



LAPO AGENT BANKING

Increased Reach and Client Diversity

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Creating Markets, Creating Opportunities

Credits

Acknowledgments

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Photography

All photographs from World Bank/IFC unless specifically noted.

About IFC

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About HiFi

Harnessing Innovation for Financial Inclusion (HiFi) is the World Bank Group's program aimed at scaling up financial inclusion on a sustainable basis by harnessing technology and innovation. The HiFi program is funded with UK aid from the UK Government and implemented by the World Bank Group through the International Finance Corporation (IFC), the Finance, Competitiveness and Innovation Global Practice (FCI GP), and the Consultative Group to Assist the Poor (CGAP).

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INTRODUCTION

Nigeria's Lift Above Poverty Organization (LAPO) and IFC have a long-standing relationship that began in 2012. In the context of this partnership, and in an effort to serve unbanked individuals and those with limited or no access to financial services, in 2017 LAPO piloted the rollout of an agent banking network to expand its client reach. Banking agents are typically retail outlets that can conduct transactions on behalf of the bank, and so provide convenient access points to customers – especially in areas where customer density cannot support a branch.

LAPO's agent network has mobilized more than \$3 million in savings over the three years of the pilot and registered 50,000 new clients.

In order to understand the efficacy of this network a subsequent series of surveys was conducted in pilot location areas. The surveys found evidence of strong uptake of agent banking services in these locations, confirming the agent network as a pillar of LAPO's growth and transformation beyond its foundational microlending business.

With 433 branches serving some 2.6 million clients across twenty-eight states, LAPO started an agent banking network pilot providing cash-in and cash-out transactions in fewer than 100 locations. From 2017 to 2019, IFC conducted surveys in 14 of the first pilot areas in Lagos, Nigeria's largest city, and two state capitals, Minna and Benin City. The surveys sought to understand the impact of agent banking services on existing and potential clients residing in areas in close proximity to an agent and interested in learning more about LAPO's services.

Key Survey Takeaways



Growth: Agent Banking has contributed significantly to LAPO's growth. At least **24%** of the bank's client growth in the study's pilot areas is attributable to agents.



New Clients: Agent banking has allowed LAPO to increase penetration in underserved areas (**+35%**) – where customers are more often illiterate and lack previous banking experience.



Accessibility: Agents have reduced the distance clients need to travel to access services by around **2.1 km**, particularly in underserved areas with few other financial institutions.



Activity: **32%** of LAPO clients in survey areas used agents for their transactions in 2019; most rely on this channel for the majority of their transactions.



Value: About **55%** of agent users agree that their ability to access and manage their money has improved.

By December 2019, LAPO had increased its clients to 4.5 million – including loan customers and account holders – and gradually expanded the agent banking pilot to 1,700 agents across 33 states. Over the course of the pilot, the agent network has mobilized more than \$3 million in new client savings and registered 50,000 new clients. The results of the surveys covering selected pilot areas found that agents contributed to LAPO's ability to reach new clients, particularly in previously underserved areas (defined as those with low penetration of financial access points).

While LAPO has not carried out a large marketing campaign for its agent banking services during the pilot period, and the agent network has yet to reach full scale, the surveys nevertheless showed a fourfold increase in LAPO clients around the 14 areas surveyed, of which at least 24 percent was driven by agents.

Banking New Customers

In two years, the share of respondents in the survey sample who have a LAPO account grew from about 8 percent to 32 percent. The survey found that 23 percent of new customers were previously unbanked, while 77 percent held an account at another institution. Previously unbanked customers were typically women, living in areas with fewer financial access points, and poorer than previously banked customers. Partly due to limitations in services offered by the agent network, only 25 percent of LAPO's new clients registered through this channel. These clients registering at agents also had a higher percentage of illiteracy, at 20 percent.

A Better Way to Transact

The deployment of agents in 14 pilot areas increased accessibility by reducing the distance between clients and the bank by 2.1 kilometers on average, or about half the previous distance clients had to travel. While transactions in the pilot were limited to deposits and withdrawals, one out of every three LAPO clients surveyed used agents for transactions in 2019; over half of these users declared that they rely on agents for most of their transactions. In general, customer perceptions of the agent network were positive, with the majority of agent users surveyed saying the new channel improved their ability to access and manage their money.

