



Frontier Agents Learning Agenda  
Brazilian Market Case Study  
Focus on Public Policy

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June 2017

# Disclaimer

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## Executive summary

- With 250.000 access points at its peak, agents cover 100% of municipalities in Brazil
- Public policy intervention, channeled through regulation and state-owned financial institutions played a central role in this feat:
  - Regulation struck an adequate balance between growth first and, a decade later, risk management.
  - Public banks, were smart and aggressive in pursuing their financial inclusion objectives in partnership with the private sector, especially in the initial scale-up phase in the early 2000s. The cases of Banco Postal and Caixa are presented.
- Nonetheless, as agents peaked in 2013 and entered a consolidation phase, the previously successful model needs to adapt in order to continue supporting financial inclusion with offering high levels of coverage

## Rationale: why Brazil?

- This slide deck is part of a series of case studies focused on describing different strategies to expand coverage further into under-served areas or frontier areas.
- Given the significant role of public policy in Brazil, we focus here on the role of interventions channeled either by regulatory actions or by actions of state-owned financial institutions to address the challenges of expanding their agent networks.

- Brazil's agent networks:  
evolution and achievements
- Public policy interventions:
  - 1a. Regulation
  - 1b. State-owned financial institutions
- Peak agents:
  - 2. Converging market and regulatory trends  
and their implications

# Brazil's agent networks

*Evolution and achievements*

# How do agents work in Brazil?

*Exclusivity is not regulated by the Central Bank, but usually required for payments*

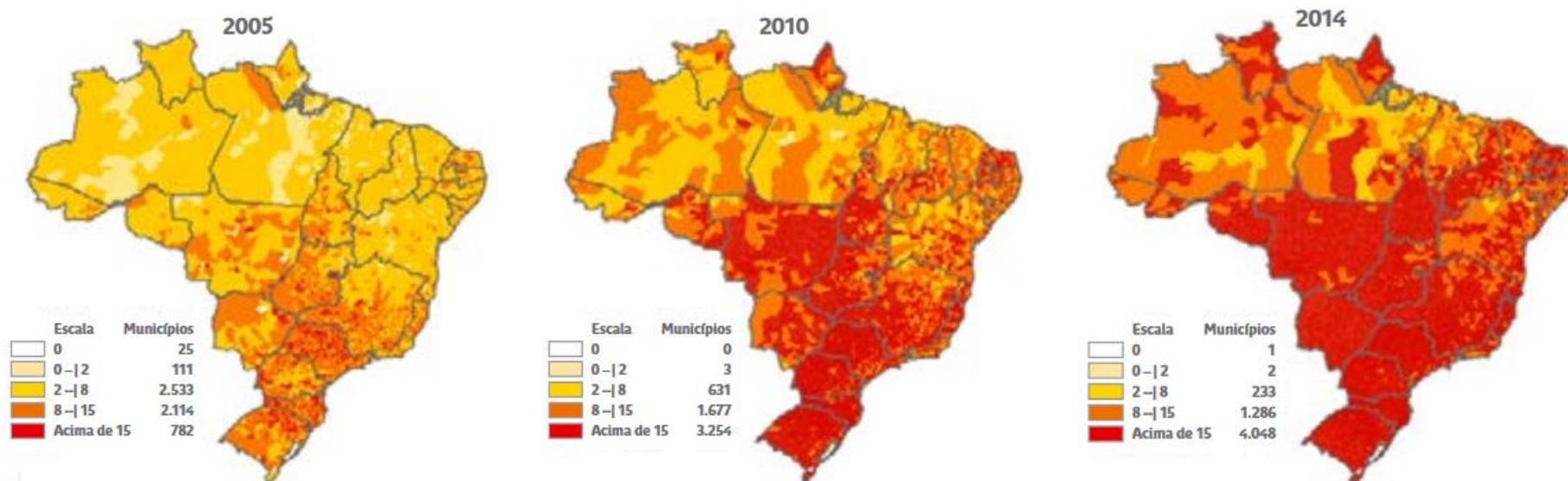
- Agents provide services on behalf of an authorized financial institution. They cannot open accounts or approve credit by themselves, they just facilitate the process, forwarding applications.
- Only businesses can be hired as agents, individuals are not allowed.
- Exclusivity is not regulated (not required or forbidden). For example, transactional agents are usually exclusive; agents offering payroll credit or vehicle financing only, usually shared.
- Many agents, such as retail chains, have several branches. For the purpose of this study, we are considering all agent branches providing financial services: physical access points.\*

\* BCB publishes a monthly spreadsheet (<https://www.bcb.gov.br/fis/info/correspondentes.asp>), reporting the number of agents by FSP and annually update the Serie Temporal. The numbers are different in both reports because of double counting in case of FSP sharing the same agent. In this study, we are considering the Serie Temporal data, which reflects the more accurate number of agents, unless when referring to a specific FSP agent network.

# Brazil has reached 100% financial access coverage in 2010

*In terms of municipalities with at least one agent.*

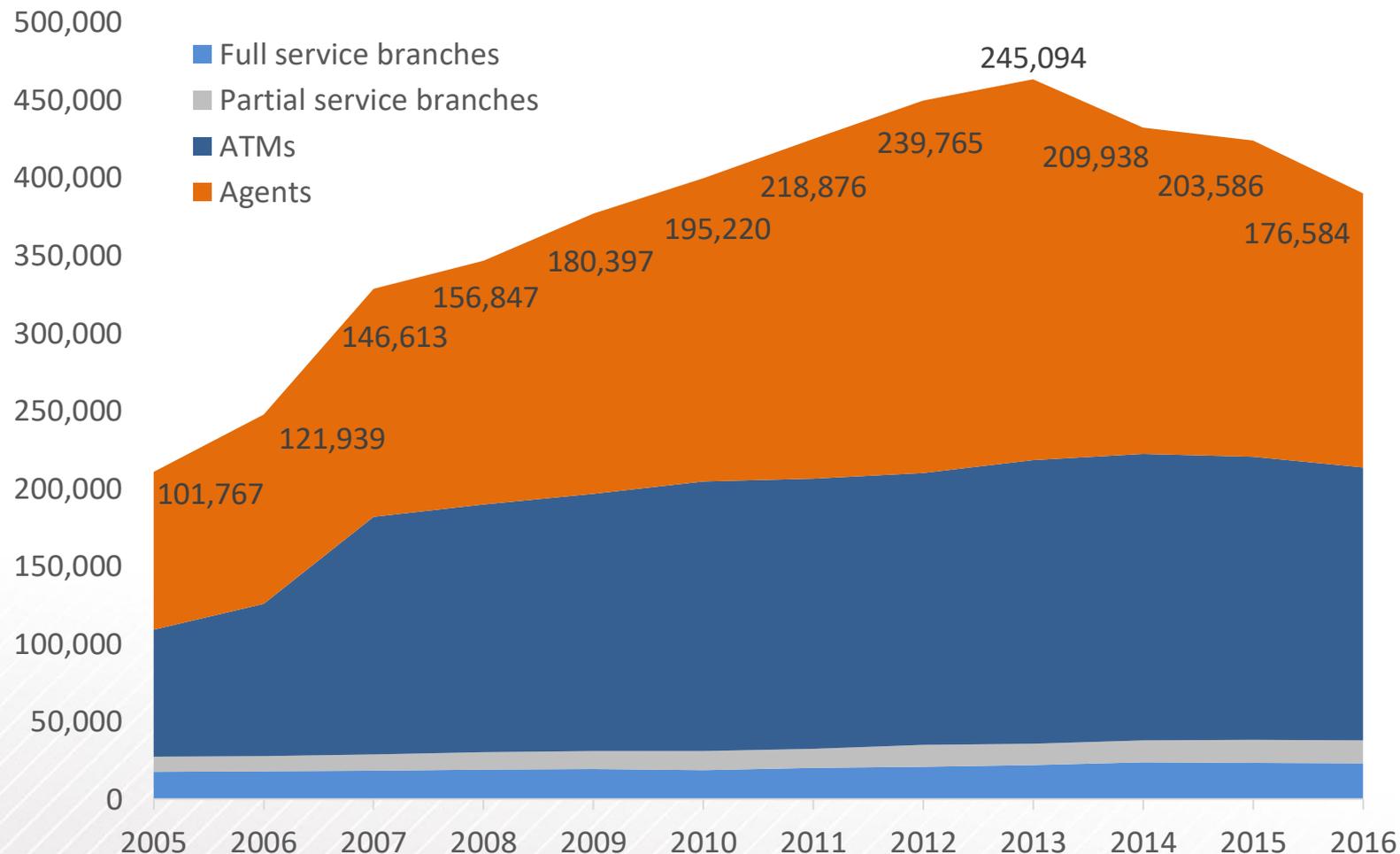
## Access points per 10,000 municipality inhabitants



