GRAMEEN FOUNDATION

COMMUNITY AGENT NETWORK

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CATALYZING FINANCIAL INCLUSION:

The Case of Grameen Foundation's Community Agent Network Program in the Philippines

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In 2015, Grameen Foundation (GF) launched the Community Agent Network (CAN) Program funded by J.P. Morgan and Tomberg Family Philanthropies. GF also collaborated with financial technology providers (fintech providers) Action.Able, Inc. and FSG Technology Ventures, Inc. to deliver digital financial solutions on the ground. The CAN Program was conceived with the goal of improving the resilience of the financially unserved and underserved by building a last-mile agent network in the Philippines that delivers financial services through an electronic transactions system in a secure, convenient and cost-effective way. The CAN Program aims to contribute to the National Strategy for Financial Inclusion by laying the groundwork for increasing financial services access points at the barangay level, on a national scale. Implementing payments and remittance at a nascent stage as a pathway for greater adoption incubates readiness for other formal financial services, such as savings, insurance, and credit, as clients become more familiar in using digital channels through agent-assisted transactions.

In the first year of the program, the focus was on establishing the infrastructure while the second year of the program prioritized the improvement of the payments interface, onboarding merchants, and stimulating client uptake of the services. In the third year, GF focused on exploring areas to provide seamless transactions between stakeholders while continually growing the footprint of the fintech partners. Through the CAN Program, a network of 1,896 sari-sari store (small neighborhood sundry shop) owners are now trained financial agents. Since August 2015, CAN agents have processed more than 4.3 million transactions for their neighbors, such as paying of bills and transferring money, while earning additional income from the provision these valuable services. With 201 unique merchants onboard the fintech platforms, total value of DFS transactions amount to over PHP 1.3 billion (about USD 24.8 million) as of January 2018. The geographic footprint of CAN spreads across 423 barangays, and penetrating these rural communities is vital to further drive DFS usage by most financially challenged households.

Offering digital financial services in rural areas requires much more than the technology solution. It involves activities that encourage client adoption, a robust agent network and reliable digital platforms, and a viable business for fintech providers. This report shares key lessons learned in the program with respect to the aforementioned areas:

Client adoption remains a key challenge for fintech providers. In unserved and underserved communities, mobile top-up and utilities payment registered the highest volume of transactions while other products and services have much slower uptake. There is an opportunity to expand usage further by including local utilities and government payments into the system as these are use cases highly demanded by clients. Transitioning to a digital platform is a gradual process. Agent-assisted digital transactions is still a relevant approach as it removes barriers such as smartphone ownership and account registration for electronic wallets. Clients' preference for agent-assisted transactions stem from force of habit and it would be more arduous to achieve uptake in introducing an unfamiliar delivery channel. Moreover, clients prefer having tangible proof of payment more than an SMS, and they need to witness a successful example to trust the system. Community outreach activities are necessary to promote the service, introduce the agent to the community, and teach financial literacy, that help build client confidence and drive greater usage of digital payments. Simple marketing collateral that is understandable and that presents a transparent fee structure can reinforce trust.

Building, managing, and scaling an agent infrastructure works best under partnerships and collaborations between various market-players and enablers. Working with trusted partners such as fast-moving consumer goods distributors has the most potential for scale, as opposed to a retail model where the fintech providers recruit and manage agents directly. These functions are crucial in the sustainability of fintech providers' business but require large investments to set-up and manage. Third-party support providers, such as independent agent network managers (ANM), enhance the viability of the fintech industry by spreading the cost of agent management across fintech providers while improving their operations efficiency. These entities can play an enabling role and complement the gaps in fintech processes. Training and professionalizing agents and their operations is crucial in helping build credibility and trust in the system. Complementing agent education and oversight with technology solutions that are simple, intuitive, and agile but not to the point of disruption can facilitate a more conducive user experience.

Fintech provider's profitability is hinged on onboarding the relevant merchants and expanding to higher value products and cross-industry services. Payments to local utility providers such as municipality-level cooperatives are in high demand but onboarding them is both challenging and resource-intensive. A potential use case to explore is the loan repayments of Microfinance Institutions (MFI). MFIs can benefit from the transition from cash to digital but challenges on supply-side capitalization and demand-side willingness to pay should be addressed for it to become viable for all stakeholders. With thin margins split across various stakeholders, fintech providers need to expand to higher value products and services in high potential sectors, such as agriculture and e-commerce, where higher fees can be charged.

To achieve pervasive financial inclusion, action by the various stakeholders is necessary in creating a sustainable environment for the fintech industry:

FOR POLICYMAKERS: Policymakers and regulators are central in pushing for interoperability through the National Retail Payments system, as well as in encouraging competition for USSD access to be offered more broadly. A nationwide campaign to educate clients on transaction fees is also important in consumer protection, transparency, and trust-building.

FOR FINTECH PROVIDERS: The lessons from the CAN Program also provide fintech providers a better understanding of the market. To reach low-income segments of the population, fintech providers need to innovate service delivery to utilize basic feature phones that work around challenges on 3G coverage and smartphone ownership. Expanding e-commerce services, such as small ticket B2B and B2G products need to be enhanced to increase the relevant use cases of the platforms in rural communities, especially to micro and small businesses.

FOR AGENT NETWORK MANAGERS: ANMs can prospectively reduce fintech costs while improving efficiency and has the potential to accelerate network scaling. Client adoption and usage of DFS comes with the understanding of the value proposition of the system and the ability to evaluate costs and gains it involves. Agent network managers and trainers need to introduce DFS in the context of how it can practically benefit the various end users.

FOR AGENTS AND COMMERCIAL ESTABLISHMENTS: The main recommendation for agents is to initiate acceptance of digital payments for their own goods and services in order to ease the high rebalancing costs and smoothen business operations. As public and private sectors continue to encourage widespread acceptance of electronic transactions, incentivizing individuals and businesses to use e-money is key in initiating a deliberate shift to cash lite operations and furthering financial inclusion in the country.

ABBREVIATIONS

2G	Second Generation Mobile Technology
3G	Third Generation Mobile Technology
ANM	Agent Network Manager
B2B	Business to Business
B2G	Business to Government
BSP	Bangko Sentral ng Pilipinas
CAN	Community Agent Network
DFS	Digital Financial Services
ETS	Electronic Transactions System
FGD	Focus Group Discussion
Fintech Provider	Financial Technical Provider
FMCG	Fast-Moving Consumer Goods
GF	Grameen Foundation
KYC	Know-Your-Customer / Client
LGU	Local Government Unit
MFI	Microfinance Institution
MNO	Mobile Network Operator
NRPS	National Retail Payment System
NSFI	National Strategy for Financial Inclusion
POC	Proof of Concept
QR Codes	Quick Response Codes
SMS	Short Message Service
USSD	Unstructured Supplementary Service Data
VAS	Value-added Services

CONTENTS

I. BACKGROUND

I.1 Gaps in Financial Access in the Philippines

In an archipelago comprised of over 7,000 islands, providing access to convenient, affordable and appropriate financial products and services to the unserved and underserved population remains a challenge. There is continued effort by banks to expand their footprint with an average growth of 4% in branches and 12% in automated teller machines (ATM).[1] However, the use of bank services remain to be relatively low with only 28.1% of the adult population owning an account at a financial institution. Access to traditional financial facilities such as ATMs is also limited with ATM per 100,000 adults at 19.3, translating to about 5,180 users per terminal.[2] Moreover, banking presence is clustered in urbanized regions where average incomes are high. Of 1st class municipalities with high incomes (PHP 55M or higher average annual income), only 12% were unbanked while 74% and 100% of 5th and 6th class municipalities, respectively (below PHP 25M average annual income) were unbanked.[3] 36% of 1,634 local government units (LGU) remain unserved by any banking facility.[4]

Alternative financial service providers such as non-bank financial institutions, pawnshops, remittance centers and e-money agents have stepped up to complement banking services, catering to about 67.3% of unbanked LGUs.[5] These entities provided some 50,000 alternative financial access points that reduced the unserved segment to 11% as of 2016.[6] Of these providers, e-money agents have the highest increase in access points at 18% annual growth rate, while pawnshops remain to have the highest current footprint nationwide (access points found in 73% of total LGUs).[7] Remittance and Forex agents also provide an important service to Filipino breadwinners working away in local urban areas or abroad. It is typical for them to send money regularly to their families, which has created a huge market for both domestic and international peer-to-peer money transfer services. While physical reach of remittance agent access point is about 60% of LGUs, footprint in unbanked areas is still only at 27%.[8]

Overall, the financial access landscape demonstrates two opportunities: (1) the potential role non-bank financial service providers could play in spreading the access to far-flung, geographically-isolated segments of the market, and (2) the prospect to step beyond traditional financial products and delivery channels to reach the most financially vulnerable.

I.2 Opportunity for Digital Financial Services

The Philippines has long demonstrated a potential for expanding financial access through digital services, albeit much of it has not been realized. Mobile phone unique subscriber penetration is at 73% in 2016 and is projected to reach 75% by 2020.[9] Still, about 41% of phone owners are using basic feature phones with most units limited to 2G services. Forty-nine percent (49%) of mobile users have 2G connectivity, and 3G stand at 45%.[10] While smartphone ownership is expected to increase, there is still much to gain in designing digital financial services (DFS) that utilize the basic voice and SMS (short message service) functionalities, especially in reaching out to those living in areas with limited mobile internet coverage. The greatest barrier to mobile internet connection among Filipinos is the lack of signal, especially data signal in many areas, and high cost of data. Other contributing challenges include the lack of use case awareness and locally relevant content, low levels of digital literacy and skills, and the relatively high cost of mobile ownership.[11]

With the lack of transaction access points, mobile money presents another vehicle to deliver financial services to untapped areas. Local mobile network operators have ventured in e-commerce with services integrating payment platforms through mobile wallets. However, only 4.2% of the adult population are reported to own mobile money accounts and a mere fraction of 1% used mobile financial services to pay school fees or utility bills.[12] Moreover, the unbanked segment's understanding and usage of e-money continue to be at elementary levels. Only 25.6% of the population are aware of e-money agents and out of those, only 26.7% have reportedly used the services offered.[13]

The potential of digital products and services to broaden the scope of financial inclusion is underpinned by well-established information and communications technology infrastructures, a conducive regulatory framework, financial products and services designed to cater to diverse needs of target segments, and innovative technology solutions that result from partnerships and commitment from various public and private stakeholders.

