এজেন্ট ব্যাংকিং

Digest 8

Impact of COVID 19 Outbreak on Agent Banking in Bangladesh

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Impact of COVID-19 Outbreak on

Agent Banking in Bangladesh

Background

Innovision Consulting Private Limited conducted a rapid primary research to analyse and comprehensively report on the adverse impact the COVID 19 outbreak has had on agent bankers. The study includes assessment of the economic impact on agent bankers and changes in their service provision, liquidity scenario and support requirements during the nationwide lockdown.

Agent banking plays a crucial role in providing financial access to remote areas, where conventional branch banking is not feasible. As a result, this research was conducted to assess the functionality of agent bankers across Bangladesh to understand the disruptions of the provision of banking services. The analysis provides useful insights to banking institutions, regulators, policymakers, NGO, and financial market stakeholders to ensure access to finance for bank agents and their customer groups, in addition to highlighting the key steps required for safeguarding the livelihood of affected agent bankers.

Agent banking was introduced in Bangladesh in 2013 with a guideline issued by Bangladesh Bank (BB). BB issued agent banking licenses to 24 banks until 2019; currently 21 banks are operating agent banking operations. As of 2019, 11,320 agent banking outlets are operating in Bangladesh, of which 85% are located in rural areas. The number of agent banking outlets increased by 63.28% in 2019 from the previous year. Agent banks are operating approximately 5.27 million accounts throughout Bangladesh; of which, 83% are in rural areas, 43% female accounts and 87% are savings accounts.

Methodology

For the purpose of the research, 90 agent bankers were interviewed across 43 districts of Bangladesh. The agents were randomly drawn from Innovision's own database. The districts covered in this survey represents randomly drawn samples. The primary data was collected using Computer Assisted Personal Interviewing (CAPI). Owners of the agent banking outlets under different private commercial banks were selected as the respondents. Telephonic interviews were conducted to collect data and KoBoToolbox for the inputs. The data collection took place between April 22 - 24, 2020.

90

Agent Bankers
Interviewed

30

Agent Bankers
from each bank

43

Districts covered
for data collection

Demographic Overview of the Respondents

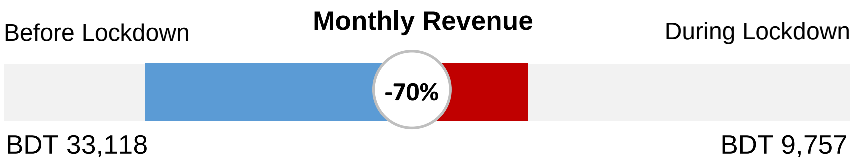
- The respondents are almost entirely male (98%). Only 2% of the respondent agent bankers are female.
- The average age of the respondents is 41 years
- 70% of the respondents have other sources of income; however, most of them (94%) have only one other source of income. Of the rest, 5% have two more sources of income. Only 1% reported of having three other sources of income. This information is illustrated in the following figures:

98%	41 years	70%
Respondents are male	Average age of the respondents	Respondents have other source of income

Agent Banking Operations during the Lockdown

- Agent banks which have remained open during this lockdown are struggling to meet their operational expenses given the sharp drop in the revenue.
- 21% of the interviewed agent bankers reported closure of operations due to the lockdown
- The 79% that are open are operating around one-third of their usual operation time. The average operating hours has fallen to 3.1 hours during this lockdown from the usual 8.7 hours
- Agents saw a sharp fall in their monthly revenue (commission for money transactions and other operations) by 70.5%. The average monthly revenue during the lockdown was found to be BDT 9,757, the amount usually stands at BDT 33,118 (figure 5)
- The current monthly revenue is not even enough to pay the average salaries of the employees TK 9,596. The monthly revenue has come down to only one-third of the total monthly expenditure (TK 26,581) (figure 5)
- 93% of the agents have salaried employees; they employ an average number of 2.3 employees.
- As a result of the lockdown, 41.1% of the agents are experiencing difficulty in physically accessing the bank branches (figure 6).

21%	93%	41%
Agent bankers reported closure	Agents have salaried employees	Having difficulty in physically accessing bank branches



The findings show that agents are hugely susceptible to externalities that may affect daily transactions. This means natural disasters or political unrest will also see the agent banking system to be largely affected. Measures to mitigate dependence on daily transactions and business continuity plans in times of crisis will be required to make the agent banking system more capable to face such disruptions.

