



MAFIPP
MAKING ACCESS TO FINANCE
MORE INCLUSIVE FOR POOR PEOPLE



DAWN OF
**DIGITAL
FINANCE**
IN LAO PDR

**BCEL COMMUNITY MONEY EXPRESS
MULTIMEDIA CASE STUDY**



“In Laos, digital finance is new and it is a new role of our bank to start this project.

Observing the experience of others is very helpful for developing the objective, methodology, and products of our bank to match with the situation in the country.

What I have learned from developing this product is the importance of being patient, skilled and caring. I know how to plan, to be flexible, to have efficient coordination and now I am prepared to expect the unexpected!”

Ms Sengchanh Manivanh
BANQUE POUR LE COMMERCE
EXTERIEUR LAO PUBLIC
BCOME COORDINATOR

UNCDF and the Bank of Lao PDR thank gratefully the Australian Government, Department of Foreign Affairs and Trade (DFAT) for its generous contribution to the MAFIPP Programme that enabled the launch of digital financial services in Laos.

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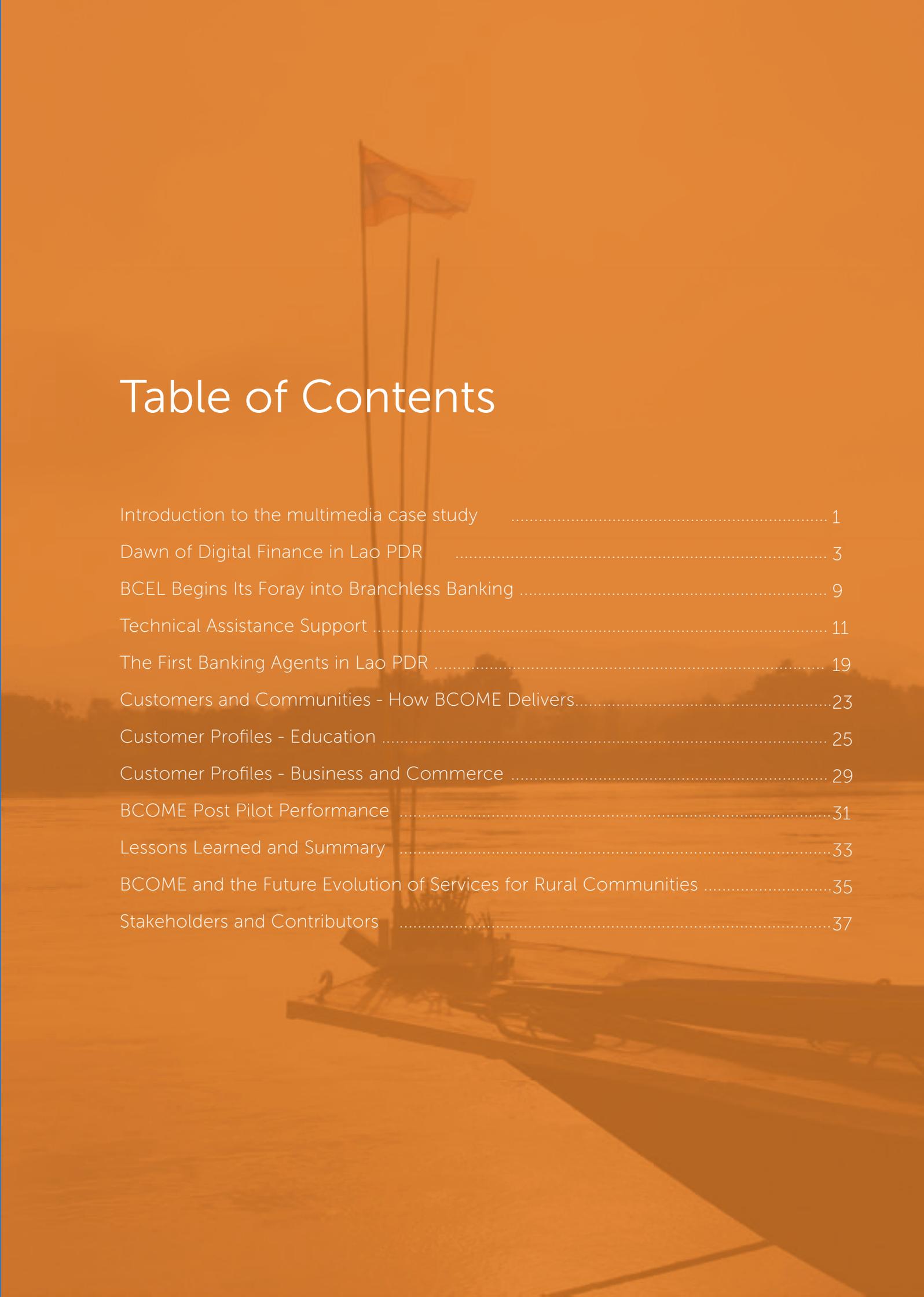


