

## Do agents improve financial inclusion? Evidence from a national survey in Brazil

---

Caitlin Sanford  
November 2013

*“The technologies that make branchless banking possible—smart cards, ATMs, and mobile phones—can greatly expand financial access while simultaneously slashing costs for providers. This is a clear win-win that should substantially and sustainably increase financial inclusion.”*

– Queen Máxima of the Netherlands, November 2009<sup>1</sup>

*“The banking correspondent is nothing more than a way to get the poor people out of the bank branch.”*

– Survey respondent during training, Rio de Janeiro

### **Abstract**

The financial inclusion sector touts the benefits of agent banking in bringing formal financial services to underserved populations, but there has been little quantitative evidence about the extent to which agents improve financial inclusion. Using data from a national survey in Brazil, we find that Brazil has largely overcome the distance barrier to financial access, and a majority of Brazilians—67% of the population—now pay at least one bill at an agent. However, only a small proportion of the population use this channel for opening or transacting through a bank account, or for accessing credit: only 12% of banked respondents usually withdraw from their bank account at an agent, 9% usually deposit at an agent, only 6% have accessed a loan through an agent, and 4% have opened an account through this channel. However, we do find evidence that those using agents are poorer, less educated, more likely to work in the informal sector, and to be women than those using other channels. Thus, while only a minority of Brazilians are using agents for financial services other than bill pay, these individuals exhibit characteristics of traditionally underserved populations, suggesting that agents have made a difference for financial inclusion in Brazil. Nonetheless, the 79% of unbanked households that regularly visit an agent represent a missed opportunity to offer financial services to unbanked Brazilians through this channel.

### 1. Banking correspondents have helped bring an access point to every municipality in Brazil

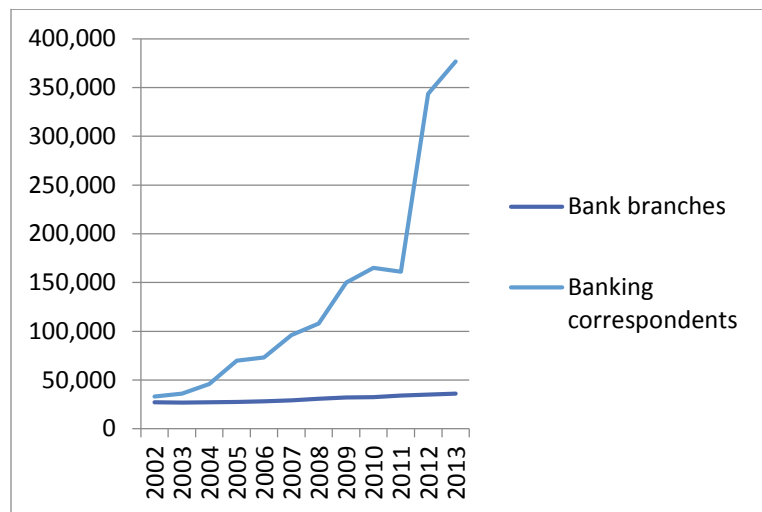
Around the world, banks, mobile network operators, governments, and international organizations are promoting agent banking—or engaging a third party to carry out transactions on behalf of a bank—as an important tool for extending financial services to remote and poor areas. While agents (called banking correspondents in Brazil and hereafter referred to as correspondents) have helped bring financial access points closer to millions of clients around the world, little is known about the quantitative impact of

---

<sup>1</sup> Speech Available: <http://www.koninklijkhuis.nl/nieuws/toespraken/2009/november/toespraak-door-prinses-maxima-un-secretary-generals-special-advocate-for-inclusive-finance-ter-gelegenheid-van-de-jaarlijkse-conferentie-van-het-russian-microfinance-center-in-moskou-rusland-17-november-2009/>

branchless banking on financial inclusion. Correspondent networks have succeeded in taking person-to-person (P2P) payments and bill pay to scale, but how successful is this model in delivering savings, credit, and other financial products? This focus note analyzes new data from a national survey in Brazil to investigate the effect of banking correspondents on financial inclusion in one of the largest markets in Latin America.

**Figure 1: Growth in banking correspondents and bank branches in Brazil**



With close to 400,000 banking correspondents as of November 2013, Brazil has the largest agent network in the world. As shown in Figure 1<sup>2</sup>, the number of banking correspondents in the country has grown exponentially over the past decade, while the number of bank branches has remained relatively constant. Regulation favorable to the correspondent model, the need to deliver social transfer payments to remote areas, and a business case for correspondents to collect bills, called *boletos*, drove the growth in correspondents during this period.<sup>3</sup> Currently there is a financial services

access point in 100% of the 5,564 municipalities in Brazil. Correspondents largely make this coverage possible.<sup>4</sup>

## 2. Investigating impact: about the BAI survey

To investigate the impact of branchless banking on financial inclusion, Bankable Frontier Associates (BFA) and the Bill & Melinda Gates Foundation carried out the Brazil Agent Initiative, or BAI survey, a nationally representative survey of 2,885 households in all 27 states of Brazil. In order to make statistically robust comparisons between regions, and to represent different levels of access to financial services in Brazil, we stratified the sample using the five regions of Brazil and whether the municipality had zero, one or two, or three or more bank branches according to Central Bank of Brazil data.

<sup>2</sup> Febraban and Central Bank of Brazil Data. Central Bank data is available for branches at:

<http://www.bcb.gov.br/?RED-RELAGPAB> and for correspondents at: <http://www.bcb.gov.br/?CORPAIS>

Febraban 2012. "CIAB Febraban: A sociedade Conectada." Sao Paulo: Febraban.

