

# New Sales and Distribution Models in Mobile Financial Services

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## Abstract

In the last five years we have witnessed a transformation in the way financial services are delivered in developing countries. In particular, the rapid mass-market penetration of mobile phones has created opportunities for new business models to emerge. For example, the financial inclusion industry is intimately familiar with Safaricom's M-PESA, which is now being used by most adults in Kenya. Recently, successful mobile money deployments in other markets have challenged the perception that mobile money is a Kenyan story while banks and financial services startups are using mobile money platforms to deliver new services beyond payments.

In the midst of this rapid progress, there has been little attention dedicated to the evolution of sales models and customer engagement strategies in this new mobile financial services era. Empowered with mobile connectivity, financial services providers are increasingly utilizing existing retail infrastructure as agents for cash-in/out. They're also migrating sales and distribution functions outside of traditional branches through outsource partners, mobile-enabled field agents, or even self-service via the mobile.

The primary hypothesis of this paper is that, despite the promise of increased reach and efficiency gains, these new approaches are fraught with challenges. High-touch engagement at the point of sale is often still necessary, especially for low-income clients. Additionally, moving beyond payments to more complex products (e.g., insurance) requires a specialized, labor-intensive sales channel and careful selection and management of new types of channel elements (e.g., retail sales agent outlets or roaming field agents). Finally, sales messages need to be streamlined to communicate a clear and simple value proposition to clients, which is not easy to do in less controlled environments characteristic of non-traditional channels. This paper aims to draw insights from market players that are seeking to overcome these challenges in the race towards scale.

## 1. Introduction

There is a revolution underway - we are witnessing the reinvention of financial services for the poor. While traditional microfinance and banks remain important, new institutions—including mobile network operators (MNOs), specialized banks, and entrepreneurial start-ups—are beginning to serve the low-income market. These institutions are providing a host of new products and services through the use of mobile and other technologies. In particular, we see a shift from high cost, full service branches owned by the institution, to a variety of indirect channels (e.g. agents, ATMs, call centers, or roving teams of sales agents). In some cases, these are directly managed by the provider while in others they may be outsourced.

These approaches hold great promise to create large new pools of profitable, low income customers and thus expand financial inclusion. However, as providers push forward into this new territory, they have

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uncovered a new set of challenges. New operational models involving agents and self-service via mobile separate sales from servicing and other elements of distribution which had previously been all bundled together in traditional branches. This “unbundling” implies new types of customer interactions and customer touch points, which in turn require new ways of thinking about sales and distribution.

While this new set of models is still in its infancy, there are some early movers trying to use agents and mobile platforms as fully functional channels for CICO (cash in, cash out), customer acquisition, sales and product servicing over a range of financial products.<sup>2</sup>

In this paper, we use case studies and information gathered from a large number of interviews with practitioners and market participants to synthesize some early lessons and provide practical guidance to providers. Our primary set of examples comes from Kenya, where MM is driving rapid industry restructuring and business model innovation. We also draw from select emerging cases in Bangladesh, India, Pakistan, Tanzania and Uganda. The intended audience for this paper is thus practitioners and market participants in the newly intersecting areas of financial startups, banking, and mobile payments - as well as donors, policy makers, and market observers with interest in this space.

Despite their importance, this paper does not touch on branding or above the line marketing and advertising. Also, we do not investigate the challenges of selling the MM service itself, except to the extent that lessons learned by MM providers highlight broader lessons for other types of providers. Thus, in this paper we deliberately focus on the unique challenges associated with providing down-market financial services via mobile money and other agent-based models.

## 2. Key Findings

While new approaches are diverse, some common elements emerged across the different models, including: (i) a greater focus on outsourcing and outbound sales, often facilitated by mobile technology linking POS or agents with branches or headquarters; (ii) agent-based sales (whether outsourced or not) outside of traditional retail branches; and (iii) incorporating real-time information and mobile-enabled processes at the point of sale to facilitate client on-boarding.

Our main insights include:

- Immediate account activation at the point of client on-boarding accelerates sales and increases likelihood of product usage. Delays in activation or requirements to return with ID and other documents can result in inactive accounts or lost sales.
- The customer acquisition process needs to be distributed and decentralized in order to increase geographic reach, meeting clients where they live and work.
- Specialization of distribution functions through separate (but overlapping) channels for sales, customer service, and CICO (as opposed to the traditional model of bundling all functions into a single retail outlet or branch) enables providers to reduce costs while enjoying the benefits of specialization.
- When working through outsourced or non-branch based sales, it is critical to streamline the sales process - including a clear and easy-to-communicate value proposition for clients. This is crucial if providers are to make best use of these “arm’s length” channels, where there is less

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<sup>2</sup> See [Kendall, Machoca, Maurer, and Veniard \(2011\)](#) and [MicroSave \(2011\)](#) for discussion of some lessons on using mobile money to outsource the CICO function in Kenya.

control over training and monitoring of front line staff. It helps to have a known brand to establish trust and interest.

- Products themselves must be optimized for delivery through the mobile and agent channels. This does not always imply a *reduction* in functionality; clever providers are using mobile platforms for real-time communications and low cost digital transactions to enable fundamentally new functionality.
- Migration from high-touch, in-person to low-touch, self-service sales channels (e.g. through the mobile interface) will be challenging for some product types, but can ultimately yield large cost-savings.
- There appears to be a sequence where migration to lighter touch sales channels can occur once a critical mass of early adopter clients has been acquired.
- Use of outbound sales can be effective for a high touch approach, or when targeting clients where they live and work.