- In 2013 there were 245 075 agents, around half of financial access points
- 72% of households report to be located within a 5km radius from an agent

# Agents represent more than half of the financial access points

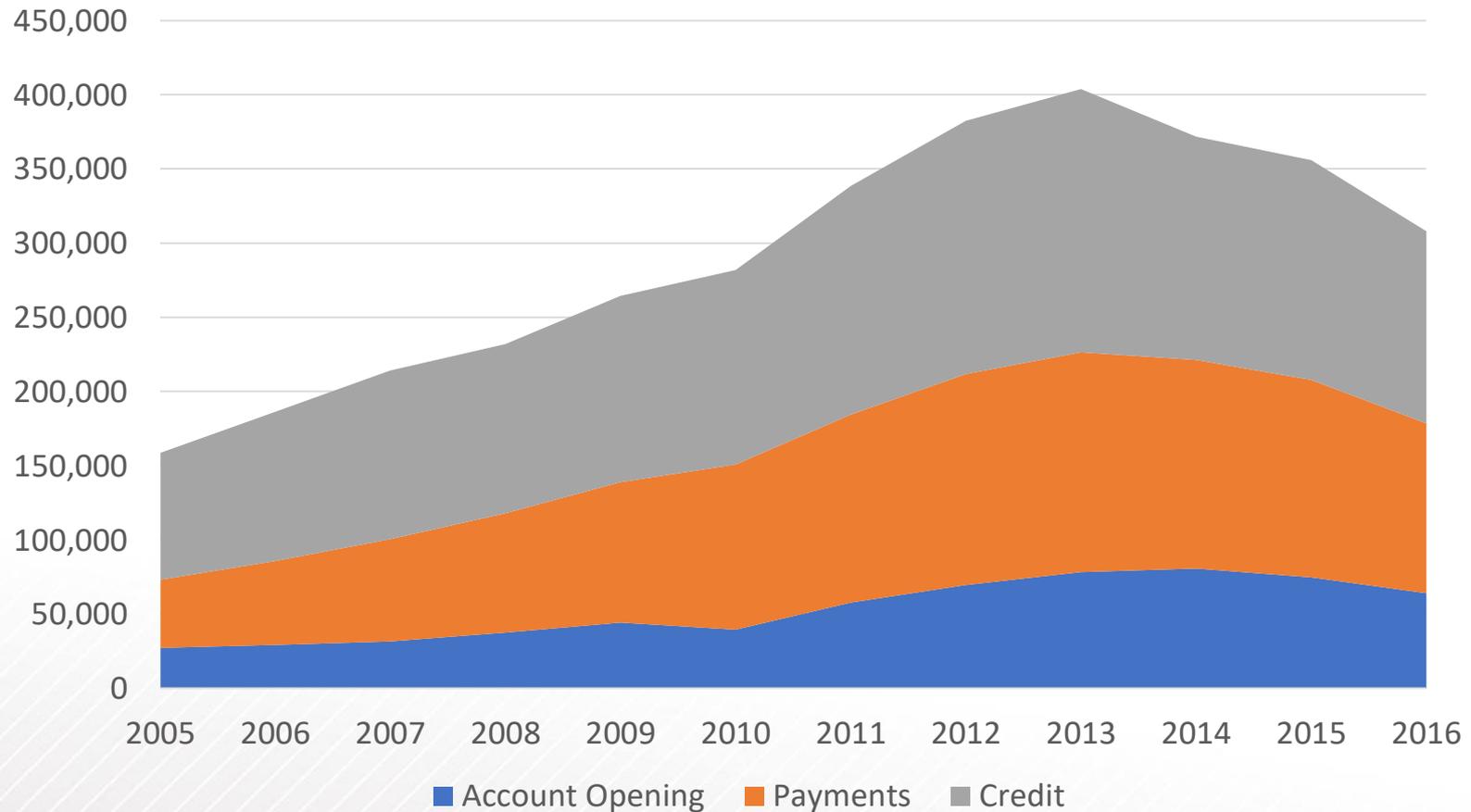
*Transactional agents only, not credit. Interestingly they have already peaked in 2013*



# There are 3 main types of services provided by agents

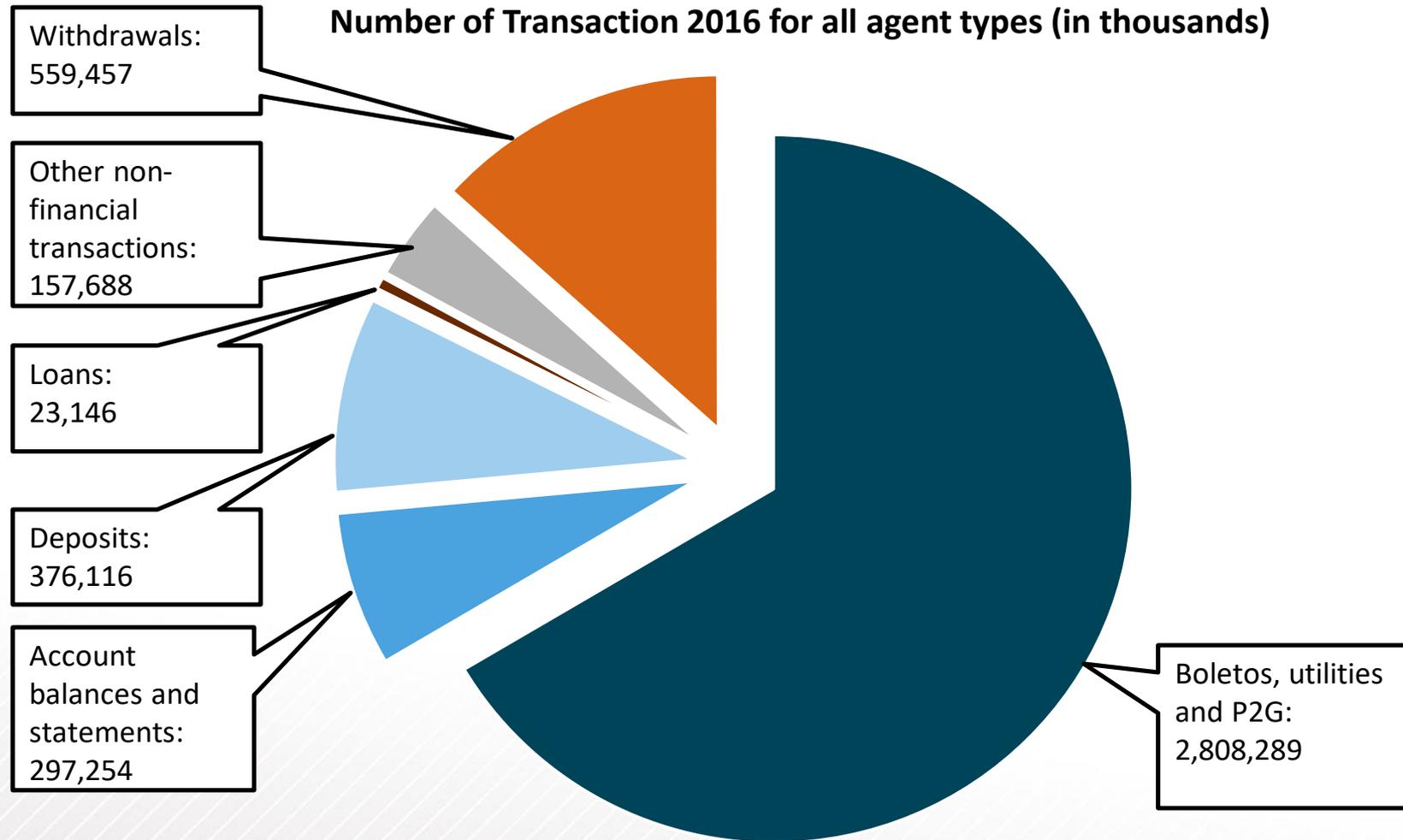
*Number of agents offering each of the services, metric duplicates some access points*