I.3 Action Toward Greater Inclusion: NSFI and CAN

Large gaps still exist between the financial services needs and the current formal supply available in the market. 25% of the assessed need for electronic payment solutions remain unmet by any sort of provider, the gap amounting to about USD 16 billion. [14] The demand-supply difference in savings and credit are larger with 40% and 52% of total needs still unserved. Combining payments, savings, and credit, total financial services needs unmet amount to USD 57 billion. There is a sizable opportunity to extend financial access and usage to capture the current gaps to cater to market segments where the disparities remain large.

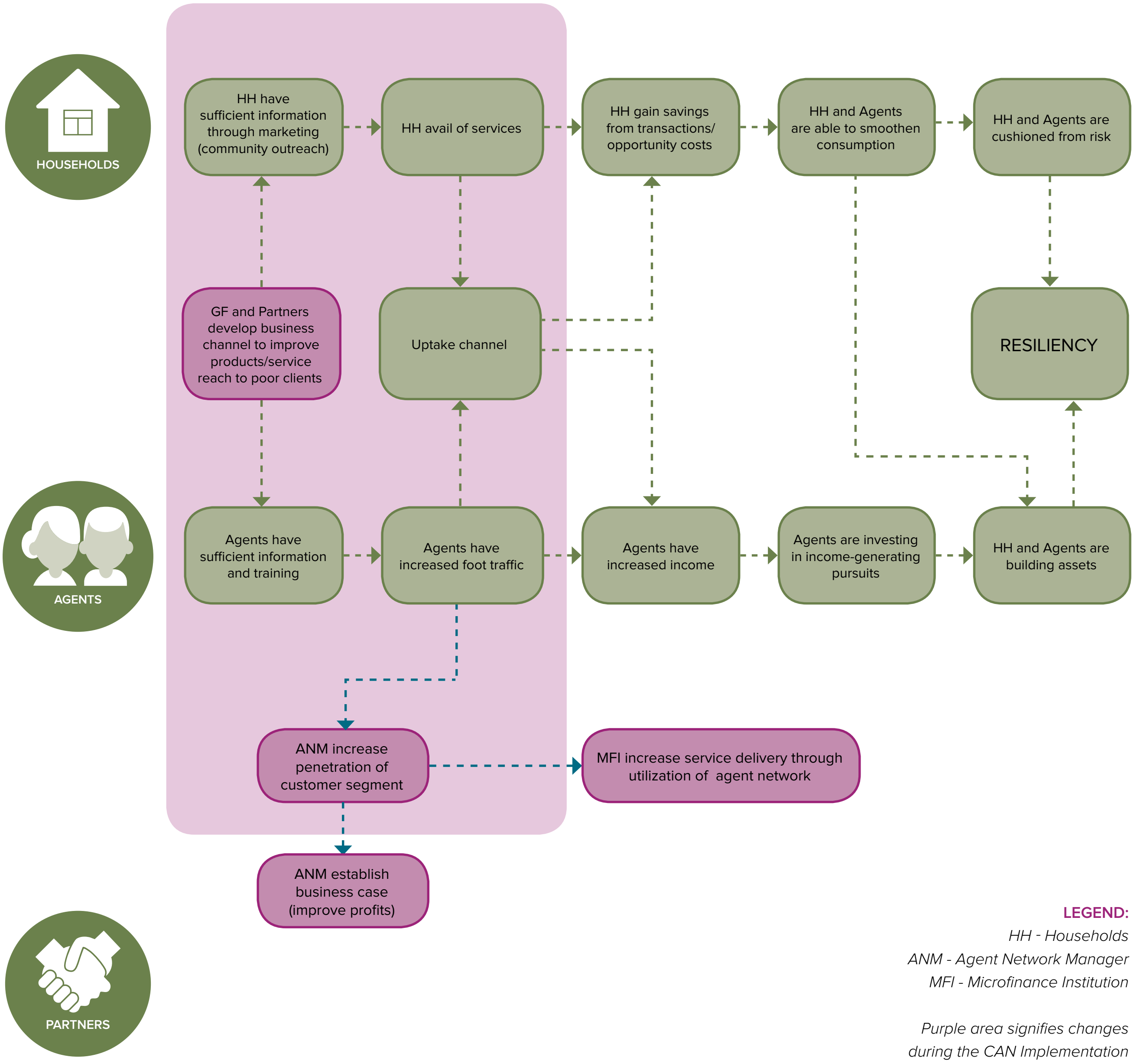
To improve financial inclusion in the country, Banko Sentral ng Pilipinas (BSP) launched the National Strategy for Financial Inclusion (NSFI) in 2015. The NSFI sets a focus on enabling an environment where there is effective physical access to a wide range of financial products and services appropriately designed to cater to the evolving financial needs of the Filipino consumers. The NSFI encourages partnerships between commercial players in the creation of market-based technology solutions that are interoperable to widen the geographical reach of connections and transactions, as well as to develop greater usage of DFS.[15]

In line with BSP's targets, Grameen Foundation's Community Agent Network (CAN) Program responds to the commitment to achieve pervasive financial inclusion by developing a digital financial network that specifically caters to customers in unserved and underserved areas. Along with implementing partners Action.Able, Inc. and FSG Technology Ventures, Inc., GF implemented the CAN Program in 21 provinces in the Philippines beginning August 2015. The objective of the CAN Program was to improve access, initiate uptake, and drive usage of the most relevant financial transactions by building a last-mile agent network in the Philippines that delivers financial services through an electronic transaction system (ETS) in a secure, convenient and cost-effective way. This report discusses the key results and insights gained from the program. It aims to share with the broader industry the lessons learned during the implementation to help shape the growth of the industry toward financial inclusion.

II.1 CAN Strategy: Building Resilience through Financial Inclusion

The CAN Program was conceived with the goal of improving the resilience of the financially unserved and underserved by establishing an agent network that is sustainable and scalable for various industry stakeholders. GF employed a multi-sector approach to establish the infrastructure by engaging technology service providers, merchants, and an existing network of micro entrepreneurs. These stakeholders are brought together in developing a business model that is profitable for both the agents and the service providers, and that responds to the most pressing financial needs of the financially excluded. Figure 1 presents a roadmap of activities in the program and how it contributes to GF's greater goals.

FIGURE 1: VISION TO BUILD RESILIENCE THROUGH FINANCIAL SERVICES



LEGEND:
HH - Households
ANM - Agent Network Manager
MFI - Microfinance Institution

Purple area signifies changes during the CAN Implementation

Through the provision of digital solutions, urban and rural poor families are given the opportunity to access valuable financial services in an affordable and convenient way. This allows them to gain time savings that can be spent doing other more important activities, and cost savings that can help smoothen household liquidity, which contribute in cushioning them from uncertainties.

The program also has a complementary entrepreneurship pathway for agents. CAN equips agents with the necessary tools, skills and knowledge to succeed as last-mile DFS providers in order to help them establish a new income stream that can pave the way for capital accumulation. Both pathways contribute to the resiliency against risks and economic shocks.

The ultimate goal of the program is full financial inclusion encompassing a broad range of financial products and services that facilitate capital accumulation, improve safety nets, and help build investments. The longer term outcome is focused on creating greater access to and stimulating active usage of savings instruments as well as micro-insurance products. Reduced barriers to access and usage of formal credit is likewise envisioned as various financial service providers are able to utilize transactional footprint data of clients to create an alternative credit scoring. During the course of the CAN program, the foundation for financial inclusion is laid in setting up a vast network of digital financial access points that deliver payments and remittances. Implementing payments and remittances at a nascent stage is a constructive starting point to achieving the aforementioned longer term outcomes as clients become more comfortable with digital channels through agent-assisted transactions and over-the-counter financial products.

II.2 Program Components and NSFI Targets

The CAN Program is comprised of four components, each responding to and laying the groundwork within the NSFI target areas of client empowerment:

ACCESS

COMPONENT 1 COMMUNITY-BASED AGENT INFRASTRUCTURE

BARRIER

Lack of proximate financial access points. Current bank and alternative provider access points are mostly in cities and town centers, and reaching them entails higher monetary and time costs for those in farther barangays. The average travel time to reach the nearest bank is about 26 minutes and two-way transportation typically costs PHP 52.00 (USD 0.99).[16] These costs can be relatively prohibitive especially when dealing with very small ticket transactions.

SOLUTION

Equip last-mile agents with reliable electronic transaction device to improve client convenience. There is opportunity to extend financial services to 42,000 barangays and reach excluded segments. To achieve this, CAN agents are equipped with an electronic transaction device that is 1) portable and easily transported to far-flung areas, 2) adaptable to various mobile network operators (MNO) so that it can still be operational in areas where there is limited data and network connectivity, and 3) affordable enough for agent's business to be profitable.

USAGE

COMPONENT 2 FINANCIAL PRODUCTS AND SERVICES

BARRIER

Most available financial services are irrelevant to end users. Mobile network provider-exclusive services restrict non-subscribers from availing e-money transactions and conducting business with MNO-specific agents. Also, geographic relevance of merchants need to be considered. To clients in areas serviced by local commodity providers (i.e. provincial utility cooperatives) not yet integrated into digital payment structures, the use case of digital transactions remain limited to airtime and data top-ups.

SOLUTION

Provide financial products and services locally relevant to communities to drive usage. CAN contributes in onboarding local merchants that clients subscribe to. Integrating a variety of use cases that cater to different localized needs, as well as ensuring that the services provided are not exclusive to certain groups, widens the area of possible financial engagement with unserved and underserved communities.

