

Challenges to Financial Inclusion in Bangladesh: A Case Study of Agent Banking for Garments Workers

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Abstract

This paper focuses on a high-profile donor-funded project for financially including Ready-made Garments (RMG) workers in Bangladesh, by first providing financial literacy sessions and second, opening bank accounts for them, through an innovation in banking known as agent banking. The project donors are Swiss Agency for Development Corporation and the MetLife Foundation and is being implemented by Swisscontact South Asia Regional Office (SARO). The paper sheds light on challenges in developing appropriate banking products, facilitating financial literacy, opening bank accounts, and regularizing usage of bank accounts by low-income RMG workers. The paper also outlines recommendations for overcoming the said challenges.

1. Background

Financial Inclusion for Ready-Made Garment (RMG) Workers in Bangladesh, known as Sarathi - Progress through Financial Inclusion, is a 19-month pilot project funded by MetLife Foundation and Swiss Agency for Development and Cooperation, and implemented by Swisscontact's South Asia Regional Office (SARO) in Bangladesh.

The goal of the project is to bring RMG workers within the sphere of mainstream banks and commercial financial institutions and engage them in financial transactions as account holders and

clients. The project is supporting creation of suitable financial products, development of alternative banking channels for easier access, and improvement of financial knowledge and literacy of RMG workers. In the current pilot phase, Sarathi activities are being implemented in key RMG factory cluster areas across Dhaka, Gazipur, Tangail and Narayanganj districts.

Sarathi has four major intervention areas:

- Financial Literacy Programs
- Banking Product Development for RMG workers
- Agent Banking Set-up and Roll-out
- Bank Account Opening and Usage

This paper examines these intervention areas on the basis of primary research conducted into the Sarathi project, with a view towards identifying the enabling and hindering factors for each of these areas. These enabling and hindering factors are generally applicable to agent banking for low-income customers. The paper has been structured such that a section has been devoted to each of the intervention areas and each of these sections have been broken down into the following: the planned vision for the intervention, current result, enabling factors, hindering factors, and recommendations for scale-up.

2. Objective and Research Questions

The objective of the research is to ascertain strategies for sustainability of the project and by

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extension, that of agent banking for low-income customers at large. Under this over-arching objective, the following secondary objectives will be fulfilled:

- Assess appropriateness of Agent Banking as a business to serve the RMG sector;
- Assess whether financial literacy sessions are encouraging RMG workers to open bank accounts and carrying out financial transactions using such accounts;
- Assess areas of improvement for financial literacy sessions and explore alternative and sustainable ways of delivering financial literacy sessions targeting RMG workers;
- Assess the overall scale-up, transition, and existing strategy for the project to ensure sustainability of its interventions;
- Identify specific gaps in Agent Banking business model, financial literacy program including overall project implementation plan and provide recommendations accordingly.

Some of the key questions this study attempts to answer are as follows:

- Have financial literacy sessions contributed to opening of bank accounts?
- How relevant have the banking products been and what is the rate of their up-take amongst RMG workers?
- Are the interventions gender-sensitive?
- Are there any behavioural and attitudinal changes of Bangladesh Bank, partner commercial banks, selected agents, RMG factories, beneficiaries (specifically women) that can be attributed to the project?
- What has been Swisscontact's role in effecting such changes, if any?
- How sustainable are the alliances between selected agents and partner commercial banks? What is the current capacity of the selected agents for sustaining the Agent Banking business model? Is the current service fee/commission sufficient for agents to sustain as a business entity? On what basis does the Agent Banking model work and which actors are central to this model?
- How are the commercial banks supporting their respective agents to acquire new customers? What kind of products and services are being offered by agents at their respective agent points/booths? Is there any scope of expanding the product base at different agent points/booths?

- What has been the role of RMG factories in supporting or hindering the financial service delivery model? What are the perceptions of partner commercial banks and selected agents on the role of RMG factories?
- What does the transitioning process look like for commercial partners from Agent Banking model to Digital Financial Services such as Mobile Financial Services? What plans do the commercial banks have to ensure/facilitate a smooth transition, if any? Which parts of the model should we focus on to strengthen the coordination and ensure sustainability?

3. Methodology

The methodology for this study was largely qualitative, although, certain numerical analyses have been performed with regard to responses from FGD participants. This research encompassed 4 focus group discussions (FGDs) with RMG workers with 10-12 female RMG workers per group. It was not easy accessing RMG workers during their work hours and hence the FGDs had to be structured around their lunch break. Best practices were followed to ensure that the discussions were not biased by any one or two FGD participants or for that matter, by the presence of supervisors of banking agents. In addition to FGDs, we deployed semi-structured questionnaires and conducted 10 Key Informant Interviews (KIIs) with partner banks, namely NRBC Bank and Bank Asia, two leading banks with regard to their agent banking operations as well as their involvement with Sarathi as partners. The KIIs were conducted with senior and mid-level banking staff, at their office. This sampling method, although under convenience sampling, is also known as Expert Sampling, which usually necessitates a smaller sample size.