<sup>3</sup> For more detail see the full report: Sanford, C and L. Cojocar. 2013. "Do banking correspondents improve financial inclusion? Evidence from a national survey in Brazil." BFA. Available: <http://bankablefrontier.com/wp-content/uploads/documents/1.-Do-Banking-Correspondents-Improve-Financial-Inclusion-Evidence-from-Brazil.docx.pdf>

<sup>4</sup> Speech by Alexandre Tombini, President of the Central Bank of Brazil during the V Financial Inclusion Forum. 4 November, 2013:

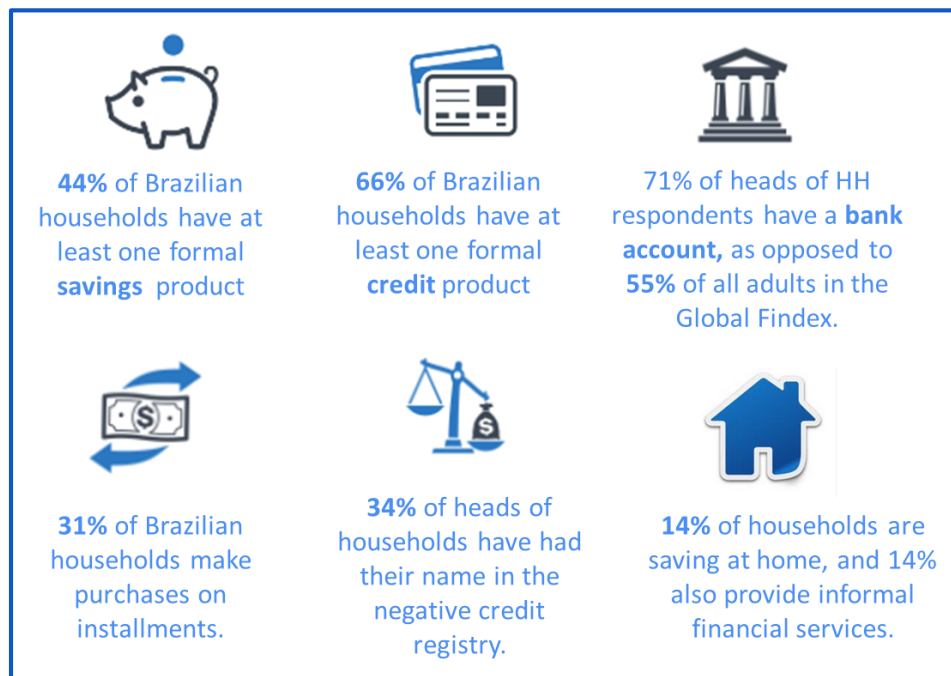
[http://www.bcb.gov.br/pec/appron/apres/Discurso\\_Alexandre\\_Tombini\\_V\\_Forum\\_BC\\_Inclusao.pdf](http://www.bcb.gov.br/pec/appron/apres/Discurso_Alexandre_Tombini_V_Forum_BC_Inclusao.pdf)

We used the address listings from the 2010 demographic census from the *Instituto Brasileiro de Geografia e Estatística (IBGE)* as the sample frame, selecting 10 households from each enumeration area (EA), for a total representation of 284 EAs in the sample. Drawing on Cull and Scott (2010)<sup>5</sup>, we selected the household member who is most knowledgeable about the household’s finances as the respondent in order to collect higher quality data about the entire household. Consequently, statistics are nationally representative at the household level, and representative of heads of household who are the most knowledgeable about household finances.

3. Financial inclusion in Brazil: a majority of Brazilian households have access to at least one formal financial product, and formal credit products are more common than formal savings products

We found that of respondents in the BAI survey—heads of household who are most knowledgeable about household finances—71% have a bank account. This compares with 55% of all adults with a bank account according to the 2011 Global Findex survey.<sup>6</sup> As shown in Figure 2, formal credit products are more common than formal savings products among Brazilian households.

**Figure 2: Financial Inclusion Statistics in Brazil**



<sup>5</sup> Cull, Robert; Scott, Kinnon. 2009. “Measuring household usage of financial services : does it matter how or whom You Ask?” World Bank. <https://openknowledge.worldbank.org/handle/10986/4240>

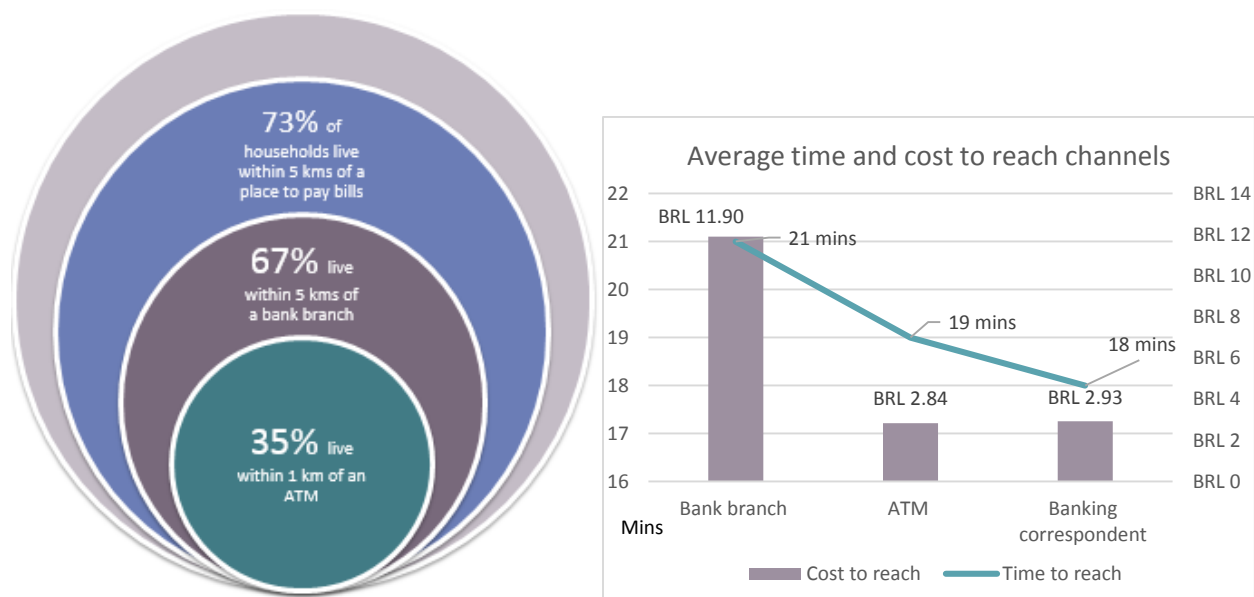
<sup>6</sup> World Bank. Global Financial Inclusion Database 2011- Brazil data: <http://microdata.worldbank.org/index.php/catalog/1137>

Among those who do not have a bank account, respondents most commonly answered that the main reason they do not have an account is lack of money (63%), followed by the sentiment that they do not need banking services (8%). Of respondents who do not have a personal bank account, 25% have used a friend or family member’s account.