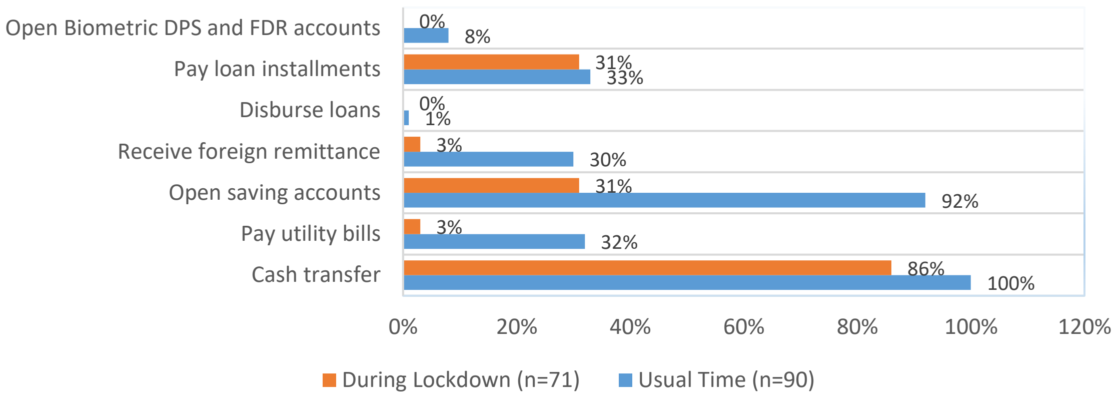
Change in Services Provided by the Agents

Services observing a decline during the lockdown period

The research explored the type of services agents were providing to their customers during lockdown, as well as, their operating hours both before and during lockdown. The analysis shows:

- A decline in all types of operations/ services is observed during the lockdown period
- Operations that reduced substantially are- paying utility bills (from 32% to 3%), opening savings accounts (from 91% to 31%), receiving foreign remittance (from 30% to 3%) (figure 7)
- There were no operations on opening DPS and FDR accounts, and disbursement of loans (although, only one respondent was providing this service before) during the lockdown period

Figure 1 Services provided by agents



The drastic fall in operating the 'pay utility bills' service could have resulted from the government's directive of delaying utility bill payment during lockdown. According to the agents, opening savings accounts was reduced because people preferred to keep cash in hand in under the circumstances of reduced income. As a large number of expatriates returned to the country due to the pandemic, foreign remittance received was reduced as well.

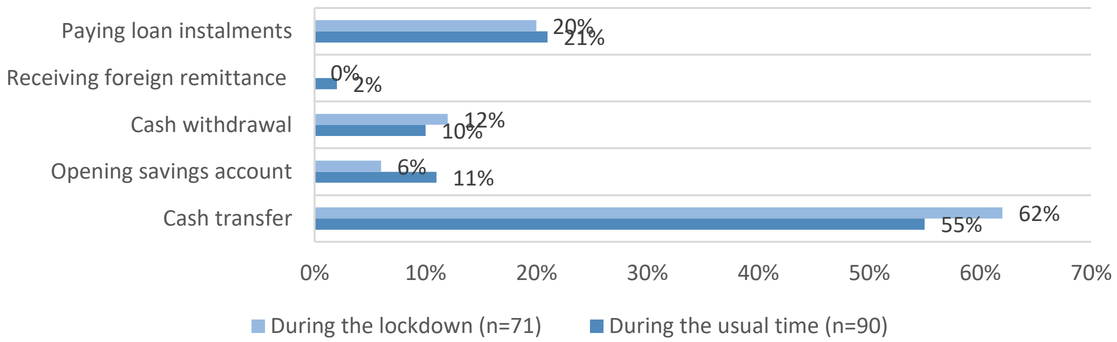
Change in demand for services

Our research shows the following shifts in demand for agent banking services during the lockdown period:

- Cash transfer became agents' most conducted service compared to others as it became the medium for transfer of local remittance due to limited inter-district mobility; 62% of the respondents identified it as the most demanded service during the lockdown (7% increase from the pre-lockdown stage) (figure 8)
- There is slight increase in percentage of agents identifying cash withdrawal as the most demanded service.