The research has also been greatly benefitted and illuminated by discussions with the Sarathi Team Leader, Project Team and review of project documents.

4. Findings

4.1 Intervention Area 1: Financial Literacy Programs

Introduction/Planned Vision

The planned vision for financial literacy program was to create and deliver tailored knowledge and counselling services to 7,500 RMG workers. This would result in improved awareness and readiness of RMG workers to adopt better financial

management practices, i.e., better savings, credit and investment habits, opening bank accounts, secure electronic payments for transactions, and maintaining financial transaction records.

Current Result

In the course of the project, three (3) financial

literacy tools were developed. The tools were developed on the basis of desk-based secondary research and Focused Group Discussions (FGDs). Across NRBC and Bank Asia, in total, 36 financial counsellors were trained on these tools through Training of Trainers (ToT's) model. These 36 financial counsellors then trained over 6,000 RMG workers at 10 RMG factories.

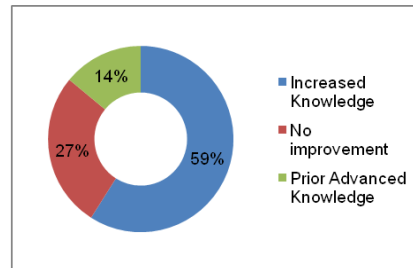


Figure 1: Impact of Financial Literacy Programs

As a direct result of the financial literacy training programs, as per findings of research conducted by the banks, 59% of the RMG workers indicated an increased level of knowledge regarding financial literacy and financial management. They expressed that they now have a better understanding of formal banking services, tracking monthly income and expenses, and reducing unnecessary expenses. Meanwhile, 27% of RMG workers did not indicate any improvement in their knowledge level; while 14% already had an advanced level of knowledge. Most married female RMG workers would require permission from their husbands to attend financial literacy sessions, if conducted at the community level. Further suggestions from RMG workers during a Focused Group Discussion (FGD) include:

- duration of financial literacy sessions should be longer.
- financial literacy sessions should be organized at locations closer to their homes, preferably during weekends.
- more TV advertisements and poster/leaflet distribution in the factories highlighting the benefits of agent banking.

Enabling Factors

a) Readiness: First, the readiness of the young female RMG workers was conducive to financial literacy programs in the sense that they constituted ready consumers of such knowledge. Even during the FGDs with RMG workers, it was reported that the training programs were very well-received by the attendees. There is

clear evidence of demand for scaling up such financial literacy trainings.

b) Quality of Financial Literacy sessions: Of those that found financial literacy sessions beneficial, most rated each session either 4 or 5 on a scale of 1 to 5 (with 5 being the highest rating). Over 90% of RMG workers that attended the financial literacy sessions shared their learning with other workers and family members. These figures tend to suggest that a certain level of quality was maintained as far as delivery of financial literacy is concerned. Around 40% of Bank Asia's financial counsellors were female, while NRBC outsourced the financial counselling to a third-party.

c) Technical Assistance: Swisscontact's technical assistance in developing the financial literacy tools were important and appreciated by the partner banks. It was suggested during the interviews with banks that Swisscontact continue to provide technical assistance for the upgradation of financial literacy and management tools in the future. Moreover, NRBC and Bank Asia agent banking teams acknowledged the utility of Swisscontact's structured approach towards research and project implementation.

Hindering Factors

a) Lack of Incentives: There appears to be a lack of clear incentives for financial counsellors who conduct the literacy sessions for RMG workers, particularly for Bank Asia staff, who were already

on their payroll. It is important to ensure that financial counsellors who are delivering the financial literacy sessions are adequately incentivized for their role in conducting training, beyond other activities under their job description.

- b) Resistance from Floor Managers:** It has been found from interviews that RMG factories' floor management often do not permit workers to attend financial literacy sessions. In fact, floor in-charge personnel appear to constitute a hindering factor not only towards delivery of financial literacy sessions, but agent banking operations at large. And overall finding is that floor in-charge personnel at RMG factories lack gender-sensitivity, respect for workers, and appreciation for the pilot intervention.
- c) Timing of Sessions:** At present, the financial literacy sessions are scheduled during the lunch break of RMG workers. This has created challenges as the timing is not conducive for RMG workers since they tend to take naps, rest or pray and are pressed for time.
- d) Lack of Dedicated Bank Staff:** Discussion with Swisscontact project team and external stakeholders such as partner banks reveal that dedicated staff who will incrementally develop specialization with regard to providing training to RMG workers ought to be prioritized. For instance, although Bank Asia has the approach of dedicating in-house staff for financial counselling, they often have multiple responsibilities and additional targets not related to agent banking activities. Therefore, the focus of the counsellors is compromised.