Number of agents offering each of the services,  
agents can offer more than one service



# Agents are used mainly for bill payments in Brazil

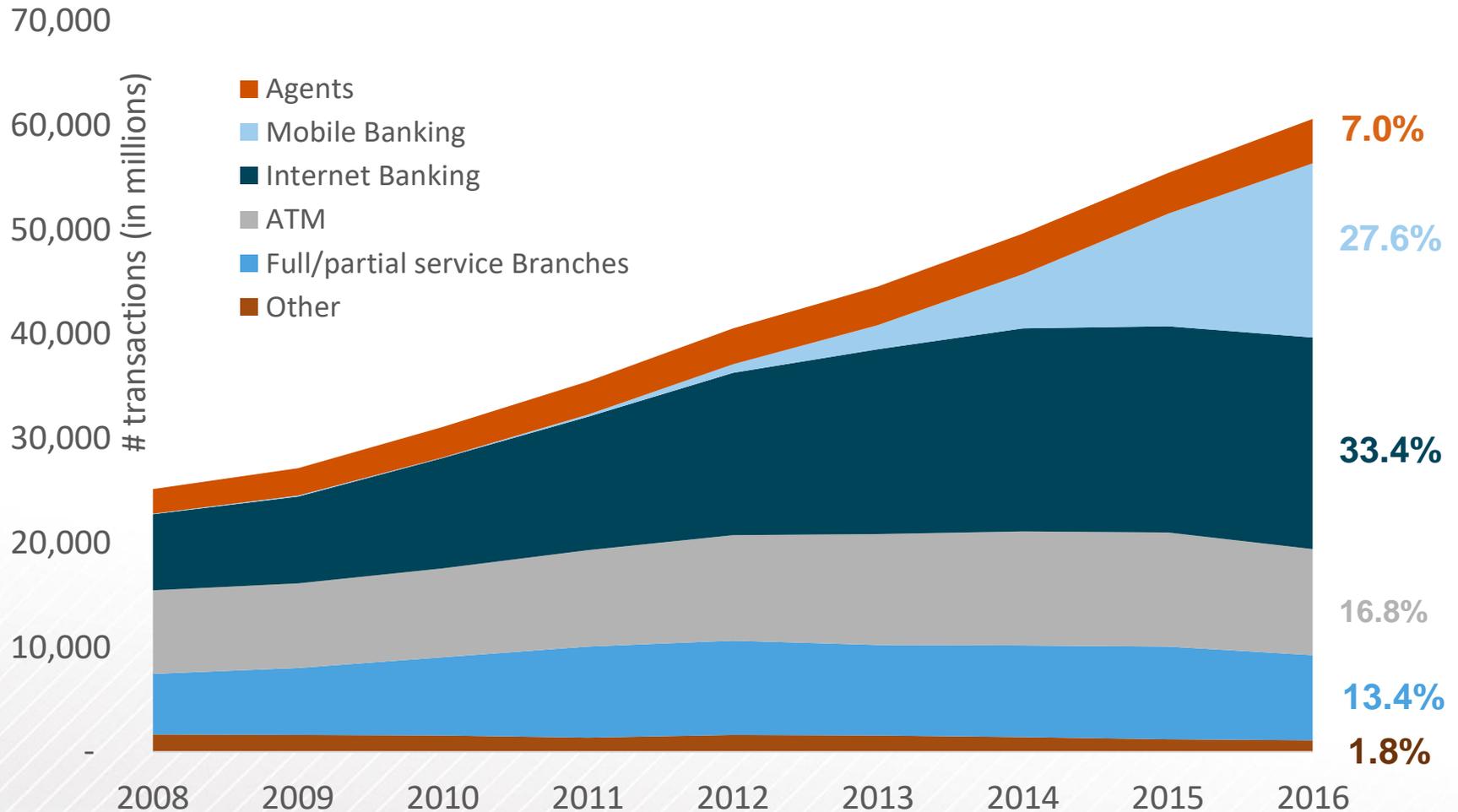
*In 2016, 66% of agent transactions were bill payments (P2G, utilities and “boletos”)*



# Agents are a low density channel, with only 7% of the volume

*Agent transactional volume is stable while mobile is growing robustly*

## Transactions per channel per year



## Two broad questions arise...

*From the perspective of a case study focused on public policy intervention*

- How did Brazilian agent networks achieve this scale and coverage?
  1. Focus on Public policy interventions
    - 1a. Regulation
    - 1b. State-owned financial institutions
- Why did agents peak in 2013?
  2. Converging market and regulatory trends, as growth momentum shifts to mobile.

# 1. Public policy interventions

*Channeled not only through regulation but also through state-owned financial institutions*

# Central Bank and SOFIs were central players

*In the public policies that enabled agent growth*

- **Regulation:**
  - An appropriate balance was achieved between innovation and risk management which was addressed later.
- **State-owned financial institutions:**
  - Aggresively pursued their mandates of financial inclusion but articulated these goals in partnerships with the private sector.

# 1a. Regulation

*An adequate balance between innovation and risk management*

# Brazil was an early adopter of agents, regulation started in 1973

*2003 marked the scaling up of the model after decades of incremental reform*

Circular 220 authorizes banks to hire agents for performing payment transaction on their behalf.

1973

Resolution 1,665 authorizes banks to freely set agreements for payments of public interest (including taxes and utilities)

1989

Resolution 2,707 eliminated the requirement of hiring agents only in cities without bank branches

1979

1999

2000

2003

2004

Resolution 562 authorizes financing companies to hire agents to offer credit on their behalf

Resolution 2,640 consolidates credit and payment agents under one rule, exclusively for banks, and allows account opening, in cities without branches

Resolution 3,110 opened the use of agents to other types of FI, including financing companies, and to agents to hire sub agents

Resolution 3,211 allows banks to open simplified accounts with proportionate KYC requirements

# As agent networks matured, the regulatory focus shifted to risk

*In 2011, further control and prudential regulations were added*

Resolution 4,035 mandated that FI shall implement risk control policies and systematically assess economic viability of operations distributed by agents.