Box 1: Lift Above Poverty Organization

LAPO was launched in 1987 as a nongovernmental organization in Nigeria dedicated to the economic empowerment of low-income households through the provision of financial services on a sustainable basis. In 2010, LAPO began operating as a state microfinance bank serving the poorest people in its areas of operation and providing financial services to micro, small, and medium enterprises. In 2012, LAPO became the first microfinance institution (MFI) in Nigeria to become a national microfinance bank. The bank began its operations supporting the micro- and small-sized businesses of poor women through group lending in rural communities. LAPO maintains this commitment and continues to provide women with the opportunity to actively participate in the local economy, and to ensure their financial inclusion.

LAPO and IFC have a long-standing relationship that started in 2012. IFC has since provided the microfinance bank with two loans to finance further microenterprise lending and has engaged in two advisory projects focused on developing and implementing an alternative delivery channel strategy.



Building an Agent Banking Network

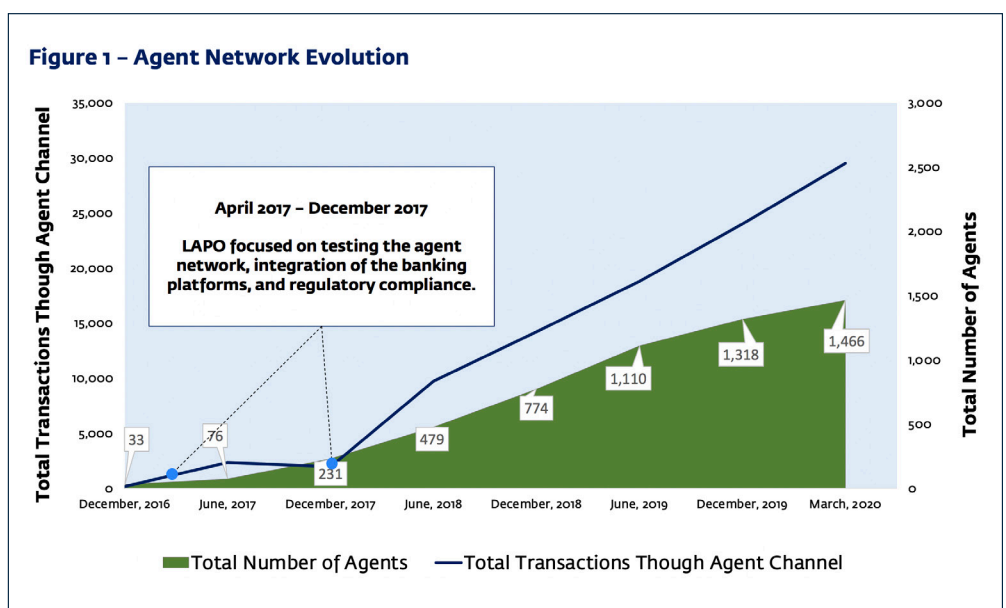
In 2012, Nigeria set an ambitious target of reaching an 80 percent financial inclusion rate for its 200 million inhabitants by the end of 2020. A large share of this growth was expected to come from the expansion of the Nigerian microfinance market, which was considered the largest in Africa with 816 MFIs and over 6600 branches at the start of 2012.¹ However, microfinance institutions were also largely concentrated in urban areas and in the southern part of the country.

Following LAPO's history of working toward financial inclusion, the bank developed an ambitious transformation and growth plan, with an agent banking network at its center. LAPO established a clear goal of increasing account openings by expanding its services beyond its established microlending mission (**Box 1**).

Capitalizing on a favorable regulatory environment for alternative delivery channels for financial services, and following the launch of agent banking by other financial institutions, LAPO saw agent banking as an opportunity to expand its services and outreach in a cost-efficient manner (**Box 2**). For customers, the agent channel offered improved proximity to a LAPO representative (particularly in hard-to-reach areas), improved service availability, and convenience. IFC supported LAPO in developing a strategy for its agent banking network and provided guidance during its implementation.

The network has been built gradually to ensure full integration between the technology platform and the institution's core banking operations. The 14 agents that were part of the study at the start of the pilot were part of the first hired cohort. During the pilot, agents in the survey areas and elsewhere focused on supporting customer acquisition, enabling transactions through the network for existing accounts, and cash-in and cash-out over-the-counter transactions. Customer acquisition was limited, however, to only two types of savings accounts: The Savings Plan Account (group and individual) and My Pikin Savings Account (for children), with a limit of \$26 per transaction.