QUALITY

COMPONENT 3 AGENT-ASSISTED PAYMENT SERVICES

BARRIER

Apprehension toward unfamiliar digital transactions. Most clients in rural areas perceive DFS to be complex, which hinders uptake. Clients struggle with mobile money accounts as they find registration processes and product offerings difficult to grasp. Instead, they opt to go to payment centers where they can hand in cash and transact over the counter. Some clients own smartphones but aren't proficient in manipulating apps. Majority own feature phones that aren't capable of running financial apps, and still others do not own any sort of mobile device. Moreover, awareness of risks involved in digital transactions such as fraud, scams and thefts compounds distrust in the system.

SOLUTION

Set-up agent-assisted payment system that is reliable to help build trust. By delivering the ETS service over the counter, CAN leverages an existing transaction method clients are used to, providing them ease in doing business. Reluctance to uptake is reduced by the mediation of a trusted community agent complemented with issuance of receipt or electronic proof of transaction that is necessary for client complaint and redress. These elements contribute to building client confidence and improving their transaction experience.

WELFARE

COMPONENT 4 COMMUNITY OUTREACH ACTIVITIES

BARRIER

Lack of financial and technical understanding to transact through digital channels. Clients perceive that they do not have the necessary knowledge to conduct transactions digitally. There is a lack of readily available, and easily understandable information on financial products and digital delivery channels, and this contributes to the obscurity of digital financial interventions introduced in rural communities. With little understanding of the system and trust toward agents, the viability of the agent's business is at risk.

SOLUTION

Tap community-based activities to educate clients and create confidence in the neighborhood DFS and agents. Community outreach activities provide an avenue to familiarize clients on e-money technology, how it works, and the financial products and services they can avail of through the neighborhood agent. It could aim to dispel skepticism by acquainting the neighborhood clients with their local agent, and helping establish rapport between them. Demonstration of a successful transaction via the community agent not only helps build awareness but also helps clients build confidence to use the service.

II.3 CAN Research and Implementation Design

GF methodology draws on a comprehensive qualitative and quantitative research toolkit that includes focus group discussions (FGD) and key informant interviews with clients, agents, and partner organizations. The focus of Phase 1 is in understanding demand-side forces, identifying pain points experienced by target communities, and exploring prospects for the CAN Program. Phase 2 sought to establish partnerships with fintech providers as well as other supply-side market players in incorporating two DFS delivery channels into the program. The 3rd Phase kicked-off the field implementation and community engagement while Phase 4 focused on the monitoring of the agent network and evaluation of the program's key performance indicators.

FIGURE 2: PROGRAM WORK PLAN AND ACTIVITIES

PHASE 1
Market Analysis, Identification of Challenges and Opportunities

- Qualitative Research on Use Cases for Low-income Market
- MFI Proof of Concept
- Pre-selection Survey of Eligible Agents

PHASE 2
Partnerships and Technology Solutions Refinement

- Fintech Partners Selection
- Technology Testing and Iteration
- Start of Merchant Onboarding

PHASE 3
Solution Deployment and Expansion

- Agent Business Opportunity Meetings, Onboarding and Training
- Digital Financial Capability Community Outreach for Clients
- Testing and Scaling Through Various Models (Retail, Distributor-let, Master-Agent)

PHASE 4
Network Monitoring and Results Evaluation

- Agent Profiling and Performance Evaluation
- Synthesis of Client Feedback
- Client Profiling and Segmentation

KEY RESEARCH TOOLS AND OUTPUTS

Phase 1

AGENT PRE-SELECTION TOOL

- Mobile based survey tool designed for roving sales/agent network managers that helps collapse the cost of identifying possible agents through the use of a point-scoring model.
- The effectivity of the tool was tested by rating 602 stores in a short span of 3 weeks where 161 of these stores were rated as eligible access points.

HUMAN-CENTERED DESIGN-BASED NEEDS ASSESSMENT

- A qualitative research aimed to identify relevant use cases for digital financial transactions in rural and poor households in Panay Island, and sought to understand the opportunities for fintech providers within this market.
- The study included 7 in-depth group discussions, 14 in-home interviews, 4 sari-sari store owner interviews and 4 pawnshop visits.
- View summary of inisghts here: https://youtu.be/Gbh8bYtdFDI

MFI PROOF OF CONCEPT (POC)

- The POC explored opportunities for digital financial platforms within the MFI operations, specifically in loan repayments. 4 MFIs were engaged to test paying loans.
- 10 centers with a total of 294 women MFI members participated.

Phase 2

PARTNER SELECTION

- Selection of most promising fintech partners whose platforms hold potential to scale
- Two platforms were identified and deployed during implementation: Digipay and POS!BLE.

TECHNOLOGY TESTING

- Internal and road tests conducted with fintech partners
- Iterative product design and feedback starts in Phase 2

Phase 3

KA-POS!BLE RETAILER QUICK GUIDE

- A set of interactive videos that serve as an online tutorial module was developed for POS!BLE Agents.
- Use of these videos help collapse the cost of re-training agents and in turn, allow agents to train their store helpers at a time convenient to them.
- View it here: https://retailers.posible.net.ph/help/tagalog/

DIGI-TINDAHAN (DIGITAL STORE) AGENT LEARNING VIDEOS

- A set of 3 videos to complement agent training on soft skills are made available on YouTube for easy reference. These videos focused on topics such as how to become a good agent, how to take care of your "Digi-tindahan" and how to improve and grow your agency business.
- View episode videos here: https://youtu.be/bq7Y7WrO8f4

DIGITAL FINANCIAL CAPABILITY OUTREACH PROGRAM

- Community-based activity to teach digital financial literacy through interactive games
- Calendars for clients designed to reinforce budgeting tips, financial planning reminders and use of digital channels were provided.
- 11 outreach events were conducted with 1,489 total registered participants, majority (87%) were women.

Phase 4

AGENT NETWORK MANAGER'S GUIDE TO KEY PERFORMANCE INDICATORS

- An analytical guide designed to serve as a framework for analyzing the fintech business
- Dashboards for analyzing performance of agents and adoption of clients

QUALITATIVE ASSESSMENT OF CLIENT EXPERIENCE

- Four groups of 6-8 clients were engaged in FGDs to learn about agent experiences and adoption barriers.

QUANTITATIVE AGENT PROFILING

- Profiling of agents was conducted to complete agent profiles, identify best practices of successful agents and analyze correlation between performance and profile.
- 357 in-depth interviews were conducted with 269 female and 88 male agents.

II.4 Program Details and Field Results

PROGRAM DURATION

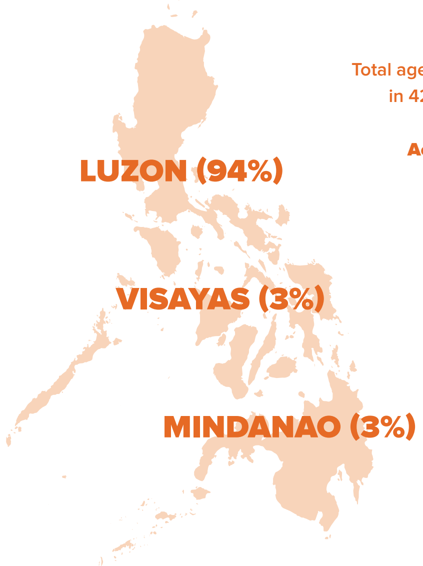
From program conception to field results evaluation

AUG 2015

to

MAR 2018

AGENT FOOTPRINT GEOGRAPHIC DISTRIBUTION



1,896

Total agent access points created in 423 barangays nationwide

Access point distribution:
Urban: **83%**
Rural: **12%**
Undefined: **5%** [17]

CAN TECHNOLOGY SOLUTIONS

- Works with SIM from any mobile network provider
- Supports agent-assisted and self-service transactions
- Requires data connectivity with web-based backend interface
- Electronic transaction confirmation or receipting capacity
- Market-at-large; no need to pre-register to mobile money to use
- Portable and easily transportable to far-flung areas

POS!BLE → used by 88% of agents

Portable point-of-sale-like digital transactions device that offer a suite of payment services such as bills payment, money services, and mobile loading among others.

- Thermal receipt printing functionality
- Built-in camera / QR code reader
- Near field communication (NFC) card reader and USB port, EMV card reader
- Access to wallet ledger and transaction history

DIGIPAY APP → used by 12% of agents

Android-based mobile application for digital payments and financial services with a mobile wallet and an interoperable backend interface. The platform enables small and medium enterprises to perform essential financial transactions on a smartphone, tablet or desktop.

- Electronic SMS receipting function
- E-money account with username and password for agents
- Access to wallet ledger and transaction history

MERCHANTS AND SERVICES

Total transaction volume is **4.3 million** at total transactions value amounting to **PHP 1.3 billion**

TOP 5 SERVICES AVAILED BY CAN CLIENTS	TOP-UP LOAD	E-MONEY	BILLS	BANKS, INSURANCES, FINANCIAL SERVICES	ENTERTAINMENT, VOUCHERS, TICKETING
MERCHANTS	Smart, Globe, ABS-CBN Mobile. Sun, TM, TNT	Smart Money, GCASH, PAYMAYA, DRAGONPAY	Power, Water, Cignal TV Cable	BPI, Metrobank, BDO, Home Credit	Global Pinoy, Garena, Cebu Pacific, Philippine Airlines
PERCENT OF TOTAL TRANSACTION VOLUME	47%	35%	13%	5%	0.024%

ALL DATA AS OF: January 2018

III. AGENT NETWORK PROFILE

TYPICAL AGENT IN THE CAN PROGRAM

- Female;
- about 40 years old

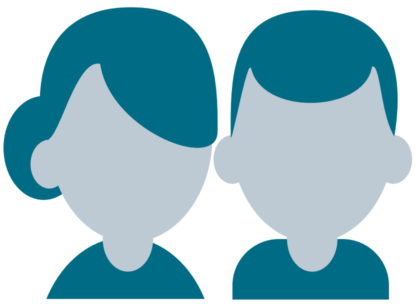
- Married

- In charge of managing family and business finances

- Have had college education (college graduate and undergraduate)

PROFILE OF THE COMMUNITY AGENT NETWORK

AGENT GENDER DISAGGREGATION



FEMALE
75%

MALE
25%

ACCESS POINT BY BUSINESS TYPE

SARI-SARI STORE
37%

OTHERS
Trusted agents (long-time business operators with an average of 7 years in operation)
29%

PAWNSHOP
11%

INTERNET CAFÉ
7%

BILLS PAYMENT CENTER
6%

OFFER SERVICES FROM HOME (No Store)
5%

GENERAL MERCHANDISE
5%

USE CASES OFFERED

94% of agents offer Bills Payments and Load Credits services.