Resolution 4,294 establishes commission caps for credit agents and deferred commission payment based on operation retention.

Feb/2011

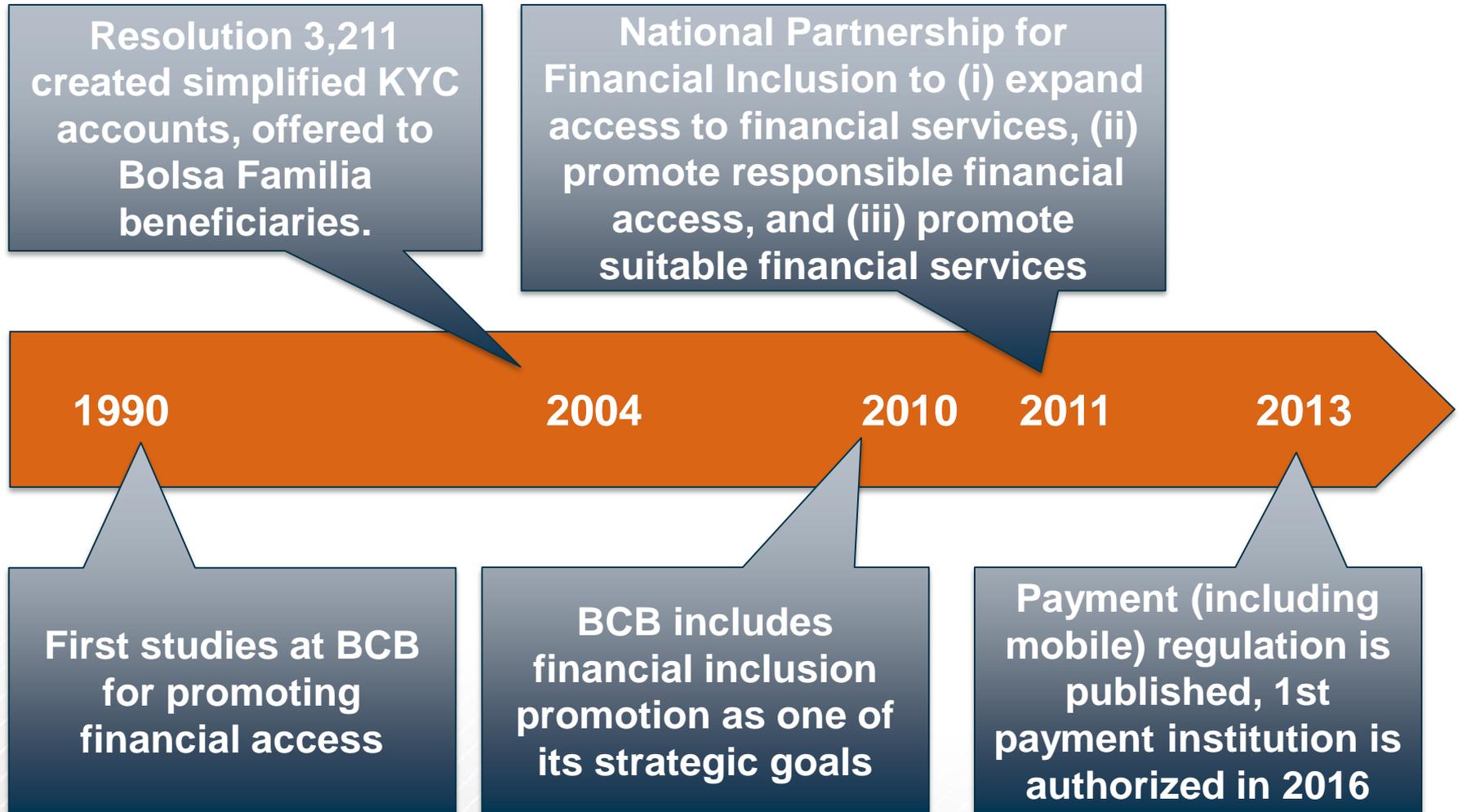
Nov/2011

Dec/2013

Resolution 3,954 restricted agents only to companies (no individuals were allowed anymore) and FI were prevented of hiring agents which owners were directors of the FI due to conflict of interest. Due-diligence procedures for hiring agents and permanent monitoring/auditing of agent network become mandatory.

# Financial inclusion grew as a policy priority together with agents

*Financial inclusion regulatory efforts were streamlined nationally in 2011*



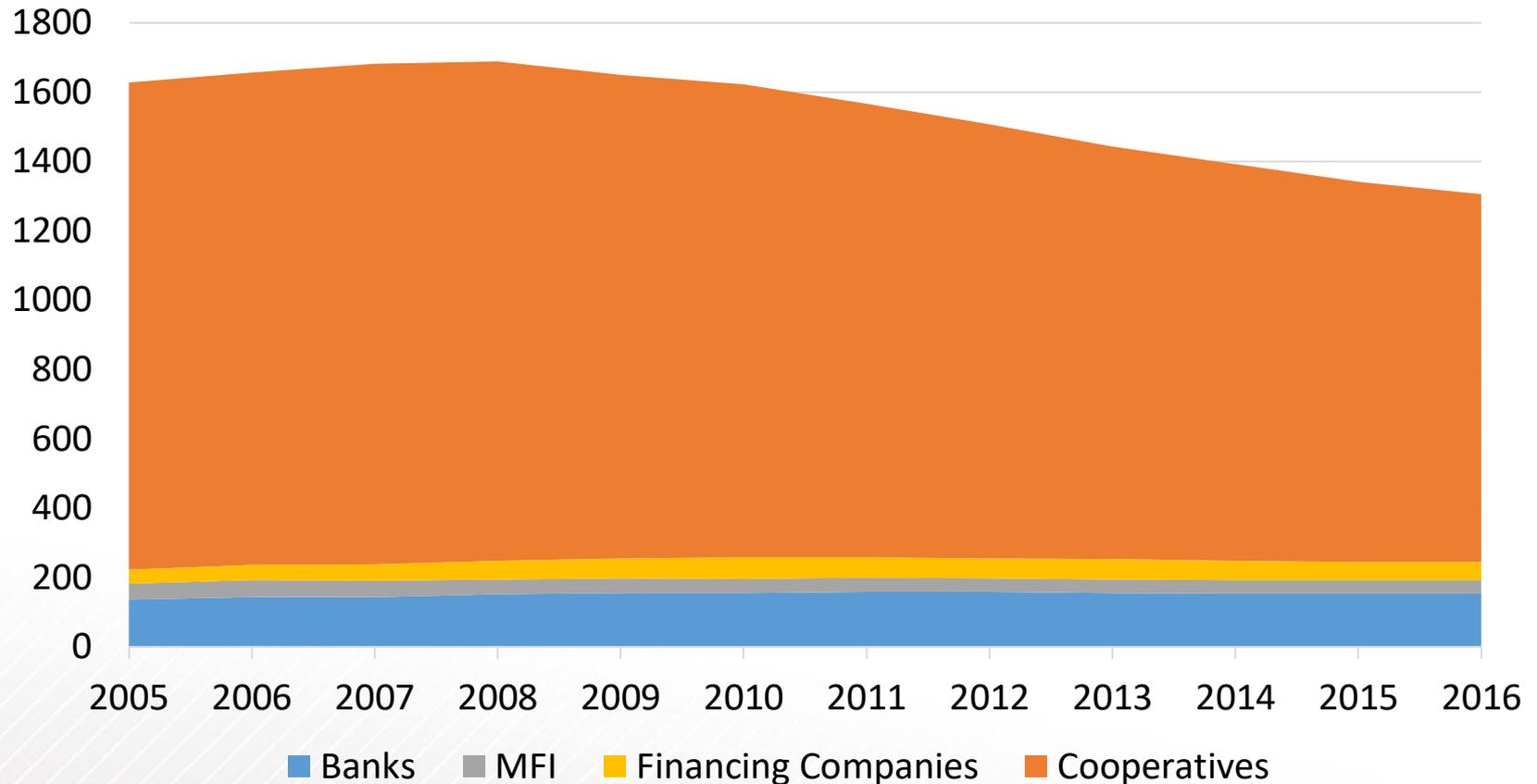
# 1b. State-owned financial institutions