In addition to the well-known and common practice in Brazil of buying goods using installment financing, 21% of households regularly bought goods on informal credit. In 37% of households, at least one household member has a credit card, and within the 12 months preceding the survey 8% of households used overdraft at the ATM, and 9% purchased *Telesena* tickets, a popular capitalization title that offers the chance to win goods like appliances and other “white goods.” Additionally, 14% of households provide financial services, such as loaning money to family and friends, or keeping another person’s savings for them.

4. Access: Most Brazilians live within 5 kilometers of a financial services access point, although regional differences in access persist

**Figure 3: Access to financial services indicators**

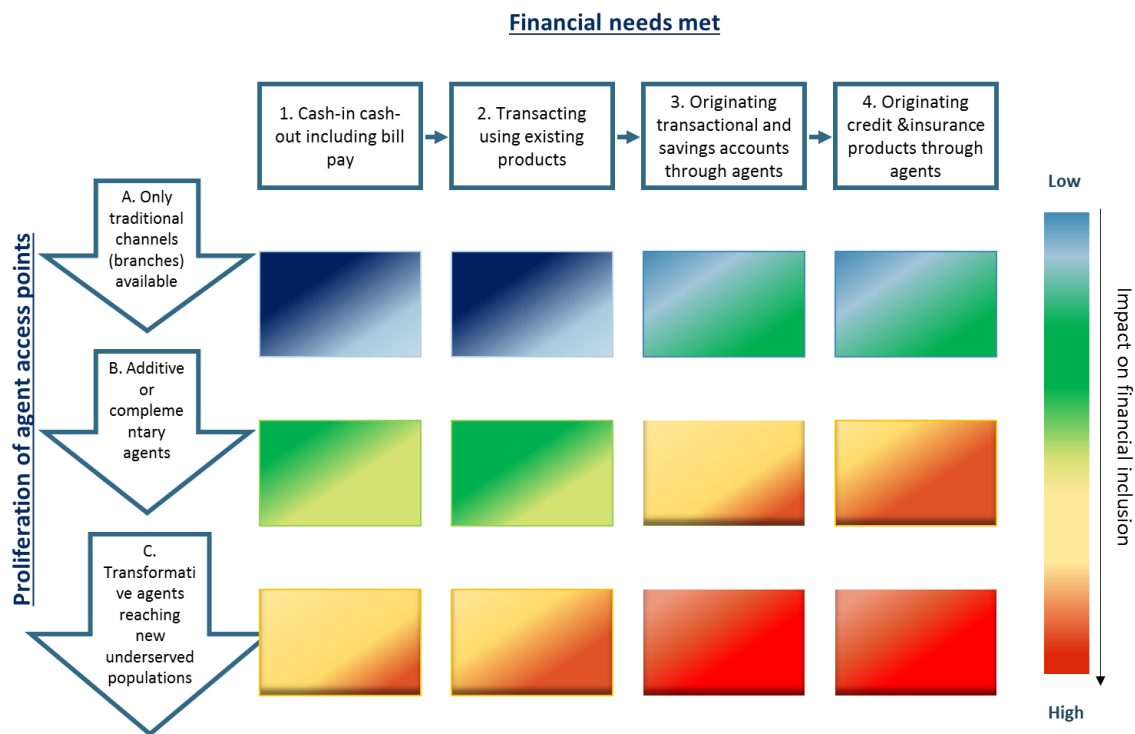


As Figure 3 shows, the majority of Brazilians now live within five kilometers of a financial services access point. Reflecting Brazil’s largely urban population, 67% of Brazilians live within five kilometers of a bank branch, while 73% live within five kilometers of a service point to pay bills (banking correspondent or bank branch). However, in rural areas, the majority of households still live more than 10 kilometers away from a bank. In the Northern region of Brazil, the average time to reach the nearest bank branch is 30 minutes. Driven up by high costs of traveling to a bank in rural areas, the average cost of reaching a bank branch nationally is about USD \$6.

Brazilians living in urban and semi-urban areas live in close proximity to financial services access points. The BAI survey found that correspondents have made had an especially meaningful impact in small towns throughout Brazil, bridging the distance gap to reach financial services in towns with less than 75,000 inhabitants.<sup>7</sup> In rural areas, however, respondents do not report a significant difference between the distance to a banking correspondent or an agent. For example, it takes rural respondents an average of 40 minutes to travel to either a bank branch or a banking correspondent. Agents have largely overcome the physical distance and cost drivers of financial inclusion; but to what extent are Brazilians using this channel for meaningful financial inclusion?

5. A framework for analyzing the impact of correspondents on financial inclusion

**Figure 4: Impact of agents on financial inclusion**



Porteous (2006) explains the difference between additive and transformational access points.<sup>8</sup> Additive access points offer complementary service, mostly serving those with access to financial services already.

<sup>7</sup> Do to different standards in defining urban and rural in different parts of Brazil, we relied on researchers to classify the locality type of the enumeration areas included in the sample. A metropolitan area is defined as having more than 75,000, an urban non-metropolitan area is defined as being on the outskirts of a city with more than 75,000 inhabitants, a small city has fewer than 75,000 inhabitants, and a rural area is an area far from a commercial center, that may have unpaved roads

<sup>8</sup> Porteous, D. 2006. *The Enabling Environment for Mobile Money in Africa*. Department for International Development: London.

In contrast, transformative access reaches new and previously excluded clients, changing their options for acquiring formal financial services in a meaningful way.

In Figure 4, the shading indicates the degree of impact on financial inclusion with blue representing low impact, and red representing high impact. The vertical access of the grid illustrates the spectrum of additive-to-transformational financial inclusion as follows:

1. Access begins from a starting point in which providers offer services only at traditional channels such as bank branches and insurance offices.
2. Additive or complementary access points provide benefits by reducing congestion in traditional channels. However, these services are not transformative, because they are located in large part near existing access points, or because they serve already included populations.
3. Finally, transformational access points bring *effective provision* of financial services to populations that previously did not have access to these services. We define *effective provision* as:
  - The service or product is reliably available at a reasonably sized and clearly identifiable portion of agents of that network.
  - At these agents, knowledgeable staff are capable of answering questions and solving problems related to service problems at every access point offering the product or service.
  - Products are sold responsibly and incentive structures reward agents for nondiscriminatory account opening.
  - Enough clients use the service or product to make offering the service at least break-even for the provider.