70% offer mobile money transfer and remittance services.

PROXIMATE ESTABLISHMENTS (of Digital Transaction Agents)

91% residential areas
71% schools
62% basketball courts/plaza
59% churches
55% municipal halls

HIGH-VOLUME DATES

Days with the most number of clients availing of agent's services are **every 15th and 30th of the month.**

Agent Business Practices and Implications

- **Agents who use ledgers and locked cash boxes tend to rebalance larger amounts.** Agents were taught to use ledgers in order to track their digital financial transactions and profits, as well as to keep a locked cash box where the income from these transactions is held, separate from the cash flow of the household and their other businesses. GF conducted agent surveys and found that the practice of using ledgers and lock boxes is positively correlated (correlation coefficient of 0.39) to the agent's propensity to invest larger capital in their DFS agency business. The adoption of recordkeeping and sales monitoring practices enabled agents to gain familiarity and insight on their operations, which is crucial in making informed business decisions. Tracking transaction amounts, volume and income allowed them to understand the margins and returns brought in by their DFS business, and when profitability is visible, agents are incentivized to invest larger working capital into their digital payments business.

- **More than half of agents do not practice recordkeeping and sales monitoring.** Among the current agents, 32% do not practice any form of recordkeeping, while 31% said they do not use locked cash boxes in their stores to separate digital transactions business cash flow from that of the household's or the business'. The processes of and techniques in performing these practices were reinforced through the agent e-learning videos. The main reason for non-adoption is that most agents do not fully understand the benefit of the practices to their business. Moreover, agents find recordkeeping and sales monitoring activities to be too tedious to do, especially when they do not readily have the materials to do so (i.e. cash lock box, ledgers, copy of step-by-step procedures). 32% (115 agents) interviewed are store operators who manage day-to-day operations for the owners. These individuals tend to observe formal and informal ledgering more than store owners do.

- **Older agents and those that have been running a business for a long time are preferred by clients because there is a notion of reliability and pre-established trust.** Good rapport with clients is key in attracting and engaging clientele. Eighty-four percent (84%) of agents reported that offering mannerly and friendly service is the best approach to ensure customer retention. It was also found in the study that the age of the agent has a direct correlation (+.30) to the number of digital transactions. Older agents tend to be better known in the community so first time clients tend to locate them easier and trust them more. In dealing with unfamiliar payment methods, clients are inclined to go to older agents who they deem reliable to handle their transactions on their behalf. Agents who do not have a formal storefront usually offer personalized add-on services such as fetching the bill from the clients' homes. Agents who are located in residential areas practice extending payment terms to loyal clients which are paid on a weekly basis. This is done out of goodwill and thus no interest is charged by agents. These services that go above and beyond the typical agent operations are greatly appreciated by clients.

Recommendations for Agent Training:

- **Fintech providers (or agent network managers) need to put emphasis on reinforcing the practice of formal business recordkeeping in agents' training and refresher modules to facilitate understanding of business profitability and enhance agent's business performance.** As agent profitability can be grossly undermined without proper sales tracking and recordkeeping, it may ultimately result in agent's disinterest in the business and can demotivate cross-selling. Framing the workshops with recordkeeping as an essential step in every transaction, and providing ledgers and cash boxes for agents (include these in a toolkit with learning modules), motivates practice uptake. Moreover, product trainings should reiterate that electronic ledgers are available in the digital solutions and trainers should emphasize its value to the agent's business while reinforcing usage.

- **Training strategies should be tiered and should take into account the disparities in capacity and suitable learning styles of agents.** Age dispersion of CAN agents is large, with younger agents in their late teens and the older ones above 60 years of age. Younger agents have more technical know-how and more patience in dealing with clients. Older agents are less adept at navigating through the devices but they are known within the community and trusted by clients because they are usually long-time business owners. Effective training of agents require diverse but specific sets of teaching techniques and focus topics according to the needs and capabilities of different age groups. Human-centered design can be employed not only in product development but also in understanding the best methods to train agents and designing appropriate activities.

IV. CLIENT PERSONAS FOR DIGITAL TRANSACTION SYSTEM

As of January 2018, the CAN Program was able to equip a network of 1,896 micro and small store owners with digital financial platforms and train them to become financial transaction agents for their communities. The program registered more than 4.3 million agent-assisted transactions, amounting to over PHP 1.3 billion (about USD 24.8 million) in total transaction value. Typically, an agent facilitates 77 transactions per month earning an average monthly income from DFS transactions of about PHP 24,672 (USD 472.35).[18]

Based on the FGDs, clients avail of the local agent's services about 2-3 times a month.[19] Top-ups and e-money cash in/out remaining to be the highly demanded use cases with over 2 million and 1.5 million transactions, respectively, followed by bills payment with about 560,000 transactions. In terms of transaction value, bills payment is the top grossing use case amounting to PHP 992 million (USD 19 million), equivalent to about PHP 1,700 (USD 32.55) average value per transaction. With geographic footprint of agents spanning 423 barangays, there is a sizable potential to further expand DFS usage in rural communities and deliver cost-effective and convenient solutions to the most financially challenged households.

As the network grows and more locally relevant merchants become part of the system, fintech providers are in an opportune position to stimulate new client uptake and incentivize greater usage by current customers. Understanding the clients' characteristics, desires and motivations is crucial for market players to assess the success of any technology-based financial intervention. In the course of the CAN Program, there are three types of client personas that emerged. These personas make manifest distinct opportunities to build client trust in DFS. It also points to prospects on how to initiate uptake and drive usage.

AUGMENTING SAVINGS AT THE GRASSROOTS

Beth, a fish seller from Sariaya, Quezon, narrated how it takes her about 30 minutes to travel 11.15 kilometers to get to the nearest bills payment center in Lucena City. She takes the bus and spends about PHP 70 (USD 1.34) for a two-way trip to town so she can pay her bills. Beth, like many others living in remote areas, spend time and money traveling to reach financial access points far from home. Through CAN's barangay-level network of DFS providers, clients can now transact with trusted agents within their communities. Now, Beth walks about 5 minutes to reach the agent's store and only pays between PHP 10 and PHP 15 (USD 0.19 and 0.29) as a transaction convenience fee. The proximity of agents not only brings convenience to clients but it also helps generate savings. This is especially important to some clients who travel longer and spend more in order to reach the nearest financial access point.

Dinah, a dressmaker from Estancia, Iloilo, lamented the costs of living in an island without any bank branches or payment centers. She typically spends 3 hours to go to the mainland by boat to pay her bills. Most of that time is spent waiting for the boat to be filled with enough passengers for it to leave port. A two-way fare sets her back about PHP 60 (USD 0.15) and the exorbitant option of immediately leaving for the mainland by renting the whole boat for PHP 300 (USD 5.75) is out of the question especially if she's only to make small ticket transactions there. The opportunity cost is high for Dinah who said 1 hour of her time can be spent in producing 3 skirts, which costs PHP 50 (USD 0.96) each when sold. The total of 6 hours back-and-forth travel time to the mainland is roughly equivalent to PHP 900 (USD 17.23) foregone income. With the presence of CAN agents within the island, Dinah is able to cut down a significant portion of time and transportation cost, since she also lives within walking distance of the agent. These conveniences allow clients to spend their time in other productive activities (such as taking care of their business or their children) and allocate their money to more purposeful deployments (such as on savings or other expenditures). These gains, albeit modest, can contribute in easing household liquidity stresses and help in creating a buffer to improve their resilience against sudden expenditure shocks.

THE NEIGHBOR

Identifying characteristics:

The Neighbor client lives within a walking distance (300 meters) or in very close proximity to agents offering financial transactions services. The relative convenience of going to the agent's store allows them to become frequent customers of DFS, visiting agents about 2 to 3 times in a month.

What they value:

These regular customers have an **existing positive social relationship with their agents.** Trust is easily established between an agent and a Neighbor client since the store owner may either be a relative or an active community member of good reputation who has been running a reliable business for a long time. They **put their trust in their local agent** and believe they will never do them wrong or cheat on them. Although they are loyal customers and have experience using digital payments, they are not knowledgeable in financial and digital concepts, neither are they well-informed on the latest service offerings. Instead, they rely on agents to equip them with **information on where their money goes and update them on new services and promos.** Neighbor clients spoke enthusiastically of agents going above and beyond by offering **special services like door-to-door pick up of payment and open communication via social media** (Facebook, Messenger, Viber) or by extending credit for small-ticket transactions. These conveniences allow them to save and reallocate resources to do fit household needs.