Recent market evolutions in Kenya further confirm many of these principles. In November 2012, after most of the research for this paper was complete, M-Shwari launched in Kenya. M-Shwari consists of a bank account from Commercial Bank of Africa, completely integrated via SIM menu and free transfers to the M-PESA platform. M-Shwari illustrates many of the above lessons by taking them to the extreme (see greater detailed in a box below). M-Shwari has almost no traditional distribution footprint and is the first truly “virtual” mobile-enabled product. Critically, M-Shwari fully capitalizes upon the M-PESA brand to establish trust and interest. It also uses a fully automated on-boarding process to eliminate a key sticking point for many of the other innovators we interviewed – the need for a high-touch interaction at the point of sale and on-boarding. Through this approach, M-Shwari has achieved amazing uptake in a short time, on-boarding 1.6m clients in the first 3 months. Nevertheless, it is still too early to declare M-Shwari a success. It’s not yet clear that initial curiosity will translate into long run usage. This product should still be watched closely for the lessons it will generate for the field.

### 3. Related work

Only a few recent papers explore the consequences of the mobile technological and business model innovations driving major changes in how financial services are delivered.

In a recent paper titled “A Digital Pathway to Financial Inclusion” Dan Radcliffe and Rodger Voorhies lay out the basic features these new models will comprise, including a focus on using mobile phone based digital payment platforms.<sup>3</sup> As that piece shows, the key to making the business models work is to keep clients’ money in digital form, avoiding costly cash transactions or in-person interactions.

Mireya Almazan and Ignacio Mas (2011)<sup>4</sup> review the opportunities and strategic choices facing banks considering agent based strategies. The paper discusses why banks should develop a separate CICO and customer acquisition channel (i.e. agents) to move these functions out of the branch, while focusing branch activity on up-selling and other product servicing activities. Work done at CGAP (2011)<sup>5</sup> and

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<sup>3</sup> [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2186926](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2186926)

<sup>4</sup> [Almazan M. and Mas I., “Banking Through Everyday Stores”, Innovations Journal, Volume 6, No.1, Spring 2011](#)

<sup>5</sup> [Kabir, Kumar, “Banks Have Some Good News ... Are they Listening?” CGAP Technology Blog, 2011](#)

*MicroSave* (2011)<sup>6</sup> documents large differences between the costs associated with bank branches and the lower costs associated with agents or mobile money outlets.<sup>7</sup>

Initial attempts to capture the benefits of these lower cost channels have encountered significant difficulties. Two recent papers discuss some of the challenges associated with using mobile money for financial service delivery to the poor. Kendall, Machoka, Maurer, and Veniard (2011)<sup>8</sup> and *MicroSave* (2011)<sup>9</sup> provide related overviews of the impact the mobile money platform has had on the Kenyan market, describing some of the innovative approaches being tried there. *MicroSave* (2011)<sup>10</sup> goes into the operational challenges that some players have had in adopting a mobile enabled product set. They contend that if customers experience problems with their mobile money transfers going to the wrong recipient due to mistyped information, and/or if financial service providers struggle to reverse these transactions due to poor interface, then the willingness to integrate mobile money will significantly erode. This highlights the importance of effective user interfaces that access SIM Address books linking destination numbers with text descriptions (e.g. Kenya Power and Lighting Company)<sup>11</sup>, as well as application program interfaces (APIs) to ensure that transfers reach the intended accounts and can be easily reconciled. Kendall et al (2011)<sup>12</sup> focus on the fundamental barriers to growth in the market, including the high price of money transfers and the lack of a quality API to access the mobile money system. Both papers point out that to the extent mobile money adoption implies new types of client interaction, firms have struggled to develop new approaches to sales and client relationship management.

#### 4. Our research methodology and approach

This paper draws on notes from structured conversations with a host of providers by the authors over the course of 2010-2012, though we also call on lessons gathered through informal discussions with many other players in the field. Below are two tables with descriptions of many we spoke to.

We discussed the following key issues with these providers:

- *What steps can new sales and distribution channels enable?*
- *What are the fundamental challenges in sales and product servicing?*
- *What are the new channel options for sales and distribution?*
- *What are the trade-offs for product managers in approaching these challenges?*

On the basis of this we conclude with a discussion of:

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<sup>6</sup> [Chopra, Puneet, "Driving Viability for Banks and Business Correspondents", \*MicroSave\*, India Focus Note 80, 2011.](#)

<sup>7</sup> CGAP concluded that "Transaction costs at agents are 50% the cost of branches and ATMs". *MicroSave* concluded that in the Indian context agents could cost as little as 20-25% of typical branch costs - a level that was also seen in their more recent work with a large African bank client.

<sup>8</sup> [Kendall, J., P. Machoka, B. Maurer, and C. Veniard "An Emerging Platform: From Money Transfer System to Mobile Money Ecosystem", \*UC Irvine School of Law Research Paper No. 2011-14\*, 2011](#)

<sup>9</sup> [Sadana, Mukesh, George Mugweru, Joyce Murithi, David Cracknell and Graham A.N. Wright "Analysis of Financial Institutions Riding the M-PESA Rails", \*MicroSave\*, Nairobi, 2011](#)

<sup>10</sup> *Ibid*

<sup>11</sup> As has been done by GXi GCash and most recently by M-PESA with their SIMple system

<sup>12</sup> *Ibid*

- The main sticking points and challenges
- *The lessons from our discussions with providers*