- There has been sharp decline in percentage of agents identifying opening savings account as the most demand service (slumped from 11% to 6%). According to the respondents this would have declined to zero if not for new accounts opened by urban workers and expatriates who returned to their villages during the lockdown period.
- Agents identifying cash withdrawal services and paying loan instalments as most demanded service has remained mostly similar.
- The transfer of foreign remittance decreased to zero; 33% of the agents reported that they witnessed foreign expatriates migrating to rural areas due to the pandemic.

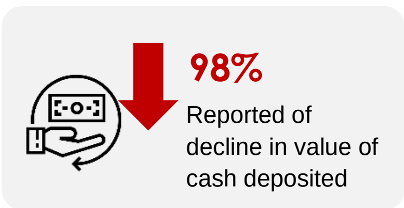
Figure 2 The most demanded service at the agent banks during the lockdown and before the lockdown



The reduction in all types of operations can potentially lead to liquidity crisis for the agents; ultimately impacting their business operations. This is further analyzed in the following section.

Impact on liquidity

The agents were inquired about changes in different indicators of liquidity - such as new account opening, the value of the cash withdrawal and deposit, difference in the number of the customers, etc. Most of the interviewed agents reported a decrease in all of the indicators. It can be surmised that the status of liquidity deteriorated for all the agents during the lockdown in the past month. Sixty four percent (64%) of the respondents reported that the value of cash withdrawal has decreased in the shutdown period of March 23 to April 22) in contrast 98% reported of decline in value of cash deposited during the same period. Furthermore, 89% reported of decline in number of customers. This saw a sharp increase from 37% at the start of the lock down.



The liquidity crisis can instigate further reduction in operations. Agents struggling to cope with this crisis will resort to closing their operations or laying-off their employees. Parent banks in this context have an important role to play in mitigating the potential impacts and providing support to ensure the sustainability of their agents during the time of crisis.

Changes in Customer Demography

COVID 19 shut down changed some of the trends in the types of customers served by the agents (figure 11 and figure 12). Percentage of agents serving homemakers increased from 70% to 92% during the shutdown. Percentage of agents serving white collar workers reduced from 84% to 73% in contrast. Agents serving disabled citizens increased from 44% to 57%. There has been strong decline in local traders served. Of the respondents, 73% reported of serving local traders during the lockdown period while it was 100% before the lockdown period. The overall decline in transaction value and volume could be associated with the large decline in local traders served by the agents. It should be noted that these changes might be temporary. However, it would be important for parent banks to assess whether some of the changes (For example increase in homemakers served) becomes more permanent as this may have implication on the types of products that the agents can serve.

Figure 3 Percentage of agents serving a professional group (before lockdown)

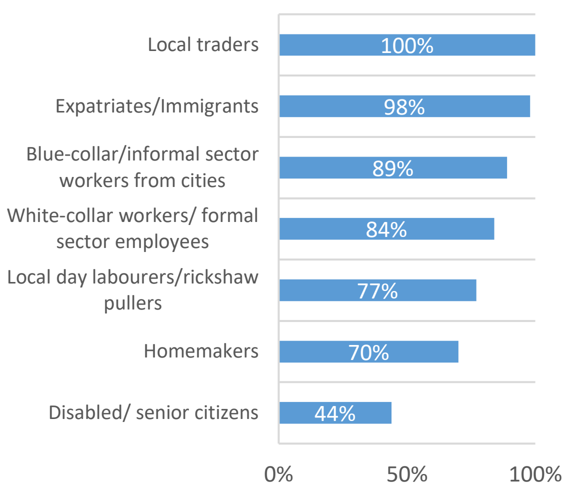
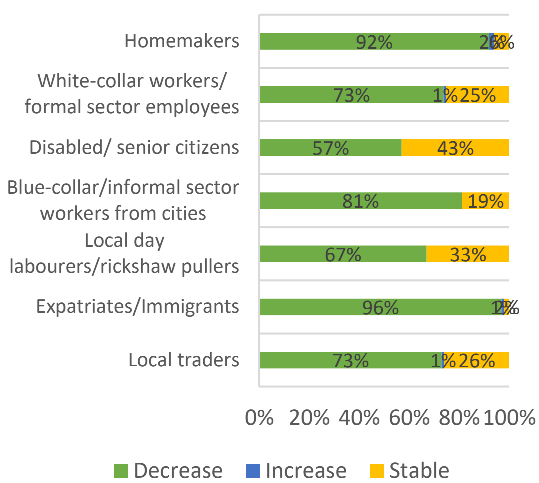


Figure 4 Change during lockdown



Support System from Parent Banks

- 97% of the studied agent banks responded that they did not receive any sort of help or support from parent banks in this crisis (figure 13)
- Of those who did not receive any support, 60% reported that they would require support or assistance from their parent banks. Amongst them majority (80%) sought support to maintain liquidity during the crisis and 25% sought advice on coping with the crisis (figure 14).