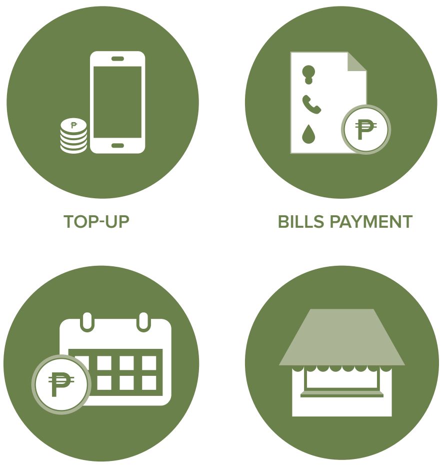
Recommendation to encourage continued usage:

- Develop agent soft skills to create good rapport with clients
- Train agents technically on the various use cases to effectively cross-sell financial services and products to clients
- Provide innovative ways to deliver services that improve client convenience and accommodate client needs
- Use promotional rewards that give loyal customers savings with multiple or repeated transactions to encourage greater usage

"The agent is our neighbor and a friend. Initially, I only transacted load but she told me she has more service offering. Right now, I regularly pay my electric bills through POS!BLE. Whenever I have concerns I have a proof of payment as a reference. I can also just go back and inquire about my issues."

- Sheryl, 40, San Mateo, Rizal

Frequent transactions:



TOP-UP
BILLS PAYMENT
GOVERNMENT PAYMENTS
BASIC STORE COMMODITIES

THE SKEPTIC

Identifying Characteristics:
The Skeptic is the type of customer who either has very little exposure to DFS, or who already had an unpleasant experience with an agent or a service. They are more guarded, and their apprehension stems from fear of becoming victims of scams or fraud. Skeptics are used to transacting with banks and commercial payments and remittance service providers. They prefer to travel far distances, shoulder transportation expenses, and pay additional transaction fees in order to conduct business with establishments they deem trustworthy and reliable, albeit having the same level of understanding as to how institutional entities work as they do retail agent providers. While inspiring uptake of DFS by Skeptics take time and effort, once convinced, these clients potentially become powerful influencers in their social circle to try the platform.

What they value:
There is a general lack of trust in the system and to gain confidence and begin transacting with a new digital financial agent, they need high assurance that their money is safe. **Proof of transactions such as electronic or paper receipts** are a minimum requirement for them to consider transactions with agents as this allow them to validate that their transaction was successful. They **ascribe trust to leaders, authorities and institutions,** and defer participation unless these entities vouch for the agent system. They make an effort to gain information about digital financial transactions and get to know the local agents beforehand while asking **feedback from peers** who have experienced doing business through them.

Recommendation to help build trust:

- Put in place a mechanism to handle complaints and recourse
- Invest in professionalizing agents in order to establish credibility
- Allow trial usage for free in order to let them experience the system risk-free
- Utilize client stories and positive testimonials about user experience to help reduce hesitation
- Agents need to show technical competence and reliability by following protocols and by being transparent with service fees.

"I know Delbert (local agent) and he is trustworthy, I just don't know if his mobile application will surely push my payment to SSS. I'm confident the airtime load will proceed, I just don't want to risk it with something as important as a government contribution. I'll have to ask my neighbors first if their SSS payments through the agent were successful."

- Dinah Tuan, 36, dressmaker, Barangay Bayas, Estancia, Iloilo

Frequent Transactions:

TOP-UP

MONEY TRANSFER

THE EXPERIENCED USER

Identifying Characteristics:

These customers are no stranger to digital payment platforms as they are highly exposed to the technology, and many of them are frequent users. Experienced users are proactive in learning about new trends and services. In some cases, they are considered “accidental” customers who avail services from the nearest available agent. These accidental clients are not necessarily avid customers of various use cases but are nonetheless aware of different types of services available via mobile payments.

What they value:

Experienced users are willing to try-out other non-commercial providers or transact with new agents to check which will give them the most **savings and convenience,** paying minimal service fees and spending minimal transportation costs. They compare prices and service quality, and because they know of alternative providers, building loyalty to a specific agent is meticulous. Experience users have a **general trust in digital financial transactions system,** and they seek reliability in terms of **making multiple transactions hassle-free.** These clients either know about mobile money accounts or are account owners themselves and are capable of making digital payments on their own. With the same level of comfort using the system as the experienced users, the accidental clients have no problem transacting with whoever retailer is closest to them. They rely on **signage and posters** to determine which retailer offers which services.

Recommendation to encourage agent loyalty:

- Offer a wide range of financial services and products within market competitive price range
- Set-up mechanisms to avoid insufficiency of agent liquidity or float, because it affects ability to transact, undermining their reliability
- Put up marketing collaterals and signage containing services offered and price breakdown in agent stores
- Ensure device can provide quick and seamless transaction experience for clients by minimizing network/service downtime

“The new platforms are typically the same with what I’m using, they only have additional features so they offer better service. The good thing about Digipay is I have a lot of options to pay my bills and send money. Back then, I only have the SMART money app. The process of sending money did not change.”

- Ivan Sy, 34,
Pasong Tamo, Quezon City

Frequent Transactions:

TOP-UP

MONEY TRANSFER

BILLS PAYMENT

V. PROGRAM INSIGHTS

SUMMARY OF CAN INSIGHTS

1. Local utilities payments and government payments are highly demanded use cases but many such merchants and government branches are yet to be included in the e-payments system of service providers.
2. Agent-assisted transactions is the best delivery approach to encourage usage of DFS because it eliminates barriers to transact for low-income markets.
3. Tangible proof of payment is imperative to build trust and it should be provided to clients for free.
4. Partnering with community-based organizations and trusted institutions is key in organizing awareness campaigns and driving uptake.
5. Employing the retail model is effective in highly urbanized areas where there is data connectivity and use of social media is rampant.
6. Partnership models such as the Distributor-led model and Master-Agent model are best used in rural areas because it allows expansion of geographic reach while keeping costs relatively lower.
7. There is a need to set industry guidelines on professionalizing agents and standardizing their operations in order to build credibility, maintain quality, and ensure client protection.
8. Gaps in customer support and other critical aspects of operations such as marketing and agent network management can be addressed by third-party service providers that facilitate efficient management and enable cost-efficient scaling.
9. Design of the platform should be agile but not at the expense of disruption.
10. Onboarding local utility companies is challenging because it is resource-intensive and because of incompatible IT systems.
11. In order for the MFI loan repayments to become a viable use case, it needs to be provided under a Master-Agent Model where the MFI shoulders the service fees charged by the agent.
12. Profitability of fintech providers is highly dependent on mobile network operator charges and relationships.
13. The pathway to sustainability for fintech providers begins from offering basic services but should expand to higher value products and cross-sectoral services.

V.1 Client Adoption and Demand

Spurring customer adoption is a key challenge for financial services providers. While many clients have benefited with the increased convenience and savings gained in transacting with community agents in their barangays, several factors still pose impediments to greater usage. Encouraging end-clients to use the system requires understanding their needs, lowering barriers to transact, building trust, and raising awareness.

INSIGHT 1
Local utilities payments and government payments are highly demanded use cases but many such merchants and government branches are yet to be included in the e-payments system of service providers.

Despite a broad range of services being offered by fintech providers, only a few products and services are used by clients because either the merchants onboard are not geographically relevant or certain services in demand are currently not offered through digital payments. Rural merchants are very local in context and serve a relatively small portion of the population compared to operators in urban areas. Fintech providers do not prioritize them due to lack of volume potential. However, these are the services that make sense to rural communities. During human-centered design interviews conducted in the course of the program, the most frequent and most inconvenient payments of clients were identified. Payments that require traveling into town, waiting in line, and being somewhere at a specific time are the use cases that clients greatly hope they could manage remotely such as bills payment and government remittance transactions. Utilities payment comprised 13% of total transactions as of January 2018, and usage of this service is yet to reach full potential. Current roster of utilities providers onboard the system include only 22 electric cooperatives out of 125 providers recognized by the Energy Regulatory Commission, and 6 private-owned distribution companies out of 20 registered providers nationwide.[20] Clients in rural areas served by various local power distributors (e.g. private utilities providers, cooperative or local government unit-owned distributors) not currently in the system see DFS usage limited to top-ups and money remittance, with number of transactions at 47% and 35%, respectively. Government payments is also highly demanded but current roster is also limited due to the challenges in negotiations with the executing agencies.[21] Negotiations are underway to incorporate such transaction options in the system. End-client usage could potentially increase with the addition of these relevant use cases.

INSIGHT 2
Agent-assisted transactions is the best delivery approach to encourage usage of DFS because it eliminates barriers to transact for low-income markets.

Many digital financial inclusion programs aim to provide individual accounts or e-wallets for clients. However, results from the FGD interviews manifested a lack of readiness to adopt customer-managed e-wallets, especially among clients in the low-income segment. Solutions that require mobile phone ownership, or those that work only on smartphones with data connection will leave behind a large segment of the population.[22] Moreover, the complexity of KYC requirements and procedures that low-income individuals are unable to comply with, as well as the difficulty in navigating through unfamiliar interface that can cause transaction missteps also discourage personal usage of e-wallets. The CAN Program was able to validate that agent-assisted delivery of financial service remains to be the most appropriate method of transaction to target the financially excluded. These clients' preference for agent-assisted transactions stem from force of habit and it would be more arduous to achieve uptake in introducing an unfamiliar delivery channel. Moreover, the barriers involving phone ownership, or account enrolment will not impede usage of the services and improve the overall ease of conducting transactions. Agent-assisted solutions must go alongside financial inclusion efforts that aim to increase banking penetration in order to build familiarity and earn client trust in the reliability of the system.

INSIGHT 3
Tangible proof of payment is imperative to build trust and it should be provided to clients for free.

Clients do not readily transact using a new system they are unfamiliar with. In order to establish trust, there is a need to put in place a mechanism that enhances credibility and consumer protection. Receipt issuance helps alleviate clients' apprehension and concern over scams and fraud. Both technology solutions deployed in the field provided clients with a proof of transaction, and a paper receipt proved to be the preferred choice over an SMS confirmation. In the interviews, clients, specifically the women, reported that they took comfort in receiving both a paper and electronic receipt because it served as an assurance that the transaction was successful. Moreover, having a tangible proof of payment is useful during complaints and recourse cases. Paper receipts from the POS!BLE platform is given to clients free of charge, but the cost of e-receipt SMS was often passed on to clients. While this could potentially discourage clients to transact with the agent, in the field, this did not emerge as a barrier. Clients were willing to pay the agents a service fee (which includes the SMS confirmation charges) and in return expect that they deliver the service and provide a transaction receipt in any form available. Although there is a willingness to pay on the part of the end-users, making electronic confirmations free of charge is an important step in prioritizing customer welfare and protection. Moreover, removing this cost can incentivize businesses to transition from paper to digital receipts.