4.2 Intervention Area 2: Product Development

Introduction/Planned Vision

The vision for this intervention was to create and offer appropriate financial products and services and test how RMG workers respond to them as far as usage of formal financial services was concerned. However, no specific number was set as far as products and services were concerned. The project's strategy was to be determined by responses from the market assessment and banks' readiness to design new products and services for the unbanked population.

Current Result

Both partner banks, NRBC Bank and Bank Asia,

offered new products in course of this pilot. While NRBC Bank developed an entirely new product, Bank Asia modified an existing product. With regard to NRBC Bank, the new product they developed entails a saving scheme with the following features: minimum deposit: BDT 200 per month; maximum deposit: BDT 5,000 per month; tenure: 3/5/7 or 10 years. The above saving scheme also offers 10% annual interest rate and the facility to avail of a loan equivalent to 90% of the total savings at an interest rate of 11.5%.

The loan facility offered by NRBC Bank's saving scheme is significantly lower than microcredit facilities, which could be crucial in increasing its adoption through further promotion. RMG workers are interested in availing loan products, which suggests scope for additional product development and client acquisition.

Bank Asia already had a financial product that they were offering to low-income customers. In the course of this project, Bank Asia modified its existing product and included the following features to render it more relevant to RMG workers: waiver off account opening and yearly maintenance fees; biometric-based transactions; and free NFC card.

Enabling Factors

Consultation with RMG Workers: Before banking products for RMG workers were designed and launched, both banks arranged FGDs to understand the workers' needs; and their saving and consumption patterns. Swisscontact offered its technical assistance to this process: facilitating discussions with RMG workers; conducting needs analysis; and desk-based research to understand product development by national and international financial institutions. Interviews with banks suggest this process of due diligence and the consultation with RMG workers proved very beneficial in designing the banking products. During the interviews, the banks also credited Swisscontact's role in executing the due diligence since they were not used to conducting consultations with low-income consumer groups such as RMG workers.

Hindering Factors

Product Approval Process: Once products are developed or modified, banks are required to get them approved by members of their respective boards. However, this process was time-consuming. In fact, even when the issue of product approval for the pilot project was on an agenda for a board

meeting, it was superseded by other topics, thus causing delays. However, this is not surprising given the newness of this potential business channel. It is expected that in subsequent states of this project, product approval may require less time.

4.3 Intervention Area 3: Agent Banking Outlet Set-up and Roll Out

Introduction/Planned Vision

In order to allow more operational flexibility and better access to formal banking services, the project planned to operationalize 40 agent outlets to serve the RMG workers. It was also necessary to assess the business viability of the Agent Banking models through agent outlets.

Current Result

Thus far, NRBC Bank has acquired and operationalized six (6) new agents and Bank Asia has acquired and operationalized four (4) new agents. All the agents were operationalized between December 2016 and April 2017 and it is estimated that the project will eventually operationalize 12 agents by July 2017. During FGD with RMG workers, most of them expressed their satisfaction with the location of agent outlets, which minimized their transportation costs. They also indicated that agent outlets were opened during evening hours, allowing flexibility to their schedule.

In terms of set-up of outlets, both banks have provided their agents with branding materials such as billboards, posters, leaflets. However, the two banks have adopted different approaches. Bank Asia has dedicated relationship officers that accompany agents at agent points and the costs are likely to

be higher than costs incurred to set up agent points for NRBC Bank. Though this is a higher-cost approach, their agents have appreciated the support extended by the bank. It was also evident from the assessment that Bank Asia enforces more rigorous monitoring approach of their agents as compared to NRBC Bank. The agents licensed by Bank Asia are required to submit monthly reports to the head office. Bank Asia has also supported some of their agents to acquire a space for agent outlets within the factory premises. On the other hand, agents licensed by NRBC Bank have expressed the need for further support from their bank. Notwithstanding these differences in models, it is apparent that both banks conceptualize a similar model for the future, in which regular banking staff operate in close proximity to the agent outlets.

