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# Branchless Banking: What are the Benefits for Small Shops Serving as Non-bank Correspondents?

- About 1.7 billion adults worldwide are unbanked, largely due to lack of affordability.
- Branchless banking can help foster financial inclusion for underserved populations at a low cost for financial institutions.
- With support from IDB Lab, a study with Banco Pichincha in Ecuador quantified the benefits for small shops contracted as "non-bank correspondents" (NBCs), compared to shops that had their contracts cancelled by the bank.
- Sales dropped by 8 to 12% for shops that lost their NBC contract, due to less foot traffic, and their use of financial products decreased significantly.
- Losses in terms of sales were highest for shops located far from bank branches and in areas with a low concentration of neighboring NBCs.
- Shops that benefit most from being NBCs are those that offer more value to communities, particularly in rural and peri urban areas where banking infrastructure is weakest.

## BRANCHLESS BANKING

About 1.7 billion people do not have a bank account, approximately 31% of the world's adult population.[1] In Latin America and the Caribbean, about 46% of adults are unbanked.[2]

A top reason is affordability: fixed transaction costs and annual fees make small transactions unaffordable for a vast swath of the population. Lack of competition and inadequate bank infrastructure are also to blame. Branchless banking offers the potential to reduce costs by leveraging real-time communication technologies and a network of brick-and-mortar retail outlets outsourced as financial service providers.

Some branchless banking business models can be *bank-based*, like most cases in Latin America that use point-of-sale terminals and cards to identify customers and authorize transactions electronically. Or they can be *non-bank based*, like most cases in Africa that use mobile phones to allow for the exchange of cash for an electronic record of value via mobile network operators.

Under these models, retail outlets (convenience and grocery stores, lottery kiosks, gas stations, etc.) are authorized by financial institutions or mobile network operators as distribution channels to provide basic financial services, becoming gateways to the formal financial system. Financial institutions benefit by expanding their reach to areas that would be too costly to serve using bank branches. Underserved populations also benefit from greater access to convenient financial services and reduced travel and wait times.

Financial institutions and mobile network operators claim that businesses that enter into branchless banking contracts, referred to as banking agents or "non-bank correspondents" (NBCs), not only benefit from transaction fee revenues, but also from more foot traffic and sales, reputational gains, and access to financial products.

## QUANTIFYING THE BENEFITS FOR SMALL SHOPS

In 2013, IDB Lab financed a project with the largest bank in Ecuador, Banco Pichincha, aiming to increase access to credit for small and medium enterprises. As part of this project, a baseline survey was conducted in 2015 (with a follow up survey in 2016) with a random sample of about half (2,400) of the bank's 4,580 NBCs located in the provinces of Pichincha and Guayas.

NBCs contracted by Banco Pichincha offer an array of services including deposits, cash withdrawals, credit card and loan payments, utility payments, prepaid mobile airtime, government benefit payments, and remittances. In 2015, NBCs carried out 11% of all Banco Pichincha transactions.

Unexpectedly, in early 2016, due to the country's economic challenges, the bank launched a new cost optimization strategy that reduced the

1. 2017 Global Financial Inclusion Database
2. World Bank (2018). The Little Data Book on Financial Inclusion 2018.

number of NBCs in its network by 30% between December 2015 and December 2016.

A first-of-its-kind study carried out by IDB Lab and IDB Invest took advantage of this unforeseen reduction in the bank's network to quantify the benefits of being an NBC. It compared customer traffic, sales, and use of financial products between small shops that lost their contracts with Banco Pichincha, and those that did not.


## KEY FINDINGS

The results show that due to decreased foot traffic, sales dropped by 8 to 12% for shops that lost their NBC contract. In comparison, shops that kept their contracts benefitted from both higher foot traffic and a 9 to 13% increase in sales.

Abruptly ending these contracts also impacted the small shops' use of financial products. Shops with terminated contracts were 27 percentage points less likely to have a business bank account and 20 percentage points less likely to have credit. The difference in the use of financial products could be attributed to less contact with the bank.

## SPILLOVER EFFECTS

It is possible that the gains quantified for shops that kept their contracts could be inflated just by picking up the foot traffic and sales from neighboring NBCs that lost their contracts. To rule out this possibility, the study also analyzed the results for shops that kept their contracts and did not have any nearby competitors that lost theirs within a 100-meter radius, as NBCs located within 75 meters or less from each other seem to compete for bank clients. However, at 100 or more meters, there is no evidence that NBCs compete for clients or that on average they pick up foot traffic lost by nearby shops that lost their contracts.

These results were very similar to the original results for the full sample, suggesting that spillover effects did not influence the main findings. This indicates that there might be an optimal distance at which NBCs should be located to maximize gains for both small shops and banks in terms of the cost of building the network.

## LOCATION MATTERS

The study also analyzed how the density of the financial infrastructure in the areas surrounding the small shops affects the benefits they get from their NBC contract with the bank.

Additional analyses were carried out on shops that: (1) were located more than one kilometer from a bank branch; (2) did not have neighboring NBCs within a 50 meter and a 100 meter radius; and (3) were located over one kilometer from a bank branch and did not have neighboring NBCs within a 50 meter and a 100 meter radius.

Interestingly, results largely depend on the density of neighboring NBCs and the proximity to bank branches. The results show that gains for NBCs in terms of sales are higher in areas located far from bank branches and with a low concentration of neighboring NBCs.

## CONCLUSION

Increasingly, financial service providers—from traditional banks and fintech companies to mobile network operators—are relying on small shops to help them reach more clients at a low cost, broadening their geographic and product scope.

As the results from this study confirm, this model also benefits the thousands of small shops that become the face of financial service providers thanks to the valuable services they provide. At the same time, bringing these services to hard-to-reach communities helps narrow the financial inclusion gap for populations that are typically excluded from the financial sector. ■

**Additional Information**

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This brief summarizes the findings of the study by Irani Arráiz (2020), Retail Stores and Financial Inclusion: Quantifying the Benefits of Being a Non-bank Correspondent, which is part of IDB Invest's *Development through the Private Sector* Series.

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