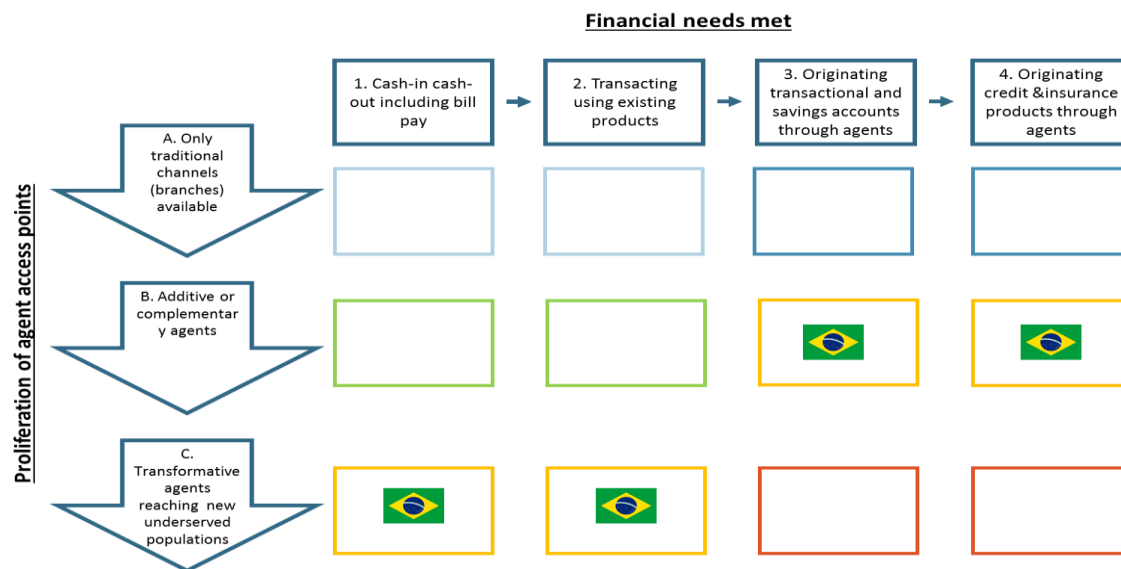
Further, the horizontal axis in Figure 4 illustrates correspondent impact on financial inclusion in terms of *products and services offered*, increasing from left to right as follows:

1. On the left, correspondents provide transactional services not linked to a bank account. This includes cash in and cash out (CICO) services such as CICO P2P transfers and bill pay. Although these services are extremely important for clients, and agents have created significant efficiency gains in both, we view services that do not offer a store of value or access to capital as less impactful for financial inclusion.
2. Next, agent networks allow transactions through existing accounts, but do not sell products themselves. While these correspondents add value for clients by bringing transaction points closer to people's homes and workplaces, if they cannot or do not originate new accounts and sell products, the impact on inclusion is still limited. The agent has not solved the access problem for clients that must still travel long distances to reach a bank branch or other access point in order to open an account or purchase a new product.
3. As a next step towards meaningful expansion of access, a strong and identifiable network of agents can open transactional and/or savings accounts. To build confidence among clients, it is important that they know which agents can and will reliably open accounts.
4. Finally, agents will sell credit, insurance, and other products, implying that the channel offers a solution for clients to meet a majority of their financial needs.

We do recognize that offering credit products through agents represents a significant risk for providers, especially if commission incentive structures encourage agents to originate many accounts or loans without discipline. Banks should apply high standards of control and monitoring to agents that can sell products, and the incentive structure should be based on usage rather than commissions at origination.

As we will see in the next sections, correspondents in Brazil have achieved transformative access for bill pay and access to transactions through existing accounts, as shown in Figure 5 below. However, origination of new transactional and savings accounts, and of new credit and insurance products is limited to agents that are complementary to the existing network, as it is not yet possible to buy new financial products at all of the correspondents of any network in Brazil. The next section discusses how Brazilians use correspondents in more detail.

**Figure 5: Applying Impact of Agents on Financial Inclusion to the case of Brazil**



### 6. Correspondent use: Brazilians use banking correspondents extensively for bill pay

The BAI survey found that correspondents are widely used for bill pay: 68% of Brazilian households pay at least one bill at a banking correspondent. The type of bill and number of bills paid is highly correlated with income, which can be problematic for analysis. Thus, BFA analyzed the use of correspondents to pay electricity bills (as 95% of households pay electricity bills once a month) to reduce selection effects. Table 1 highlights that 59% of these households pay their electricity bill at a banking correspondent.

Nearly all bill pay transactions in Brazil are cash-in: 86% of all electricity bills are paid in cash. It is also interesting to note that banked households pay two more bills per month on average than unbanked households.

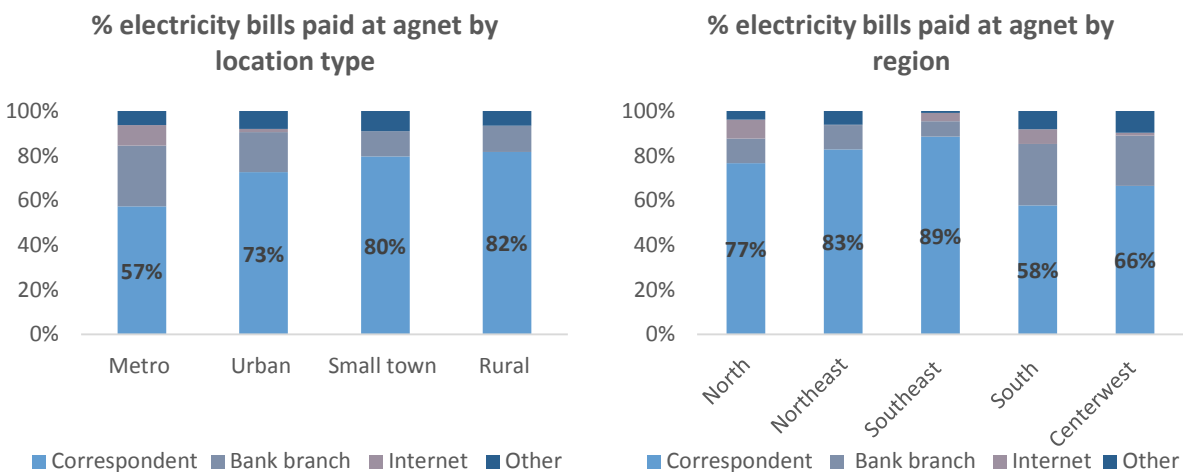
**Table 1: Bill payments in Brazilian households**

