TECHNICAL NOTE

THE USE OF AGENTS BY DIGITAL FINANCIAL SERVICES PROVIDERS

February 2020

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ACKNOWLEDGMENTS

The authors thank the following CGAP colleagues who reviewed the Technical Note and provided invaluable feedback: Denise Dias, Emilio Hernandez, and Greg Chen.

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CONTENTS

AN INCREASING NUMBER OF COUNTRIES, especially emerging markets and developing economies (EMDEs), allow a diverse array of banks and nonbank institutions to distribute digital financial services (DFS) through agents. According to the World Bank's 2017 Global Survey on Financial Inclusion and Consumer Protection, nonbank electronic money issuers (EMIs) in 61 relevant responding jurisdictions (91 percent) are permitted to use agents as third-party delivery channels. Ninety-six responding jurisdictions (81 percent) allow commercial banks to use agents.[1] Permission to use agents in this way is a basic regulatory enabler of DFS.[2] Agents play a crucial role in lowering the cost of delivery to reach the unbanked and underbanked population and to provide them with financial services and products (Hernandez 2019).

The contribution of agents to achieving financial inclusion depends in part on how enabling the regulatory frameworks are. This Technical Note focuses on regulating agent models, taking a detailed look at different approaches to agency agreements, eligibility requirements, rules on exclusivity, services that can be offered through agents, standards for different types and levels of agents, and agent management. For each key point, we discuss the pros and cons of different approaches from a financial inclusion perspective. The countries covered in this Note are Bangladesh, Brazil, Ghana, India, Jamaica, Kenya, Malaysia, Mexico, Myanmar, Nigeria, Pakistan, Peru, Rwanda, Tanzania, Uganda, and Zambia.

1 DFS Agent Basics

Regulations define the relationship between an **agent** and a DFS provider or **principal** on whose behalf the agent acts (see Box 1 for definitions). The rules vary across countries (and to some extent within countries) on the scope of responsibilities that can be outsourced to agents, although several core elements are largely constant across the countries we studied.

AGENCY AGREEMENTS AND LIABILITY

DFS providers are often required to have **a written agreement** directly with all agents that offer services on their behalf. In most countries, regulations hold DFS principal providers legally responsible for the actions of their agents. The principal often remains liable even if agents are originally contracted by ANMs. They usually are not permitted to limit their liability in the agency agreement.

Country examples illustrate the different ways in which this key component is addressed. Zambia's regulation, for example, holds an EMI liable to its customers for business conducted by the agents "within the scope of the agency agreement," and such liability cannot be excluded by the agreement. Uganda holds DFS providers (in this case, banks) liable for their agents' acts or omissions "relating to agent banking." Agent banking regulations of Kenya and Tanzania clearly state that the DFS provider is responsible and liable for all actions or omissions of its agent and emphasize that this responsibility extends to actions of an agent "even if not authorized in the agency agreement as long as they relate to agent banking services or matters." Such a provision excludes the possibility of a principal's liability being limited through the agency agreements. Similarly, Jamaica requires payment services providers to remain "fully liable for decisions and actions by their agents."

Even if the principal is liable, it could indemnify itself against liabilities arising out of its agents' actions. Rwanda explicitly states that a DFS provider may enter into such indemnification agreements. Its regulation also requires third-party providers (i.e., ANMs) to assume liability for their agents and indemnify the principals for the payments they made as a result of agent liability.[3] However, the principal remains ultimately liable to the customer even if an ANM is used to subcontract and manage agents. Such indemnity clauses ensure that agents and ANMs remain vigilant even if liability rests with the principal. Several countries also require the principal's liability to be explicitly included in the agency agreement, this applies, for example, to

1 Percentages are based on 118 responding jurisdictions for commercial banks and 67 for nonbank EMIs.

2 Staschen and Meagher (2018) describe this as one of four such enablers, the others being nonbank e-money issuance, risk-based customer due diligence, and consumer protection.

3 They are referred to as "subagents" of the ANM in Regulation No: 2310/2018–00021[614] of 27/12/2018 of the National Bank of Rwanda Governing Agents.

Box 1. Key definitions

Agency Agreement: An agreement between the principal and an agent acting on the principal's behalf to deliver services to customers. Some regulations use different terms, such as "service-level agreement," to refer to the agreement between a DFS provider and an agent.

Agency Business: The business of the delivery of DFS to customers by an agent on behalf of a principal pursuant to the agency agreement.

Agent: A third party who acts on behalf of a DFS provider under an agency agreement for the delivery of DFS directly to customers. Other terms for this include "distributor," "correspondent," or "service point." This Note distinguishes between nonbank and banking agents where necessary, and this distinction is based on the type of principals that outsource certain activities to agents. "Banking agent" is the term for agents that act on behalf of banks to deliver DFS to customers; "nonbank agent" refers to the ones that act on behalf of nonbank institutions.

Agent Network Manager (ANM): A third party to whom the principal outsources some or all aspects of the management of an agent network, including selection, hiring, and training of agents, liquidity management, and monitoring of agent operations. For more on the definition of ANMs, see Box 3.

Digital Financial Services (DFS): The range of financial services accessed through digital devices and delivered through digital channels, including payment, credit, savings, and remittances.[a] Digital channels may include mobile phones, cards combined with card readers, computers connected to the internet, or automated teller machines, among others.

Digital Financial Services Provider: A provider that delivers DFS to its customers. A DFS provider could be a bank, nonbank EMI, or any other regulated entity.

Nonbank Electronic Money Issuer (EMI): Nonbank institution authorized and dedicated to issuing electronic money (e-money) against the collection of customer funds, offering e-money accounts and related payment and storage services.

Principal: A DFS provider whose services are being delivered to customers through agents under the agency agreement.

a. See AFI (2016).

all providers in Ghana and to banking agents in Kenya, Uganda, and Nigeria.