INSIGHT 4
Partnering with community-based organizations and trusted institutions is key in organizing awareness campaigns and driving uptake.

The CAN Program conducted 11 outreach events in various barangays, reaching about 1,489 participants in total, 87% of which are women. Community outreach programs are necessary not only to spread awareness of the technology but also to provide understanding of DFS through financial literacy training and orientation on digital tools. Instilling appreciation of DFS is most effective when the benefits and conveniences of using the system is explained alongside cash management techniques. This shows participants how small time and costs savings in transacting via community agents can be impactful in easing household and business budget limits. It is important to target women as participants in the community outreach because they are often the ones in charge of managing the budget. While introducing agents to the community and demonstrating how transactions are done helped establish some level of confidence in the system, client trust is boosted greatly with the endorsement by recognizable institutions or authority, such as microfinance institutions, local government organizations, and livelihood associations that clients deem credible. It is essential to partner with community groups and institutions to enhance community members' participation and engagement in the outreach. Moreover, organizing these events is resource-intensive and having a partner organization with existing network that can gather participants easily and help arrange logistics can improve efficient deployment of resources. Since these events are expensive, it is advisable to hold community outreach activities in conjunction with other local events such as constituent plenaries, fiestas, or medical missions. GF developed a community outreach program containing activities and games applicable to topics pertinent to financially excluded households. These materials are ready to be shared so other organizations planning to conduct their own community engagement can use it.

V.2 CAN Infrastructure: Agent Network Models and Technology Solutions

Building the CAN infrastructure involved the establishment of an agent network at the community level and equipping them with technology solutions that deliver financial services to the unserved and underserved. Recruiting, selecting, and managing the agent network is resource-intensive, especially when done on an individual basis. The CAN Program tested three different models, understanding of which gives an insight on the best way to deliver services to the financially excluded.

- Retail Model – In the Retail Model, the fintech provider directly recruits, trains, and manages agents. Agents rebalance their accounts by depositing cash payments to the fintech provider's bank account.
- Master-Agent Model – The fintech provider taps into the existing networks of local organizations in the community, such as cooperatives, and selects eligible members to become agents. It works as a hub-spoke distribution where the master agents have their own e-wallets which they fund to top up their agents' e-wallets. Agents then pay back the master agent in cash.
- Distributor-led Model – In the Distributor Model, the fintech provider partners with fast-moving consumer goods (FMCG) distributors and their network of sari-sari stores to deliver the services.[23] Store owners become sub-agents managed by the distributor who may also assume the responsibility of rebalancing agent wallets. Payment collections are done via Roteros (roving cash and/or goods collectors) employed by the distributor.

INSIGHT 5

Employing the retail model is effective in highly urbanized areas where there is data connectivity and use of social media is rampant.

GF developed and tested an agent pre-selection tool that was aimed to collapse the cost of identifying potential sari-sari stores that can also serve as financial transactions access points. However, even with a tool that brought down time to rate prospective stores from 45 minutes to 3 minutes, the store-to-store method proved to be ineffective. Out of 602 stores surveyed using the pre-selection tool, 161 were rated eligible, only one agent took up the agency business and very few came to the invitation to attend the business opportunity meeting. GF tested the efficacy of business opportunity meetings and conducted meetings in Guimaras, Dumangas and Iloilo City with a total of 96 participants. 12 individuals applied as agents but none was rated eligible due to poor connectivity in the prospective agents' areas and the inability to pay for the initial working capital outright. This demonstrates the low conversion rate of market-at-large meetings and retail initiatives. This is opposed to highly urbanized locales where potential agents are reached by social media or by industry events. In this case, potential agents seek out opportunities, have ways to register online with the fintech's website/s or visit their offices. POS!BLE and Digipay estimate that as much as 90% of their new retailers are now enlisted through their websites or walk-ins. Aside from limited network infrastructure and lack of capital, it is difficult to convince participants to venture into a completely new business with an organization they are unfamiliar with. In the same way that clients look for community authority and institutions that they recognize, agent willingness to onboard is greatly influenced by authorities they know and trust.

INSIGHT 6

Partnership models such as the Distributor-led model and Master-Agent model are best used in rural areas because it allows expansion of geographic reach while keeping costs relatively lower.

When trying to penetrate far-flung municipalities where connectivity and infrastructures are not well established, relying on social media, web-based and industry event campaigns to assemble people could be challenging. CAN and partners engaged local organizations and FMCG distributors in identifying eligible agents because these entities know the local landscape. They have pre-existing ties with store owners and community leaders that help in efficiently targeting potential agents and keeping mobilization costs low. The existing business relationship and trust a store owner has with distributors or master agents make it easier for them to get into new ventures promoted by these partners.

Moreover, the rebalancing of mobile wallets remain to be the biggest hurdle for agents in rural areas because it is expensive and time-consuming. Agents based in islands where there are no bank branches need to travel for about 2 hours by boat and then by land transportation to reach the nearest mainland bank, and spending about PHP 150 (USD 2.87) for a two-way travel to the bank. To cut down on trips, agents would need to reload larger amounts, shouldering a higher cost of account liquidity. Partnership models improve agent convenience and savings by providing an alternative way to rebalance. Under these models, agents no longer need to travel to town to reload their wallets. Instead, agents transact with master agents who are within the community or with distributors' roving cash collectors who conduct regular visits to stores. These touchpoints allow rural-based agents to lower rebalance amounts. Agents under these models also receive support in marketing products and services which is valuable in areas where social media and web cannot be leveraged due to difficulty in mobile and data connection. But even with both of these models, wallet rebalancing will remain to be challenged until such time that the agents are receiving e-money as payment for their merchandise or service.

INSIGHT 7

There is a need to set industry guidelines on professionalizing agents and standardizing their operations in order to build credibility, maintain quality, and ensure client protection.

Most agents are small store and shop owners who are used to dealing with clients in a casual, unceremonious manner, and while this works for traditional sari-sari store operations, handling financial services requires agents to be more service-oriented and thorough in their dealings. Professionalizing agents is crucial in building a reputation of reliability because they are the primary customer-facing representative of DFS. While agents need to be trained technically on the digital tools they use, and products and services they offer, it is essential that they develop soft-skills and competence in dealing with clients. The CAN Program provided e-learning modules (3 animated short videos) to orient agents on how to effectively interact with clients and build good rapport.[24]

An industry consensus should be established in pinning down minimal yet necessary guidelines for agents to follow when handling financial services. This should encompass not only direction in appropriate agent comportment, but also instructions on standard operating procedures, and agent profiling and tracking. Monitoring compliance to guidelines allows fintech providers to advise agents with sub-standard performance, or disenfranchise those with fraudulent acts. Another aspect that the broader industry needs to set guiding parameters on is pricing. Agents charge customers with convenience or other such additional fees. These fees are typically between PHP 1.00 and PHP 10.00 (USD 0.02 and USD 0.19) depending on transaction type. Because these fees are undocumented and unregulated, they can become discretionary. While this is a common practice for airtime top up, the unlimited range of discretionary fees for financial transactions is harmful for the end client. Pricing transparency needs to be improved to make sure that the fees charged are fair and justified in order to avoid agent misuse and protect client welfare.

INSIGHT 8

Gaps in customer support and other critical aspects of operations such as marketing and agent network management can be addressed by third-party service providers that facilitate efficient management and enable cost-efficient scaling.

Access to customer support is critical as clients rely on agents for problem resolution. During the FGDs, agents reported that clients approach them for support on transaction concerns and problem resolution, rather than calling a customer service hotline. From the perspective of the client, the agent and fintech provider are fungible so that even if an unresolved problem happens at the other end of the payment stream (i.e. a merchant not being able to properly credit the payment to the client's account) the agent's reputation is compromised. Agents need to be able to access a reliable customer support system to respond adequately to clients' issues. Unresolved problems lead to lost trust, and ultimately, attrition, which is even more expensive for a fintech provider to reverse.

Aside from technical support, there are other aspects of the fintech provider's operations such as marketing and agent management that are as critical in driving business and profitability as the technology solutions they provide. While fintech providers understand the importance of these operations, they are often not in a position to invest in these processes, which require large investments and human capital to set up and manage. Moreover, it is not the focus of their core business and thus they have limited expertise to efficiently supervise these divisions. This is where third-party support providers can come in to complement the gaps. Agent network managers (ANM) play a role in enabling fintech providers' agent networks to scale faster while offering quality and consistent management service. Shared industry resources and infrastructures could also support technology providers and market players to minimize costs and drive operations scale.

INSIGHT 9
Design of the platform should be agile but not at the expense of disruption.

While fintech providers strive to continue improving both device and software to better match customer demand, there is a need to manage the disruption concomitant with product development.[25] As iterations on user interface and new content are introduced during software update, agents struggle to reorient themselves on navigating through new functionalities. Agents in the CAN Program are still quite challenged by technology, so seemingly small changes, such as a change in the position of a button, can confuse the agents enough for them to get frustrated and conclude that the system is "not working". When agents find themselves having difficulty in coping with the changes, they lose the confidence to use the system. With rapid technology evolution, the design and user interface need to be responsive enough to user needs and capabilities in order to minimize the negative impact on product usability. Keeping it simple and intuitive eases the user experience. Three ways in which fintech providers can help manage disruption is by conducting product tests with selected agents before a major update is released, minimizing downtime and communicating changes effectively. Currently, e-mail and pop-up notifications are used to communicate changes to agents, which reportedly take quite a long time to get through and are not as easily understood. Supporting agent relearning can be improved by leveraging media that best suit the learning style of agents. Agents who are older are well-trusted in their communities and more clients tend to transact with them. However, training older agents can be difficult since they often aren't well versed in technology and are less patient in troubleshooting when issues arise. ANMs or fintechs should conduct separate trainings that employ methods that specifically target the different types of agents to better reinforce learning.