Bill pay information	
Average number of bills paid in Brazilian households (excludes rent)	4.2 bills per month <ul style="list-style-type: none"> <li>• <i>Unbanked</i>: 2.5 bills per month</li> <li>• <i>Banked</i>: 4.4 bills per month</li> </ul>
Percentage of Brazilian households that pay electricity bills	95%

Percentage of households that regularly pay at least one bill at a correspondent	68%
Average value of all monthly bills	R\$544.75 (USD \$248.38)
Percentage of all bills paid in cash (volume)	86%

Banked and unbanked households pay nearly the same number of bills at correspondents, 1.76 bills per month for unbanked households, as compared with 1.86 bills per month for banked households.<sup>9</sup> Unbanked households pay 71% of all their bills at a correspondent, compared with 49% for banked households. Therefore, a majority of unbanked Brazilian households make regular visits to banking correspondents.

**Figure 6: Correspondent use for bill pay by location type**



As Figure 6 shows, Brazilians in small towns and rural areas, as well as those living in the North and Northeast regions are more likely to pay electricity bills at a banking correspondent. The Northeast region is the poorest in Brazil and is home to the largest percentage of families receiving *Bolsa Familia*, Brazil's largest social welfare program.<sup>10</sup> Due to lower bank branch penetration in the Northeast, banks formed partnerships with retail networks early on to accept bill pay. As a result of the need to make social transfer

<sup>9</sup> Excluding rent, which is the most common bill that cannot be paid at a BC, banked households pay an average of 4.4 bills per month that could be paid for at the correspondent, as opposed to 2.5 bills per month that could be paid at the correspondent.

<sup>10</sup> [http://www.mds.gov.br/Bolsa\\_Familia](http://www.mds.gov.br/Bolsa_Familia) The benefit gives R\$22 (USD 10) a month for each school-aged child, for up to three children per family, and is preferably given to the female head of household. For families living in extreme poverty (less than R\$ 70, or USD 32 monthly per capita income), an unconditional monthly stipend is also distributed.

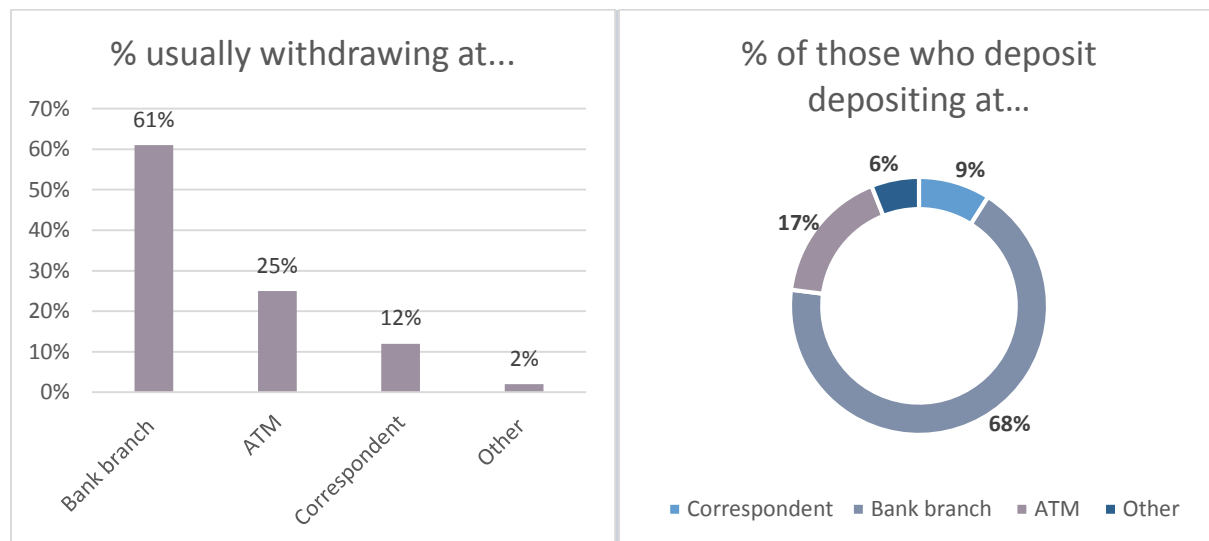


payments and historically strong agent relationships with networks such as pharmacy chains, the correspondent network in the Northeast is especially strong.<sup>11</sup>

In addition to electricity bills, we analyzed the fraction of all bills that households pay at correspondents. Poorer and less educated individuals, women, younger people, and those employed informally are more likely to pay both electricity bills alone and a higher percentage of all bills at a banking correspondent. Due to the widespread coverage of agents for bill pay, and the fact that nearly 70% of the population now pays their bills at this channel, correspondents have provided a transformative survey for bill pay in Brazil.

7. Only a small percentage of banked Brazilians transact through a bank account at correspondents and even fewer have opened an account or accessed a loan through this channel

**Figure 7: Percent of banked respondents usually withdrawing and depositing at correspondents<sup>12</sup>**



Although the majority of Brazilians regularly visit a banking correspondent, only a small proportion do so to transact through their bank account. The BAI survey revealed that only 12% of banked respondents regularly withdraw using correspondents, and only 9% of clients who regularly deposit into a bank account do so at a correspondent. Despite the prevalence of ATMs and correspondents in Brazil, 61% of banked respondents usually withdraw at a bank branch, and 68% usually deposit in a bank branch, as shown in

<sup>11</sup> Central Bank of Brazil data from 2012 reveals that there are 11.23 correspondents per bank branch in the Northeast, compared with 8.23 in the North, 7.902 in the Center-west, 6.25 in the South, and 8.76 in the Southeast region.