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INTRODUCTION TO THE MULTIMEDIA CASE STUDY

While other countries have developed extensive Agent networks, and complex partnerships to support DFS ecosystems - Lao PDR remains a greenfield and untouched environment for digital financial services. No agents, no services and no customers using DFS in the country of 6.8 million people.

This multimedia case study is intended to showcase the journey to develop branchless banking in an environment with no previous regulatory framework or tested business models. Throughout the case study, the reader will encounter QR Codes  and can scan the QR code with their smart phone to view short videos that are relevant to that section. This gives an opportunity to hear directly from members of the central bank, the implementing bank and real customers and agents about their experience with this ground breaking branchless banking implementation.



THE DAWN OF DIGITAL FINANCIAL SERVICES IN LAO PDR

Watch video: "The Dawn of Digital Finance in Lao PDR: The Journey to Develop Branchless Banking" gives a rare look at the ways in which increased access to financial services can change lives in one of the last greenfield environments for DFS in Asia.

<https://youtu.be/55B2speZyMQ3>



DAWN OF DIGITAL FINANCE IN LAO PDR



LAUNCH OF THE FIRST BRANCHLESS BANKING SERVICE IN LAO PDR BCEL COMMUNITY MONEY EXPRESS

On May 12, 2015, Ms Hom of the village of Hin Heup, performed the first branchless banking transaction in the Lao People's Democratic Republic (Lao PDR) using BCEL's Community Money Express (BCOME)¹. Until this time, the village in North Vientiane Province lacked these services and people had to travel more than 30km to the district town to avail of basic banking and remittance services. Having a banking agent in the village has introduced an efficiency to people's lives that had been sorely missed.

Since that very first soft launch transaction, BCOME has continued to expand their agent network towards rural people and offering them the convenience of banking closer to their doorstep. But just like any complex plan - the journey did not begin with the launch - the ground work which preceded took commitment and insight from a variety of players. This case study will uncover the process of launching branchless banking for the first time in such a greenfield environment like Laos².

Laos is a country in Southeast Asia with 6.8 million people (4.4 million adults). The relatively small population, low density, and remote mountainous regions have always presented challenges for

delivering financial services in this cash-based economy. In an effort to address some of those challenges, the central bank, Bank of the Lao PDR (BoL) oversees and regulates 37 banks comprised of 3 state-owned banks, 6 joint-venture banks 7 private banks, and 17 foreign bank branch offices.

In light of the heavily urbanized concentration of bank branches and customers, BoL has increased efforts to reach out to the rural population by boosting the number of deposit taking and non-deposit taking microfinance institutions (MFIs). There are currently 123 licensed MFIs but these MFIs remain small and none has been able to develop a nationwide coverage - collectively they serve ~1% of adult population.