## Overview of Institutions Profiled

	Description	Key Features
	<ul style="list-style-type: none"> <li>Safaricom's mobile money service launched in 2007 in Kenya</li> </ul>	<ul style="list-style-type: none"> <li>Sales driven by CICO agents who are paid a commission per new customer registered; account opening is highly streamlined and accounts are activated instantly. Third party monitors the agent channel for quality control.</li> </ul>
	<ul style="list-style-type: none"> <li>Leading commercial bank with significant down-market presence in Kenya</li> </ul>	<ul style="list-style-type: none"> <li>In addition to traditional branch sales, Equity offers a mobile-based self-service channel, and is rolling out banking agents to sell and service a full range of banking products. Branch managers are responsible for agent recruitment and management in their catchment</li> </ul>
	<ul style="list-style-type: none"> <li>Vodacom's mobile money service launched in 2008 in Tanzania</li> </ul>	<ul style="list-style-type: none"> <li>Sales driven by CICO agents who are paid a commission per new customer registered; account opening is highly streamlined and accounts are activated instantly. Third party monitors the agent channel for quality control.</li> </ul>
	<ul style="list-style-type: none"> <li>Commercial bank in Indonesia with significant down-market presence in Indonesia</li> </ul>	<ul style="list-style-type: none"> <li>Distribution models are highly differentiated, with branches tailored to four key clients segments. Sales models for productive poor segment follow high-touch approach of traditional microfinance. Roving sales agents handle cash.</li> </ul>
	<ul style="list-style-type: none"> <li>Mobile money joint venture between Tameer and Telenor launched in 2008 in Pakistan</li> </ul>	<ul style="list-style-type: none"> <li>Sales driven by CICO agents who are paid a commission per new customer registered; over-the-counter transactions are enabled at agents, as is account opening for mobile accounts. Agent network monitoring is conducted in-house and liquidity is supplied by the agent network managers.</li> </ul>
	<ul style="list-style-type: none"> <li>Third party mobile phone-based platform provider and agent network manager in India</li> </ul>	<ul style="list-style-type: none"> <li>Eko offers a platform to facilitate financial transactions (primarily remittances) on mobile phones. It runs its own agent network and also franchises out its agent network development capabilities. Clients are recruited primarily through below-the-line activities and personal selling.</li> </ul>
	<ul style="list-style-type: none"> <li>Mobile banking third party agent network manager in India</li> </ul>	<ul style="list-style-type: none"> <li>FINO manages a large network of agents offering G2P, no frills accounts and remittance services to nearly 50 million clients. Sales are driven by FINO's salaried "bandhus", the agents and local government officials, sometimes with support from the local bank branch staff.</li> </ul>
	<ul style="list-style-type: none"> <li>MTN's mobile money service launched in 2009 in Uganda</li> </ul>	<ul style="list-style-type: none"> <li>Sales driven by CICO agents who are paid a commission per new customer registered; account opening is highly streamlined and accounts are activated instantly. Third party monitors the agent channel.</li> </ul>

## Overview of M-PESA-Linked Institutions Profiled

	Description	Key Features
	<ul style="list-style-type: none"> <li>M-PESA linked bank account; offered as partnership between CBA and Safaricom</li> </ul>	<ul style="list-style-type: none"> <li>Sales driven by advertising and word of mouth; activation of account occurs via mobile SIM menu and is instantaneous if KYC verification steps pass. Clients apply for loans via menu as well and are approved based on automated decision rules. All account access is self-serve via the SIM menu, CICO is via M-PESA</li> </ul>
	<ul style="list-style-type: none"> <li>Health savings account for expectant mothers</li> </ul>	<ul style="list-style-type: none"> <li>Customers use M-PESA's bill pay function to make small contributions to a smart card where funds are locked-in for use when one falls ill or needs maternity care. Funds can only be paid out to cover costs at member clinics. Outreach is done through direct marketing and via store agents who sell cards.</li> </ul>
	<ul style="list-style-type: none"> <li>CIC offers bundled savings and life insurance products</li> </ul>	<ul style="list-style-type: none"> <li>Payments and claims are settled through M-PESA with text message reminders to pay when clients are late. Outreach consists of direct marketing via village campaigns and through agents (both M-PESA agents and regular stores). On-boarding is facilitated by smart phone and can happen anywhere.</li> </ul>
	<ul style="list-style-type: none"> <li>Kilimo Salama offers index-based weather insurance sold to farmers</li> </ul>	<ul style="list-style-type: none"> <li>Payments and claims are settled through M-PESA. Mobile smartphone application is used to facilitate client signup. Distribution happens through agro-dealer agents, call in center (self service), and aggregators such as farmer groups.</li> </ul>
	<ul style="list-style-type: none"> <li>M-PESA enabled MFI</li> </ul>	<ul style="list-style-type: none"> <li>Loan disbursements and repayments are done through M-PESA's pay bill feature. However, sales and credit assessment processes are still based on traditional MFI group lending models and require visits by loan officers/</li> </ul>
	<ul style="list-style-type: none"> <li>M-PESA enabled MFI</li> </ul>	<ul style="list-style-type: none"> <li>SMEP provides MFI credit and savings services using M-PESA as a platform to disburse loans, as well as collect repayments. SMEP clients are encouraged to use the M-PESA-based services at group meetings by the organization's credit officers.</li> </ul>
	<ul style="list-style-type: none"> <li>M-PESA enabled pension and unit trust for self-employed or SMEs</li> </ul>	<ul style="list-style-type: none"> <li>Zimele offers a pension scheme and unit trust where clients can remit deposits via M-PESA's pay bill feature. Zimele is able to send SMS reminders and personal phone calls to encourage deposits. Clients are being recruited through M-PESA agents paid a commission to gather client information.</li> </ul>
	<ul style="list-style-type: none"> <li>M-PESA enabled solar power base station</li> </ul>	<ul style="list-style-type: none"> <li>M-Kopa partnered with the Safaricom brand and selects top M-PESA agents to act as re-sellers for the solar units. Key to the sales process is the billing model which allows clients to pay over time while they use the device.</li> </ul>

## 5. A functional typology of sales and distribution elements

As discussed above, new entrants and models are currently transforming the landscape of financial services in developing countries – and nowhere more so than in the area of distribution and sales.<sup>13</sup> In light of the proliferation of models, we found it useful to develop a typology of the *functions* of the sales and distribution mix as distinct from traditional delivery *channels* (e.g. through branches, or retail offices). The functional typology includes:

**Sales and cross-selling of products.** The sales function consists of making clients aware of - and persuading them to try – products and services that have value to them and for which they may be willing to pay. The goal is here is to achieve the greatest success rate at the lowest cost. Advertising and branding support sales and cross-selling, but those topics are beyond the scope of this paper.

