

The Role of DFS Agents during the Covid-19 crisis

15th April 2020

We have all seen, with mounting horror, the health and economic impacts of the Covid-19 crisis as they have unfolded globally over the past months. Unlike any crisis before, we face a challenge in that traditional humanitarian responses may not work. This crisis is unique in affecting large parts of the world at the same time, and responders who would usually be organising ground-based efforts to specific locations and populations are themselves in lockdown, and often stunned by the scope and scale of the need to be addressed.

We are having to work out, in a very short amount of time, how we offer humanitarian relief and solutions to these problems, and how we do this from a distance. Most are turning to digital platforms such as DFS (digital financial services) as the answer. Many donor organisations are immediately looking to replicate reactions from elsewhere in the world by organising massive G2P (government-to-person) payment programmes to alleviate missing incomes, and are looking to use DFS and mobile money to execute them.

At [MSC](#) and [Caribou Data](#) we wanted to see how we could contribute to making these programmes more successful, and asked ourselves how we can, also from a distance, use our experience and platforms to understand what the situation for mobile money and banking agents is on the ground in Kenya. We wanted to understand how they're coping with lockdowns and curfews, social distancing and hygiene, and reduced hours of bank opening. We wanted to understand how cash flow was changing, whether liquidity was becoming an issue, and what the experience of being at the very physical frontline of a digital banking system felt like for an agent in these troubled times.

After a brief discussion, we dove directly into a research sprint, using near-live data from the Caribou Data platform and MSC's extensive contacts within agent networks to attempt a seven day research process to understand what's going on within these agent networks. We drew quant data from over 1,000 users in a demographically representative panel to see what real cash flows were over time, and we spoke to 20 agents, one superagent and five bank agent supervisors with a simple structured questionnaire to get a sense of the experiential issues of being on the frontline of money distribution.

Our full findings are below in this report, but in summary of findings show that:

- DFS wallet balances are volatile, with an initial cash-out spike evolving into a pattern of reduced overall transaction volume but increases in transaction size, with the net effect of a halving of average wallet balances since the crisis started
- Agent commissions have halved, putting pressure on their own livelihoods, and increased transaction sizes are making liquidity balancing harder and harder
- Hygiene advice is poorly communicated to agents, if at all. Without clear advice, guidance and protective equipment agents are at risk to themselves and their customers
- We recommend that the central role of agents as frontline workers in this crisis is recognised and supported, particularly as they will be crucial to managing cash out and liquidity as DFS social payment schemes are rolled out across large numbers of the population