Many countries, such as Ghana, Tanzania, and Myanmar for EMI agents and Kenya for banking agents, require DFS providers to submit the draft standard agency agreement before regulatory approval to use agents. Some regulations identify provisions that should be included in the agency agreement—for example, services to be rendered, anti-money laundering and combating the financing of terrorism (AML/CFT) and IT requirements, the liability and responsibility of DFS providers for actions of agents, fees and revenue-sharing structure, confidentiality of customer information, record-keeping, and reporting requirements. This is the case, for example, in Ghana and for banking agents in Kenya and Uganda. However, other countries, including Myanmar, Tanzania, and Zambia for EMI agents and Rwanda for all agents do not specify the provisions to be included in the agency agreement.

BASIS OF REGULATION

We identified **three main approaches to agent regulation**: institution based, account based, and activity based.[4] The most common is the **institution-based** approach where different agent regulations are issued according to the type of DFS providers an agent can serve, as is the case in India, Kenya, and Pakistan. In this approach, more than one set of regulations may apply to agents offering services to more than one type of principal. Kenya, for example, has three

4 See Staschen and Meagher (2018, Box 4) for more on the approaches to agent regulation.

separate sets of regulations for the use of agents, applicable to banks, deposit-taking microfinance institutions, and payment services providers.

In countries that follow the **account-based** approach, the rules are based on which types of accounts the agents serve, such as bank accounts or e-money accounts (e.g., Bangladesh). In countries that follow the **activity-based** approach, different rules apply depending on the types of services being outsourced, regardless of the type of principal or the type of account served (e.g., Ghana and Rwanda).

WHAT ARE THE CONSIDERATIONS FOR AND AGAINST DIFFERENT AGENT APPROACHES AND LIABILITY PROVISIONS?

Pro

- Holding principals liable for their agents' actions gives them the incentive to be more vigilant in overseeing agent activities and assessing the risks involved.[5] It also addresses supervisors' concerns about the potential risks of using agents.
- Where principals have no liability, supervisors' concerns would focus on how the actions of agents will affect consumers. Supervisors would need to monitor and supervise the ANM or even each agent (if there is no ANM) to protect customers and their funds—which is often not possible given limited resources. However, when principals do have liability, supervisors are able to focus on the principal instead of the activities of ANMs or each agent—a proposition that is more manageable.[6]
- The activity-based approach (a kind of *functional* approach) to agent regulation applies uniform rules to all types of providers and all types of accounts for a given type of activity. It creates a level playing field and is flexible in addressing the emerging issues of DFS, especially given the increasing trend of agent networks shared among different types of principals, new nontraditional providers entering the market, and partnerships between banks and nonbanks.

Con

- In countries that regulate agents using an account-based approach, banks that offer both bank accounts, such as deposits, and e-money accounts through agents have to manage different sets of agent regulations even if the agents basically conduct the same type of services (e.g., cash-in and cash-out [CICO] services).
- The institution-based approach makes it difficult to address fast-evolving DFS models that involve banks and nonbanks—such as a digital credit product offered by a bank through a nonbank agent network—or where new nontraditional players come onto the scene. Also, users of similar services may have different levels of protection depending on the type of principal.

Overall, the activity-based approach is the preferred policy to promote a level playing field and to minimize the regulatory arbitrage stemming from the recent emergence of new types of players. Some jurisdictions might be obliged to issue different sets of regulations on the use of agents for different types of providers because their regulatory system is institution based. However, even these types of systems could be designed to apply similar rules to all agents, thus creating a level playing field.

2 Agent Eligibility

Agent regulations state **who can become an agent** and often provide minimum criteria for agent eligibility, including business experience, financial situation, and human resources. While several countries, including Colombia, Ghana, India, and Rwanda, allow individuals to become agents, in other cases, such as in Brazil, eligibility rules require the agent to be a legal entity such as a company. Some countries, such as Brazil and Rwanda, allow any type of entity to become an agent and do not list the eligible types of entities. In other cases, the regulations, including for banking agents in Kenya, Nigeria, and Tanzania, issue a long list of types of entities that may become agents.

5 A few experts questioned the need for providers to assume liability for and oversight of the activities of all agents (e.g., Mas [2015]). Also, see Mas (2019) on the suggestion of building independent cash-in and cash-out (CICO) networks that solely focus on offering CICO services to all customers of DFS providers without the need for an agency agreement.

6 For more on supervision of principals, see Dias, Staschen, and Noor (2015) and Dias and Staschen (2018).

Rules on who can be an agent vary significantly across jurisdictions. For example, Mexico stipulates that an institution that is dedicated to money transfer services as defined in the General Law on Auxiliary Credit Organizations and Activities cannot be an agent.[7] Conversely, in Brazil and Colombia, microfinance institutions, savings and credit cooperatives, and other financial institutions can act as agents for other financial institutions.[8] In the case of Nigeria's agent banking regulation, which lists a diverse range of entities that can act as agents, a legal person who is not-for-profit, such as a nongovernmental organization (NGO) or an educational institution, cannot engage in the agent banking business.[9]

It is not obvious in each case why the range of eligible entities was limited. However, regulators sometimes look for agents with one or more of the following characteristics:

- An established network of outlets particularly those in harder-to-reach areas.
- Some experience conducting financial transactions.
- No risk of being steered away from a social mission, but also no profit motive— depending on which of these two is seen as a higher risk, the outcome would be either prohibiting or allowing only NGOs.

Requirements for agents may also include **fit-and-proper criteria** such as having a good reputation in the community, a sustainable business, healthy financials—and no criminal record. Where an agent can be a business, they may be required, for example, to have a valid business license or to have been in business for a minimum period (e.g., 12 months for all agents in Ghana and for banking agents in Nigeria and Kenya; 18 months for banking agents in Tanzania).[10] Those that want to become agents are disqualified if they have been classified as a nonperforming borrower by a financial institution within the past 12 months (in Nigeria) or 24 months (in Rwanda) of signing the agency agreement. Even agents with agreements in place can be disqualified if they become classified as a nonperforming borrower while they are agents.