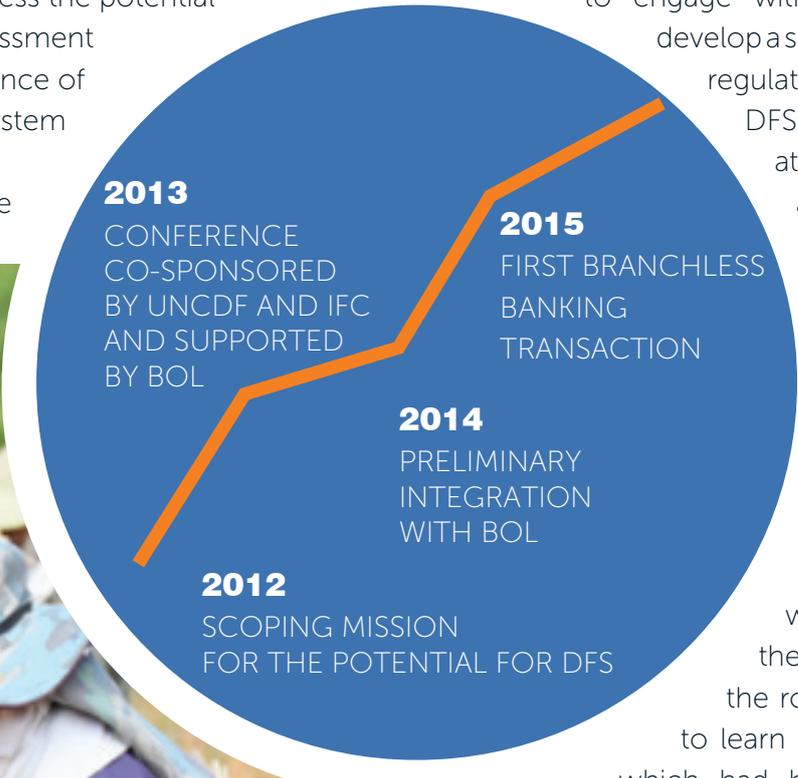
Village funds are another form of financial service provider pervasive in Laos. According to the National Economic Research Institute, there are around 6,000 such funds and 13% of the Lao adults entrust savings with these village funds. But they operate informally and many suffer critical operational and governance weaknesses, placing deposits at risk.

In order to further diversify the financial sector and dramatically ramp up access among rural

¹ BCEL stands for Banque Pour Le Commerce Exterieur Lao Public

communities, BoL has engaged with UNCDF through a national implementation programme known as MAFIPP (Making Access to Finance More Inclusive for Poor People) with the generous support from the Australian Government. One of MAFIPP's primary activities was the kick-starting of digital financial services (DFS) in the country.

The journey to develop digital finance in Laos began in 2012, when a team from UNCDF's Mobile Money for the Poor global programme (MM4P) was invited by MAFIPP to conduct a scoping mission to assess the potential for DFS. The early assessment identified that the absence of a national payments system and underutilization of payments infrastructure



would pose one set of challenges, but the lack of a policy framework for DFS was a major obstacle to be addressed as a priority. The DFS strategy was kicked off in 2013 with a 2-day stakeholder conference co-sponsored by UNCDF and IFC and supported by BoL. From those early days, BoL developed a vision of developing DFS as a benefit for the inclusion of rural people throughout the country.

With UNCDF support, BoL undertook several specific activities to understand more deeply how to engage with the industry and develop a supportive and flexible regulatory framework for DFS. BoL specifically attended workshops and sought advisory support for the development of their DFS regulation. Two members of the BoL regulatory committee were able to travel to Tanzania to meet with the central bank there to understand the role of regulation and to learn from the framework which had helped that country develop its own vibrant ecosystem.

With the support of UNCDF and PHB Development, BoL animated a quarterly Digital Financial Services Working Group to create a forum for learning and discussion between and among stakeholders about the concerns that would face the growing DFS industry in Laos. From the very first working group, BCEL was in active representation, gaining and sharing knowledge as they were developing a plan to launch a DFS service.