- *Key challenge in moving outside the branch: For some products, lack of familiarity or lack of salience of the value proposition may require high levels of investment to convince or educate the client.*
- *Products most affected by this challenge: Savings (value proposition is not very salient<sup>14</sup>) Insurance (complex, hard to communicate value proposition)*

**Customer On-Boarding:** This refers to the process of acquiring a customer who has chosen the product (i.e. is convinced of the value proposition) and includes: helping the client select the correct product features and price point; complying with KYC protocols; and recording client information.

- *Key challenge in moving outside the branch: Data entry, KYC procedures, and client hand holding can often be labor intensive and require strict adherence to protocol*
- *Products most affected by this challenge: Savings (often strict KYC procedures); Insurance (must collect significant client data); Credit (must collect significant client data)*

**Approval and Activation:** This function is often very closely tied to on-boarding. It involves rating the client and determining pricing (e.g. in credit); KYC and account activation (e.g. with savings); and making the final underwriting decision (if insurance). There are a number of models where, often for regulatory reasons, this final step is carried out in a different location by different staff. That is why we list it as a separate functional element, even though in many cases both processes are simultaneous.

- *Key challenge in moving outside the branch: Providers must often invest in screening clients or in matching them to the appropriate product or pricing scheme*
- *Products most affected by this challenge: Credit (risk assessment); Insurance (insurability, moral hazard); Savings (matching account design to client needs)*

**Product servicing:** This category bleeds into the definition of the product itself, but includes call centers and dispute resolution. It also includes the client-product interface, which triggers payments, assesses check values, allows clients to modify preferences, and more. (Some would include CICO in this category, but we feel it is too critical and stands on its own as a separate element of the mix).

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<sup>13</sup> The advent of cheap and widely available real-time communication in the form of mass-market cell phones is bound to have greatest effect here given the geographic nature of distribution.

<sup>14</sup> While poor people almost universally talk about their need for a variety of savings accounts, financial institutions' ability to deliver these in a salient form is challenge. Short-comings often arise from the channel (proximity/convenience) and product (for example minimum balances create barriers to uptake and a basic transaction account is rarely adequate – commitment savings accounts are also required)

- *Key challenge in moving outside the branch: Post-sale, providers must continue to invest in servicing the product including e.g. statements, monitoring, paying claims, etc.*
- *Products most affected by this challenge: Insurance (claims verification); Credit (monitoring, collections)*

**Cash In and Cash Out (CI and CO)**<sup>15</sup>: People need places where they can convert between cash and stored value or e-money if they are to link their cash economy dealings and their digitalized formal financial services. In theory, some financial service providers could conduct all their interactions with clients in electronic value (and many are attempting to achieve this as it can dramatically lower costs), but that would just mean that the cash in/out element has been outsourced to the agent network of a mobile money provider or to the banking system, via ATMs and branches. For example, PayPal relies on existing customer relationships with banks for cash-in/out, and on its partnership with Green Dot to on-board unbanked customers to the electronic system (through pre-paid cards sold through major US retail chains).

- *Key challenge: Clients need to convert cash to book value (or e-value) in order to transact with formal providers ... and then cash out again (often with CICO agents struggling to manage liquidity).*
- *Products most affected: Payments (require dense proximity and broad geographic coverage); Savings (frequent and/or irregular deposits); Insurance (premiums and claims payments)*

The fact that insurance faces significant challenges in all five areas may partially account for the lack of success the microfinance field has had in developing viable insurance products for poor people. Conversely, the fact that the value proposition of payments is clear and that there is little risk of selecting the wrong client for the wrong product (much like the pre-paid voice market, all mobile money clients are profitable on a per transaction basis) allows the sales process to be extremely simple and streamlined, facilitating rapid progress to scale.<sup>16</sup>

## 6. New channel options and their inherent trade-offs

All deployments must in some way implement the above distribution functions. Here we discuss the different channel options product managers have, and the costs and benefits they must weigh as they choose among them.

### ***What are the new channel options for implementing these sales and distribution functions?***

Traditionally, banks have operated in a vertically integrated way, completing all of the functions of selling, on-boarding, approving, supporting, and providing liquidity (CICO) for credit, insurance, savings products all in one branch. The recent trends and innovations highlighted in the introduction are disaggregating the value chain, facilitating specialization of retail points around different functions, and enabling different channels to come into play. From our observations, there are four basic types of retail channel being used:

- Full service branches;
- Specialized sales agents;
- Specialized CICO/on-boarding agents;

<sup>15</sup> Where CI and CO can be performed separately (as with ATMs which often do only CO)

<sup>16</sup> In many countries, regulatory requirements in the area of KYC hinder providers push to scale, though in many cases it's the lack of investment in solving the retail distribution challenge to service the product that stops progress more than regulatory frictions.

- d) Self-service channels via mobile or internet (this might also include bundled products or overdraft facilities which activate automatically.)

Organizations we talked to were often adopting models that essentially disaggregated the traditional branch or full service office of (a) into some combination of (b), (c), & (d). They may have even had different providers fulfilling different roles (e.g. mobile money provider was often the CICO point, outsourcing this function).

Given the critical nature of the sales function, a key element in all of this is where selling takes place relative to the on-boarding, product support, and CICO functions. Each agent (both sales agents and CICOs) is a potential marketing avenue and thus has the potential to damage or enhance the parent bank's/MNO's brand. In the dispersed sales and distribution system, the roles played by different levels of the system vary with the complexity of the product and client interaction. In simplified terms, this can be illustrated by the following table:

**Table 1: Locations for Sales and Servicing Functions by Type of Product<sup>17</sup>**

	Branch	Sales agent	Cash in/cash out merchant	Self-service via mobile
<b>Sales and on-boarding</b>	<ul style="list-style-type: none"> <li>Enterprise loan</li> <li>Complex insurance product (e.g. life)</li> </ul>	<ul style="list-style-type: none"> <li>Recurring deposit account</li> <li>Enterprise loan</li> <li>Emergency loan</li> <li>Complex insurance product (e.g. health insurance)</li> </ul>	<ul style="list-style-type: none"> <li>Transaction account</li> </ul>	<ul style="list-style-type: none"> <li>Automated overdraft</li> <li>Emergency loan</li> <li>Simple insurance product (e.g. bundled life insurance)</li> <li>Money transfers/payments</li> </ul>
<b>Appraisal and approval</b>	<ul style="list-style-type: none"> <li>Transaction account (KYC)</li> <li>Recurring deposit account (KYC)</li> <li>Enterprise loan</li> <li>Complex insurance product (e.g. health insurance)</li> </ul>	<ul style="list-style-type: none"> <li>Enterprise loan</li> <li>Emergency loan</li> <li>Simple insurance product (e.g. life insurance)</li> </ul>		<ul style="list-style-type: none"> <li>Pre-approved overdraft</li> <li>Simple, bundled insurance product (e.g. life insurance)</li> </ul>
<b>Product servicing</b>		<ul style="list-style-type: none"> <li>Transaction account (for large deposits/withdrawals)</li> <li>Enterprise loan (for large installments)</li> </ul>	<ul style="list-style-type: none"> <li>Transaction account</li> <li>Recurring deposit account</li> <li>Enterprise and emergency loans or, overdraft</li> <li>Simple or complex insurance products</li> </ul>	<ul style="list-style-type: none"> <li>Almost all products can have some service element (e.g. statementing) go through a digital self-service channel to reduce costs</li> </ul>

<sup>17</sup> CICO is not listed because there is not really any product specificity to how cash moves in or out. While it's true that some products may warrant higher cost CICO transactions (e.g. credit) this doesn't imply CICO for these products should necessarily be done through a higher cost channel, like a branch.

However, making these new channels fully functional across multiple products is particularly difficult for traditional banks that are accustomed to managing their products in a specific way, in their branches.

***What are the main trade-offs product managers must make in implementing new channel options?***

Beyond matching retail channels with the different functional elements mentioned above, providers must also make fundamental choices about whether to conduct each function themselves or outsource it. CICO, for example, is a prime candidate for outsourcing if there is an operational mobile money deployment in the market and a friendly regulatory environment.

Inherent trade-offs in choosing to go with direct versus indirect channels include:

- Should sales be done *in-house* to maintain closer control over client relationship and sales process, or *outsourced* to increase reach?
- Should providers “meet clients where they live and work,” using high cost *outbound sales* approaches to connect directly with a target segment? Or should they rely on lower-cost, but less targeted *inbound sales* at agent points, stores, branches, and call in centers?
- What is the right mix of high cost, *high touch* face-to-face sales vs. lower cost, *low touch* or even self-service sales channels (e.g. call centers or internet)? Or is the question one of optimal sequencing with more investment in high touch models up front to gain traction in the market, while transitioning to lower touch channels when brand, reputation, and product knowledge are well established?

Trade-offs involved in identifying the best operational and management model:

- Should providers *separate* sales and cash in/out service channels to gain efficiency through specialization or *group* them in retail locations to gain through economies of scope?
- How to best design and implement channel incentives, checks, and procedures to give *proper motivation* without promoting overselling (e.g. to clients who will never use the product) or *mis-selling/mis-placing* of products?

The forces of technology, new payment options, and regulatory reforms described above are modifying how these choices will be made in the future. While one would expect providers to move towards low-touch, indirect approaches to sales (e.g., through self-service channels and the aid of real-time data), our initial observations indicate that the trade-offs are more complex than expected.

*Customer outreach and sales continue to be large cost-drivers and are often the most challenging aspects of reaching low-income segments.*<sup>18</sup> It is often not possible to fully automate this process which implies high-touch, labor-intensive approaches and significant face-to-face conversations. There is a large customer education piece that can be exacerbated or ameliorated by the way the sales channel is

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<sup>18</sup> This is why remittances are such an optimal anchor product in the context of sales: a simple idea, addressing significant pain point, with instant confirmation of the completion of the transaction that builds trust. Most other financial services are more complex, address lower pain point and do not have the immediacy of confirmation and trust; which is why 75% of transactions on mobile money wallets in M-PESA initially just balance enquiries to check “Is my money still there?”

organized.<sup>19</sup> The next section lays out the early lessons from our conversations with providers on how to deal with these challenges.

### Box 1: On-Boarding Customers for Basic Mobile Money Accounts: Principles Identified

Mobile money providers need to reach scale as rapidly as possible. That means they must have a value proposition with near universal resonance and must have a streamlined, successful process for attracting, on-boarding, activating, and keeping customers. Some of the principles mobile money providers have learned in developing their approach to sales and on-boarding provide useful insights to purveyors of other services who wish to reach a wide market:

- Clients should be on-boarded in such a way that they can use the service immediately. They should be using the product while sales messages are still fresh in their memories, and when an agent is present to walk them through the process.
- Linking on-boarding to other processes (e.g. SIM sign up) has potential but often results in dead accounts. In India, for example, many clients were signed up for bank accounts under state mandated financial inclusion drives, but few were encouraged to actually use them. In Tanzania and Uganda, clients were signed up for mobile money wallets as part of SIM registration drives with the same results. These dead accounts can ultimately be very costly to the provider.
- KYC delegation to agents is necessary so that they can do instant on-boarding and activation; tiered KYC approaches can facilitate this process.
- Clients should be educated about the product during sign-up, and employees must have some incentive to do this.

## 7. Early lessons from our discussions with providers

Our conversations revealed some lessons emerging from the trials of the early innovators as they wrestled with the above tradeoffs.

**Selecting the right agents is critical to developing trust, especially as agents play a key role in driving usage.** Likewise, having an effective process for off-loading agents is also important, as signage at non-performing agents can damage the brand of the service.