In some countries, such as Bangladesh, Kenya, and Uganda, a banking agent cannot be run or managed by an employee of the principal. In addition, Bangladesh prohibits a former employee of a DFS provider from acting as an agent for the same provider within one year of retirement or resignation. These rules aim to reduce potential conflicts of interest.

Some countries, such as Rwanda for all agents and Tanzania for banking agents, require potential agents to have **appropriate human resources** to provide services conveniently and without interruption. Bangladesh goes into more detail and requires an agent to have at least a manager, a teller, and a counter for cash transactions.

In addition, several countries require DFS providers to submit plans for their agents' **geographical coverage** before being approved for agency business. Examples include Ghana, Rwanda, and Kenya (for banking agents only). A few countries regulate the location of agents. Malaysia's agent banking regulation, for example, identifies the districts where a DFS provider may appoint an agent. Banks in Bangladesh must give preference to locations where there is no bank branch or agent point within a 1 km radius. Another requirement for banks in Bangladesh is that they should maintain a minimum ratio of 3:1 for rural and urban agents.[11] These kinds of provisions often reflect financial inclusion mandates aimed at ensuring services to the unbanked and underbanked population. A few countries, including Brazil, India, and Uganda, require a DFS provider to assign each agent, subagent, or outlet to one of its branches to ensure adequate oversight of their activities and effective liquidity management.[12]

7 Ley General de Organizaciones y Actividades Auxiliares del Crédito, http://www.diputados.gob.mx/LeyesBiblio/pdf/139_090318.pdf

8 Resolution 3954/2011 of Central Bank of Brazil, Decree 2233/2006, and subsequent revisions and Decree 3965/2006 of Financial Superintendence of Colombia.

9 To the contrary, India originally excluded for-profit entities out of concern that poor clients would be exploited. See Tarazi and Breloff (2011).

10 Ghana's Payment Systems and Services Act (2019) defines "agent" as a person who provides agency services to customers on behalf of a principal under an agency agreement. The principals could be a bank, specialized deposit-taking institution, payment services provider, or EMI.

11 See Bangladesh's Prudential Guidelines for Agent Banking Operation in Bangladesh for the definition of rural and urban.

12 India's agent banking regulation used to require retail outlets and subagents to be within 30 km of their assigned bank branches in rural, semi-urban, and urban areas, and within 5 km in metropolitan centers. These distance criteria were repealed in 2014.

Certain countries require agents to have an **ongoing, separate line of business**. This is the case for Kenya and Uganda for banking agents. In other words, those operating as agents must cease doing so if their separate line of business has ceased or is significantly diminished. In the same vein, several countries (e.g., Malaysia and Tanzania) prohibit DFS providers from appointing as an agent a business whose sole activity is agent banking—a dedicated agent. Brazil prohibits specific services such as collecting and transferring account opening documents to the principal, account-based payments, and bill-of-exchange payments to be performed by agents whose principal activity is agency business.

PROS AND CONS OF ADOPTING STRICT, DETAILED AGENT ELIGIBILITY RULES

Pro

- Requiring agents to be legal entities such as companies ensures that agents have sufficient organization, resources, and accountability to provide responsible, continuing services.
- Fit-and-proper requirements including appropriate human resources help ensure that agents have sufficient capacity, expertise, and integrity to offer financial services. This means more consistent service quality and reliable service delivery. Further, it reduces consumer protection risks, thus affording a certain level of confidence to the principal regarding the agents' activities for which they are ultimately liable.
- Rules on location of agents, such as minimum ratios of agents in rural vs. urban areas, could help push agent networks to reach remote areas to the benefit of financial inclusion, depending on the business models in the country.
- The requirement of a separate line of business helps to ensure that business volume is sufficient to cover the operating expenses of the agent, especially in the early phase of the business.[13] Also, these policies may help to ensure that DFS providers retain agents who have a level of activity from the separate line of business that generates adequate liquidity. This requirement is more important for cases where the DFS provider does not provide liquidity services to the agents. Last, such policies may help ensure the integrity of agents and reduce the risk of agent fraud since an agent with a separate line of business might be less prone to risk its other ongoing line of business by committing misconduct and wrongdoing related to its agency business.

Con

- Even if having strict rules on agent eligibility might reduce risks to the financial system, those rules might undercut financial inclusion objectives and limit the ability of DFS providers to find potential agents, especially in underserved regions. Unnecessarily restrictive rules on the type of entity allowed to become an agent, required documentation, qualified staff, and physical premises increase costs and reduce availability of agents in those sparsely populated regions where a viable agent business is hardest to achieve. Such barriers to entry limit not only the number of service points but also the range of different services and products that can be conveniently accessed by customers. Such negative impact would be exacerbated where the regulations impose restrictions on agent eligibility.
- Detailed requirements imposed on agent eligibility would also increase the supervisor's cost of enforcement. This is an important issue because supervisory resources are a constraint in many EMDEs where agents are being used in increasing scale.
- Rules limiting the distance of an agent from the nearest branch assume that agent networks manage liquidity through branches, which is not necessarily the case. This function can be performed in other ways, including through third-party providers or ANMs. Also, because branches are often located in urban areas, such a rule on proximity will stand as an obstacle in extending agent networks into remote areas. Moreover, such a rule may be unnecessarily restrictive, especially where DFS providers have effective remote monitoring systems that ease oversight of agents' activities.
- The rule on nondedication of agents—requiring a separate line of business in addition to the agent business—may keep entities that have the potential to generate sufficient

13 Kapoor, Pelupessy, and Kusuma (2017) seem to support this, as they showed that agents who conduct other business from their shops in addition to a DFS business are significantly more profitable compared to agents who conduct only DFS business. This evidence, however, might be due to selection bias.

profits from specializing in agency business from entering the market.

The policy and regulatory framework should be flexible enough to allow principals to hire eligible agents according to their own risk assessments that consider the risk level of several factors, including services offered and locations.