In addition to banks' investment, individuals who have acquired the licences from both banks have also invested their own financial resources, ranging from BDT 70,000 to BDT 250,000; for outlet space, furniture, computer, etc. Agents operating under the Bank Asia's banner seem to have incurred more expenses compared to NRBC Bank's agents. In terms of monthly expenses, most agents incur costs ranging from BDT 8,000 to BDT 12,000, depending on the size of the space rented and number of assistants recruited to support day-to-day operations.

In terms of agent profitability, it was more difficult to arrive at an estimation of profitability. However, the agents interviewed during the assessment have indicated that they are likely to reach break-even points within 1.5 to 2 years, depending on further promotion and growth of their respective outlets.

However, interviews with the two partner banks

Table 1: Agents' Revenue Streams

Source of Revenue	Range of Revenue
Account opening	BDT 50 – BDT 100
Float	Current A/C: 1%, Savings A/C: 2%, DPS/FDR: 3%
Remittance disbursement	BDT 50 to BDT100
Utility Bills Payment - REB	BDT 5 for receiving up-to BDT 600 BDT 8 for receiving up to 1500 BDT 12 for receiving BDT 1500+
Fund Transfer (interbank or other outlets)	0.25% up to maximum BDT 100
Loan Disbursement	Up to 1% of loan amount
Loan Instalment Collection	0.25% of instalment amount

Source: Bangladesh Bank

reveal the following:

- NRBC Bank agents receive 0.20% commission

per transaction (cash-in/cash-out), which is considered unfair

- NRBC Bank also claimed that their agents conduct 100-200 transactions per day and collect 2-10 utility bills per month
- Bank Asia agents receive 3% commission on current account deposit, 1% on savings, 1% on FDR/DPS, BDT 50 flat rate fee for remittance payment, 0.25% or BDT 100 for local money transfer, and BDT 16,000 to BDT 17,000 from float money of BDT 1 Crore to BDT 1.5 Crore.

The above information indicates that both partner banks have adopted their own models, and revenue streams for their respective agents are not uniform, as directed by Agent Banking guideline.

Enabling Factors

a) Variation of Models for Partner Entry:

At this embryonic stage, it is helpful that there are several models of agent banking. This malleability renders it easier for different banks to adopt agent banking, since each bank will have its unique challenges in on-boarding a product for customer profiles that are not conventional. The variation in models also allows banks to commit to the agent banking business in a way best suits their near-term and long-term strategies. As is borne from the agent banking market assessment report, the initial capital outlay for setting up an agent bank can range from BDT 1 million to BDT 12 to 15 million. Higher-cost branches will resemble a mini bank branch. While lower-cost branches have the advantage of lower investment risks; higher cost branches have the advantage of encouraging trust among customers. Therefore, the variation is important at this stage for the agent banking sector at large.

However, while variation has been helpful in on-boarding banking partners, as discussed earlier, there will be increasing coherence in the approaches adopted by the same partners in the future. Both NRBC Bank and Bank Asia are seeking to create more proximity between regular banking staff and the agents. This will aid the development of capacity of agents, ensure their liquidity, and also encourage a more focused transition of banking products from the conventional channels to agent banking outlets.

b) Cross-subsidy of Agent Banking Businesses:

It is apparent that for agent banking businesses to sustain in the near-term, it would not make sense for agents to be barred from cross-subsidizing their banking businesses with other businesses; be it rural electrification board (REB)

bill collection, mobile phone top-up etc. NRBC Bank is keenly aware of this. In fact, as per primary research, the trend of agents being increasingly engaged in utility bill payments, and the commission they receive, is likely to help offset near-term losses in agent banking.

c) Institutional Prioritization of Agent Banking:

Setting up of a separate agent banking division is important for effectiveness and sustainability. The Bank Asia Managing Director had prioritized agent banking from the start; had set up a separate unit from the outset; and encouraged meetings between agents and different bank unit heads so that agents themselves could be better trained about various banking products and priorities of Bank Asia. This is likely to benefit in the long run and facilitate sustainability.

In the long run, however, cross-subsidy may not be the way to go. Bank Asia officers were quite clear that they would like their agents to focus solely on banking, even if it took agents 1.5 years to break even (as per estimates revealed during interviews). This appears to be reasonable in the long run, by which time, credit products may also be activated, which will yield greater income for agents, as they begin to sell loans.

d) Positive Attitude Towards RMG Workers as Customers:

Both partner banks see agent banking model as a long-term investment towards generating customers among the unbanked. This is important as the CSR/branding element of undertaking Sarathi is likely to not ensure sustainability for the project. Banks ought to view RMG workers as potential long-term customers of regular banking products. It is therefore a significant enabling factor that bank management at both banks appear to be committed to including RMG workers in their customer base, with a view towards the long-term potential for business they are likely to generate.