*Public policy interventions beyond  
regulatory instruments*

# The Brazilian financial services market is diverse...

*Only 20% of financial institutions use agents*

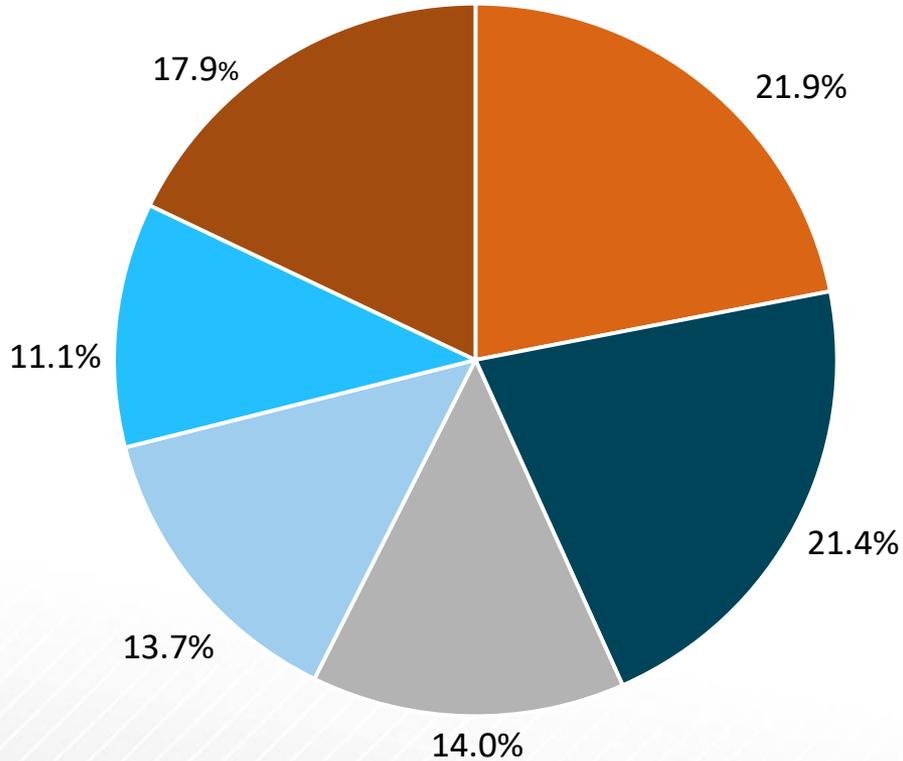
## Number Financial Institutions by Type



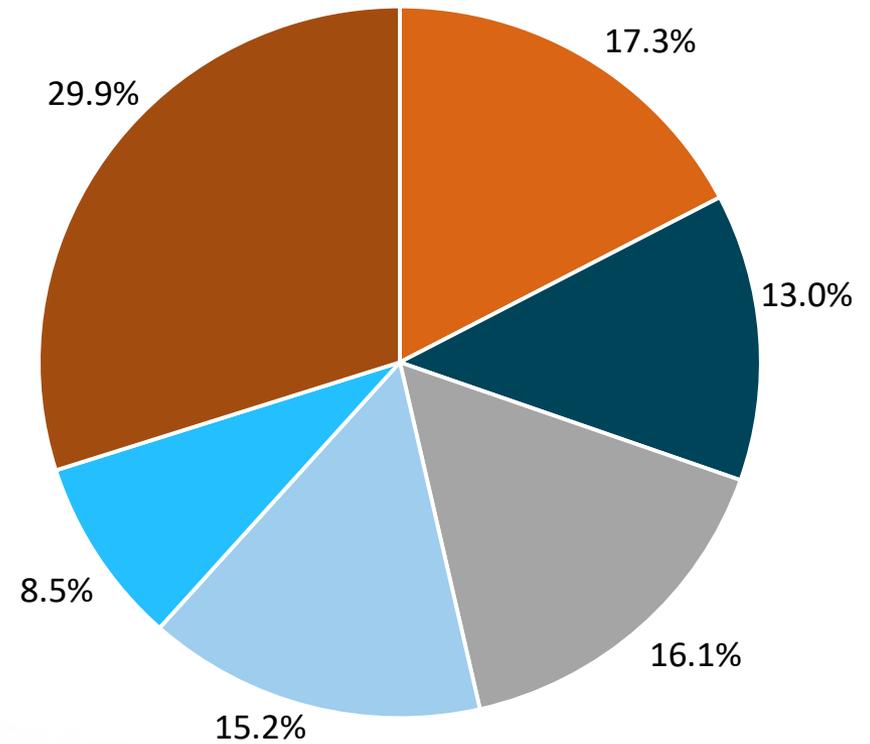
# ... but highly concentrated

Top 5 banks have 70.1% of the assets; the two main public banks, 32.5%

Branches in 2016 = 24,920



Assets in 2016 = BRL 8.3 trillion (approx. USD 2.5 trillion)