In general, decisions on which types of entities to use as agents, whether they need to be nondedicated, and where they should be located should be made by the DFS provider. The principal should make decisions within the limit of its risk appetite and in line with its strategic plan to reach new locations and its overall agent management strategy, among other things. The policy maker should focus on the liability of the principal in managing the risks of its own agents and agent network consistent with the complexity of the outsourced activities.

The litmus test for any policy on agents—at least where financial inclusion is a priority—is whether it supports the extension of agent networks throughout the country, including remote areas. This makes it imperative that policy makers avoid undercutting the business case for agents. Regulators should consider introducing different types of agents with risk-based eligibility criteria tied to the scope of activities the agents can conduct.

The priority for policy makers should be to promote policies and approaches that incentivize principals to extend their agent networks to rural areas rather than to impose rules that make agency business unattractive.[14]

3 Agent Exclusivity

Many countries mandate nonexclusivity of agents. These countries include Ghana for all types of agents and Kenya, Nigeria, Tanzania, and Uruguay for banking agents. Other countries allow exclusivity. These include Brazil and Rwanda for all types of agents and Mexico, Malaysia, and Pakistan for banking agents. In both cases, agents are free to serve multiple DFS providers. Where nonexclusivity of agents is possible, DFS providers typically are responsible for assessing the capacity of an agent to manage transactions for multiple DFS providers before hiring the agent. Jamaica allows nonexclusivity, but also permits exclusive arrangements, making the latter individually subject to prior approval by the Bank of Jamaica.

A few countries, including Bangladesh, Indonesia, and India, mandate exclusivity. Bangladesh previously permitted the nonexclusivity of banking agents, but in 2017 issued new guidelines to require exclusivity. In India, exclusivity is mandated at the subagent or retail outlet level, while business correspondents, which are essentially ANMs, can serve more than one bank.

PROS OF EXCLUSIVITY OF AGENTS

- Exclusivity may encourage providers to invest in building agent networks in the early stages of market development, enabling them to benefit from the first-mover advantage (Tarazi and Breloff 2011).
- It is easier for agents to manage a single agency agreement, maintain a relationship with only one principal, and/or handle one platform instead of several.
- Exclusivity makes it easier for all customers to understand by which principal they are being served at the agent location. Further, supervisors would have better visibility into who is responsible for oversight and training of agents and resolving consumer protection issues.

PROS OF NONEXCLUSIVITY OF AGENTS

- Nonexclusivity should ease market entry for multiple DFS providers in rural areas where it is hard to find qualified agents. Further, customers could access a diverse range of services from multiple DFS providers at agent points of service and choose the ones that meet their needs and preferences.
- Nonexclusivity makes it more likely that any given agent will work with multiple principals, enabling the agent to generate attractive revenues and make a viable business case, at least in certain locations. This would encourage more agents to enter the market, thus expanding the reach of financial services by providing more points of service to a larger number of customers.

14 See Arabehety, McKay, and Zetterli (2018) for more on approaches that could incentivize providers to extend their agent networks into frontier areas.

- It may also protect competition by limiting vertical integration (principals controlling their distribution network). The resulting competition should pressure providers to maximize customer value and satisfaction.

In most cases, it is best to leave it to both parties—the principal and the agent—to decide whether to impose exclusivity or not, as they are in the best position to decide what arrangement brings most value. Also, some providers might prefer to use both exclusive and nonexclusive agents to provide financial services that are consistent with their agent management and distribution strategy and their risk appetite. On the other hand, regulators have less information and risk imposing high costs on themselves and the market by using mandates. Regulations should be flexible. Regulators should keep in mind that ensuring the appropriate level of competition in the market and creating a level playing field also depend on other factors. Mandating contract provisions should be a measure of last resort for regulators, for example, when across the financial sector (or a subsector), free choice of exclusivity or nonexclusivity may produce suboptimal results.[15] Market failures such as underinvestment in the roll-out of agent networks at the initial launch stage due to free-riding problems (in cases where exclusivity is prohibited from day one) or strengthening even further the position of providers with dominant positions due to the use of vertical constraints (in cases where exclusivity is permitted) may require policy makers to change their rules in order to promote financial inclusion.[16]

4 Range of Agent Activities: What Agents Are Allowed to Do for Their Principals

DFS regulations identify the activities agents may perform on behalf of their principal. These activities vary somewhat according to the country or the types of principals the agents serve. Regulations often allow agents to handle basic activities such as CICO services, payment services, balance inquiry, and issuance of account statements. (See Box 2 for a description of different types of agents based on the services offered.) In Malaysia, all banking agents must provide CICO services at a minimum even if the relevant regulation specifies a broader range of permissible agent services. CICO services are commonly handled in real time on the agent's own account, although few countries explicitly provide for this in regulation.[17] Ghana is one of the few countries that require all agent-based e-money transactions to be done electronically and settled in real time against prefunded accounts held by the agents.

Banking agents are generally permitted to conduct more types of activities than nonbank agents. For example, they may be allowed to disburse and repay loans (essentially CICO transactions linked to a different type of account), collect loan application documents, and issue credit and debit cards or check books. In some countries, agents are allowed to handle international remittances (e.g., Rwanda, and banking agents in Bangladesh), although regulations often lack details on what this means.[18]

Most regulations explicitly state that account opening is not allowed to be outsourced to agents. However, Colombia, Ghana (for e-money accounts only), Mexico, Pakistan (for branchless banking accounts), and Peru allow customers to open lower-level accounts at an agent. These accounts are considered lower risk under money laundering and financing of terrorism rules and are commonly subject to

15 EPAR (2018) explored the hypothesis of Tarazi and Breloff (2011) that "regulations allowing or mandating agent exclusivity may encourage early market growth, but later limit competition in the market." They considered trends in market growth and competition in each selected country (Bangladesh, India, Indonesia, Kenya, Nigeria, Pakistan, Tanzania, and Uganda) before and after the relevant regulations were introduced. Ultimately, they did not find consistent evidence to support or contradict the hypothesis.