<sup>12</sup> As bank accounts may be used only for withdrawing salary or social transfer payments, for deposits we only consider respondents who do deposit into their account. The sample for withdrawals includes 1553 respondents, while the sample for deposit includes 1003 respondents.

Figure 7. Although ATMs that accept deposits have recently become widely available, only 17% of Brazilians regularly use these to deposit.

Only 6% of households have successfully accessed credit at a correspondent, and only 4% have opened an account at one. In sum, when looking at national proportions, relatively few Brazilians who have bank accounts are using correspondents to transact. In contrast, nearly 70% of the population usually pays at least one bill at a correspondent.

8. However those using correspondents for banking services are poorer, less educated, more likely to be female, and more remote

Bill pay overwhelmingly outnumbers withdrawals and deposits in terms of the number of transactions made at correspondents. However, when we delve more deeply into which Brazilians use correspondents, we find that those using the channel for both bill pay *and* deposits and withdrawals tend to be poorer, more remote, and informally employed, suggesting that correspondents are reaching segments that the formal financial system has historically passed over.

As Table 2 illustrates, those who use correspondents for withdrawals are poorer and slightly less educated than those who use other channels to withdraw. There is a 22-percentage point difference between the proportion of female respondents withdrawing at correspondents and the proportion withdrawing elsewhere. Similarly, there is a 14-percentage point difference in the proportion of banked *Bolsa Familia* recipient respondents who regularly withdraw at a correspondent versus other channels. This makes sense as *Bolsa* beneficiaries can collect their social transfer payments at Lotéricas and Caixa Aqui—both correspondents of Caixa Econômica Federal, Brazil’s second largest public bank.<sup>13</sup>

Further, banked clients who usually withdraw at correspondents tend to withdraw more frequently and opened their account more recently, on average, than those who use other channels, suggesting those newer to the formal financial system are likely to be correspondent users.

**Table 2: Comparison of BC users and non-users, withdrawals**

	Uses correspondent	Does not use correspondent
<i>Demographic information</i>		
<b>Average respondent income</b>	R\$ 18, 409 USD 8,265.35	R\$ 29, 646 USD 13,310.6
<b>Average per capita income</b>	R\$ 7,637 USD 3,428.89	R\$ 15,604 USD 7,005.95

<sup>13</sup> This sample includes only banked respondents, and not all *Bolsa* recipients have a bank account. In the BAI sample, 36% of *Bolsa Familia* recipients reported that they do not have a bank account. Beneficiaries receive their payment either onto the *Cartao Social Bolsa Familia*, which is not a bank account and only allows beneficiaries to withdraw the entire benefit all at once within 90 days of receiving it, or into a simplified *Caixa Facil* account. Each *Caixa Facil* account comes with a visa-branded debit card that can be used for purchases and withdrawals, savings, and to apply for microcredit loans. Although opening an account is voluntary, it is estimated that over 8 million new accounts have been opened with the *Caixa Facil* migration. [http://www.mds.gov.br/Bolsa\\_Familia](http://www.mds.gov.br/Bolsa_Familia)

<b>Receives <i>Bolsa Familia</i></b>	19%	5%
<b>Years of schooling (up to highest level completed)</b>	7.4	8.8
<b>Average age</b>	46.8	42.6
<b>% Female</b>	73%	51%
<i>Transactional information</i>		
<b>Number of withdrawals in 12 months</b>	22.7	14.7
<b>Transaction time (min)</b>	27.6	16.6
<b>Time to get to transaction place (min)</b>	21.5	19.3
<b>Years ago account was opened</b>	6.5	9.1

As Figure 8 illustrates, 16% of women usually withdraw at a correspondent, compared with 7% of men. Further, 12% of women usually deposit through this channel, compared with only 6% of men. However, regression analysis found this difference to be statistically significant only for withdrawals. As *Bolsa Familia* is paid only to mothers, government transfers are likely an important driver for women to collect payments and carry out other transactions at correspondents. However, the gender difference in usage of correspondents cannot fully be attributed to *Bolsa* and warrants further exploration. For example, usage of correspondents may be driven by important differences between male and female heads of household or by different patterns of mobility.