■ Banco do Brasil ■ Bradesco ■ Itau ■ Caixa ■ Santander ■ Other

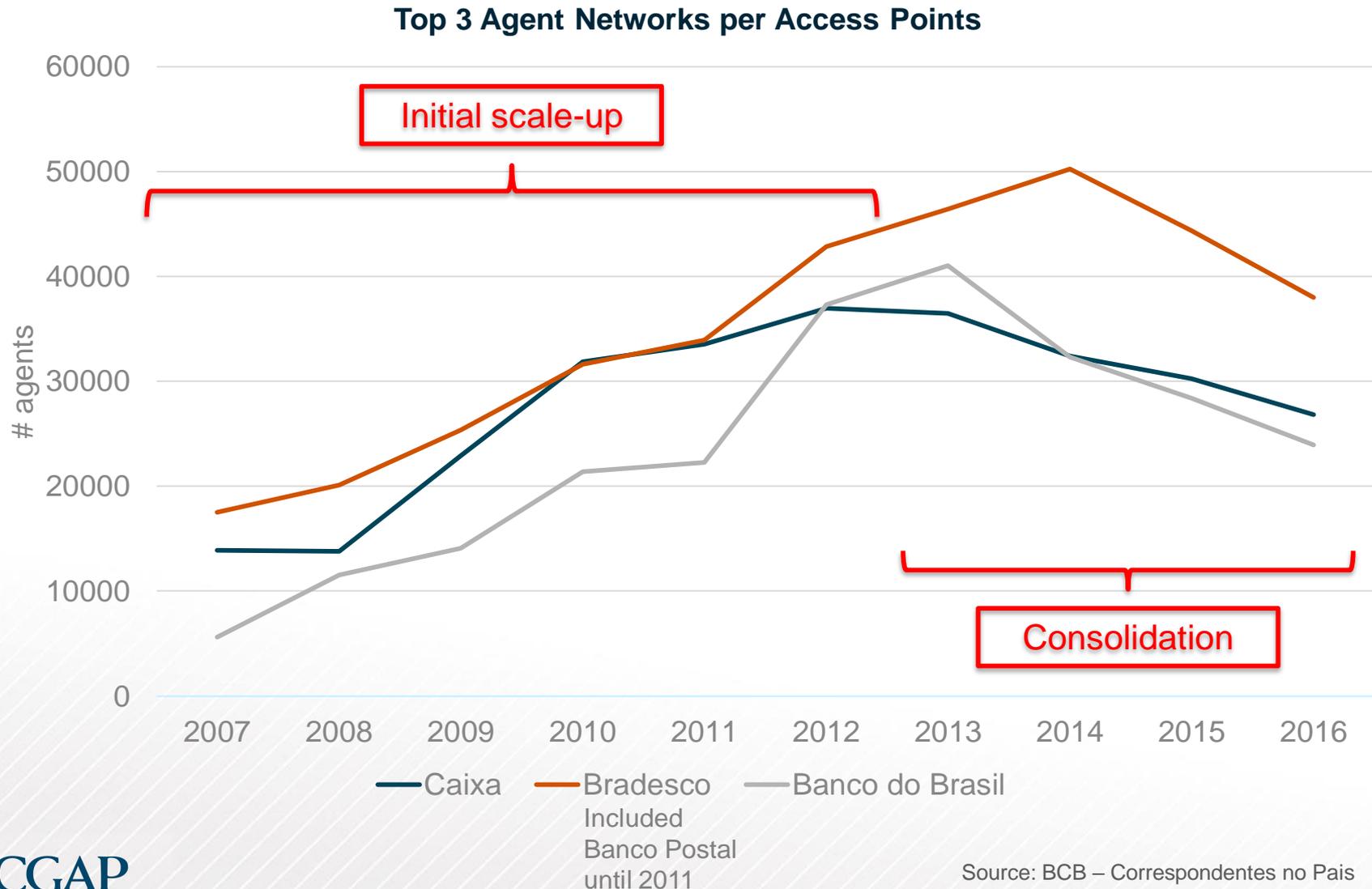
# Large *public*\* banks and the state owned post were leveraged

*As policy instruments to complement regulation and drive access and scale*

- Two examples of public policy initiatives to drive financial access through agent networks:
  - **Correios - National Post**  
(Empresa Brasileira de Correios e Telégrafos)
    - **Postal Bank, 2001**
  - **Caixa - National Savings Bank**  
(Caixa Econômica Federal)
    - **Lottery leapfrogging, 2000**
    - **Bolsa Familia, 2004**

# Two phases for the development of agent networks in Brazil

Initial Scale-up 2000-2012, Consolidation 2013-present



# Initial scale-up: Correios Postal Bank (Banco Postal)

*Operating since 2001, Banco Postal offers accounts, credit and make payments*

- Correios Post offices –located in all 5,570 municipalities in Brazil– became Banco Postal’s main asset when it was launched in 2001 with a focus on increasing access.
- Banco Postal was set up as a public-private partnership where Correios set up a bidding process to find a partner.
- Bradesco –Brazil’s largest a private bank– was the first operator with a contract for 10 years.

## Initial scale-up: Caixa's leapfrog from lottery

*Caixa leveraged its already established small outlets network*

- In 1967, Caixa had received the monopoly to exploit the lottery through authorized ticket re-sellers.
- In 2000, 5100 (out of 7000) lottery shops already operated via a real-time system which was easily adapted to provide cash-in/cash-out and payment services.
- In 2003, Caixa started to pilot a simplified KYC requirement account which was successfully scaled up in 2004 with the simplified account regulation.

# Initial scale-up: Bolsa Familia, Caixa's 13.5 million customers

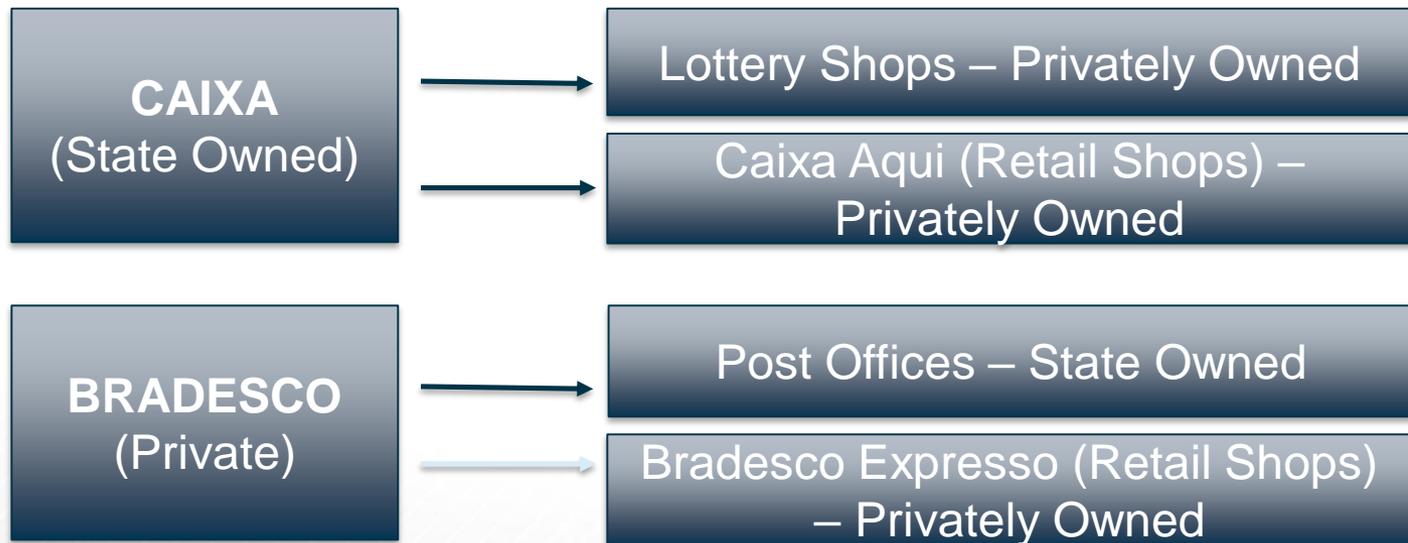
*Caixa provides USD 8.7 billion in payments for cash-transfer program*

- In 2004, Caixa was granted the monopoly of Bolsa Familia payments, a large scale social assistance program.
- Bolsa Familia 2016 numbers:
  - BRL 27.4 billion (approximately USD 8.4 billion)
  - 13.6 million customers and 158.6 million payments, out of which 59.4% are paid through agents
- Caixa total G2P 2016 numbers:
  - BRL 270.4 billion (approximately USD 82.9 billion), including job security-related programs
  - Government-related services is #1 service revenue (excluding financial intermediation) for Caixa: BRL 8.6 billion (approximately USD 2.6 billion)

# State-owned institutions were central in the scale-up phase

*Deploying successful partnerships with the private sector*

- Regulation with no restrictions to agent establishment, geographically or licensing, allowed state-owned financial institution to quickly set up early stage public-private partnership structures.



# Consolidation phase: Correios Postal Bank (Banco Postal)

*Banco Postal was successful in showing the potential of the segments it served*

- When Banco Postal's initial contract was due in 2011, Banco do Brasil (BB) –Brazil's largest public bank– won the new procurement process and started to operate the network in 2012.
- Bradesco –having lost the bid– started its “B plan” to keep serving those same customers by launching in 6 months:
  - 1,003 new full-service branches;
  - 460 new partial-service branches;
  - 9,000 new agents under “Bradesco Expresso” brand, mostly small retail shops.
- In the case of BB, the deal with Correios was soon deemed expensive, and the contract was renegotiated. See next slide.