V.3 Fintech Provider Operations: Merchant Onboarding and Business Sustainability

The main constraint in the growth of the fintech providers is not on the technology but on the profitability of the value chain players. Providers also grapple with challenges in their operations and as solution pilots transition to scale, management of the agent infrastructure becomes increasingly resource-intensive. Opportunities exist for other market players to come in to complement the current limitations in fintech providers' capacities.

INSIGHT 10
Onboarding local utility companies is challenging because it is resource-intensive and because of incompatible IT systems.

Payments providers commonly carry large utility merchants such as Meralco and Maynilad. However, many areas in the country are serviced by local utility cooperatives and LGUs. Including regional merchants can help in boosting client adoption in those areas but it also entails some drawbacks for fintech providers. These utilities distributors are numerous and fragmented across the country, making the individual onboarding process resource-intensive. Local merchants often have IT systems that are less mature and sophisticated so they have very limited capacity to quickly integrate digital payments in their operations. This would entail additional investments in upgrading their systems which is not a priority of small merchants. To bridge this, there is a valuable prospect for a third-party agent network manager to step in and work towards the readiness of these local merchants so they can be connected to multiple fintech platforms. Also, as more merchants become part of the system, the portability of the technology and speed of transaction is compromised as storage requirements increase along with data consumption. This poses a problem in areas with unreliable network connection. As such, there is an opportunity to explore solutions that operate on lite mode or those with functionality that enables agents to turn off specific features or merchants that are not locally relevant to customers.

INSIGHT 11
In order for the MFI loan repayments to become a viable use case, it needs to be provided under a Master-Agent Model where the MFI shoulders the service fees charged by the agent.

The CAN Program conducted a proof of concept (POC) to identify opportunities for digital transactions in the loan repayment system of MFIs. Use of QR codes to identify each member was generated and used when payments were made via the agent. Figure 3 presents the value proposition that emerged from the POC. While there was general interest and enthusiasm for the new system, both on the part of the MFI and its members, as the value proposition became evident so did challenges that need to be addressed in order for the MFI use case to become viable for all stakeholders involved:

- **MFI Constraint: Timing mismatch between costs and benefits discourage MFI role as Master Agent**
  Digitization does not mean elimination of cash. Rather, it requires a new way of managing liquidity. To ensure service reliability of agents, MFIs should ideally serve as master agents and consider supporting member-agents with their capital requirements. From an MFI perspective, this requires new processes, more work, and some risk. Some of the benefits of moving to a digital platform are offset by these new considerations. The tradeoff is not always easy to evaluate, particularly when the investments are needed upfront and the benefits can only be fully realized in the long-term. The timing mismatch between costs and benefits make it difficult for MFIs to fully commit to changes in their operations.

- **Member Constraint: Limited willingness to pay for agent services**
  Because members are used to handing their repayments to MFI loan officers during center meetings without shouldering any transaction fee, members are reluctant to settle their weekly payment via the agent because of the service charges they would have to pay. Members are only willing to pay as much as PHP 5.00 (USD 0.10) of transaction fee, pegged against the average transportation cost going to the center meeting. This does not translate to a profit for the agent especially with high capital requirements needed to serve all members of the center. Rigorous and strict behavior change management would be necessary to transition current MFI members to digital payments, which could result in member attrition especially since they have little to no incentive to shoulder the additional fees.

- **Agent Constraint: High capital requirement and low profit disincentivize provision of loan repayment services**
  Serving about 30 members per center with each individual paying an average amount of PHP 450 (USD 8.62) means that agents need to fund their wallet roughly PHP 13,500 (USD 258.46) weekly to carry out transactions for loan repayments alone. Receiving a fixed fee of PHP 5 per repayment transaction results in a PHP 150 (USD 2.87) service fee earning weekly, which translates to a 1.1% gross return and a 0.8% net return after a PHP 40 (USD 0.77) rebalancing cost which is pegged at a 2-way tricycle ride to a bank. Servicing loan repayments is not a worthwhile venture considering agents have other more profitable income streams. The agent can opt to spend only a portion of that capital requirement, say for instance PHP 3,000 (USD 57.44), to sell top-ups that earn a service fee of 5% of transaction amount. The agent would still earn a PHP 150 service fee but for a significantly less capital requirement compared to what is needed for loan repayment services.

The provision of digital loan repayment services needs to be under a Master-agent Model because of the prohibitively large amount of capital required to fund the wallet. Finding an agent capable to rebalance huge amounts on a weekly basis is difficult, especially in rural areas where most businesses are micro-enterprises with limited income and liquidity. Individuals with the capacity shell out large amounts are more often owners of medium to large business enterprises found in town centers. These are the ideal master agents to support agents in rural communities. Still, in order for the venture to be viable, there should be willingness to pay service fees more than the fixed amount pegged at transportation cost. These fees should ideally be shouldered by MFIs because of the efficiency savings and reduced risks resulting from digitization. Also, the process of transitioning current members to digital payments may be met with resistance as they are used to the traditional cash-based system and would consequently still opt to deal with loan officers due to force of habit. It would be more manageable for MFIs to introduce digital payments at the onset of establishing new centers and inducting new members and look at the digital payments space from a growth perspective.

FIGURE 3: MFI PROOF OF CONCEPT: POTENTIAL AREAS OF IMPROVEMENT FOR VARIOUS STAKEHOLDERS

Stakeholder	Area of improvement	Description
MFI	Reduced cash handling risk	There is less risk of money mishandling or losses that can occur anywhere between cash collection and account reconciliation. Loan officers no longer need to travel to the bank to deposit the collections, eliminating risk of misuse or theft.
MFI	Growth opportunity due to efficiency	Center meetings typically last about 1.5 hours, at least 60% of the time is dedicated to loan collection and counting money. With the digitization of loan repayment, center meetings could be collapsed to about 36 minutes, dedicated on the capacity building of members. Loan officers usually conduct 2-3 center meetings twice a week. With the efficiency gained, officers can potentially conduct twice as many center meetings, increasing their capacity to at least 4 center meetings in a day.
MFI MEMBERS	Convenience, time and cost savings	Some MFIs ask their members to deposit collections in banks prior to center meetings. Instead of traveling to the nearest bank in town, a member can save about 45 minutes a week by transacting through the community agent. The cost of transportation is also eliminated.
MFI MEMBERS	Greater access to other digital financial services	Members have increased access to other DFS that the agent offers such as bills payment and top-up, further increasing their convenience as the agent becomes a one-stop-shop for their other transaction needs.
AGENTS	Guaranteed customer base	By accepting loan repayments for MFI members, agents can serve 30 MFI members (average no. of members per MFI center) a week. If the agent is to cater to 3 to 4 neighboring centers within a barangay, it could potentially translate to 120 clients using the agent's services, at least once a week.

INSIGHT 12
Profitability of fintech providers is highly dependent on mobile network operator charges and relationships.

Fintech providers find it difficult to compete because of high telco fees. With the non-commercialization of USSD, fintech providers are forced to design their applications to use data. In Southeast Asia, Philippines has one of the most expensive data charges with 1 gigabyte of data costing USD 3.71, roughly translating to five and a half hours of work for minimum wage earners to afford.[26] The cost of Electronic Money Issuer licensing is also prohibitive for fintech startups. In an environment where margins are very thin, these costs can spell the difference between profitability and loss for fintech providers. Designing applications that can run on zero-rated mode is a possibility but again, is highly dependent on negotiations with MNOs. Regulators should look into how these issues can be addressed head-on to provide a more conducive environment for fintechs to flourish.

INSIGHT 13

The pathway to sustainability for fintech providers begins from offering basic services but should expand to higher value products and cross-sectoral services.

Margins are thin across stakeholders. Clients' willingness to pay has a ceiling based on transportation cost of an average of PHP 20 and a maximum of PHP 40 (USD 0.38 and USD 0.77, respectively), but this amount is split across at least three multiple stakeholders – the agent, master agent, fintech provider, and telco. The growth of the fintech industry relies on each stakeholder achieving sustainability. Thin margins for basic services are likely to stay. Transactions such as payments, cash-in, cash-out, peer-to-peer transfers need to be affordable enough for low-income households. As a result, fintech providers cannot rely on these basic services to generate substantial profits. What they do get from these basic services are valuable transactional data of individual clients. These transactional data hold a lot of promise for the unserved or underserved, who are mostly unbanked, because they don't have a financial footprint often derived from formal financial institution transactions. The payments footprint, when coupled with data from value added services could be used as an alternative parameter for credit scoring or for offering targeted, customized products. Using these data points and through product development, fintech providers should explore opportunities to offer value-added services (VAS) to clients, agents, and merchants where higher fees can be charged.

UNTAPPED OPPORTUNITIES FOR FINTECH SOLUTIONS

FMCG PROMOTIONAL ACTIVITIES

FMCGs can give rebates to agents via their wallets.

STORE INVENTORY MANAGEMENT SYSTEM

Retail stores can be equipped with a device and management system to track inventory and efficiently allocate resources to faster-moving products.

E-ROSCA (ROTATING SAVINGS AND CREDIT ASSOCIATION)

Group-based savings and extension of credit can be digitized and done via agents.

MARKET PLACE

Farmers can use the agent's service to post data for their produce for buyers and aggregators in a virtual market place and ordering or payment transactions can be executed thru agents.

E-COMMERCE USING TRADITIONAL CATALOGS

Combining e-commerce with traditional catalogs can be an effective way to reach the mass market.

TERM PAYMENTS FOR A FINANCIAL PRODUCT OR SERVICE

This service allows clients to pay partially in tranches via agents for goods and services.

MICRO-BANKING PRODUCTS

Small deposit-taking activities for formal banks via agents.