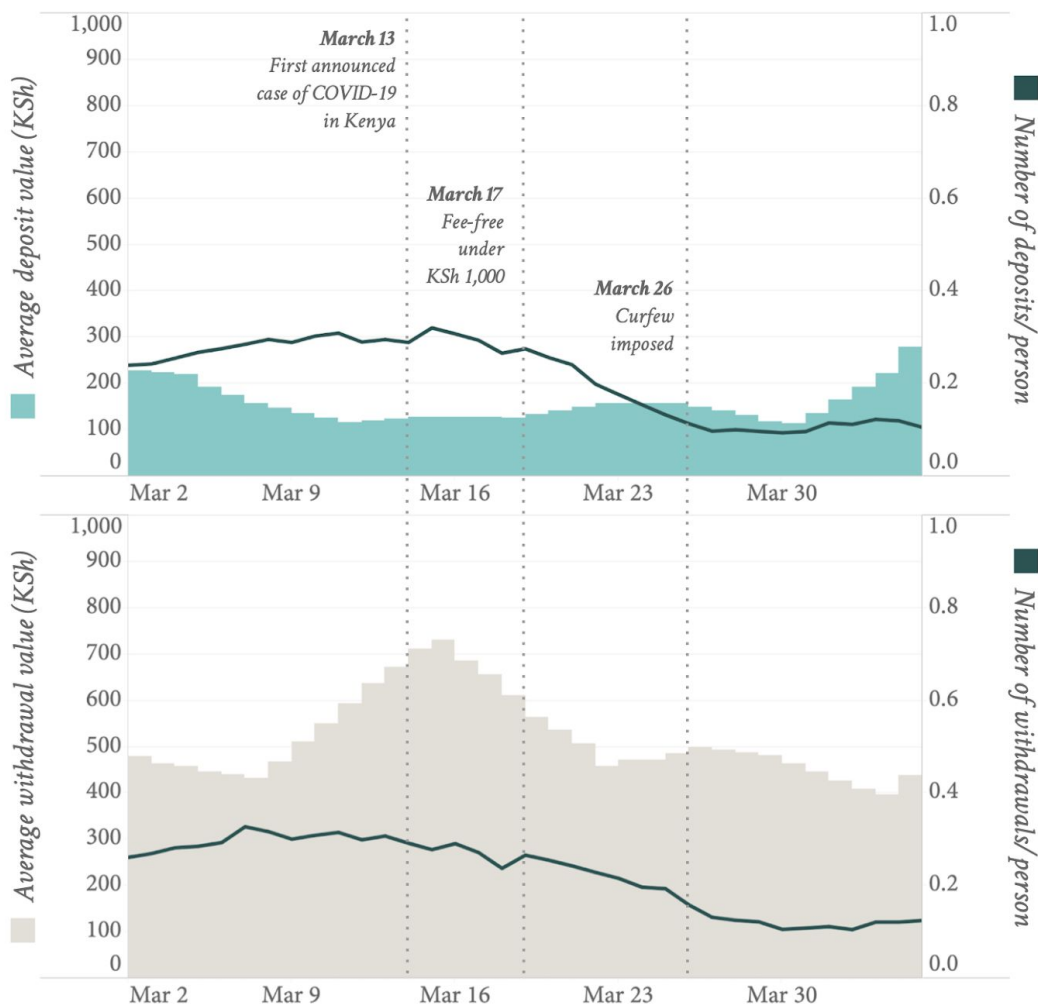
Further detailed research on DFS agents' experiences in the Covid-19 crisis is available from MSC [here](#). We plan to investigate more areas for future research, such deep dives into gender, urban/rural differences and other countries such Ghana, South Africa and Bangladesh. We welcome other organisations support and ideas for future research topics - contact us as covid19@cariboudigital.net

Wallet balances have halved and customer transactions are volatile.

Covid-19 events and subsequent Kenyan Government policy changes aimed at attempting to reduce the handling of cash are driving swings in liquidity and rapid changes in transaction frequency, as illustrated by our data below:

7-day rolling cash-in/out, Kenya[†]

March–April 2020  Caribou Data • insights built on privacy



Source: Caribou Data [†] Median CICO deposit/withdrawal value and volume

The time series of the graph above shows the immediate impact of the crisis unfolding. Looking at withdrawals alone, **initial reaction to the pandemic shows a clear cash-out spike** in the first half of March driven by global news and the first reported cases in Kenya, as consumers in our sample rushed to draw down for short-term cash flow, pushing the peak average withdrawal over KSh 700.

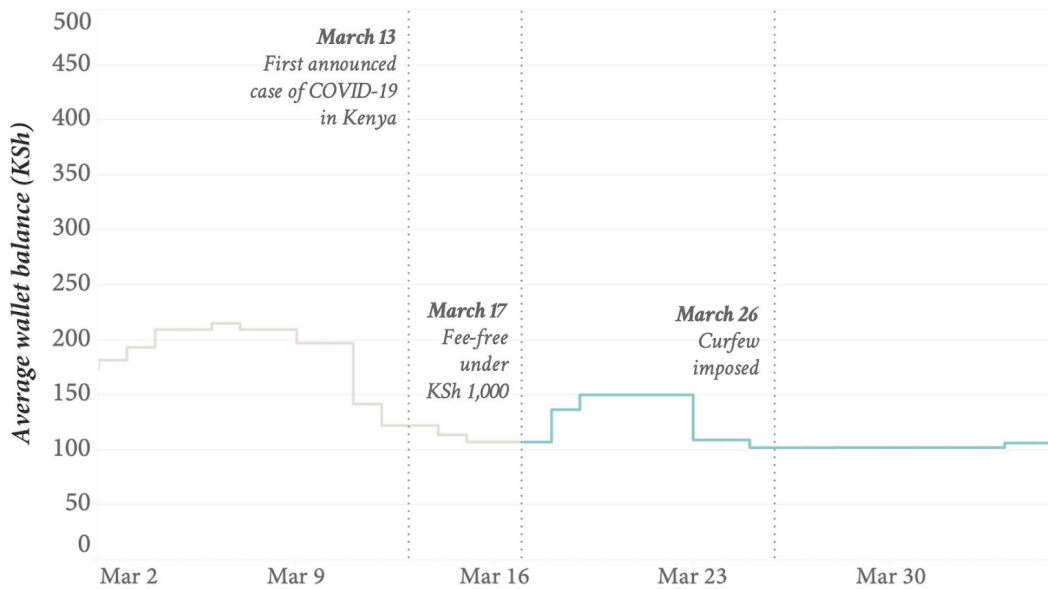
But as restrictions and policies came into effect over March and April, our data shows a net decline in both cash-in and cash-out frequency per capita, likely driven by a restriction on movement due to national curfew, as well as personal cash flow balancing amongst mobile money users. In both cases, **CICO (cash-in, cash-out) frequency on a per-person basis has fallen by half over the course of the month** as further measures around social distancing, bank opening hours and personal mobility have been brought in to restrict the spread of Covid-19.