Hindering Factors

a) Profitability: According to our estimates, based on primary and secondary research, an agent for the Sarathi Project will be profitable, if he or she is able to earn BDT 18,000 to BDT 22,000 per month. At present, this is not happening for most of the agents, therefore requiring cross-subsidy as discussed earlier. While solutions such as collecting utility bill payments may be reasonable in the short run; in the long run, it will be important to both offer products that are more lucrative for agents and to also train agents in marketing and selling

banking products. Locating agents in closer proximity of the premises of factories will also help increase profitability as they will then be able to provide service to both RMG workers as well as other customers. The services allowed under agent

banking are essentially the services most needed by customers in rural communities. The table below outlines these services.

Table 2: Services Permitted by Agent Banking Guideline

Services	All Banks	Many Banks	Few Banks
Receive account opening application	X		
Deposit	X		
Withdrawal	X		
Balance inquiry	X		
Inward foreign remittance	X		
Utility bills payment		X	
Fund transfer		X	
Loan application (sourcing)			X
Loan disbursement			X
Loan instalment collection			X
Post sanction loans and advances monitoring			X
Loan recovery			X
Follow-up of loan recovery			X
Social safety net payments			X
Insurance premium collection, etc.			X
Credit & debit card application			X

b) Resistance from Factory Floor Management: As was the case for financial literacy programs, it has been reported that RMG workers also face restriction, and sometimes, obstruction, in opening bank accounts or availing banking services through agents.

c) Lack of Motivation: Although this was reported by only NRBC Bank, it is a problem typical of the embryonic stage at which agent banking finds itself. The lack of sufficient staff deployed by partner banks, particularly NRBC Bank, to support agents have contributed to agents' lack of motivation.

d) Lack of Female Agents: It is important for the future scale-up of Sarathi that most agents be female. Findings from primary research confirm this. Female RMG workers would be far more comfortable approaching female agents. However, very few agents available to banks are female. For instance, only 15% of overall Bank Asia agents are female.

e) Lack of promotional activities: The effort to promote Agent Banking model amongst RMG workers has not been sufficient. Both banks have carried out very limited promotional activities

within and outside of the factory premises. All agents interviewed during the assessment have expressed the need for further promotional activities in order to build their credibility and trust amongst RMG workers.

4.4 Intervention Area 4: Bank Account Opening and Usage

Introduction/Planned Vision

The results of the above interventions (financial literacy, product development, and agent outlets) were to result on account opening by at least 1,100 RMG workers. It was envisioned that financial literacy sessions and appropriate products offered through agent outlets would lead to better financial inclusion of target RMG workers.

Current result

Thus far, a total of 1,130 bank accounts have been opened by RMG workers in the course of 19 months. The number of bank accounts opened with NRBC Bank stands at 898 accounts, while the number of accounts opened by Bank Asia is 232.

All the accounts are either savings or DPS accounts and most RMG workers carry out at least one transaction per month in the range of BDT 500 to BDT 1,000.

All the accounts that were opened by the RMG workers can be directly attributed to financial literacy sessions conducted in their respective factories. The RMG workers interviewed during FGDs indicated that they were informed about the financial products and locations of agent outlets during the financial literacy sessions. The documents required to open bank accounts include: copy of educational certificates; national ID; trade license; passport size photo; citizenship certificate; banks statement; three (3) references (banker, chairman of Union Parishad, head teacher of a high school). During FGDs, at least seven (7) RMG workers indicated that they do not have National Identification Document (NID), which is a prerequisite for opening bank accounts. The lack of appropriate documents has also been cited as a core constraint to account opening by operating agents.

Enabling Factors

a) Successful Financial Literacy Programs:

NRBC Bank outsourced its financial literacy tasks to a specialized third party, which dedicated more time and personnel when engaging with RMG workers. Bank Asia, on the other hand, relied entirely on their regular bank staff to conduct financial literacy programs.

b) Relevant products: The products introduced by both banks are relevant in the sense that they allow RMG workers to save money as per his or her ability to do so. Each RMG worker can own a savings or DPS account and deposit BDT 200 to BDT 5,000 per month.

c) Operating Hours of Agents: As most agent booths were open till 10 pm (usually), it allowed RMG workers access to banking services beyond RMG factories' working hours.

d) Cost Minimization: Both NRBC and Bank Asia subsidized the cost of opening bank accounts, as a result of which, RMG workers did not bear any costs. However, both banks have also been very innovative in shifting the tasks related to account opening to agents, which lowered dedicated time from core bank staff.