Digitizing a wide range of financial transactions holds a lot of potential for an archipelagic country as the Philippines where physical transportation of cash-in and cash-out is challenging, especially for those residing in rural areas. To achieve pervasive financial inclusion, action is necessary to improve the infrastructure and delivery channels, increase customer protection and education, and create a conducive playing field for various market players to thrive. Given the insights from the CAN Program, this section discusses key elements that are critical for the growth of the DFS industry.

For Policymakers

- **True interoperability.** Some digital financial services are interoperable in the sense that it can work across different mobile data providers and platforms, but margins remain to be excessively thin across the players. Implementation of the planned National Retail Payment System should ensure that true inter-operability is achieved at a much lower cost without taxing the smaller players who are capable of delivering financial services to communities that aren't too attractive for bigger players to serve.

- **USSD Commercialization.** Despite the growth of the smartphone market, less than half of the population actively use mobile data. Especially for the low-income segments, relying on smartphones and data for mobile financial services deployment is not feasible. USSD is still the best option for mobile financial service providers as it allows access through any type of phone and without the use of mobile data. However, this channel is not commercially offered by mobile telecommunications companies in the country. Policymakers and regulators may consider looking further into this gap and encourage competition for USSD access to be offered more broadly.

- **Consumer protection on transparency of fees.** While current policies require disclosure of fees, the real costs for clients are often masked. Informal charges or convenience fees imposed by agents are difficult, if not impossible to detect. A massive and widespread communication through simple messaging to end clients that educate them on transaction fees, while acknowledging that non-standardized fees may sometimes be necessary to sustain the agent's business, is crucial in client protection. Regulatory bodies should play a key role in a nationwide campaign for such.

For Financial Technology Providers

- **Backward design to run in 2G or lighter mode for scaling.** In order to reach the financially excluded segments of the population, it is important that mobile money and transaction services are delivered in the simplest way possible without the need for apps, data and smart phones. Utilizing basic feature phones as a medium to provide individuals in the low-income bracket the most appropriate financial services is a promising alternative to work around challenges on asymmetrical spread of reliable 3G coverage, insufficient capacity to pay for smartphone and data, and difficulty in navigating through unfamiliar interface. To target this segment, fintech providers are challenged to create innovative solutions that run on 2G, and to scale the delivery channels that are reliable, convenient, and affordable. There is also an opportunity to drive usage further by easing the high cost of data and exploring the prospects of providing zero-rated access to mobile financial services applications.

- **Develop products that serve the small businesses.** Current product offerings on e-commerce, specifically small ticket B2B and B2G products need to be enhanced. These products should be able to support the day-to-day operations of micro and small businesses to increase the relevant use cases of the platforms in rural communities.

For Agent Network Managers

- **Third-party agent network manager.** Currently, agent management is done with each product or brand managing its own network independently. The cost for servicing agents, particularly in remote, rural, low-volume areas is prohibitively high for fintech providers. One solution to improving efficiency and reducing costs is to have a third-party agent network manager serving multiple products, which allows the cost to be spread across multiple fintech providers. Efficient third-party agent management not only reinforce quality service but it also contributes in network scaling because it helps in lowering costs while expanding geographic reach.

- **Contextualize product information by tying it with financial education and establishing practical relevance to end users.** There is a need to empower clients through financial literacy as it plays a vital role in building the capacity of consumers to make sound financial decisions. Engagement in DFS comes with the understanding of the value proposition of the system and the ability to evaluate costs and gains it involves. This is done by teaching product information in the context of how it can practically benefit various end users. In particular, financial education for micro and small business should address the gaps in management and how they can incorporate payment channels into their day-to-day operations. For individuals and households, it is important to position DFS education in terms of savings in time and costs, as well as increased access to other products. Driving usage among financially excluded segments of the population requires a robust strategy for behavior management as the primary reasons for the prevalence of informal financial alternatives include client's lack of trust in new delivery channels, and lack of willingness to abandon traditional methods they are used to. Moreover, financial education forms part of a greater endeavor to push consumer protection. Educating consumers about their rights and the responsibilities of financial service providers encourages vigilance against unlawful methods and practices.

For Agents and Commercial Establishments

- **Agents should start accepting digital payments for their goods and services.** The answer to the high cost of rebalancing wallets can be addressed if agents also start accepting digital payments for their goods and services. Fintech providers need to be proactive in educating agents on how fully incorporating digital transactions in their business can potentially improve liquidity management and smoothen business operation. As public and private sectors continue to encourage widespread acceptance of electronic transactions, incentivizing individuals and businesses to use e-money (e.g. giving rebates, increasing convenience by streamlining transaction processes) is key in initiating a deliberate shift to cash lite operations.

VII. CONCLUSION

In order to achieve pervasive financial inclusion, there is a need to capture the specific needs, capacities and circumstances of those without formal financial credentials and give them an opportunity to access and use financial products and services to become financially independent and resilient. The Community Agent Network Program holds a lot of promise as an enabling infrastructure to reach these financially excluded segments. To expand the breadth and depth of CAN, there remains the challenge of not only managing demand-side behavior shift towards greater usage but also of putting in place mechanisms for fintech providers and other market players to achieve operational efficiencies.

Supply-side stakeholders and regulators need to work together in incubating a healthy dose of coopetition in the fintech space if start-ups, small- and medium-scale providers are to thrive and reach greater scale. As the fintech market is still at nascent stages, establishing the stability of the industry is reinforced by an ecosystem of shared infrastructure, knowledge and industry guidelines among stakeholders. Collaborations and partnerships to provide a more robust financial delivery channels, and a much broader set of products and services alleviate the pain points that slow financial inclusion endeavors. The current initiatives by the public sector, such as the National Strategy for Financial Inclusion and the National Retail Payments System, as well as the venture of private sector to card, QR, and mobile payments systems are prospective steps towards driving adoption of digital financial technology at the institutional level. The Community Agent Network approach contributes not only in pushing the boundaries of digital payments but it also has potential to become a vehicle to deliver other financial services such as savings, credit and insurance, where large gaps between demand and supply still exist.

NOTES

[1] Percentages are based on 2011 to 2016 averages from the Report on the State of Financial Inclusion in the Philippines 2016 published by Banko Sentral ng Pilipinas.

[2] The World Bank Global Findex 2014 – *Philippines lags behind other Southeast Asian neighbors in terms of adult (ages 15+) population account ownership with Indonesia at 35.9%, Thailand at 78.1%, and Malaysia at 80.7%. In terms of available ATM per 100,000 adults, Indonesia, Thailand and Malaysia have 36.5, 84.2, 52.9 machines respectively.*

[3] [BSP Report on the State of Financial Inclusion in the Philippines 2016 – *NCR has the highest concentration of bank access points with 100% of LGUs (cities and municipalities) having banking units, followed by Central Luzon (95.4%) and CALABARZON (94.4%). Zamboanga Peninsula (37.5%), CAR (35%), and Eastern Visayas (32.2%) sit at the other end of the spectrum with ARMM at the extreme end having only 8.5% of banked LGUs.*

[4] Php 55M converts to USD 1,052,976.59, and Php 25M converts to USD 478,625.72 at USD/PHP close 52.23288 as of 23 Mar 2017 00:00 UTC - 22 Mar 2018 08:09 UTC. This exchange conversion is applied to all values throughout this paper.

[5] Values are as of June 2017 from BSP Report on the State of Financial Inclusion in the Philippines 2016

[6] BSP Report on the State of Financial Inclusion in the Philippines 2016

[7] BSP Report on the State of Financial Inclusion in the Philippines 2016

[8] BSP Report on the State of Financial Inclusion in the Philippines 2016

[9] Estimate as of 2016 based on GSMA Mobile Economy Asia Pacific Report 2017

[10] GSMA Mobile Economy Asia Pacific Report 2017

[11] From GSMA Mobile Economy 2016 Report – *Among Filipino non-internet users, 51% reported lack of relevant local content to be their main reason for non-adoption as language (local dialects) and cultural diversity remain unreflected in current online content. Lack of digital literacy (27%) is also restricts effective uptake, while cost of mobile ownership (13%) in the country discourages internet penetration, especially among the bottom 40% of the population.*

[12] The World Bank Global Findex 2014

[13] BSP National Baseline Survey on Financial Inclusion 2015

[14] Accelerating Financial Inclusion in South-East Asia With Digital Finance 2017 Report published by Asian Development Bank

[15] BSP Report on the State of Financial Inclusion in the Philippines 2016

[16] BSP National Baseline Survey on Financial Inclusion 2015 – *NSSLAs, payment centers, and remittance agents, which are generally closer, are commonly reached by walking.*

[17] GF is unable to identify address by respondent as the information is either not provided by agent or provided incompletely.

[18] Calculation for average monthly income per agent is based on average number of transactions per agent per month multiplied by the average amount per transaction of PHP 320.42 (USD 6.13).

[19] Actual number of clients using the platforms is currently impossible to track due to the lack of unique client identification system.

[20] Energy Regulatory Commission Electric Cooperatives Rate Schedule

[21] Government payments available via Digipay include NSO Helpline Plus, Pag-ibig, Philippine Economic Zone Authority, Philippine Employment Administration, PRC and Tourism Infrastructure & Enterprise Zone Authority. For Pos!ble, there are currently 5 onboard the system: NBI, MMDA, National Home Mortgage Finance Corp. and Philhealth International.

[22] GSMA Mobile Economy Asia Pacific Report 2016

[23] Sari-sari stores are small neighborhood sundry stores.

[24] GF videos available in Youtube: https://www.youtube.com/watch?v=bq7Y7WrO8f4, https://www.youtube.com/watch?v=ECeS__0yRIc, and https://www.youtube.com/watch?v=r88CPpRDank

[25] Between August 2015 and February 2018, iterations for Action.Able, POS!BLE application started with version 2.4 and now at version 3.9. They released 10 versions of PERA App. There has been 15 version updates for Digipay and 2 versions for Panalo.

[26] Tech in Asia article by Nadine Freischlad: The cost of mobile data in Southeast Asia

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