- The InterMedia mobile money tracker survey in Tanzania found that over 50% of mobile money users conduct assisted transactions, and the vast majority of these rely on agents for assistance.
- One bank in Africa reported that in its rush to acquire agents, it had recruited around 40% who were not (for a variety of reasons including location, business acumen, cash float etc.) fit for purpose. This led to higher than desirable levels of agent dormancy and drop-out ... and to the challenge of off-loading the poorly performing agents who might adversely affect the brand.
- Eko in India has constantly refined and improved its agent recruitment system, which now involves a complex pre-screen questionnaire to assess the likelihood of a prospective agent becoming a success.

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<sup>19</sup> See [MicroSave's Briefing Note # 112 "Financial Education: Time For A Rethink?"](#) for a call to test the efficacy of alternative, experiential, product-focused financial education interventions with a view to making them more relevant for customers and more cost-effective for financial institutions.

- *MicroSave's* research in India has demonstrated that customers have very clear ideas about who will be a successful agent and what makes them succeed – and this of course drives both trust and usage.<sup>20</sup>
- *M-Kopa* in Kenya invests significant energy in agent screening to select which M-PESA agents are viable as sales agents for the M-Kopa product.

**Immediate client on-boarding accelerates sales and increases likelihood of usage:** “Striking while the iron is hot” helps make sure clients who sit through a sales pitch for a product actually sign up. And for products suited to instant activation, a sales agent can even walk the client through using the product for the first time (e.g. making a first deposit of savings or an initial payment), thus lowering the rate of dead accounts.<sup>21</sup> Smart phones, in particular, can help with account opening, eliminating paper forms, helping verify client data entry, and sending data back to HQ in real-time for verification and decision analytics (especially in the case of credit).

- CIC insurance in Kenya has developed the capacity for immediate account opening through smart phones which has allowed them to implement very different sales models where field based agents can sign clients up in real-time, anywhere, e.g. during village meetings in remote villages.
- The Kilimo Salama weather index product comes bundled with bags of seed where the agent scans a barcode on the bag with a smartphone application, inputs the customer’s mobile number, and immediately activating the client.
- EasyPaisa in Pakistan also invested in a new, low cost mobile device for each agent that facilitates taking client information. It also enables agents to photograph ID documents and signatures, eliminating paper and facilitating real-time transmission of the data for instant activation while fulfilling KYC requirements.
- If regulatory restrictions prevent immediate account opening (e.g. as they do in India where agents must submit documentation to branches for final approval), providers should at least outsource the form-filling/paperwork to agents. They should then complete the on-boarding as quickly as possible, providing agents with additional incentives to generate transaction activity.

**Customer acquisition needs to achieve a broad reach:** Whether working through a ubiquitous agent network or an outbound sales force, the customer acquisition process needs to be widely distributed in order to reach clients in the course of their daily routine - at least in the beginning phases of a product sales cycle.<sup>22</sup> Often this implies outsourcing through existing retail channels where potential customers are likely to come. At scale, when viral adoption and familiarity will help drive customer acquisition, providers can move to more centralized, self-service sales channels.

- Self-directed sales channels can be a low cost way to become completely ubiquitous. For instance, Kenya’s Kilimo Salama has call in number to sign up for its weather index insurance product, which it promotes over the radio during agricultural outreach radio programs followed by a large percentage of Kenyan farmers.

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<sup>20</sup> See [MicroSave India Focus Note66 “What Do Clients Want in E/M-Banking Agents?”, 2011](#)

<sup>21</sup> See [CGAP’s Technology Blog on “Let’s Start At The Very Beginning: Strong Customer Activity Needs to Start On Day One”](#)

<sup>22</sup> An alternative strategy that is common in larger countries such as India is to identify locations where target customers can be found – for example many of the migrant workers in Delhi come from specific areas in Bihar and eastern Uttar Pradesh, so Eko has set up agents at both end of this busy remittance corridor.

- Changamka, a health savings product start up using mobile money in Kenya, was initially doing village sales events but found this too costly. It has since emphasized selling through agents who can sign people up on the spot through a POS device and mobile.
- Vodacom Tanzania and MTN Uganda used the government's SIM registration drives to sign up customers. They developed registration forms simultaneously covering applicable KYC requirements for SIM and mobile money. The drives resulted in large numbers of dormant accounts; their key challenge was then how to drive account awareness and usage.

**Specialization of retail channels is a compelling model for providers:** Product sales will often need to be handled by specialized sales channel (insourced or outsourced) with adequate incentives and proper training. The sales and service channels each require different capacities; an agent who is good at maintaining proper liquidity to facilitate lots of busy CICO transactions will not necessarily have the demeanor or the time to engage with customers. This can imply separating the channels or selecting only certain agents to be sales agents – something that requires very well developed agent recruitment and incentive systems.<sup>23</sup>

- CICO points and other agent points can be leveraged to acquire customers but often it is through a streamlined process such as referrals rather than actual selling and onboarding on the part of the agent staff. For example, Zimele Asset Management in Kenya pays M-PESA agents per name to sign up customers to a list which they collect every few days, then call individually to discuss their long term savings and asset management products.
- In India, the branchless banking correspondent and money transfer agent Eko initially hoped that Airtel airtime reseller agents would acquire and service customers, but the mobile money business was but one (minor) aspect of the Airtel sales targets, and commissions were perceived to be too low. Eko then rolled out its own agents and supported acquisition initially with a combination of street theatre and canopies (portable sales booths) with a dedicated sales force operating outside agent outlets. Analysis of the cost effectiveness of these two approaches then led Eko to use only the canopies for customer acquisition.
- NokiaMoney<sup>24</sup> in India used “Promoters” to support customer sign-up at new agent locations – these Promoters set up near to the agent outlet for the first 2-4 weeks – during which they are expected to have acquired a critical mass of customers to have initiated a viral effect. However, *MicroSave's Rapid Agent Assessment* studies have shown that agents seem to become dependent on these Promoters for client acquisition and can struggle to build their customer base after the Promoters they leave.
- Vodacom Tanzania's M-PESA started by relying on CICO agents for customer acquisition, but found they needed a specialized outbound sales channel (i.e. roving sales forces and gazebos) to complement its CICO channel. Eventually, once the viral effect kicks in, such deployments may be able to reduce reliance on this type of high-cost channel<sup>25</sup> but in the early phase, client awareness of the service is too low to rely on walk-in sales.<sup>26</sup>

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<sup>23</sup> Many mobile money deployments recruit a high proportion of inappropriate agents. In response to this pervasive challenge *MicroSave* has worked with banks, telcos and agent network managers across Asia and Africa to develop and test score card-based agent selection systems.