Hindering Factors

a) Perceptions towards Agents: Agent outlets are yet to gain the trust and confidence of RMG workers. The unfortunate money laundering in the past by the multi-level marketing agencies have significantly hampered the goodwill of agents operating on the ground. Also, there is a confusion around the word "agent" as most RMG workers do not understand the concept of how a bank can operate without its full physical structure. Some RMG workers have even questioned the security of their money as they feel that the agent outlets are not fully secured and can be subject to theft or robbery.

b) Constraints to Financial Literacy Programs:

Interviews with banks and FGDs with RMG workers confirm that a standalone one-time financial literacy program, delivered at a time when the workers are distracted, hungry or have other personal priorities to tend to, is not sufficient. First, a refresher session or several refresher sessions are required as 50% of RMG workers claimed during FGDs that they partially remembered what was taught, and only 30% fully.

c) Lack of Capacity of Agents: Agents lack the capacity to carry out marketing and client acquisition tasks. They are unable to engage with clients meaningfully, which, to some extent, deters the conversion of financial literacy and awareness about bank products into bank accounts.

d) Gender Issues: Acquiring and deploying female agents has not been considered as strategies by both banks initially. It has been learnt through various interviews that female RMG workers would be more comfortable interacting with a female agent rather than a male agent. However, some of the agents have recruited female assistants at their respective outlets to tackle such issues.

e) Available alternative options: Many RMG workers save their money either with their landlords or with local cooperative societies. Though these alternative options still remain outside the purview of the formal financial system, the lack of awareness regarding agent banking services and perceived credibility of agents often dictate RMG workers' decisions to save their wages with landlords and local cooperative societies.

5. Strategic Recommendations for Scaling-up Sarathi

The recommendations in this section have been divided according to the intervention areas identified in earlier sections of the report:

- Increasing the Effectiveness of Financial Literacy Programs
- Enhancing Product Development
- Increasing Effectiveness of Agent Operations
- Facilitating Bank Account Opening and Usage

This section and the assessment ends with a note on mobile financial services, since it was an objective of this assignment to understand its potential in generating financial inclusion among RMG workers, in subsequent phases of Sarathi.

5.1. Increasing Effectiveness of Financial Literacy Programs

a) Mainstream financial literacy programs:

It is important that banks recognize financial literacy of prospective clients as an essential driver of growth of the agent banking model. In addition to ensuring readiness of prospective clients to access formal financial services, these programs could serve as an important vehicle to build credibility of agents and better awareness of the services. Further emphasis on required documents during financial literacy programs would help expedite the process of account opening. Although the current project partner banks recognize this, it ought not to be taken for granted that other prospective partner banks will do so in the future. As perceived by banks currently, the delivery of literacy programs does not fall under conventional banking activities. Therefore, it would be important to engage stakeholders such as the regulator so that financial literacy programs are integrated into the agent banking model, since it is evident that they are integrally linked. For instance, in the interview with NRBC Bank, it was recommended that Bangladesh Bank mandate financial literacy as a CSR activity for banks with agent licenses.

b) Engage specialised service provider(s) to deliver financial literacy programs: It is evident that banks may require more support from specialized third-parties to design financial literacy tools based on the profile of target customers and also deliver them. Using their own staff appears to be an ad hoc measure at

present. Meanwhile, third-party vendors who conduct literacy sessions appear to not have sufficient contextual experience, e.g., customizing literacy sessions for RMG workers as a target group. Therefore, Swisscontact could potentially contribute by facilitating the entry of third party organizations which have experience in financial counselling among the unbanked, e.g., counsellors with experience in MFIs.

c) Engage agents to deliver: At some point in the evolution of the agent banking model, it would be optimal if agents themselves conducted the financial literacy sessions. This may be feasible for NRBC in the near future as they are looking to on-board 10,000 agents of the telecommunication company, Robi. These are trained professional agents and may be leveraged to promote financial literacy.

5.2. Enhancing Product Development

a) Understand customer requirements: In order to further develop the existing offering of banking products, detailed research is required on financial behavior of RMG workers, their financial aspirations, women's priorities, perception of impact of financial well-being on their emotional and mental well-being, and so on. In general, a more thorough customer profile would be helpful, which banks tend to develop for more conventional customer bases. This will aid the design of future banking products for RMG workers as well as the marketing thereof. Successful examples can be drawn from other countries, particularly India, where targeted products for low-income segments have gained popularity and momentum. For instance, during this assessment, 27 out of 29 FGD participants expressed demand for loans from banks. Some even indicated an appetite for larger loans (BDT 50,000 or higher). However, credit products ought to be tailored to this segment in line with their liquidity profiles, for which, a closer understanding of their tastes, preferences, and expenditures is required.

b) Prioritize marketing and not just literacy: Emphasis should also be on product marketing, in addition to financial literacy programs. Products should include marketing messages and visuals that speak to women and bridge the emotional distance between the product and the consumer.