Based upon these activities and learnings, BoL was able to release its first draft of the DFS regulation to the industry, combined with guidelines for accepting applications for pilot DFS projects in March 2015.

²The United Nations refers to the country as Lao People's Democratic Republic (Lao PDR), which is sometimes elsewhere referred to as "Laos".



Dr Akhom Praseuth
DIRECTOR GENERAL,
FINANCIAL INSTITUTIONS SUPERVISION DEPT.
BANK OF THE LAO PDR



“BoL has studied and created the conditions for all Lao people to be able to access financial services.” Dr Akhom Praseuth, Director General of the Financial Institution Supervision Department, BoL, commented, “According to our Finscope survey 2014 we notice that the number of adults who can formally access financial services is still low. We have developed policy and regulations to support it and now BoL is preparing the strategy for developing financial access. The BoL has a vision for digital financial services and we work on its promotion. In the future I think digital finance will play an important role in supporting the service of the financial institutions and that will provide people who live in the rural areas significantly increased access to relevant financial services.”



THE VISION FOR BRANCHLESS BANKING IN LAO PDR

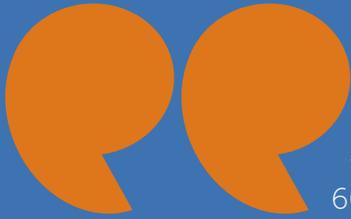
Watch Video: "The Vision for Branchless Banking in Lao PDR" learn from Dr Akhom Praseuth, Director General of the Financial Institution Supervision Department of Bank of the Lao PDR as he speaks about the journey to establish branchless banking regulation and the vision for Digital Finance in Lao PDR.

<https://youtu.be/H8zsSvRyZdw>

"DIGITAL FINANCE WILL PLAY AN IMPORTANT ROLE IN SUPPORTING THE SERVICE OF THE FINANCIAL INSTITUTIONS AND THAT WILL PROVIDE PEOPLE WHO LIVE IN THE RURAL AREAS SIGNIFICANTLY INCREASED ACCESS TO RELEVANT FINANCIAL SERVICES."

Dr Akhom Praseuth





"The inspiration to create this project began when we reviewed the statistics on the [low] access of Lao people to financial services and banking systems in the country. 60%-70% of Lao people do not yet have access to financial and banking systems. This was the beginning of the project.

BCEL wants to integrate technology to reduce the cost, and at the same time to offer the community easy access to new services. I think the BCOME service through the agents has lots of challenges. The basic challenges are the capital, manpower and knowledge, but the most difficult thing is changing the human behavior.

For the success of this project we see some positive signs in terms of increase use of the service. But the indirect success is also significant, which is the development of the relationship between the bank and the agent.

The agent should have strong ambitions and be proud to be a part of the bank for this service. Rural people see the bank as something that is not friendly to them. But this project gives them the opportunity to take part with the bank, together to step forward, and together serve the community, to serve their acquaintances, to serve their neighbors.

It is good to provide the banking service to the community, but it is a big investment and we cannot see the benefit in the short term. It is not only about economics but also about manpower in our country. We don't have experience in this type of service. Therefore, UNCDF and MAFIPP played an important role in this project, they provided valuable technical consultancy, gave us advice and the opportunity to learn from other more advanced markets.

We will try to make the community to be friendly with the bank, make them feel that finance and banking is not something incompatible with them anymore."

MR NANTHALATH KEOPRASEUTH



“We will try to make the community to be friendly with the bank, make them feel that finance and banking is not something incompatible with them anymore.”