16 See Soursourian and Plaitakis (2019) for more on exclusivity rules from a competition perspective.

17 For more on how CICO services are conducted by agents, see Hernandez (2019).

18 The bigger question is whether the DFS provider is permitted to receive international remittances directly into customer accounts (e.g., into mobile wallets). For the agent, a CICO transaction linked to international remittances would not be different from any other CICO transaction.

transaction, balance, and/or deposit limits. Individuals and entrepreneurs in Brazil can use agents to open accounts of any level—low and regular.[19] However, even if agents are allowed to open certain types of accounts, the principal is still liable for agent compliance with regulations such as AML/CFT rules. This requires the principal to ensure adequate oversight of agents. Where agents are not permitted to open accounts, they often are allowed to *facilitate* the opening of accounts, which is important for potential customers living in remote areas. Typically, agents are permitted to distribute and collect account opening documents and transfer them to the principal. This is the case in Rwanda; for banking agents in Bangladesh, Nigeria, and Tanzania; and for EMI agents in Sierra Leone.

In practice, CICO services are the predominant activities for most agents.[20] The risks they face primarily depend on the type of activities conducted. For example, agents that conduct only CICO services incur comparatively lower risk if they transact on their own prefunded accounts and operate in a real-time or close-to-real-time environment. However, they are exposed to higher levels of risk if they also open new accounts for customers. An activity-based approach to agent regulation will segment agents by the set of functions they perform and the corresponding risks. The regulatory requirements would then be different for different tiers of agents and proportionate to their risks.[21]

Some countries allow a wider menu of activities for agents that are legal entities, while they restrict the menu for agents who are individuals. For example, in Rwanda individuals acting as agents can perform only basic activities such as CICO services, bill payments, and balance inquiry. Entities that have a business license for an ongoing commercial activity can provide a broader range of services such as collecting account opening information, accepting loan payments, and distributing payment cards.

Regulations often list activities that agents *cannot* carry out on behalf of their principals, including granting loans, making check transactions, making transactions in foreign currency, charging customers directly, providing cash advances, and offering any type of guarantee in favor of any customer. Further, agents are often forbidden to charge any fee beyond the principals' prescribed fees.[22]

Box 2. Types of agents

Several countries identify different types of agents based on the services they can offer. Brazil, for example, distinguishes agents who engage in bill payments, withdrawals, and transfers from other types of agents who provide a wider range of services, including selling credits and leasing contracts (Lauer, Dias, and Tarazi 2011). Kenya's National Payment System regulations, unlike most others, identify a type of agent called a "cash merchant" in addition to ordinary agents. Cash merchants are responsible only for providing CICO services to customers on behalf of the payment services providers. However, agents and cash merchants are subject to the same eligibility rules. Malaysia's e-money guidelines identify "reload agents" whose activities are limited to cash-in services.

WHAT ARE THE PROS AND CONS OF RESTRICTING ACTIVITIES THAT CAN BE DELEGATED TO AGENTS?

Pro

- Restricting agents' activities helps manage concerns over consumer protection, systemic risks, money laundering and terrorism financing (ML/TF) risks, and other matters, as long as the regulations follow a risk-based approach where requirements are lighter for lower-risk activities.
- Requiring agents handling CICO services to do so in real time (or by checking the balance against data stored on the POS device when connectivity issues arise in remote areas)

19 For more on risk-based customer due diligence with country examples, see Meagher (2019).

20 GSMA (2019) reports that CICO transactions represented the majority of mobile money flows in 2018. Of those, 73.2 percent of incoming transactions are cash-in while 67.9 percent of the outgoing transactions are cash-out activities (as of December 2018).

21 For more on tiering of agents by function, see Chen and Hernandez (2019).

22 Note that these are prohibitions that apply to the *agency* relationship itself. Where financial institutions and other companies serve as DFS agents, these rules usually do not prevent such entities from pursuing their lawful nonagency activities.

and on their own account helps limit risks such as agents misappropriating customer funds (Chen and Hernandez 2019).

- Limiting account opening at the agent level to lower-level accounts reduces ML/TF risks, and simplified CDD helps balance financial inclusion objectives against financial integrity burdens.

Con

- Financial inclusion objectives can be negatively affected by an overly restrictive menu of permissible activities for agents. At times there is a perception that banking agents are riskier because they serve full-fledged bank accounts that can be used for deposit-taking and disbursing loans, but the underlying risk is basically the same as long as it is a CICO operation on a prefunded float account. The overall risk of using agents for a range of activities should be assessed in the context of the principal's liability for and oversight of agent activities and the risk this channel poses to the principal's safety and soundness (see Section 1).

Where agents are allowed to play a role in account opening, the supervisor should be aware of the potential ML/TF risks and that risks are lower when account opening is limited to low-level accounts, which typically have transaction/balance limits. Regulations also should permit simplification of some elements of customer identification and verification (CIV) in lower-risk settings to promote financial inclusion.[23] In any case, CIV executed by agents need to be monitored commensurate with the potential risks.

Risk-based regulations on different types of agents (based on the menu of services they can offer) should ease market entry for agents limited to basic services (e.g., CICO services) and increase their number. This in turn is important for meeting the essential financial needs of the low-income population. The distinction among different tiers of agents allows the principal to adjust the level of agent oversight accordingly.

5 Multilevel Agent Networks

Regulations often allow DFS providers to outsource agent network management functions, at least in part. For example, Rwanda allows a DFS provider to hire ANMs who may contract agents on the principal's behalf.[24] (See Box 3 for a definition of ANM.) In those cases, the regulations include eligibility standards and require a contractual relationship to be in place between the DFS provider and the ANM. In most countries, the regulations explicitly hold principals ultimately liable for the actions of their agents, even when the agents are originally contracted by ANMs appointed by the DFS provider. If the ANM intends to act as an agent as well as manage network functions—as is the case in Rwanda and Ghana—it should have a separate agency agreement with the principal. Other countries have outsourcing provisions but do not expressly refer to ANMs in the regulations (e.g., Kenya's agent banking regulation). A few regulations, however, are silent on these issues.