The LAPO agent network has been built gradually, in order to ensure full integration between the technology and the institution's core banking operations.



Box 2: Alternative Delivery Channels in Nigeria

With 95 percent of transactions in Nigeria being cash based³ and 60 percent of the population without a transaction account,⁴ there is enormous potential for alternative delivery channels such as agent banking. In 2013, the Central Bank of Nigeria (CBN) set out to implement a national financial inclusion strategy to reduce the number of Nigerians excluded from financial services and increase coverage of the formal sector. The first license to deliver banking services through a mobile payment system was issued in 2011, and the first guidelines on agent banking and agent banking relations were released in 2013.

In the years after the first licenses were issued, adoption of agent banking in Nigeria was slow due to low client awareness, a poor agent management and incentive structure, and lack of trust in the channel.⁵ A study conducted in 2015 mapping financial access identified just 8,257 mobile money agent locations, of which fewer than half were found to be operational. As these issues persisted, the CBN together with several banks, fintech companies, and mobile network operators (MNOs) initiated the Shared Agent Network Facility (SANEF) in 2019 to boost the growth of agent networks and accelerate financial inclusion. By

providing financial education, creating demand, simplifying enrollment, and increasing the number of financial access points, SANEF successfully reached its objective of adding 500,000 agents by the end of 2020.⁶

Benchmarks of successful agent expansion in Nigeria are the fast-scaling start-up O'Pay (300,000 agents⁷), the MNO MTN (108,000 agents⁸), the FirstMonie network of the financial institution FirstBank (85,000 agents⁹), and the fintech company Paga (28,000 agents¹⁰). While MTN was able to build off its existing network of agents,¹¹ Firstmonie's strategy was to place agents where they identified gaps in terms of products and services and underserved populations. As a result, the company now has a presence in 99 percent of local government areas.¹² O'Pay took a more aggressive approach by providing greater incentives and promotions for agents (including those of competitors) and customers to sign-up.¹³ Paga's approach for growing an agent network also focused on compensation, but instead of offering one-off incentives and promotions, the fintech focused on high agent satisfaction through fair commission, loyalty benefits, and a dedicated customer service channel.¹⁴

In line with agent banking development in Nigeria, the network faced significant challenges related to usage, trust, and agent management.² LAPO's agents began attracting new clients and significant transaction volumes toward the end of 2018 as the size of the network grew (**Figure 1**). Overall, the agent network has mobilized more than \$3 million in savings over the course of the pilot and registered 50,000 new clients (4 percent of all new LAPO customers in 2019)—a commendable result in light of the early stage of the pilot.

LAPO has delayed a large marketing campaign introducing the agent network until all services are available. In February 2020, LAPO began to expand service offerings by introducing interbank transfers and bill payments, airtime top-ups, and loan repayments. Information on these services is not yet available, as their adoption and rollout was suspended due to the disruptions of the COVID-19 pandemic (**Box 3**).

Box 3: COVID-19 Impact Insights

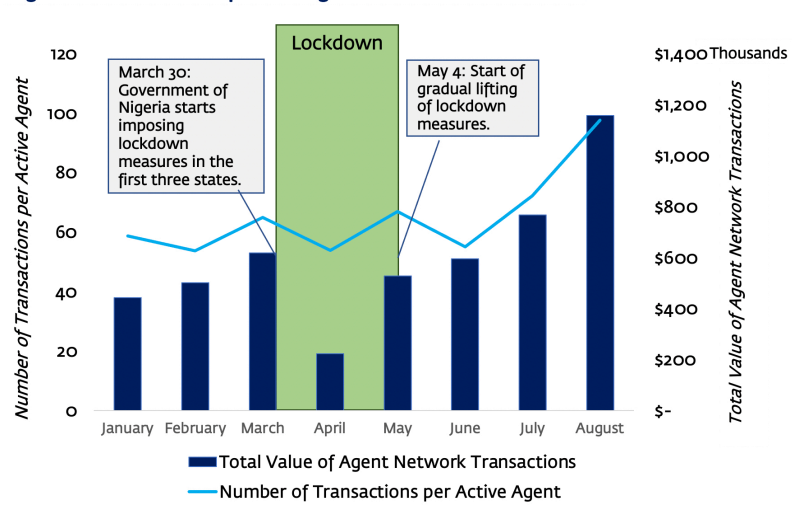
LAPO's banking agents were crucial to serving clients during the lockdown. Bank branches were forced to close for six weeks and were slow to recover to pre-lockdown transaction volumes. In contrast, many LAPO agents remained active during this period, which laid the foundation for future growth, as clients gained trust in agents and realized their convenience and reliability.