# Consolidation phase: Agents are not as valuable as they were...

*Correios revenues from Banco Postal reduced significantly in the last 5 years*

## Banco Postal (about 6,000 post offices)

- 2001 concession to Bradesco
  - BRL 200 million (approximately USD 78 million), which was renegotiated in 2006 for not being enough profitable to Correios
- 2011 concession to Banco do Brasil
  - BRL 2.3 billion (USD 1.2 billion at that time) for the right to use the post offices as agents (with exclusivity)
  - About BRL 100 million as monthly fees
- 2016 procurement process
  - Minimum bid of BRL 1.2 billion (USD 370 million): no FSP interested
  - Banco do Brasil extended the contract for 3 years, agreeing to pay about BRL 24 million as monthly fees

# Consolidation phase: Caixa's network and Bolsa Familia

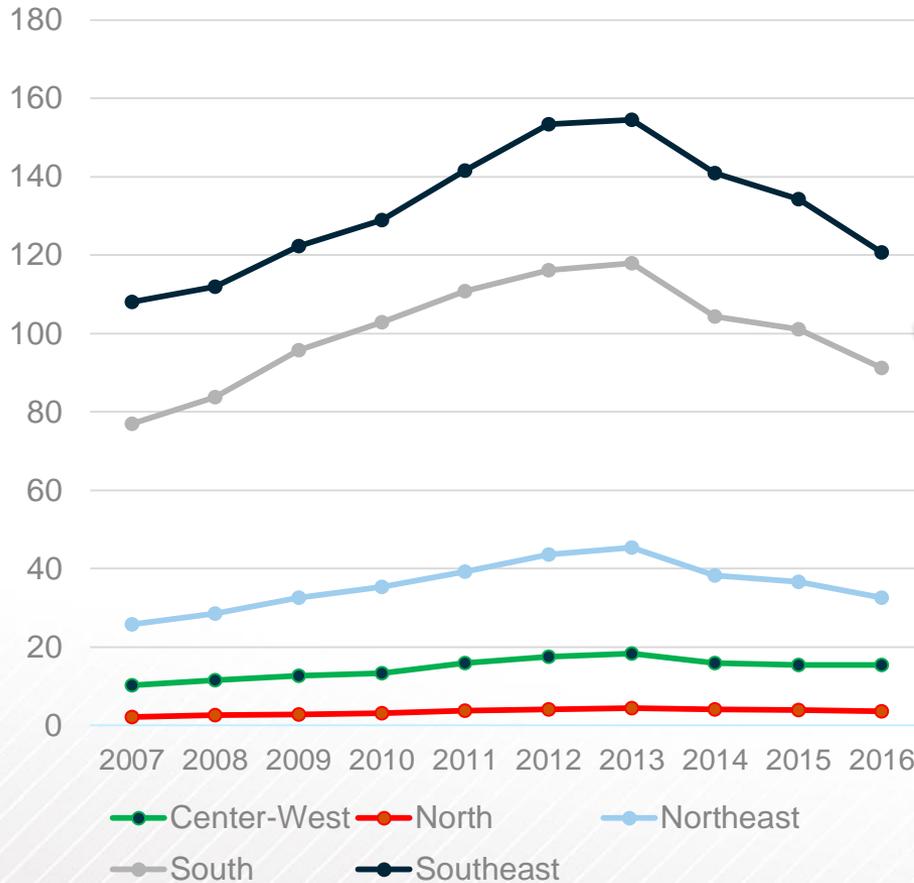
*Exclusivity on lottery shops by law and struggle to increase account usage*

- By the end of 2016, Caixa's agent network was composed by 15,000 Caixa Aqui agents and 13,000 lottery outlets.
- Caixa ensured exclusivity over lottery shop agent services through Law 12,869/14.
- 24.1% (or 3.3 million) Bolsa Familia beneficiaries opened simplified accounts through agents.

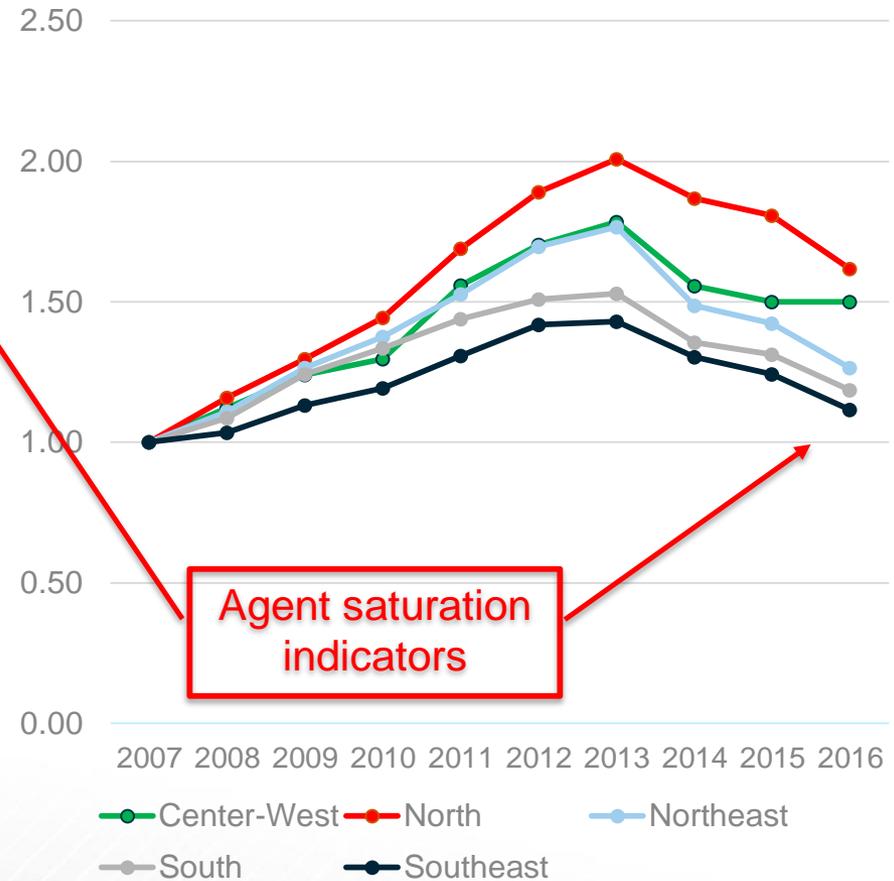
# After the rally, vulnerable regions were most benefited

*North and Center-West less developed regions had the longer lasting effects*

### Number of Service Points by 1,000 SqKm



### Variation (2007 = 1)



Agent saturation indicators

# Additionally, consolidation is reducing coverage in some areas

*In the case below, in relation to more stringent supervision*



São Gabriel da Cachoeira (AM) used to have a lottery shop and a Caixa Aqui agent (a local supermarket). They were terminated by Caixa due to fraud and misconduct. There are still Bradesco and BB branches there.