A DFS provider chooses the ANMs that it wants to work with. Third parties usually do not need to be licensed by the supervisor to act as ANMs. In this case, the DFS provider contracts ANMs and ensures that they are able to render the relevant services. Nigeria, by contrast, requires certain third parties to apply for a super-agent (a type of ANM) license from the Central Bank of Nigeria (CBN). The regulations for super-agents list the eligibility criteria for applicants (see Box 4).

In addition, several countries specify criteria to be an ANM. In Ghana, the qualifications of a prospective master agent include financial soundness, cash-handling capacity, and security and internal controls in proportion to the risks involved.[25] Fit-and-proper requirements include not being classified as a nonperforming borrower in the 12 months before application. Within one month of appointing the master agent, the principal should submit to the Bank of Ghana documentation, including the due diligence policy applied by the master agent, new agent onboarding

23 For more on CIV and other CDD elements such as beneficial ownership, risk profiling, and transaction monitoring, see Lyman et al. (2019).

24 In general, the appointed ANMs may or may not contract agents on behalf of the principal, depending on the country and DFS model. Some regulations allow a principal to hire ANMs, but the agents they manage are directly contracted by the principal.

25 Ghana's Payment Systems and Services Act (2019) defines master agents as "a legal person who has an agreement with a principal to contract and manage agents that provide banking or e-money services or payment service to customers on behalf of the principal." The regulation refers to both master agents and ANMs. A master agent is considered to be a type of ANM in this Technical Note.

Box 3. Agent network managers

In this paper, "agent network manager" is defined as a third party hired by the principal to take on some or all aspects of agent management, which may include:

- Selecting and hiring agents, managing liquidity, training, monitoring operations, and other supporting activities.
- Identifying the agency business strategy.
- Providing upfront capital to agents.[a]

The type of tasks outsourced to ANMs depends on several parameters, including the market, products and services offered, internal resources of the providers, and market power of competitors. Today, many DFS providers use ANMs to manage several of their agents while they might still manage a few of them directly.[b]

ANMs may or may not operate as agents themselves and may or may not have a direct contractual relationship with the agents they manage, depending on the country model. Regulations might use different terms to refer to ANMs such as "master agent," "super-agent," or "aggregator." In Ghana, for example, a master agent can be recruited by the principal to contract and manage agents that provide banking, payment, or e-money services. In Nigeria, licensed super-agents are responsible for managing, monitoring, and supervising the activities of their subagents. In this Technical Note, we refer to all of them as "agent network managers," regardless of the outsourced functions.

a. For the roles of ANMs, see Flaming, McKay, and Pickens (2011) and Schiff and Jumah (2016), who refer to ANMs as master agents.

b. For more on different ANM models, see CGAP's Agent Network Management blog series, https://www.cgap.org/blog/series/agent-network-management.

procedures, and the master agent's AML/CFT procedures. Bangladesh requires a master agent to have several branches or outlets. The entity should have managerial, financial, and technical expertise in managing agents in addition to its regular operations, and it or its owner/manager should have at least one year of experience in the field of its regular operations.

Regulations sometimes prohibit agents that have a contractual relationship with a DFS provider from subcontracting to a third party. Tanzania and Uganda, for example, explicitly state that an agent should not subcontract agent banking business. While such regulations prohibit subcontracting, they might allow DFS providers to recruit third-party providers to help manage their agent networks.

Some regulations allow DFS providers to have an agent structure with **multiple levels of outsourcing**. In Ghana, a DFS provider can outsource agent management to master agents who then contract with agents on behalf of the principal. The regulation also allows principals to hire ANMs that recruit, train, monitor, or manage liquidity for agents. However, unlike master agents, ANMs are not allowed to have direct contractual relationships with agents. Pakistan's agent regulation for branchless banking identifies three main types of agent: super-agents, agents, and subagents.[26] While agents must have a separate agency agreement with the DFS provider, subagents contract with the super-agent who manages and controls subagents on behalf of the provider. In addition, Pakistan's regulations allow providers to onboard ANMs to help manage agent networks. Nigeria has a similar approach regarding agent network structure.[27]

26 In Pakistan's Framework for Branchless Banking Agent Acquisition and Management, the term "direct agent" refers to agents in the same way it is used in this Note. The Framework also states that super-agents "may be organizations having well-established owned or franchised retail outlets, or a distribution setup. These will be responsible for managing and controlling subagents. These may include fuel distribution companies, Pakistan Post, courier companies, chain stores etc." Pakistan's super-agent is considered as a type of ANM in this Note.

27 Similar to Pakistan's agent structure, Nigeria identifies super-agents, sole agents, and subagents.

Box 4. Super-agents in Nigeria

While regulations often allow providers to hire third parties ANMs without the intervention of the supervisor, Nigeria has taken a different path and created a separate licensing category for super-agents. To promote the use of shared agent networks, CBN has issued regulations for licensing super-agents. To be licensed, a third party that wants to recruit agents and run and manage agent networks should, at a minimum:

- Be a company with an established business that has operated for at least 12 months.
- Be registered with the corporate affairs commission.
- Have a minimum shareholders' fund, unimpaired by losses, of N 50 million (approximately US$140,000).
- Have a reference letter from a financial institution as part of its documentation for the license.
- Have a minimum of 50 agents.[a]

The regulation also outlines the responsibilities of super-agents. A super-agent should:

- Be responsible for managing, monitoring, and supervising the activities of the agents.
- Have information on the volume and value of transactions carried out for each type of service by each agent (which should be made available to the principal).
- Monitor effective compliance with set limits and establish other prudential measures in each case.
- Take all other measures, including onsite visits, to ensure that agents operate strictly within the requirements of the law, guidelines, and contract.