After the first case of COVID-19 in the country was announced at the end of February 2020, the government of Nigeria imposed several public health and safety measures, which were ultimately followed by a lockdown in most states on April 2nd. The pandemic was a fundamental threat to the fragile microfinance sector, as loan portfolios deteriorated and led to significant revenue declines. In addition, the sector had limited digital capabilities, which made physical service delivery through branches or agents vital to collection of loan repayments and delivery of other services.¹⁵

LAPO's operations were also considerably affected as banks were forced to close and, consequently, branch transactions slowed to a near standstill. With continued restrictions after the lockdown, including limited operating hours and movement restrictions, recovery of transactions at LAPO branches was slow. Roughly a month after the end of the lockdown, the value of transactions at branches remained at only half of the average monthly value transacted in the first quarter of the year.

While bank branches and other services considered nonessential were closed for four to six weeks, essential services and agents who provided these services remained (partially) open. Data provided by LAPO indicates that a little over half of its agents continued to provide services to their customers. **Figure 2** shows that total value of transactions dropped in April as a result of the lockdown.

Figure 2 – COVID-19 Impact on Agent Transactions



However, the numbers rebounded when the restrictions were eased, and growth of the agent network continued as planned in July and August with the onboarding of new agents. According to one of the interviewed agents, customers used his services in this period “because they live close to [his] location. People cannot go anywhere during the lockdown.” Some agents even experienced a surge in demand, or as one agent put it, “I had to get additional funds during the lockdown because I had a lot of customers. Now, more people want to use the agent network.”

In addition, interviews suggest that this period laid the foundation for future growth, as clients gained trust in agents and realized their convenience. For example, when asked why a client continued to use the agent banking channel after movement restrictions were lifted, one customer said, “because it is cheaper, closer, it saves time and is accessible.” Or as another client put it, “LAPO allows me to save money.”

Agents also experienced an uptake in interest as “[...] customers are now interested in opening accounts every day.” According to LAPO, the growth in transactions per agent in July and August (**Figure 2**) is a result of these altered perceptions, as operations had been fully restored in June.

IFC Agent Banking Survey

To offer a profile of potential bank clients and their financial needs, and to collect feedback on customer experiences and needs, IFC rolled out a panel survey of existing and potential customers in the early pilot areas. A baseline survey was conducted during the initial setup of the agent network in 2017 and was deployed in 14 areas in Lagos, Minna, and Benin City. These areas were chosen purposely to include customers located at different distances to existing branches, both in urban and peri-urban locations.

After listing all households within a kilometer¹⁶ of those new agent locations serving almost 10,000 adults, 1,125 adults willing to participate in research and interested in learning more about LAPO's agent banking services were randomly selected for the survey. Sample participants included existing LAPO customers, adults banking with other financial institutions, and unbanked individuals. The first survey (conducted in June and July of 2017) collected information on financial behaviors and financial needs of both existing and potential clients, focusing on understanding transaction costs and the potential use and demand for services introduced into the area by the agents. Two short tracker surveys were conducted during the pilot period to reduce sample attrition and estimate progress on uptake of LAPO's services. The final survey (conducted in August to October of 2019) provided information on user experiences (at the agent and nearby branches), financial behaviors for new and existing clients, and the barriers to attracting interested individuals. The final sample contained information for 906 respondents who participated in the main surveys.

Consistent with other mobile money providers in Nigeria, LAPO agent turnover was significant. Of the original agents in pilot locations, nine of 14 left the network as a result of low client activity. This low activity was likely due to a combination of untested recruitment criteria and delays in launching new services planned for 2018. Over time, LAPO recruited new agents in or near pilot areas. Therefore, information was collected on all agents serving the survey areas to understand the actual accessibility of agents at the time of the final survey.

Caveat: When interpreting the results, it is important to take into account the fact that the survey sample is not representative of all customers and areas.