Mr Nanthalath Keopraseuth

DEPUTY MANAGING DIRECTOR
BANQUE POUR LE COMMERCE
EXTERIEUR LAO PUBLIC



THE PROJECT BECOMES REALITY CREATING A NEW WORLD OF BANKING

Watch Video: Creating a New World of Banking - The Project Becomes Reality, learn from Mr Nanthalath Keopraseuth, Deputy Managing Director, Banque Pour Le Commerce Exterieur Lao Public (BCEL) and his team as they describe their challenges in being the first bank to develop branchless banking and the future they envisage for BCEL Community Money Express.
<https://youtu.be/SAr7w4W1xpY>

BCEL BEGINS ITS FORAY INTO

In this context, BCEL was identified as an interested and capable provider to launch a DFS service. BCEL is the largest bank in Laos in terms of balance sheet, retail customers, branches and ATM network. They had developed in-house a highly functional mobile banking application (BCELOne) two years earlier and have had experienced uptake among their account holders. Nevertheless, this alone was not expanding their customer base nor extending their footprint into the rural areas. A main objective for BCEL, BoL and UNCDF, was to leverage the potential of DFS as an alternative delivery channel to offer services in the rural areas to new types of customer segments.

Building branchless banking services and a network of agents was the agreed logical step in BCEL's evolution to achieve these goals. In early 2014, MAFIPP procured a short-term consultancy from *MicroSave* to conduct market research and to help the team at BCEL develop a business case for branchless banking over the coming 5 years.

The process of developing a solid business case is essential for building a new delivery channel as it "forces" the bank to consider new areas of customer engagement. Not only the service fee and commissions for customers and agents, but proximity to the bank, frequency of staff visitations, and actual costs for marketing, IT development and the types of services to be offered all need to be modelled and carefully considered relative to population and customer demand.

All business cases are built upon a degree of assumption, assumptions of timeline and customer uptake are not to be taken lightly. In the end, the comprehensive plan set a 5-year target to serve nearly 150,000 customers annually through a network of 410 agents with a cash-flow breakeven point in the Q1 of the fourth year.

So with a conservative business case³, BCEL engaged with UNCDF in September 2014 to support the preparation and launch of the country's first

branchless banking network.

In the absence of regulation, but with a supportive view from BoL, BCEL began to adjust their existing business model to allow for the integration of this new alternate delivery channel. BCEL welcomed the technical advisory support of *PHB Development* - provided through UNCDF - to set up this new channel. Clearly this was not a new business per se but the operations were going to be very different from the typical approach of BCEL, and required that the bank engage small businesses with a strong value proposition. The newness of this service offering meant that BCEL would need support from experts who had faced these challenges elsewhere and could bring the benefit of international best practices to Laos.

³The business case was fundamentally different from the launch strategy. Certain services (Withdrawals, Phone Top Ups, and Account Opening) were not included in the launch. The technology, originally considered to be designed as an application for smartphone or tablet use, was redesigned to be a web-based service and used primarily on PCs at agent locations.

BRANCHLESS BANKING

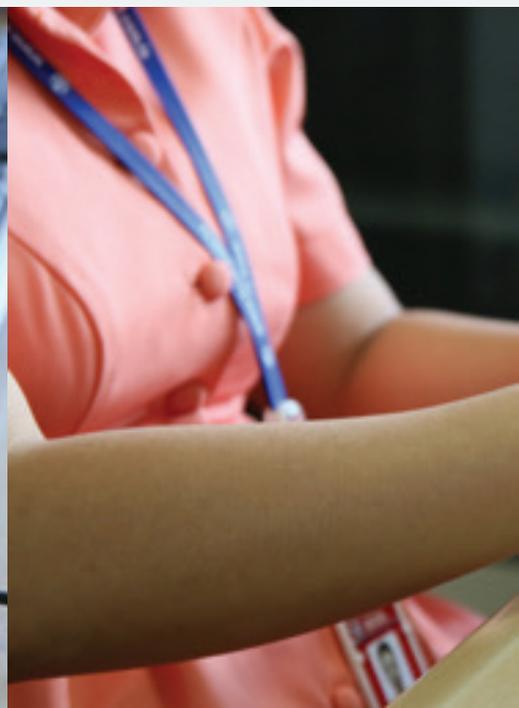


TECHNICAL ASSISTANCE SUPPORT

UNCDF provided technical assistance support through a team from PHB Development. 7 individual consultants, including 2 national consultants supported the development of the BCOME channel at different stages. The team focused on all the critical areas of branchless banking with close collaboration of key departmental representatives within BCEL on a project Steering Committee.