While both deposit and withdrawal volume has fallen significantly when compared to pre-curfew levels in the first week of March, **the average value per deposit and withdrawal has increased** in parallel as consumers try to adapt to the infrequency of agent access. The overall effect is driving the average amount deposited up to almost KSh 300, and the average withdrawal up to KSh 450 per transaction.

However, this increase in the value of deposits appears insufficient to counteract both the drop in frequency and withdrawal value, such that we see **a halving of daily closing wallet balance** among our sample from a typical level of KSh 200 to just KSh 100.

7-day rolling wallet balance, Kenya[†]

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Source: Caribou Data [†] Median daily closing wallet balance

Looking forward, we expect to see these trends develop further if there is an uptake in disbursement of digital cash transfers by the government, such as the [cash transfer programme](#) announced for vulnerable Kenyans. While questions remain about how such cash would be pragmatically distributed with agents struggling to cope on the ground, which we discuss below, G2P inflows could well continue to drive cash-out if agents have sufficient liquidity, or instead strengthen the digital payments loop, and increase the number of transactions being made digitally as access to physical cash becomes trickier.

Commissions have halved and agents are counting their losses

In response to the economic disruption from Covid-19 pandemic, the Central Bank of Kenya announced a set of [directives](#) on 16th March, 2020. These **directives promote digital transactions to curb the spread of Covid-19**. These directives have significantly impacted the banks and mobile money agencies as it has reduced the transaction or the non-funded income for these institutions.

The main services provided by DFS agents are cash-in (deposits) and cash-out (withdrawals) also referred to as CICO. One of the directives eliminates customer charges on transfer of funds from a bank account to a mobile wallet – effectively encouraging this as a cash-in option as opposed to depositing cash at a physical agent location. Another of the directives makes it free to transfer funds under KSh 1,000 (USD 10) between mobile wallets. This encourages customers to make small payments digitally, thus contributing to fewer withdrawals at DFS agents.

As a result of these directives, and others limiting business hours, DFS agents are counting their losses in several ways. Many **agents have seen their transactions – and commissions - fall by more than half**. In some cases, agents catering to customers at government institutions and business centers have had to close shop. The Kenyan government also imposed a curfew from 7 pm to 5 am next day, effective from 26th March, 2020. The curfew exempts providers of essential services. A significant number of agents indicated that the curfew impacted their prime business hours (usually 6 – 11 pm), and had negatively affected their business. Many agents also reported redirecting their float investment towards other businesses, or to stock up on provisions for their households in preparation for an imminent complete lockdown.

Beyond the drop in both deposits and withdrawals, **agents reported an increase in the value of deposit transactions**. This can probably be attributed to one of the central bank directives that increased the limit of funds one can hold in a mobile wallet (from KSh 100,000 to KSh 300,000 – USD 1,000 to USD 3,000), as well as the increase in per-transaction limits (from KSh 70,000 to KSh 150,000 – USD 700 to USD 1,500). Many agents reported that this had a significant impact on their ability to serve multiple customers since they have **run out of float much faster**. For example, an

agent who maintains a float of KSh 100,000 (USD 1,000) may serve 100 customers who deposit KSh 1,000 (USD 10) each, would earn a total commission of KSh 1,000 (USD 10) at the rate of KSh 10 (USD 0.10) per transaction. An agent who maintains the same float and serves two customers who deposit KSh 50,000 (USD 500) each would only make KSh 300 (USD 3) at the rate of KSh 150 (USD 1.50) per transaction.