<sup>24</sup> In March 2012, Nokia announced it was “exploring options for a structured exit from the mobile financial services business.” As part of the withdrawal, Nokia closed Nokia Money in India as it focuses on its core business.

<sup>25</sup> It is important to note that the design of incentive schemes for agents – both CICO merchants and sales agents will affect their behavior and thus the costs and effectiveness of client acquisition and product sales. For example many MNOs split the commission for client acquisition so that only some is paid on account opening and the

**A clear and easy to grasp value proposition is key for outsourced or non-branch based sales:**

Outsourcing the sales function can lower costs and connect to pools of customers that would be difficult to reach otherwise, but requires streamlined processes and oversight mechanisms to be in place.

Outsourcing especially works well with simple, stand-alone products.

- Kilimo Salama had more luck when they put their own staff in the agro dealer stores of their agent points to sell their index insurance product, rather than rely on store employees who did not do well in communicating the value proposition to clients (the sales pitch is complex and clients need to be coached to pick the correct weather station location for their village).
- Changamka has a card that the agent sells, with the simple message that if you top up the card via M-PESA, clients will have sufficient funds for emergencies and will also get a price discount on all medical expenses. Outsourcing has lowered costs, but even with this limited amount of complexity, it has proven a challenge for agents to deliver a clear message on value proposition especially during high traffic times (which are the best times to acquire new clients).
- FINO, A Little World, Eko, and other agent-based models in India have reported good results (particularly for remittances) when customers are referred from the local bank branch. These referrals build trust in the agent network and mobile money system, and of course, de-congest the bank branches creating a “win-win”.

**Migration from high-touch to low-touch to self-service sales channels will be challenging for some product types, but will ultimately yield the greatest cost-savings:**

Products that require a greater level of client due-diligence (e.g. credit or insurance) usually necessitate labor-based, higher-touch sales approaches, at least for initial product sales (see Table 2 above). Additionally, products that represent a new category in a particular geography (e.g. insurance or money transfer in new territories) will also require a high touch process to convince clients of the value proposition. However, the account servicing component can often be migrated to a self-service channel over time. Additionally, as the market develops and viral marketing begins to kick in, products with a difficult to communicate value proposition (e.g. savings or insurance) may more easily transition to a self-service channel as the population’s familiarity with the product grows.

- Equity Bank already offers basic vehicle insurance through its ATMs and this is likely to be extended to its sales agents and CICOs and possibly to self-service on the mobile phone once the interface has been developed.
- Although they still rely on some outbound sales events and other high-touch models to build presence in areas where they are not well known, the Kilimo Salama weather insurance product in Kenya is often able to move toward using radio spots that advertised a call in number after word of its product caught on.
- SMEP (in Kenya) is supported by Triple Jump and uses the M-PESA platform for loan disbursement and repayment as well as (now having got the license) for savings deposits and withdrawals. They market through SMS blasts and very visual (as opposed to text-heavy) brochures but the majority of account openings are achieved at the instigation/ encouragement

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balance is paid on the completion of the first transaction(s). Similarly, India has seen widespread dormancy in No Frills Savings Accounts because commissions are significantly high for account opening and remittances – see [MicroSave India Focus Note 72 “Sustainability of BC Network Managers \(BCNMs\) - Review of Commission Structures”](#).

<sup>26</sup> Often above the line marketing, such as TV and radio, miss the mass market in developing countries so outbound or walking sales are the main alternatives.

of SMEP's field officers. This illustrates a common strategy of increasing awareness with above the line marketing and then closure of the sale with below the line, face-to-face marketing.

- Fully automatic cross-sales are perhaps the ultimate "self-service" sales channel. Equity Bank in Kenya has developed pre-approved overdrafts, predicated on an analysis of past savings activity. Clients are reminded of their eligibility for these overdrafts by SMS every time they make a deposit to encourage uptake as well as promote savings behavior.
- Tameer/Telenor has mined voice and SMS data to send targeted SMS promotions for mobile money to their existing clients to promote viral adoption.

**Use of outbound sales can be effective when a high touch is needed:** Outbound sales are often best employed either when one needs to make space to engage clients in a high touch way about a complex new product (e.g. outside of the busy retail store environment)<sup>27</sup> or when effective targeting is possible (e.g. by sending SMS to most active MNO voice clients) or when a product is new and clients have no reason to go visit the retail outlet and must be acquired closer to where they live and work.

- Musoni, a mobile money based credit provider in Kenya that conducts all payments and disbursements via mobile, still has significant in person contact to set up and manage its lending groups by loan officers. Though Musoni is often billed as a virtual MFI, they need significant field staff and branch office presence to support the groups.
- EasySave is a hybrid savings and credit product in Kenya modeled on the P9 product developed by SafeSave in Bangladesh but which also conducts all transactions through the M-PESA platform. Despite the ability to be "fully digital" EasySave still has a long, in-person interview process to determine client eligibility and fit before signing them up.
- CIC insurance's old model was outbound sales in nice neighborhoods where they would target richer, more sophisticated clients who already had bank accounts. Because the clients were relatively wealthy, they could be targeted by which neighborhood they live in. Now they use a mobile based sign up procedure and target poor clients through village activities. Both models illustrate how outbound sales can be used to target effectively.
- As noted earlier, Vodacom's M-PESA in Tanzania employed an outbound sales force to drive uptake and usage among its registered client base. While the product offering was not complex, learning how to access the menu through the USSD code was initially a barrier to usage. CICO agents often assist, but a dedicated sales force could spend more time with new users.