**Figure 8: Men and women withdrawing and depositing at correspondents per 100 Brazilians**

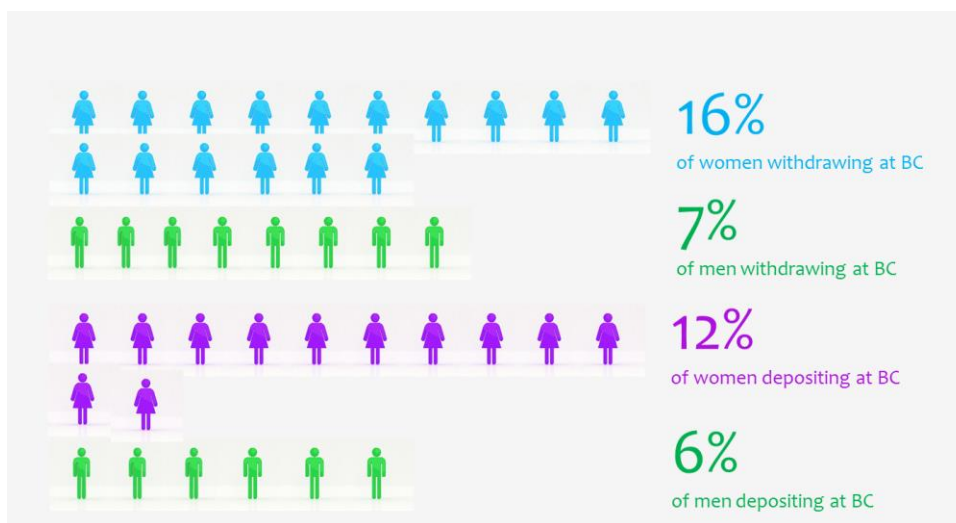
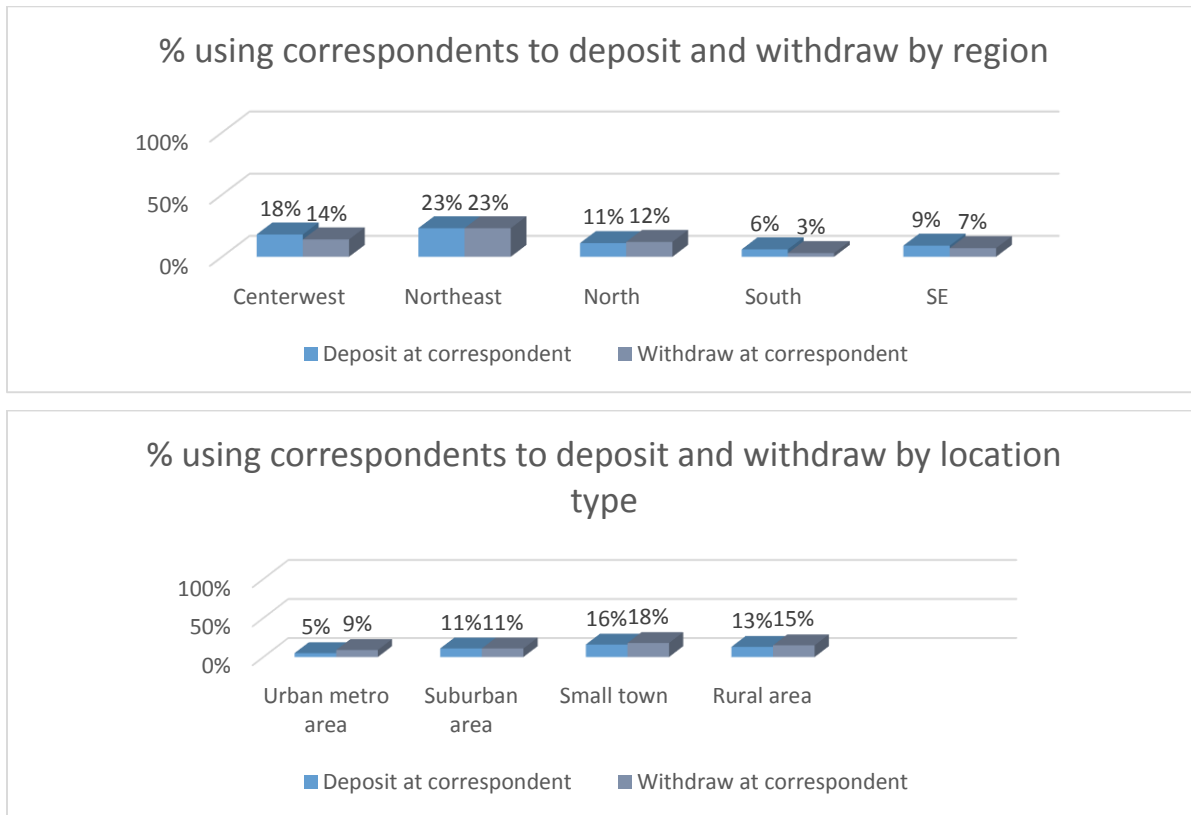


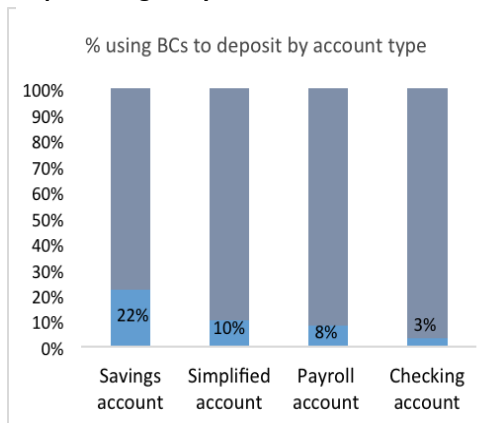
Figure 9 highlights that the highest proportion of Brazilians withdrawing and depositing into a bank account using the correspondent channel live in the Northeast or in small towns. Brazilians in urban areas and in the Southeast, where banks are more prevalent, are least likely to withdraw or deposit at a correspondent.

**Figure 9: Percent using correspondents to withdraw by region and degree of urbanization**



The majority of those making both deposits and withdrawals at correspondents bank with Caixa Economica Federal. Caixa has one of the largest correspondent networks in the country, and due to its history of establishing access points to distribute social transfer payments, is the only banking option in rural and remote communities.

**Figure 10: Percent of account types with deposits regularly made at BCs**




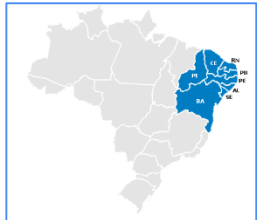

Interestingly, when we examine those depositing at correspondents by account type, the highest proportion of deposits are in savings accounts, rather than checking or basic (financial inclusion) accounts, suggesting channel usage for these type of accounts differ, as depicted in Figure 10.

We used regression analysis to obtain more precise estimates about the effect of a variety of factors on the likelihood of using a correspondent for financial services.<sup>14</sup>

<sup>14</sup> To view the regression tables please see Sanford, C and L. Cojocar. 2013. "Do banking correspondents improve financial inclusion? Evidence from a national survey in Brazil." BFA. Available: <http://bankablefrontier.com/wp->

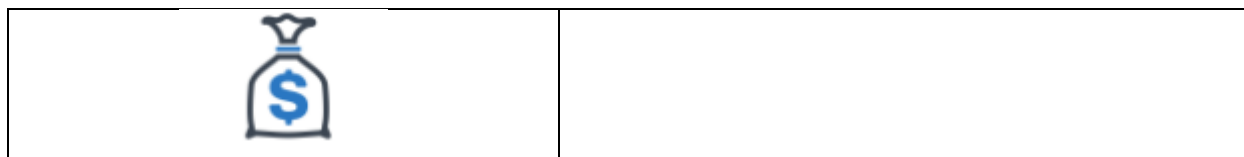
We find that Caixa clients, residents of the Northeast and of small towns, and women are particularly likely to withdraw at a correspondent.<sup>15</sup> Interestingly, the presence of more bank branches in a municipality decreases the likelihood that respondents withdraw at correspondents, and this effect is especially notable in small towns. For deposits, we find that residents of small towns, especially small towns where there are few bank branches, and clients of Caixa Econômica Federal are most likely to deposit at a correspondent. Figure 11 highlights some important demographic characteristics of those using banking correspondents.