A super-agent's platform is used to manage and monitor the activities of their agents only—it may not hold e-money value, whereas the principal provides and operates the mobile money platform and holds e-money value. The regulation requires super-agents to renew their operating licenses every two years, subject to CBN evaluation. CBN can request any information from agents of a super-agent that it may deem necessary or inspect the agents. Moreover, it can impose appropriate sanctions for any contravention by super-agents. In Nigeria, three companies are licensed as super-agents; four companies have approval-in-principle.[b]

a. Called "subagents" in the regulations.

b. The approval-in-principle is valid for six months. After that period, CBN reviews the performance of the companies and decides whether they should receive a full license (see, https://www.afi-global.org/news/2016/08/central-bank-nigeria-approves-first-licenses-super-agent-banking). For a list of Nigeria's super-agents, see https://www.cbn.gov.ng/Paymentsystem/PSPs.asp.

WHAT ARE THE PROS AND CONS OF HAVING SPECIFIC REGULATIONS THAT PROVIDE FOR MULTILEVEL AGENCY, INCLUDING ANMs?

Pro

- Depending on the model, specific regulations on ANMs may help alleviate supervisors' concerns about agent risks that may adversely impact customers and providers. This is most likely to be true when the number of licensed ANMs is at a level where the supervisor has sufficient capacity to effectively monitor and supervise them.
- ANMs can help principals manage outsourcing risks. Where ANMs are allowed to contract with agents on the provider's behalf, the principal need not bear the burden of signing and managing separate agency agreements with each agent. The respective roles of principals and ANMs are clarified, and risk management is strengthened, by

regulations that set specific standards and provide default provisions to govern these relationships.

Con

- DFS providers may lose some control over their agents/agent networks—for which they are legally responsible. Also, providers might not effectively monitor agents' activities, with negative implications for the overall quality of the network and of services to customers. The identification of common and recurrent problems at the agent level and addressing them in a timely manner would be a challenge for the principal.
- Depending on the number of ANMs being licensed, the direct regulation and supervision of ANMs might create a substantial burden for the regulator.
- It may be hard to manage risks and ensure compliance with regulatory requirements such as AML/CFT and consumer protection rules at the agent level. This would be a concern for the regulator. For the agents whose services are limited to lower-risk activities (e.g., CICO services), this would be less of a concern.
- A frontline agent who deals with customers might have to share its commissions with others and thus see its earnings reduced and its viability compromised.

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Annex I. Use of Agents by Digital Financial Services Providers: Selected Country Provisions

Table AI shows selected regulatory provisions of some countries related to the agent network. The provisions are in the original text from the English language version of regulations. It is not intended as legal guidance or opinion, and reference should always be made to the original text. To the best of our knowledge, we considered the state of regulations as of December 2019.

Table AI. Regulatory provisions of agent networks in selected countries

Country	Relevant Provisions
Bangladesh **(Prudential Guidelines for Agent Banking Operation in Bangladesh, 2017)**	**Article 2—Interpretations** As used in these Guidelines, the following terms shall have the meanings indicated below unless the context clearly indicates otherwise: • **"Agent"** means master agent, and/or unit agent. • **"Agent Banking Outlet"** means an entity which will work independently as unit agent or under the supervision of a master agent and run the agent banking activities in a specific location at the customer end point. • **"Master Agent"** means an entity having branch offices or outlets, either owned or otherwise engaged legally by it, that has been contracted by a bank to provide the services in a manner specified in the Guidelines. • **"Outlet"** means an agent banking outlet. • **"Support Service Provider"** means an entity contracted by a bank for providing technological solutions and/or other support services (Liquidity Management, Transportation and Security) to its agent banking services. • **"Unit Agent"** means an entity that has been contracted by a bank to provide the banking services in a single agent banking outlet in a manner specified in these Guidelines. **Article 9—Structure of Agent Banking** Banks should structure its agent banking services according to its business strategies following any one or combination of the following structures: • **9.1. Master Agent-Agent Banking Outlet:** In this structure banks may enter into contract with an entity having multiple branch offices or outlets, either owned or otherwise engaged legally by it, willing to operate agent banking services in the branch offices or outlets as Master Agent as described in Clause 10 of these Guidelines; • **9.2. Unit Agent:** Banks may enter into contract with eligible entity willing to provide banking services exclusively in one outlet only. Unit agent(s) must fulfill the criteria as described in Clause 10 of these Guidelines; and • **9.3. Support Service Provider:** An entity contracted by banks for providing technological solutions and/or other support services to its agent banking operation. • **Article 10.2.8.** In cases where the master agent provides agent banking services through third party outlets, which are engaged legally, the outlets and outlet owners/managers shall fulfill the eligibility criteria for unit agent.
Ghana **(Payment Systems and Services Act, 2019)**	**Article 102—Interpretation** • **"agency agreement"** means the contractual arrangement between a) a principal and an agent; b) a master agent and an agent; or c) a principal and a master-agent for providing banking or electronic money, payment services to end-customers on behalf of the principal; • **"agency business"** means the provision of banking or electronic money services or payment services to end-customers by an agent on behalf of a principal; • **"agent"** means a person who provides agency services to customers on behalf of a principal under an agency agreement. • **"agent network manager"** means an entity to which a principal has outsourced part or all of the operational responsibilities associated with managing its banking or electronic money or payment services agents, including recruitment, training, compliance monitoring, liquidity management, and general support, but does not include the direct contractual relationship with the agents, which remains with the principal; • **"master-agent"** means a legal person who has an agreement with a principal to contract and manage agents that provide banking or electronic money services or payment services to customers on behalf of the principal; • **"principal"** means a bank or specialized deposit-taking institution, payment service provider or electronic money issuer whose services are being conducted through an agent; **Article 86.4:** Where an agent network manager directly provides a banking or electronic money services to end users, the agent network manager shall be regarded as an agent under this Act. **Article 91.2:** An agent shall not engage in any of the following actions: (…) (d) sub-contract all or part of its contractual obligations to a third-party without recourse to the principal;