Commission structures for mobile money agents are typically skewed to incentivize the lower-value transactions, which were more common prior to the government directives. As a result, a number of **agents reported turning down customers who wanted to deposit higher amounts**, firstly to earn better commission for lower transaction bands, and secondly to serve more customers, effectively achieving customer satisfaction for a larger number of customers.

Although many agents report that the reduction in the transaction volumes has reduced their need to replenish float at banks and super agents, a few agents report that the demand for deposits of higher value have led them to seek credit in order to maintain higher e-value float. Bloom finance is one of the facilities that has helped them meet this need. The credit service has helped the agents to increase the float capital and allowed the agents to profitably run the agency business, while charging a relatively small interest rate (as low as 2%) for a 7-day loan of up-to KSh 150,000 (USD 1,500).

A few agents have, however, recorded an increase in their agency business attributed mainly to customers' behaviour change. Some non-dedicated agents (agents who also run other side or main businesses) have observed, and in some cases encouraged, increased withdrawals to pay for goods and services that they are selling. It is reported that **many customers prefer to pay using mobile money**, regardless of whether the payment is a withdrawal of the equivalent cost of goods or services bought or a merchant (till number) payment.

It is key to note that an agent earns a commission when a customer makes a withdrawal, whereas a merchant is charged a commission (merchant discount rate) if they receive a payment. These agents reported their preference to customers paying through withdrawals, and some even discontinued acceptance of merchant (till number) payments. However,

many agents, fearful of infected cash, are encouraging their customers to pay for goods digitally despite the impact on their revenues.

The government directives to zero-rate bank-to-bank as well as bank-to-wallet transactions has also **helped agents rebalance float between different financial service providers** (FSPs). An agent who provides services for more than one bank is now able to move electronic float from one bank account to another for free through interoperable services such as [Pesalink](#). Some bank agents in Kenya concurrently provide agency services for up-to nine banks. These agents previously had challenges moving float between the different service providers, partially attributed to the cost of inter-bank transfers.

Agents are key frontline service providers - and at significant risk

That the work of agents has become harder, and rewards lower, brings into focus the lack of support they are receiving for the essential role they are playing in reducing Covid-19 transmission through cash.

At the beginning of March, daily mobile money transaction limits were raised and fees for transfers under KSh 1,000 waived in order to [reduce the risk of the virus spreading through the physical handling of cash](#). But to enable cashless transfers in Kenya, a cash-in transaction has to happen and often this falls to an agent to implement. **This effectively puts DFS agents on the frontline** - accepting greater risk for themselves to help diminish the risk of sickness for others.

Agents are at higher risk for three reasons:

- First, the **physical handling of money** brings them into contact with banknotes that have been handled by potentially thousands of people since it was last quarantined.
- Second, the very physical nature of mobile money **identity authentication and transaction verification** put agents into close contact with a high number of customers, including use of shared equipment such as pens and logbooks.
- Third, **rebalancing** is risky business: one agent told us how she is worried about contracting the virus while using public transport to travel to the bank, and there is increased risk of exposure at the bank itself.

Despite this increased risk for agents, and the consequential risk that they could become superspreaders if infected, it seems that **they are receiving little support** from Kenya's mobile money providers and banks. Agents told us that they had not received effective guidance from mobile money providers or banks about how to safely conduct their work, and that they are resorting to informal WhatsApp groups with other agents to share best practices. Some reported that Safaricom has relaxed rules requiring customers to sign a physical logbook, although this appeared inconsistent across agents; and some banks have maintained the requirement but advised hand washing afterwards.

Although no guidance or signage has been provided by mobile money providers, **agents have tried to implement social distancing** by limiting the number of people permitted in their premises at a time, but reported that some customers resisted the measures, particularly in rural areas where knowledge about how to manage the outbreak is more limited. Agents have **not been provided with masks or hand sanitizers** so are having to buy these at their own expense, putting further strain on their reduced profits, particularly as many reported having to replace gloves every hour. It is imperative that these challenges are addressed urgently to keep agents and customers safe, and protect the incomes of agents through this difficult period.

Calls to action: Protect agents and seize the opportunities!