5.3. Increasing Effectiveness of Agent Operations

a) Deploy an integrated model including an ADC Branch and an ATM to support agent banking: On the basis of discussion with banks, the Sarathi project team, and other research findings, an integrated model may help scale Sarathi in the future.¹ This future model entails an alternate delivery channel (ADC) branch at close proximity to one or more agent outlets and an ATM, with all three facilities being set up in close proximity to the RMG factories. The ADC branch will serve two purposes (i) provide conventional banking services to the factory

management, and (ii) provide liquidity support to the agent banking point, particularly in light of newer products such as payroll processing, which appear to be increasingly important for the business viability of agents. The ADC branch can also build capacity of agents to conduct marketing activities on behalf of the bank. The ATM is also important because it can satisfy the immediate cash needs of the RMG workers so that they can pay off their debt to landlords and clear other dues. Lastly, the agent banking point will continue business as usual and cater primarily to the RMG workers, supported by the ADC.

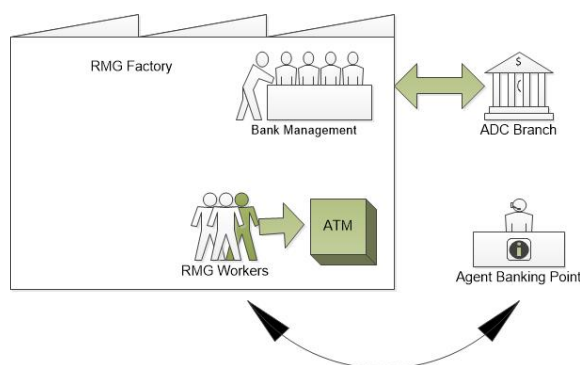


Figure 2: Proposed Model for Next Phase

In addition to the above model, as a subsequent step, both banks envision that an ADC and an agent point will be required to be set up near the community for RMG workers. A rationale behind this is that during the weekends, it would be easier to conduct financial literacy sessions (at the ADC branch), service RMG workers with banking products when they are not under strict work schedules, and lastly, also engage the male members of their households.

b) Introduce payroll processing: In addition to locating agent points outside RMG factories, perhaps close to *bazaars* or market places where the agents can service customers of different profiles as well, it is increasingly evident that payroll processing would be important to include in the agent banking product mix. However, this would entail an ADC and an ATM as outlined earlier. If agent banking outlets could serve as points from which workers receive their salaries, it would be easier to encourage workers to open salary accounts. Of course, there are impediments to this. For instance, what happens when an RMG worker leaves her factory and relocates to a different factory that is not

serviced by the same bank's agents? In the interviews with banks, they view the payroll processing proposition as a long-term solution by which time they expect to have agent banking outlets at most of the factory clusters in Bangladesh, especially in Gazipur, Savar, and Ashulia. The flip side of the story is that RMG factories ought to incentivize workers to open accounts with agents. Once an RMG worker has opened an account with an agent who services her factory, and she has become comfortable using formal banking and financial management services, she may become less likely to switch factories.

c) Design and deliver credit products: It also seems imperative to design and deliver credit products to RMG workers. First, there is a clear indication of demand. RMG workers seem very aware of benefits of loan products and many have interacted with NGOs that arrange loans as well as microfinance institutions (MFIs). Among the partner banks, NRBC Bank has begun to conceptualize various loan products that may benefit workers. Among these are consumer loans that workers may use to buy

consumer products such as mobile phones, televisions, and water filters. NRBC has also conceptualized a house building loan, for which their husband/guardian will be the principal borrower and the RMG worker will be the co-borrower. Bank Asia is yet to have thought of a loan product but is keen nonetheless to work with Swisscontact in this area. Loan products would further help agents achieve profitability.

d) Partner with RMG Buyers to create a more enabling environment: Since RMG factories have come under media and civil society pressure to uphold higher standards of workers' rights, health and safety; they have become suspicious towards external interference, particularly by development agencies. In the case of Sarathi, although NRBC and Bank Asia have been able to access the factory floor, there is still considerable scope for improvement in the role of factory personnel in enabling project activities. To begin with, factory floor in-charge personnel can be oriented as a part of future project activities, on the scope and importance of such activities. They often restrict workers from benefitting from project activities such as attending literacy sessions or opening accounts. However, it is also important that the senior management at the factories are more persuasive in their communication with floor managers so that the latter enable rather than hinder project activities. In the long-run, however, to create sufficient incentives for senior management, it is envisaged that partnering with international RMG buyers who source garments products from the factories, could be an important catalyst to scale-up.