Banking new customers

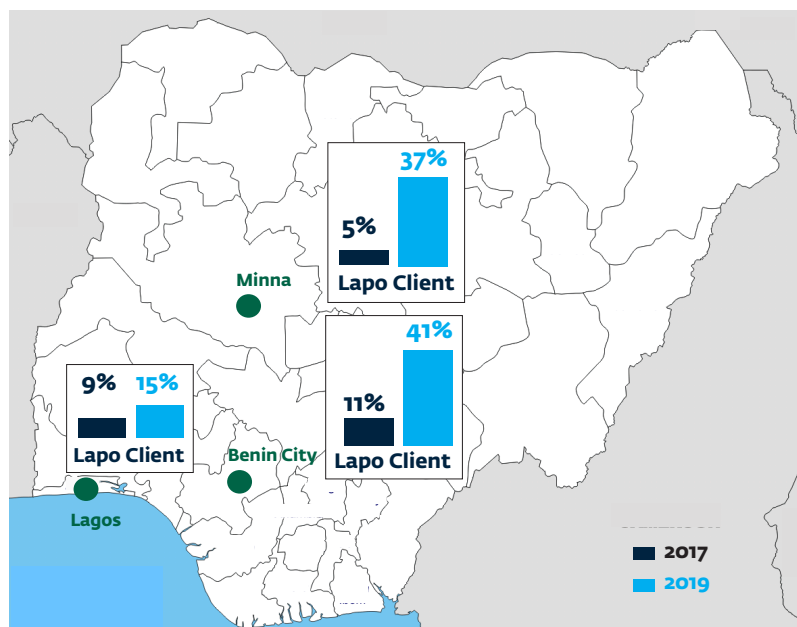
Agents were a significant driver of LAPO's increasing penetration in pilot areas.¹⁷ In two years, LAPO's penetration grew from 8 percent to 32 percent of survey respondents. New clients were mainly located in urban and peri-urban areas of Benin City and Minna (**Figure 3**). The survey found that 23 percent of new customers were previously unbanked, while 77 percent of new LAPO clients held an account at another institution. Previously unbanked customers were typically women, living in areas with few financial access points, and poorer than previously banked customers.

New LAPO customers now represent a more diverse customer profile and account use case, in line with LAPO's offering at agent locations. At the onset of the pilot, clients in the study areas were few, typically female, and LAPO was their only financial account. Matching the profile of the group-lending focus of LAPO, most customers (86 percent) had taken out a loan with the bank within the previous year and reported conducting most transactions through a loan officer. In contrast, two years after the start of the pilot, 48 percent of the new account holders were men, only half of the customers reported having taken out a loan within the previous year, and loan officers were seldom used. In addition, most new customers had multiple financial accounts and reported that LAPO was not their main account. This change is consistent with LAPO's efforts to launch new products and services to cater to a broader client audience, and it emphasizes the need of a strong value proposition to retain financially savvy customers.



LAPO and its agent banking network are effectively reaching the most underserved areas.

Figure 3 – Pilot Study Areas



Underserved Areas

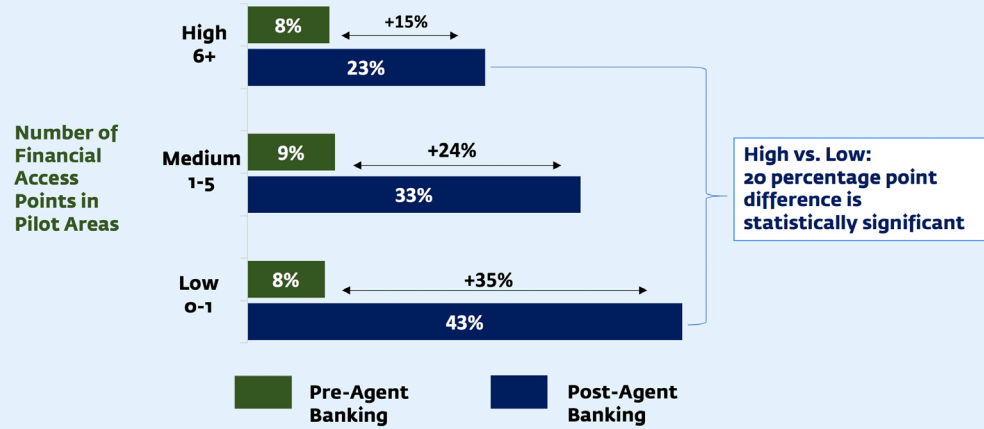
The biggest driver of customer growth is previous low density of financial institution access points (branches and agents) in the pilot areas. A comparison of survey data with proxy data on financial access points¹⁸ found that LAPO increased its penetration by 35 percentage points in areas where there had been low penetration by financial institutions. This is a statistically significant difference (20 percentage points) compared to the increase experienced in areas with a high financial institution presence. **Figure 4** shows how LAPO's reach is inversely proportional to the presence of other financial institutions in the area, suggesting that LAPO and its agent banking network are effectively reaching the most underserved areas.