Table AI. Regulatory provisions of agent networks in selected countries

Country	Relevant Provisions
Nigeria **(Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria, 2013)**	**Article 1—Definitions** **Agent:** An agent is an entity that is engaged by a financial institution to provide specific financial services on its behalf using the agent's premises. **Super-Agent:** A super-agent is an agent that has been contracted by the principal and thereafter may subcontract other agents in a network while retaining overall responsibility for the agency relationship. **Sub-Agent:** A sub-agent is a person to whom some or all aspects of the agent banking have been delegated by a Super-Agent. **Article 2.2—Agent Structure** The responsibility for the selection of agents lies solely with the FI, subject to the following allowable agent structures: i) Super-Agents: These are agent networks that shall establish a collection of outlets or franchise within its wide network of outlets that shall be under its supervision and control. ii) Sole-Agent: A sole agent is an agent who does not delegate powers to other agents but shall assume the agent banking relationship/responsibility by himself. iii) Sub-Agents: These are networks of agents that shall be under the direct control of a super-agent as may be provided in the agent banking contract. **Article 3.ii** The principal is allowed to use a third party (e.g., a network manager) to manage its agent network. However, all agents sign ups must be approved by the principal. **Article 12—Third-party Service Providers** i. The FI may enter into a written contract with a third-party service provider for the following: a) Technology platform b) Agent selection c) Agent network management d) Agent training e) Equipment provision f) Equipment maintenance It must be noted however, that such contracts shall not constitute agent banking.

Table AI. Regulatory provisions of agent networks in selected countries	
Country	**Relevant Provisions**
Rwanda **(Regulation No 2310/2018–00021[614] of 27/12/2018 of the National Bank of Rwanda Governing Agents)**	**Article 2—Definitions** In this Regulation, unless the context otherwise requires, the following terms and expressions shall mean: • **Agency agreement** means a legal contract creating a fiduciary relationship whereby "the Institution" agrees that the "agent" acts for and on behalf of him or her. Actions of the agent binds the Institution to later agreements made by the agent as if the principal had himself personally made the later agreements. • **"Agent"** means a natural or legal person that provides financial services to customers on behalf of an Institution under an agency agreement. It may serve customers at one or multiple agent points. The agent may be under contract with the Institution directly or with an agent network manager which is in turn under contract with the Institution; • **"Agent financial services business"** a business carried out by an Agent on behalf of an Institution as permitted under this Regulation, either as a Basic Agent or as a Super-Agent. • **"Agent Network Manager"** an agent having well established owned retail outlets, or a distribution setup and responsible for managing and controlling basic agents in accordance with contractual terms between the agent network manager and the Institution. The terms "super-agent" and "agent network manager" may be used interchangeably. • **"Basic agent"** is an agent who is under contract directly with the Institution or agent network manager in order to carry out Agent financial services business. • **"Institution"** includes banks, microfinance institutions, payment service providers, remittance service providers or e-money issuers whose meaning is ascribed to them under the relevant laws or regulations. • **"Outlet"** means a place of business of the Agent directly responsible to the head office, used for carrying out a commercial activity of the Agent, but does not include a mobile unit. **Article 21.3:** The Institution may designate branches or Service centers to be responsible for the Agents operating in the locality of the respective branches or may designate divisions to be responsible for particular Agents or may appoint Agent Network Managers in charge of management of a number of Agents and possibly providing specific services to them (such as provision of liquidity). **Article 30.1:** Third-party providers shall be: 1. specialized third-parties who contract with the Institution for the Agent management services, but who do not operate as Agents themselves, or 2. large retailers or other entities with a large, proprietary outlet network who sign a single agency agreement with the Institution and who then manage Agent functions at each of their retail outlets, or 3. third parties who sign a single agency agreement with the Institution, but who then subcontract other legal entities or individuals as Agents. **Article 30.3:** Any third-party service provider, who, in addition to providing the services specified in paragraph (1) of this article, seeks to provide or render Agent financial services as specified in this Regulation, shall fulfill the requirements for Agent financial services business and enter into an agency contract with the Institution for that purpose. **Article 30.4:** The third-party providers assume liability for their sub-Agents and indemnify the Institutions for the Institution payments made as a result of Agent liability. The Institution shall remain ultimately liable for the Agent financial services business even where a third-party service provider is contracted to provide the services specified in Article 29 of this Regulation.

Table AI. Regulatory provisions of agent networks in selected countries	
Country	**Relevant Provisions**
Pakistan **(Framework for Branchless Banking Agent Acquisition and Management)**	**Section 6—Agent Structure:** Agents may be of three basic types. **Super-Agents:** These may be organizations having well-established owned or franchised retail outlets, or a distribution setup. These will be responsible for managing and controlling subagents. These may include fuel distribution companies, Pakistan Post, courier companies, chain stores etc. **Direct Agents:** These may include large to medium sized stores etc., which have a separate agency/service level agreement with the FIs. **Sub Agents:** These are the branches/outlets or franchised locations managed by a super-agent and not directly controlled by the FIs on a day-to-day basis. However, in case of franchised locations, these sub-agents must have similar service level agreements with the super-agent as the super-agent will have with the FIs. **Section 9.9(c)—Agent Network Managers** Many Branchless Banking (BB) providers around the globe have started enlisting the help of Agent Network Managers (ANMs) also known as Agent Aggregators to help the network expansion. Therefore, Financial Institutions (FIs) may engage the Agent Network Managers (ANMs) to help manage the agent network and perform set of defined functions and responsibilities. For this purpose: a. FIs shall prepare a separate policy and the same shall be approved by their Board. b. ANMs roles may include conducting training of agents, monitoring the agent operations & its reporting to FIs, new market identification and liquidity management etc. c. While signing agreement with ANMs, the FIs shall ensure to insert proper clauses on confidentiality of information of business and customers and FI's right to audit and the State Bank of Pakistan (SBP) inspection.

Annex II. List of Reference Regulations

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