A coordinated approach is required to ensure that agents are able to realize their full potential as efficient conduits of financial support to vulnerable households, as well as playing a positive role in championing and modelling appropriate hygiene behavior for their customers. We outline the key components of this coordinated approach below differentiating between the roles of the DFS providers and those of government agencies.

DFS providers

1. Agents need clear, concise, **agent-specific instructions on maintaining hygiene** and their role in fighting the pandemic. This will include directions on how to: maintain the logbook; manage queues and social distancing; collect and disburse cash in a hygienic manner; and sanitize mobile phones, PoS devices and other shared potential vectors for the disease. They will also need clear guidance on their role as the last-mile distribution outlets for government support payments - and the timing and magnitude of G2P transfers planned.
2. DFS providers will need to provide more help to agents to **enforce social distancing and hygienic behavior amongst their customers**. In addition to the guidelines for agents, MNOs can use SMS blasts to educate customers on their role in limiting the spread of the pandemic and how to conduct hygienic transactions at agent outlets. This could also include recommendations on using digital payments in preference to cash out. Governments may need to provide content, to ensure consistent messaging, and to subsidize this important service, but the return on investment through reduced infections is likely to be significant.
3. Given their critical role and the importance of protecting agents as essential frontline workers, DFS providers in partnership with Governments and Health Ministries should **provide the appropriate equipment for agents** - such as masks, sanitizer and gloves.
4. As governments push out G2P cash support at scale, **agents will need liquidity and/or rebalancing support**. DFS providers and liquidity management agencies such as Bloom and PesaKit will need to work closely together with banks to ensure that agents have rapid access to the e-value and cash to respond to the fluctuating demands of their customers. This will also require close coordination with government agencies to assess when and where payments are to be made; and

with the data analytics departments of the providers to analyze what proportion is likely to be withdrawn in cash.

5. In line with the waiver of fees for transactions of less than KSh 1,000 and the increase in transaction and wallet limits, DFS providers should **review their cash in/out commission tariffs**. It is important to ensure that these tariffs are designed for a high cash in, low cash out transaction pattern and for the high value, low volume transaction pattern that is increasingly prevalent. In the absence of this DFS providers will not only miss the opportunity to encourage the move to digital payments, but also will find that agents are unable to sustain their operations.
6. To seize the opportunity to encourage moves to digital payments, DFS providers should also **review bill pay/merchant commissions** accordingly. The new commissions should clearly incentivize agents who are also merchants to accept digital payments in preference to insisting that customers withdraw and then pay in cash. This would represent a profound shift in the underlying business models of providers from the current dependence on revenues from cash out transactions to models based on maximizing the rotation of digital value. It would represent a revolutionary shift to a fully functional digital ecosystem that many have been advocating - the Covid-19 crisis might just be the required catalyst for this fundamental change.

Governments

1. It will be essential that policy-makers and regulators view DFS providers and their **agents as strategic partners for**:
 - a. **Delivering cash support payments** - and thus communicate about forthcoming G2P cash support payments; ensure commissions to DFS providers and their agents are adequate to incent them to continue to process G2P payments; and consider the implications for liquidity management of any restrictions on banking hours/branch closures they put in place.
 - b. **Hygiene communication** - and thus use agents, who are often influential opinion leaders in their communities, to deliver communication around social distancing, hand-washing, handling money etc.
 - c. **Vector control** - and thus adopt policy measures to encourage minimal cash handling; hand-sanitization after each cash transaction; sanitization of PoS devices etc. Furthermore,

governments will need to consider whether systems requiring signatures or biometric verification, and thus proximity, are really essential at this stage when they are trying to contain the pandemic.

2. While politically challenging, **spreading G2P cash support payments over time** would help reduce liquidity stress, and thus help ensure that agents have the liquidity for cash withdrawals or (ideally) digital purchases.
3. Some governments are delivering G2P payments through bank agents only. For example Kenya's [Inua Jamii](#) program is exclusively routed through four of the leading banks, but Safaricom has many more agents in deep rural and remote areas of the country. It would make sense for all countries to **leverage MNOs' agents** as well as those of banks. This will reduce the distance that many people need to travel to access their payments, thus reducing the risk of further spreading the pandemic. Using MNOs' agents would also reduce liquidity stress for bank agents.