Underserved Clients

Survey findings showed that at least 25 percent of new clients registered through agents. While we have limited observations of clients registered at agent locations, survey results suggest they are less literate and slightly poorer than customers who registered at branches. It should be noted that agents could only open a specific savings account with a limited transaction, and that new customers who were interested in a full transaction account or loan (and loan repayments) had to go to a branch to open an account. Despite these product and service limitations, the role and value-add of agents in new customer uptake was likely significantly larger than actual account openings, as they helped to increase bank visibility and accessibility.



Figure 4 - Share of LAPO Clients by Financial Institution Availability





A Better way to Transact


Approximately one out of three LAPO clients in our survey areas were using agents for transactions in 2019, and over half of agent banking early adopters declared relying on agents for most of their transactions. **Figure 5** shows demographic characteristics and usage of LAPO’s services by agent users. Agent deployments in pilot areas increased accessibility for LAPO clients and lowered transaction costs, leading to increased adoption and satisfaction among users.

Figure 5 – LAPO Agent users profile

Individual Characteristics:

-  **50% Female**
-  **20% Illiterate**
-  **20% previously unbanked**
-  **54% Entrepreneurs**
-  **45% 35 or younger**
-  **23% below the lower middle-income poverty line (US\$ 3.20)**

Usage of LAPO Services:

-  **25% use LAPO as main account***
-  **46% active in last 30 days**
-  **25% have an outstanding loan**

**The majority of LAPO clients have more than one bank account*

You wan open account?
Deposit?
Withdraw?

Yes!

E no mata who you be or where you live, LAPO Microfinance Bank don bring bank come your domot with LAPO Agent Banking. You fit open bank account near you with shikini document, make deposit and withdraw without wahala. E dey simple.

A More Accessible Bank

Survey respondents experienced a significant reduction in the time and distance needed to access LAPO services. On average, they had to travel 2.2 kilometers to access an agent location, which was about half the distance to the nearest branch (**Figure 6**). The effect of introducing agents in underserved areas is even more significant, with the average distance from a LAPO access point decreasing from 6.5 to 2.5 kilometers.

We estimate that customers' savings in terms of traveling time and transportation costs are significant, even offsetting the transaction fees for withdrawals.¹⁹ On average, new customers reported traveling five minutes less when going to an agent location compared to a branch (a 25 percent reduction), and spending approximately 70 NGN in transportation – or half of the amount spent traveling to the branch. Even though customers pay an average fee of 100 NGN to cash-out at the agent, we calculate customers in the survey areas saved an average of N50 (US\$ 0.14) for each transaction made at an agent instead of a branch.

A More Inclusive Channel

Consistent with what has been observed with new customers, survey findings show illiterate and previously unbanked clients were significantly more likely to rely on agents as their main transaction channel (**Figure 7**). The literacy rates for regular users of agent banking services was 76 percent, compared to 90 percent for branch users.

Illiterate and previously unbanked clients were significantly more likely to rely on agents as their main transaction channel.