In order to integrate the consulting team and engage all relevant parties within BCEL, a Steering Committee was established with representatives of different departments. Despite their commitment was not full time, their active participation was vital for the success of the Steering Committee and ultimately for the project itself.

With the support of the well-established Steering Committee, the consulting team was able to focus their work on four primary areas: Technology, Marketing, Services Design and Agent Network Management.



STEERING COMMITTEE MEMBER REPRESENTATION AND TIME COMMITMENT



MARKETING

Before any marketing could start, services needed to be named. The early and popular name for the service was "Community Money Express", which was nearly unanimously agreed to by all steering committee members. However, it was missing something significant: BCEL. The consulting team encouraged that the name be modified to include BCEL, so as to clearly associate the new delivery channel with the bank and thereby to gain customer confidence by leveraging this trusted brand. BCEL Community Money Express was born, and quickly abbreviated to "BCOME". With the name agreed, the team went to work on iterations of the various materials required, notably signage, pricing, and brochures to be used in below-the-line campaigns.

All of the marketing materials continue to follow one dominant use case, remittance to support educational payments. Based upon outbound calling to identify customers' use cases within the first three months of the commercial launch, BCEL discovered that remittances, specifically for

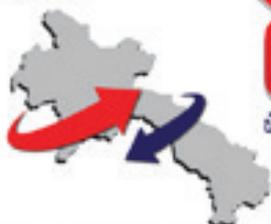
school fees or educational support, accounted for 50% of transactions at the time. This evidence is supported by Finscope 2014 survey data that indicates that 5% of adults in Laos are reliant on remittances as a form of financial support.

As a consequence, marketing campaigns initially featured a student to promote the ease of use of BCOME for such payments.

Above-the-line campaigns were conducted by BCEL in the form of short TV commercials and radio spots to promote the service. Using previously purchased broadcast airtime, BCEL was able to quickly slot in advertisements for this new service to help with building awareness.

Conversely, the below-the-line campaigns created new challenges for BCEL. It was not easy for the team to adapt to the idea of a direct marketing approach. Such approach involved going into communities, into the markets, universities and businesses near their new agents to effectively educate large numbers of unbanked customers directly about availability and value of these new services.

To facilitate this cultural shift within the BCEL team, MAFIPP provided an additional performance-based grant to offset 50% of the costs associated with delivering 29 specific campaigns at agent locations. The campaigns were designed to be multi-day events, run by teams of at least



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ທັນສະໄໝ ວ່ອງໄວ ຮັບໃຊ້ຊຸມຊົນ



★ ທ່ານສາມາດໂຕ້ຮຽນຖານຜິດພາດຂອງພວກເຮົາໄດ້ໂດຍການສົ່ງອີເມວລັດຖະທຳມະນູນໄປທີ່: complaint@bcel.com.la

4 people. The teams were comprised of 1 representative from the Head Office, 1 from the Agent sponsoring branch and 2 people sourced by the agent. This structure gave the Head Office a chance to coach the branch staff about the service and agent management, while also offering the essential opportunity to model the sales skills, talking points and user-centered value proposition on the agent. The 2 people from the agent were occasionally staff of the agent, their family members or neighbors; regardless of their direct or indirect relation to the agent, those people were known

in the community. The activities of the teams varied from location to location but always began with a meeting with the naibaan (Head of the Village). Meeting and cultivating relationships with the naibaan is a necessary practice in the Lao context. Besides, it proved to be most beneficial, as the naibaan became in many cases a champion of the new service. In fact, Naibaans have a responsibility to contribute to local development, and bringing new services such as BCOME is well aligned with their mandate. The specific activities most often included direct, individual canvassing of markets, schools,

hospitals, and events or festivals as well as speaking to customers at the agent location, and larger community gatherings.

