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The Pros and Cons of Agent Banking: Evidence from Senegal
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Can agent banking bring large numbers of poor, unbanked individuals and households into the formal financial system? Agents are local retailers that double as lower-cost alternatives to bank branches and enable customers to more conveniently make deposits, withdrawals, money transfers, and payments of loans. Because of the convenience associated with their closer physical and social proximity to underserved market segments, agents may find it easier to reach poorer customers living farther from formal bank branches, and can thus deepen financial inclusion more cost-effectively than the traditional banking model. Clients may, however, perceive that agents will be more likely to share transaction information with friends and relatives, making it harder to refuse their cash demands. Relatedly, agents may refuse large transactions due to security or liquidity concerns.

1. The study
This study seeks to estimate the effects of access to agent banking on opening and usage of a savings account in urban and peri-urban areas in Senegal. A randomly selected group of individuals were given information about a savings account. Half of the individuals were encouraged to open the account at the nearest agent, while the other half were encouraged to do so at the closest branch. In addition, half of the individuals in each of these two groups were also given a monetary incentive to open the account. Study participants thus fall into one of five groups: (i) offered information about the account (Info), monetary incentives to open it (Incentives), and told to open it at the branch (Branch); ii) Info, Incentives and told to open it with an agent (Agent), (iii) Info, No Incentives and Branch (iv) Info, No Incentives and Agent and (v) No Info.

2. Results
All individuals in the study were offered the same account irrespective of the location they were encouraged to open it, and neither location had deposit or withdrawal fees during the study period. In addition, the selected study areas were close to and equidistant from agents and branches alike.

Of the 2,201 individuals in the study, 501 opened the new account. Providing information about the account increased the probability of opening the account by 11.2 percent, an increase of almost 100 percent relative to the 11.7 percent of individuals in the control group that opened one. Monetary incentives increased take-up by 5.5 percent, roughly half the effect of information.

We find that visits to the agent, including transport, waiting and face to face time with the agent, were around 10 minutes shorter than visits to the branch. Transactions costs are thus lower when banking with agents. Because of the lower transactions costs of banking with the agent, individuals encouraged to open the account with the agent should visit the agent more often and have higher savings balances. We find that individuals directed to the agent made 1.4 more deposits and 1.5 more withdrawals (from an average of 2.5 deposits and 3.2 withdrawals, respectively, among those directed to the branch) during the 12 months after the opening of the account. In addition, average balances 12 and 24 months after account opening across
all individuals directed to the agent a are 18 and 34 percent higher from a base of 38 and 30 USD among individuals encouraged to open the account at the branch.

We should also expect that if individuals trust either location equally and are unconstrained by the amount of the transaction at either location, they will only bank at one location, thus minimizing transactions costs. Yet, individuals encouraged to open the account with an agent visited the branch as often as those encouraged to open the account at the branch. As a result, the overall increase in the number of transactions comes from visiting the agent more often. In addition, when visiting the branch, they made transactions of roughly 219 USD (median is 74 USD) compared to transactions of around 96.50 USD (median is 31 USD) when visiting the agent. Individuals sent to the agent therefore visited agents more often and chose the location depending on the size of the transaction they planned to make. In contrast, individuals sent to the branch visited the agent less often and did not chose the location based on the size of the transaction.

So why didn’t clients bank exclusively with agents thus minimizing transaction costs? There are three possible reasons. First, clients may trust branch tellers more than agents, at least in the beginning. Microcred Senegal, our partner institution, is well-established in Senegal but until recently has relied only on its branch network and thus individuals were not familiar with Microcred banking agents. In this case, clients may start by making small transactions with the Microcred agent and as trust develops over time, they may increase the size of transactions and rely more on them. We find however, no positive trend in the number or size of transactions with the agent (relative to transactions at the branch) and thus conclude that trust cannot explain the simultaneous visits to agents and branches.

Second, the agent may refuse large withdrawals due to lack of liquidity, or large deposits for fears of a robbery. While these concerns may be valid in other contexts, liquidity and technological constraints are not binding for Microcred agents. Finally, clients may be reluctant to make a large transaction with the agent because of privacy concerns as the agent may talk to friends and relatives of the client about the transaction making it harder for the client to fend off cash demands. In contrast, at the branch the transaction is kept secret. In this case, individuals would choose the branch for large transactions and the agent for smaller ones. Focus groups with clients and evidence from lab-in-the-field experiments confirm this hypothesis.

### 3. Policy Recommendations

These results have the following relevant implications:

1) Individuals are willing to bank with agents and to trust them with their money.
2) Experienced clients choose to transact with either the agent or the branch depending on the size of the transaction.
3) This choice suggests that banking with agents involves a tradeoff: agents have lower transactions costs but also lower privacy.


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