Figure 6 – Distance to LAPO Agent & Branch*

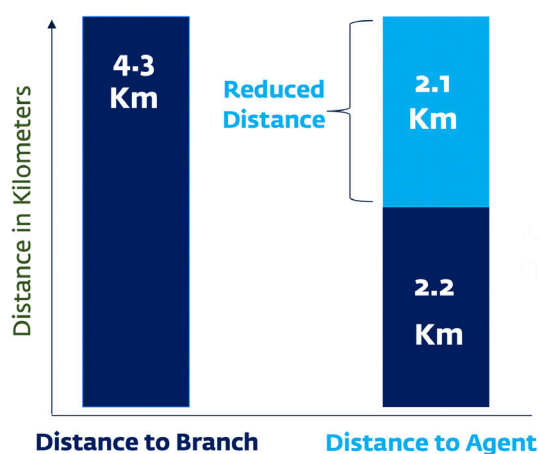
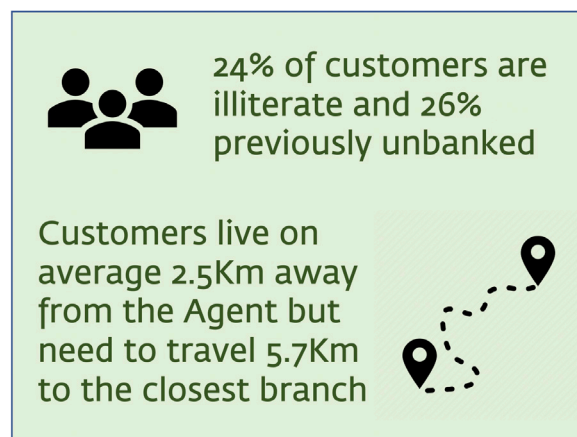


Figure 7 – Agent Main Transaction Channel



* Excludes one outlying district

We observe that better-off and more literate customers and those with a second account at a commercial bank typically prefer to transact at branches. This is likely driven by the fact that agents offered limited cash-in cash-out services throughout the pilot period. The frequency of different types of activities between agent and branch users (such as deposits, withdrawals, and balance statements) indicates different financial needs. Customers who use both agents and branches made deposits and withdrawals more regularly than clients using only one channel, indicating convenience is highly valued. In contrast, clients who mainly use the agent channel are found to more frequently request account balances—67 percent requested balances at least once a month, compared with just 8 percent of branch users.

High customer satisfaction but trust is still a barrier.

The overall experience among agent users is positive. Over 80 percent of respondents found the pricing structure of agent banking fees clear and reasonable. In addition, around 55 percent of respondents perceived an improvement in their ability to access and manage their money.

The share of LAPO agent users is particularly promising considering the minimal usage of agents among clients of other Nigerian banks—only 5 percent of clients of other banks reported using agents at those banks—and the low levels of overall usage, awareness, and trust in alternative delivery channels in Nigeria.²⁰ However, half of the survey respondents stated feeling uncomfortable transacting at an agent. Not surprisingly, regression analysis found that those who felt comfortable with agents opened a LAPO account more often. Among customers who have not used agents, 43 percent reported not knowing what a banking agent was, and those who were aware of agents often cited reliability and trust as reasons to not use them.

Building trust and familiarity with agents is paramount to increasing usage of the network



LOOKING FORWARD

As LAPO continues to increase its services and client base, the agent banking network is viewed as the primary mechanism to drive this expansion. After testing additional services such as inter-bank transfers, LAPO plans to fully introduce these services by 2021. In short, LAPO is working on:

- Expanding the services it offers to appeal to more customers and increase sustainability of the network. Inter-bank transfers, bill payments, mobile phone airtime top-ups, and loan repayments up to N10,000 are expected to boost usage and activity rates. LAPO aims to double agent activity rates from 30 percent to 60 percent in the next two years.
- Raising customer and overall awareness through a national marketing campaign to promote the agent network and the latest services available in 2021.
- Improving reliability. As is typical of any pilot rollout, operational issues such as system failures, delays, and low agent capacity were common among early users. Ensuring a seamless banking experience through the rollout of a new central banking system which will allow for the full integration of agent and branch transactions is expected to contribute to customer retention and improve activity rates.
- Expanding and improving the agent network so that there is a LAPO representative located within a ten-minute walk in all areas of operation. LAPO has deployed over 1,700 agents across 33 states and plans to further increase penetration, especially in rural areas. Quality recruitment and agent management are key components for network success, and will continue to evolve as the network grows.



ENDNOTES AND LINKS

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16. In lower density areas (3 out of 15 clusters) the radius was extended to 1.5 km
17. While surveys may have a small information effect where respondents are made aware of LAPO's services, we don't observe and increase in the share of clients during the listing and first survey, and only a small increase by the first tracker (2018)
18. The research team used the Insights2Impact data portal to accurately gauge the number of financial institutions (2015) in our study's clusters. The data portal draws from National Surveys and Geospatial data. For more information on the Insights2Impact data portal, see: [w://izifacility.org/](http://izifacility.org/)
19. The survey asked respondents to estimate actual traveling time and transportation costs to different financial access points (branches, agents, ATM), without specifying a transportation option.
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