Figure 5 Support from parent banks during the lockdown

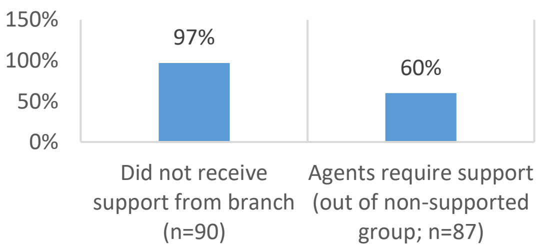
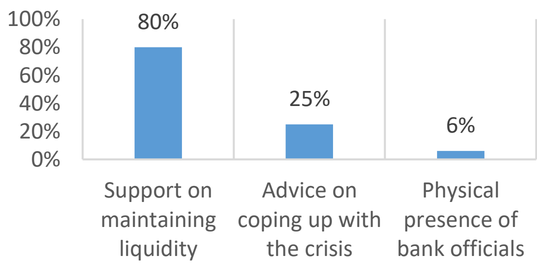


Figure 6 Services required by agents



Policy Recommendations

The findings show that:

- The return of migrant workers affected the remittance inflow adversely; limited economic activities have altered the usage of certain banking requirements for customers, like reduced account opening, DPS & FDR opening operations, cash deposit and withdrawals.
- Agents experienced a decrease in value of the cash deposits and withdrawals during the last month of the lockdown.
- The current scenario indicates a prospective liquidity crunch because of the limited financial activity; parent banks and the regulators should take steps to revive agent banking operations to support the financial accessibility of low-income customer groups.

In this context, the following policy measures are proposed for parent banks, regulators and policy makers.

For Parent Banks

- Evaluate the liquidity situation of their respective agents to devise immediate steps like channelling emergency cash reserves to agents. Internal policies need to be structured to develop and implement mechanisms for improving the liquidity of the agents.
- Increase awareness and capacity of agents to mitigate risks and enhance their coping mechanism. Parent banks should take steps to ensure regular sharing of information, advice and guidance to help agent banks cope with the crisis and prepare for any foreseeable shock, like natural calamity or political unrest. Concise, informative and effective awareness and information sharing toolkits need to be developed that can be distributed via SMS, phone call and/or digital flyers (for those who use smartphones).
- Shift to a digital approach, digitizing the operations as much as possible. Parent banks can and should digitalize various operation processes of agent banks, including account opening, cash transfer, bill payment etc. It is imperative to account for and consider the limitations in rural, remote areas (like fluctuations in network coverage, limited digital and financial literacy, etc.). This would ensure uninterrupted operation of agent banking operations during crisis periods (natural calamity, political unrests etc.)
- Diversify service offerings by agent banks. Parent banks can take steps to diversify agent bank operations by including social safety net fund disbursement, crisis fund disbursement etc. This will keep the agent bank’s operation ongoing during the crisis period.

For Regulators and Policyholders

- Manage agents’ liquidity during crises. Guidelines on Agent Banking need to be revisited and amended, if required, to operationalize channelling of cash reserves to agent banks as a safety net during times of crises. An umbrella crisis mitigation operational guidance should be issued by the regulators that banks can follow.
- Regulators and policyholders should take the lead to initiate and enforce digitalization of agent banking operation process to guide parent banks.
- Explore avenues of integrating agent banking with microfinance institutions and post offices to further enhance the reach, service offerings, and spearhead financial inclusion of the unserved population.

- Operationalize financing models through agent banking to channel the stimulus packages unveiled by the Government of Bangladesh during March – April, 2020. Agent banking outlets outnumber bank branches; therefore, they can be an important avenue for fund transfers during the crisis periods. In particular, specific guidelines need to be developed to channel the $2.4 billion package for the CMSME sector through agent banking outlets. This can ensure reaching the remotest businesses that are struggling to operate in this crisis period.
- Encourage financial institutions to develop streamlined crisis response toolkits for their agents. This will ensure a consistent and strategic approach for tackling adversities during an economic shock.

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