Caixa had to set up a temporary structure to make Bolsa Familia payments

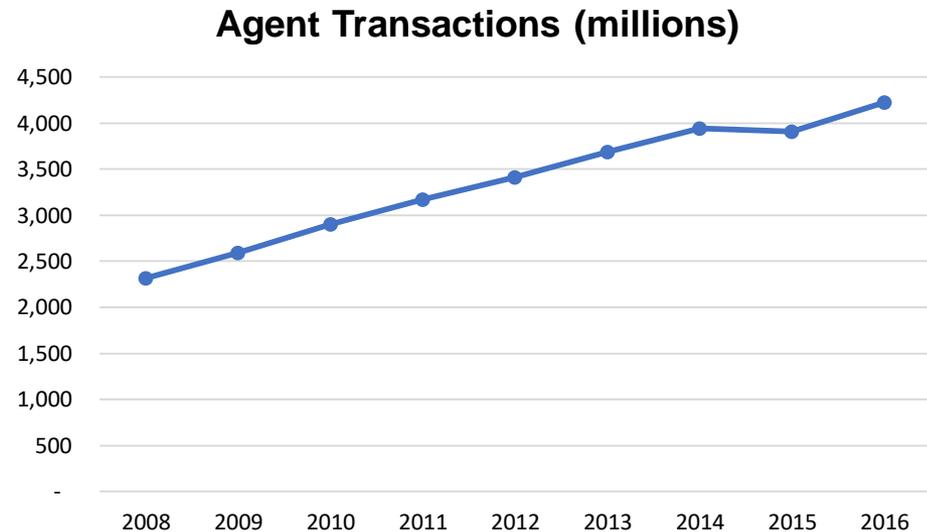
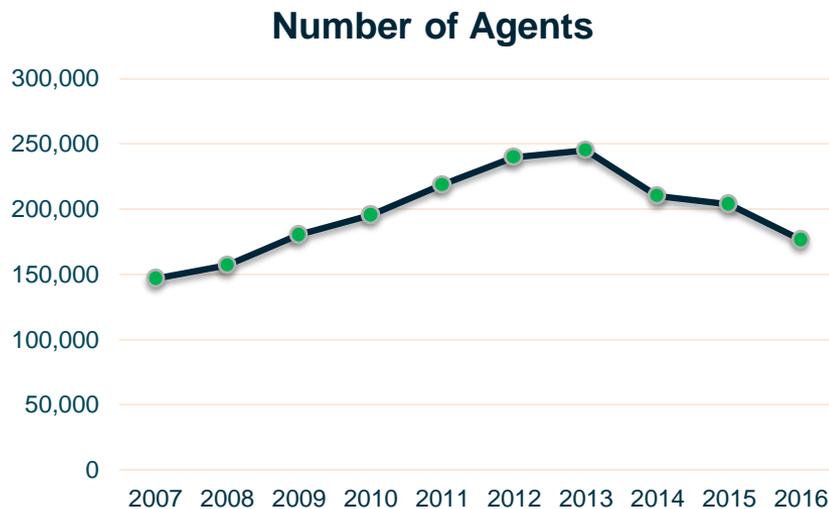


# 2. Peak agents in Brazil

*Converging market and regulatory trends  
and their implications*

# Agents peaked in Brazil in 2013

*Absolute volume of transactions still grows, but share decreased from 10% to 7%.*



- **Converging causes, as previously noted:**
  - Agent saturation, less so in lower income areas.
  - Tighter regulation
  - Channel's decreasing relative use
  - Overall value erosion as signaled by Banco Postal bids.

# Agents have contributed to account access and use

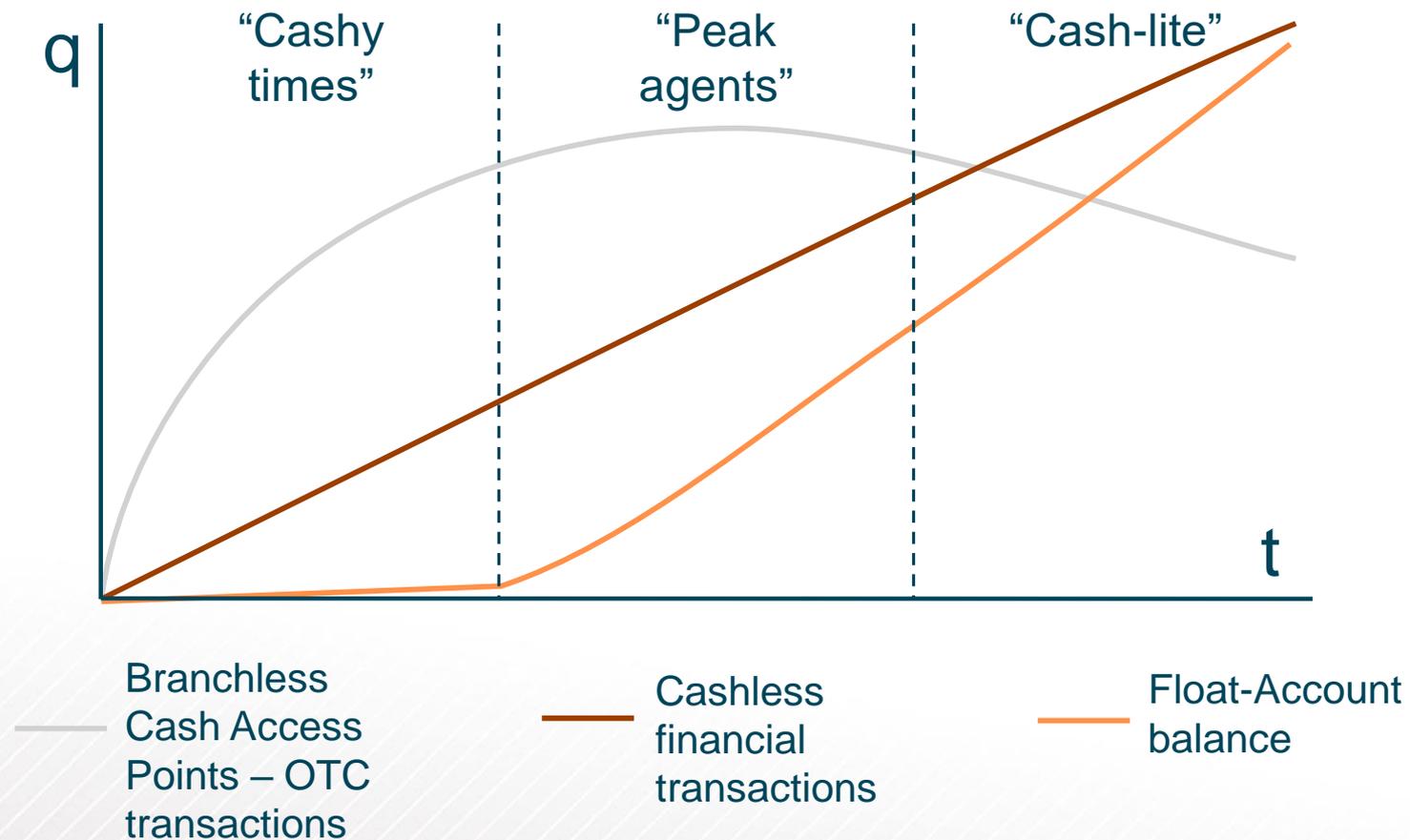
*But the data to assess these contributions still needs to be gathered*

## Agent contributions to cashless:

- Reduced costs for cash conversion and account management:
  - Increased proximity (50% of access points)
  - Extended hours
- Millions of accounts opened through the channel
- Increased trust in cash availability / increased account balances

# A potential model of the ongoing trends in Brazil

*Further research is need to characterize better these trends*



# Agent business models need to adapt to the consolidation phase

*To avoid losing gains made on proximity and access*

## Some areas for innovation:

- Agent exclusivity: multi-bank agent networks have a better business case for agents, with increased viability in low demand areas.
- Use of analytics to increase operational efficiency and reduce fraud.
- Deployment model tiering: deepen the path started by Caixa Aqui, seeking multiple operational models that can better match local demand.



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