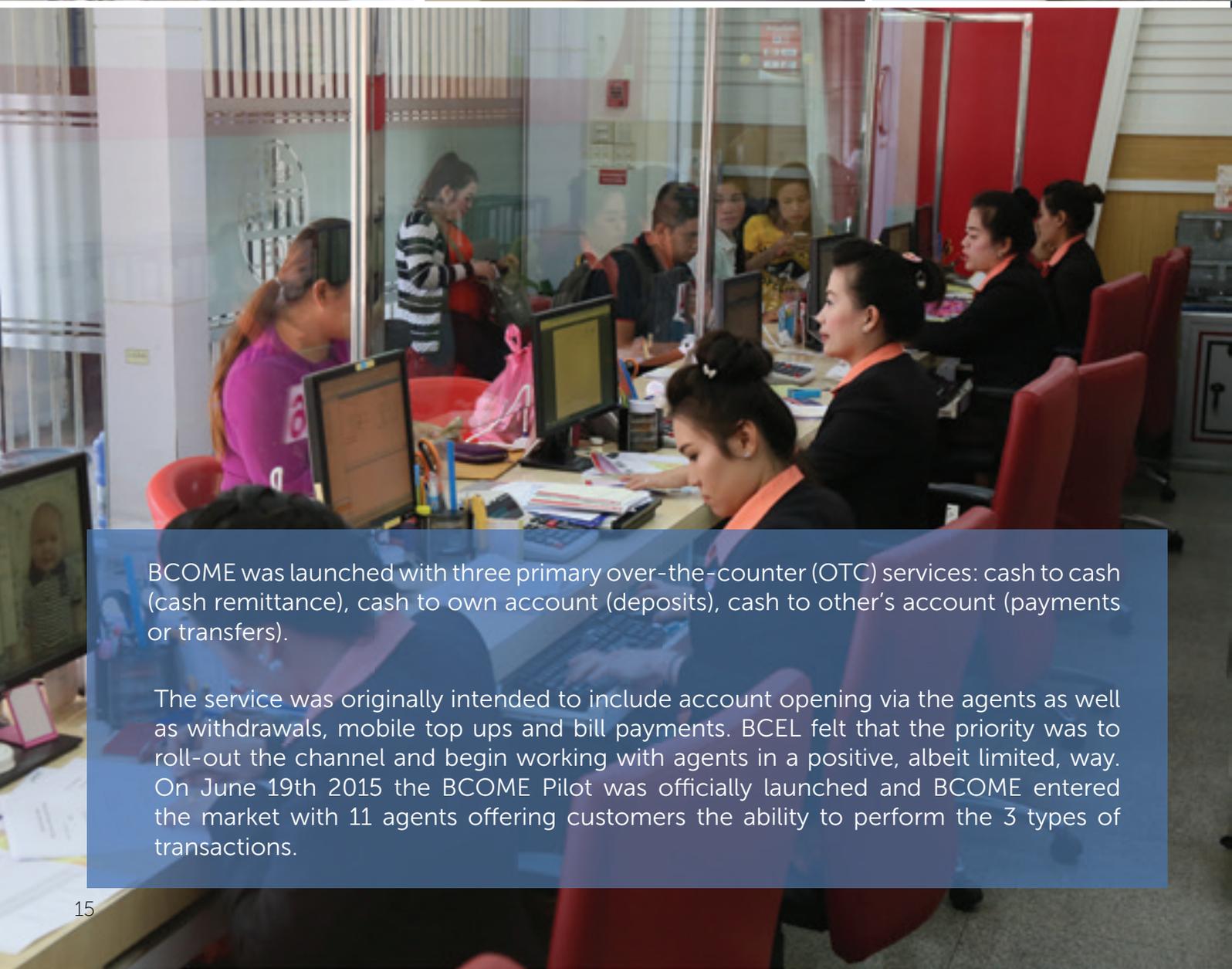
These activities are still ongoing and yielding many of the expected results of increasing customer understanding and adoption of the services. The importance of this approach, regardless of the logistical challenges and complexities, is now part of the periodic planning for the ongoing development of BCOME.