**Streamlining and simplification:** Streamlining is not something that happens after a product is created, it should guide the process of product creation and shape the overall product portfolio to be as simple as possible while still meeting the needs of the low income segments. The goal is to keep the messages and choices customers are confronted with simple, easy to understand, and aligned with client pain points and client value. Simplification also works to keep the sales process easy to manage (sales channels are easily over loaded with multiple products or too many features.) Simplified product lines reduce both the cost of convincing and cost of on-boarding discussed above.

- BTPN Bank in Indonesia has four distinct distribution models and brands, differentiated by customer segments. BTPN's branches are all highly tailored to their four key client segments and the products which are relevant to those segments. The "productive poor" segment, for example, only has access to very modest "mini-branches", that don't even have a plastic chair

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<sup>27</sup> Some mobile money deployments – for example Eko in India also used small portable sales kiosks or "canopies" to sell their service. Their no frills account product was not particularly complex but the mobile money / agent-based delivery channel was new ... and high touch (plus a big bank brand) was required to build the trust.

for clients to sit in, whereas wealthy clients have access to branches that look like spas, along with ATM access and online banking channels.

- Surprisingly, sales models are still high-touch among the top few banks in Indonesia (even the most profitable commercial banks). Labor constitutes at least 70% of BTPN's costs. BTPN uses Grameen's group lending model and financial literacy activities for their productive poor segment, cross-subsidized by their wealthy clients. The use of technology will make processes more efficient, but is not expected to displace roving sales agents according to senior management who believe that face to face contact can't be replaced by technology.
- Equity Bank in Kenya spent considerable amount of time with *MicroSave* to re-examine its entire product suite (savings, credit and insurance) to firstly rationalize and simplify the products being offered and then secondly to prepare the products for delivery across different elements (self-service, CICOs, sales agents and branch) of the mobile money system. In addition, the bank prepared four new products specifically to leverage the potential of the mobile channels.

### Box 2: M-Shwari in Kenya appears to be runaway success – what are the early lessons?

In November 2012, Safaricom announced a tie-up with Commercial Bank of Africa (CBA) that enables M-PESA users to open an interest-bearing account, M-Shwari, directly from their mobile phones, and access short-term loans in real-time.<sup>28</sup> As of 8<sup>th</sup> January, 1M accounts were activated and there were over 1.6m as of mid-February 2013. This rate of acquisition is unprecedented and relies on a variety of key features of the sales and delivery model including:

- *Brand association*: M-Shwari leverages the Safaricom brand to establish trust and interest
- *Seamless integration and on-boarding*: Sign-up and on-boarding require just a few steps from within the phone menu and no manual interaction. M-Shwari is seamlessly integrated into M-PESA menu screens, making it easy to find and use. Creating a savings account is very easy and can be done from the mobile phone in a matter of minutes. The user does not need to know their savings account number at all, and in fact use the same PIN for M-PESA and M-Shwari. M-Shwari is able to leverage the original KYC done by Safaricom; the only step they have to take is to verify that the original ID used is still valid – a process that happens in real time in the background without the knowledge of the client.

Additional features that drive high client interest include:

- *Automated credit decisions* based on an analytical engine that analyzes past behavior
- *No transaction fees* in transferring cash between an M-Shwari account and M-PESA and interest between 2 and 5% paid quarterly, depending on balance. The value proposition of free access to a bank account via mobile money (or alternatively a mobile money account that pays interest) is highly salient.

These features almost entirely obviate the need for an active sales channel and have allowed uptake of the M-Shwari account and loan product to proceed at a blistering pace.

In fact, M-Shwari illustrates many of the above lessons by taking them to the extreme. M-Shwari fully leverages the M-PESA brand and distribution and is the first truly “virtual” mobile money product. Clients sign up from the phone menu and can begin transacting immediately. Credit is issued in an automated fashion based on transactional history. All account servicing is self-serve through the SIM menu, CICO is via M-PESA. Its value proposition and sales pitch are extremely streamlined – its value can

<sup>28</sup> <http://www.nation.co.ke/business/news/M-Shwari-deals-cross-Sh3bn/-/1006/1690122/-/k0331f/-/index.html>

be communicated in a billboard or even text message and most clients teach themselves how to use the menu functions in minutes with no “sales pitch” or help from an agent.<sup>29</sup>

While M-Shwari has achieved amazing uptake in a short time, it is still too preliminary to judge its success. It’s possible that trust in the Safaricom brand and the ease of signup are driving clients to try it out of curiosity (there is very little reason not to; you can sign up while standing in line for the bus) but where continued usage may fall off dramatically over the long run. Additionally, the lending part of the product is untested and has not shown that it can generate sufficient client repayment and returns.

## 8. Final thoughts

Our discussions with providers who are struggling with new approaches to sales and distribution revealed the some lessons that other providers will do well do heed. While technology and new operational models (e.g. agents) have much potential to expand reach to greater numbers of clients at lower costs, there are still significant challenges to be overcome in selling to poor clients, many of whom have never used a formal financial product. Simplifying and streamlining sales processes as much as possible and applying technology appropriately to enhance client value (e.g. investing in smart phones to aid sales people and agents in speeding up customer on-boarding) are key principles to keep in mind. Streamlining and simplification is not something that happens after a product is created, this principle should guide the process of product creation and shape the overall product portfolio to be as simple as possible while still meeting the needs of the various segments. Streamlined sales processes, quality control, monitoring visits, and easily accessible phone support for clients are especially important in outsourced models where there is less control over frontline staff. Providers who can master these challenges will be well positioned to leverage the opportunities created by mobile adoption.

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<sup>29</sup> Though there are still ways in which some of the concrete aspects of usability, transparency on loan terms, and competitive positioning within the M-PESA menu are not ideal. See Mas and Gitau’s post on the IMTFI blog. <http://blog.imtffi.uci.edu/>