e) Train agents more rigorously and ensure measures to safeguard their businesses: Agents need support from banks on various aspects, specifically on marketing, offering additional services and developing an understanding of float money calculation. The duration of the training programs could be longer and the content more rigorous. Such training programs could be residential in nature and offered at more convenient locations rather than at head offices of banks. Also, training can be conducted in groups to encourage networking and experience sharing amongst agents. Swisscontact could play a role in developing content for training programs and ensuring their effective delivery. The partner banks must also ensure safety of agent outlets and large amounts of cash that needs handling, if payroll of RMG

workers is processed through them. More strategic security measures and insurance of agent outlets would protect the entire business model from any external threats that are likely to occur in the future.

5.4. Facilitating Bank Account Opening and Usage

a) Advocate relaxing existing KYC requirements: It is widely accepted that KYC requirements are a deterrent to financial inclusion. Banks could therefore introduce more flexibility to RMG workers to enable them to open bank accounts more easily. For instance, banks could persuade the central bank to introduce tiered-KYC requirements where accounts with higher transactions and balances require successively higher forms of identification and documentation. In the long-run, banks could leverage existing SIM registration or SMART card process to remove further identification requirements.

b) Deploy female agents to service RMG workers: Evidence from interviews with agents, banks, and FGDs with workers highlights the importance of promoting female agents to interact with RMG workers. Initiatives to promote female agents should be a priority for banks. It is likely to have immediate impact on revenue. There is also global evidence of this phenomenon, as many women report that their families may be uncomfortable with their interacting with male agents in other spheres of their lives, such as mobile usage.² Moreover, female customers of financial service institutions also perceive female agents to be more patient and willing to spend more time to address queries or explain product features.

c) Persuade male decision-makers: It is evident from this assessment that male members of the RMG workers' family, usually husbands, ought to be involved in the decision-making behind opening bank accounts. One of the reasons why financial literacy sessions, despite generating increased knowledge levels among RMG workers, has not led to a significantly high number of bank accounts, is the lack of involvement of the workers' husbands. Therefore, in plans for scaling up Sarathi, there ought to be a plan to include the husbands of RMG workers in financial literacy sessions, whether this is achieved via the integrated model proposed in section 6.3, or otherwise.

5.5. Note on Mobile Financial Services (MFS)

Mobile Financial Services (MFS) in Bangladesh has justifiably been credited with widespread attention. A news report on July 25, 2017, suggests that mobile banking usage has surged in 1H (January to June) 2017 despite Bangladesh Bank's lowering of daily and monthly transaction limits. According to the latest data, average daily value of transactions surpassed BDT 1,000 Crore or US\$ 125 million.³ However, MFS in Bangladesh still suffers from the lack of two levels of inter-operability. First, a mobile wallet does not automatically correspond to a bank account and in fact, most people who use MFS do not have bank accounts.⁴ In fact, many users of MFS do not even use their own MFS account, but that of an agent's. There is a second level of inter-operability, which is also important to address for the growth of transactions, and that is the ability to transact across platforms of MFS providers. For instance, at present, a bKash user is not able to transact with a user of any other MFS provider, or vice versa. However, owing to the first level of inter-operability, MFS providers are not yet conversant with offering banking products such as credit products, and owing to their lack of integration with their parents', banks transacting through MFS is not tantamount to full financial inclusion (such that they are absorbed into formal banking channels). Therefore, even if

an RMG worker were to open an MFS account, she would not have access to a bank account, by default, and therefore, not be immediately eligible for formal banking products and services. This, however, may change as the regulatory environment changes in the next few years.

Endnotes

- 1 This model is borne out of discussions with the Project Lead; DMD of NRBC Bank; and the Agent Banking Team at Bank Asia
- 2 A.Thakur,S.Sahoo. P. Barooah, I. Sivalingam, G. Njoroge. 2016. "Agency Banking: How Female Agents Make a Difference".[Online Blog]. Microsave. <http://blog.microsave.net/agency-banking-how-female-agents-make-a-difference/> [17th December, 2017]
- 3 S.Islam. 2017. "More than Tk1,000cr transacted on mobile phones daily". [Newspaper]. Dhaka Tribune. <http://www.dhakatribune.com/business/banks/2017/07/25/daily-mfs-transactions-cross-tk1000cr-mark/>. [17th December, 2017]
- 4 This is a near-term limitation, as confirmed through interviews with banks. It is difficult to predict when this will be addressed through policy intervention by the Bangladesh Bank.