**Figure 11: Characteristics of Brazilians using correspondent services**

Brazilians accessing a bank account or getting credit through a BC are more likely to...	
<p>Be female</p> 	<ul style="list-style-type: none"> <li>The odds of women using correspondents to withdraw at the correspondent are 2.6 times as high as for men. Women are also much more likely to pay bills at correspondents than men.</li> </ul>
<p>Live in the <b>Northeast</b> (to a lesser extent in North and Center-west)</p> 	<ul style="list-style-type: none"> <li>The odds of a respondent in the Northeast withdrawing at a correspondent are 3.03 times higher than for a similar person in another region.</li> </ul>
<p>Live in <b>small towns</b></p> 	<ul style="list-style-type: none"> <li>The odds of a resident of a small town withdrawing at a correspondent are 4.06 times greater than the odds for a similar person in another location.</li> </ul>
<p>For credit- live in <b>rural areas</b> and <b>small towns in the Northeast</b></p>	<ul style="list-style-type: none"> <li>While only 6% of Brazilians have accessed credit through a correspondent, 13% of rural Brazilians, and 18% of Northeasterners in small towns have accessed credit through the channel</li> </ul>

[content/uploads/documents/1.-Do-Banking-Correspondents-Improve-Financial-Inclusion-Evidence-from-Brazil.docx.pdf](#)

<sup>15</sup> We used logit regression analysis to determine the probability of various factors to predict usage of correspondents for banking services.



Banking correspondents have succeeded in reaching underserved areas, especially in the Northeast of Brazil and in small towns throughout the country. Because those using correspondents for financial services are poorer, live in more remote areas, and are more likely to be women, we can conclude that the channel is furthering financial inclusion.

### 9. The high-touch at correspondents for bill pay represents a missed opportunity for greater financial inclusion

A majority of Brazilians have contact with correspondents through bill pay, and this repeated interaction represents a missed opportunity for banks to offer account opening and credit through correspondents. We find that 68% of Brazilian households regularly pay bills at correspondents. Of the 20% of households in Brazil in which no one has a bank account, 79% pay at least one bill at the correspondent.

Only 4% of respondents have opened an account at a correspondent partly because only a fraction of all correspondents offer this service. Each bank authorizes correspondents to offer given financial services on an individual basis. While all correspondents can accept *boleto* bill payments and many can also accept deposits and withdrawals or distribute *Bolsa Familia* payments, as seen in Table 3, banks have authorized only 19% of correspondents to open new accounts.<sup>16</sup> Further research is needed to understand why banks do not authorize more correspondents to carry out account openings.

**Table 3: Correspondents and the services they offer in Brazil**

Central Bank of Brazil Correspondent data, November 2013			
Total number of correspondents	Number and percent authorized to open accounts	Number and percent authorized to offer loans	Number and percent authorized to offer credit cards
405,837	77,942 19%	320,116 79%	211,562 52%

Referring back to Figure 5, the framework used for analyzing the impact of correspondents in Brazil, the fact that only 20% of agents can open accounts leads to the conclusion that agents are not offering transformative services for transactional and savings products. Although about 80% of correspondents can offer loans, no correspondents are authorized to offer insurance products, implying that the service is only additive for credit and insurance as well at the national level. Furthermore, because the parent

<sup>16</sup> However, due to Caixa's size this is still nearly 80,000 agents nationwide).

bank authorizes correspondents to provide a given service in Brazil does not imply that they will offer the product, or that there is *effective provision* of services.

A second reason that correspondents have not succeeded in widely extending banking and credit services to Brazilians is that clients are not satisfied with service quality at correspondents. Respondents report paying bills at correspondents because they are nearby and practical, but not because they are friendly, reliable, safe, or likely to protect privacy. While over 20% withdrawing at banks and ATMs identified these channels as being safe or trustworthy, less than 2% of respondents mentioned these benefits for correspondents. Given the option of choosing correspondents or banks, people prefer to transact at the bank branch, and there is no evidence that correspondents are providing faster services than traditional channels. Improvements in service quality offered from the provider side are likely needed in order for correspondents to become conduits for widespread financial access, in Brazil or elsewhere.

Despite the limitations on correspondents selling products, interaction with correspondents is high among unbanked households. This high touch channel represents an opportunity to pull unbanked clients into the formal financial system.

## 10. Conclusions

The financial inclusion results correspondents have delivered are mixed

Agents are generating significant efficiency gains by bringing bill pay and P2P transfer services closer to people in developing countries. The extensive network of access points for facilitating daily transactions has made accessing existing accounts and paying bills easier and faster for millions of Brazilians, and this impact should not be dismissed.

Those who do use correspondents are more likely to be poor, less educated, employed in the informal sector, and female. The impact of correspondents in Brazil has been especially significant and transformative in small towns throughout Brazil, and in the Northeast region. However, as only 4% of clients have opened an account and 6% of respondents have accessed credit at a correspondent, the channel has not yet succeeded in offering transformative access to new accounts and products at scale.

Service quality at correspondents is lacking

While the poor are more likely to use correspondents, this is because correspondents are more proximate, and not because they provide good services; branches are still preferred for financial services when they are available. Furthermore, availability of correspondents is not enough to guarantee that they will be used for financial services: improved security, reliability, and customer service must also be emphasized in agent network development. Developing secure and reliable service that offers a positive customer experience, in addition to simply ensuring target markets are in close proximity to correspondents, is essential for the extension of financial services through correspondents. This a necessary step to ensure that poor people use a full range of financial services through branchless banking channels, and is currently the missing piece for Brazil to reach an inclusive digital economy.

Coverage does not necessarily lead to transformative access

As banks and mobile network operators continue to build their agent networks and financial inclusion increasingly focuses on digital payments, we should remember that CICO-focused networks for bill pay or

P2P do not necessarily make access to formal savings, credit, and insurance possible. In particular, we should be careful not to confound agent coverage with transformative access to new financial products, and not to assume P2P or person to business payments will lead to use of other products such as transactional accounts, savings, credit, or insurance. Living within 5 kilometers of a CICO access point does not imply that an individual will be able to open a new account or apply for credit at this location. As the financial sector moves increasingly to a focus on payments, we should keep in mind that it is possible for clients to make formal payments while still lacking a bank account, as is the case for an estimated 32 million Brazilian households.