bankable persons visit stores anyway for groceries all the day, enjoy services with a smaller crowd than in branches. Globally, retailers and post offices are increasingly utilised as important distribution channels for financial institutions. The points of service range from post offices in the outback of

Australia where clients from all banks can conduct their transactions, to rural France where the bank Credit Agricole uses corner stores to provide financial services, to small lottery outlets in Brazil at which clients can receive their social payments and access their bank accounts.

It has been used very well in Latin America and Asia. There are few African countries that have taken up agency banking. Cheaper to operate: It has been found in research that agent banking systems are up to three times cheaper to operate than branches for two reasons. First, agent banking minimises fixed costs by leveraging existing retail outlets and reducing the need for financial agent banks to invest in their own infrastructure. Second, acquisition costs are lower for bank-enabled agents and bank wallets.

The advancement in information and communication technology (ICT) has brought with it the tremendous innovation in the banking industry. Currently, agent banking is an integral part of modern banking in many countries. Banks in Bangladesh are offering services for transfer of money from overseas to any remote area of the country. The payment of different utility bills through mobile bank outlets is very common. The agent banking will provide much more services to the clients.

Whether a client accesses his bank account at the agent's outlet or in a branch or at an ATM does not make any difference. Technology can enable banks and their customers to interact remotely in a trusted way through the existing local retail outlets. Customers can be issued bank cards with appropriate personal identification number (PIN)-based or biometric security features and the local store-the banking agent can be equipped with a point

of service (POS) device controlled by and connected to the bank using a phone line or wireless or satellite technology.

Infrastructure requirements can be further reduced by using mobile phones both to hold " virtual cards" for customers and as a POS device at the store. Responsibilities of agents: The agents have many responsibilities. Such responsibilities include - apply diligence in validating a customer's identity and transactions to avoid entering into fraudulent transactions or dealing with fraudsters; maintain a transaction record book, being evidence of every transaction undertaken in the specified format or in such a manner as required by the bank.

The transaction record book should be the property of the bank and be returned to the bank by the agent upon termination of the contract or when it is fully completed before issuance of a new transaction record book; comply with the bank's Know Your Customer (KYC) and Anti-money Laundering/Combating Financing of Terrorism(AML/CFT) requirements and/or laws or other regulations in force; keep details of customers or customer transactions confidential; maintain their connectivity with the internet in order to gain access to the web agent portal; provide sufficient cash for the location offering cash load and payout services; comply with the central bank regulations, where the online web portal is in use; display merchandising materials provided at their location; ensure employees are trained by the bank on agency operations. Banks also have to ensure that agents, as extensions of the banking system, are able to provide professional customer

service, keep records, handle cash, and manage liquidity. As a result, one of the primary questions regulators grapple with is who can act as an agent.

BB's initiatives: The ongoing global expansion of high-tech telecommunications infrastructure, coupled with the increased availability of advanced information technology services, is having an impact on almost every industry, including banking. The Bangladesh Bank (BB) plans allowing agent banking to gear up further its drive for financial inclusion aiming to help the government achieve sustainable economic growth. The BB has already laid the necessary foundation for agent banking by introducing mobile banking that has already got a good response, especially from rural people.

Currently, eight banks are providing mobile banking services involving the country's major mobile phone operators. Many countries permit a wide range of individuals and legal entities to be agents for banks. Other countries limit the list of eligible agents on the basis of a legal form. For example, India permits a wide variety of eligible agents, such as certain nonprofits, post offices, some shop owners, retired teachers and most recently, profit companies including mobile network operators (MNOs).

Explicitly excluded, however, are the largest microfinance institutions (MFIs) registered as non-bankfinancecompanies (NBFCs). Kenya takes a different approach, requiring agents to be for-profit actors and disallowing non-profit entities (like non-governmental organisations (NGOs), educational institutions, and faith-based organisations). In another example, Brazil permits any legal entity to act as an agent, but prevents individuals from

doing so. The issue of liability: There is the delicate issue of liability of any mistake or misappropriation.

Imposing liability on banks for acts of their agents is often the key factor in giving bankers the comfort needed to permit the use of agents. There is a point of imposing liability on banks for agents' non-compliance with bankers' requirements. Imposing liability on banks for acts of their agents is often the key factor in giving banks the comfort needed to permit the use of agents. The bank liability for agents' noncompliance forces the agents to ensure professional agent behaviour and agents' compliance with agreed norms and rules issued by central bank.

All countries that permit bank agents also impose bank liability for these agents. Brazil, a country with perhaps the most widespread use of banking agents, requires banks to be " fully responsible for services rendered by its agents. " Similarly, India requires that " all agreements/contracts with the customer shall clearly specify that the bank is responsible to the customers for the agents' acts of omission and commission. Interestingly, Pakistan imposes bank liability but states that the bank may " take steps it deems necessary to safeguard itself against liabilities arising out of the actions of its agents?. This clause suggests that banks should enter into indemnification agreements with their agents-a protection that could steer banks toward large and well-capitalised agents capable of indemnifying the bank while forgoing agent relationships with smaller retailers who may nevertheless be better positioned to serve the low-income population segments. However, despite the widespread imposition of liability for agents' acts, financial

inclusion goals would benefit from limiting the provider liability to those actions or omissions related to the provision of financial services.

A failure to do so potentially increases costs of the financial services provider who may have to pay damages for agents' actions unrelated to the purpose of the agency. These costs could have a market chilling effect, negatively impacting not only on the emergence of viable business models but also the ease and speed by which such models reach a certain scale. Some countries more clearly limit the extent of liability to the financial services provided. For example, Kenya's banking agent guidelines impose liability on banks for agents' actions, even if not authorised in the agency contract.

The service charge of an agent is a matter of concern. Nearly all countries prohibit the agent from charging customers directly for agent services, and some countries even restrict how much a bank can charge customers for agent transactions. Such well meaning regulations, aimed at protecting customers from excessive fees, can endanger the spread of branchless banking models, if they leave participants unable to make an acceptable return in light of the unique challenges and costs of reaching the poor.

According to the BB plan, the agent could be an employee of bank who would offer people banking services including deposit and withdrawal of cash, transfer of fund, bill payment and the receipt of remittance, salary and government benefits. We would wait with interest for the BB rules on bank agency, particularly the list of eligible agents, the liability of errors and omission of agents.