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SERVICE



BCOME was launched with three primary over-the-counter (OTC) services: cash to cash (cash remittance), cash to own account (deposits), cash to other's account (payments or transfers).

The service was originally intended to include account opening via the agents as well as withdrawals, mobile top ups and bill payments. BCEL felt that the priority was to roll-out the channel and begin working with agents in a positive, albeit limited, way. On June 19th 2015 the BCOME Pilot was officially launched and BCOME entered the market with 11 agents offering customers the ability to perform the 3 types of transactions.

TECHNOLOGY

Although the BCEL technology team is small and sometimes overstretched, it is highly capable. Their skill and knowledge of their own internal systems allowed them to develop the service upon clearly defined functional and technical specifications within about 8 weeks. Once the basic service set was defined, the team was able to work independently and make iterative changes if required.

The result is a web-based service that emulates the foundation of the mobile banking service BCEL One. It can be used from tablets and computers⁴, therefore requiring an internet connection and other equipment from the agent side. Agents are required to have a terminal and a printer of their own, as well as other expendables such as internet, paper, or ink, which are not subsidized by BCEL.

⁴ Tablets with bluetooth printers were considered as an option early on -but as BCEL could not subsidize the cost for the agents, they ultimately become logistically too difficult to mobilize and fulfill at a cost reasonable enough to make viable for the Agent and the Bank.

AGENT NETWORK MANAGEMENT

Even with such an initially limited size and scope of pilot, interest in branchless banking was substantial. It was easy to use through a trusted local person and it could save customers' time and money from having to travel distances to a bank branch during its limited operating hours (Mon-Fri 8.30am-3.30pm).

While the agents solved a problem for the customers it created one for the Bank. Agent network management is a challenge. Given that the agents are far from the branch it presents an issue when trying to establish consistent branding. From an operational point of view, just installing signage is time consuming and assuring that each agent has ample supply of promotional materials is another factor.

The bank developed some initial reporting tools to monitor the agents remotely, and review and assess their performance individually and collectively. The reporting also assisted the heavily centralized agent management team to monitor potential fraud and compliance breaches.

Agent network management was intended to become more decentralized from the beginning and, over time, BCEL was able to move to a Branch/Service Unit Level with Branchless Banking Officers (BBO) being assigned from the local staff. The BBO

is responsible for their agents in all aspects from scouting and recruiting to training and awareness through compliance and expansion.

SCOUTING AND RECRUITING:

Developing effective guidelines and criteria for agent recruitment and selection was an early step in the development of the network. But as is often the case, maintaining and enforcing criteria is not easy. In fact, those guidelines were occasionally not adhered to, and that actually turned out to be an unexpected benefit within this pilot. Specifically, the criterion that agents should be within a 25km radius of the branch was contradicted by a top performing agent being more than 30km away, distance thus proving to be a factor for success. The Bank must be able to balance their ability to maintain compliance through training, oversight, and proper supervision with their goals of serving and increasingly rural customer base.

TRAINING: Training agents is critical. It is often worth repeating training even though the services are relatively simple and agents generally have a secondary education - the need for reinforcement is key. As a matter of fact, the operational handling of the transaction is perhaps the least significant



THE BRANCHLESS
BANKING
EXPERIENCE
AN AGENTS'
PERSPECTIVE

Watch video: "The Branchless Banking Experience - An Agents' Perspective" learn from Mrs Khaek Phanthalath, the BCOME Agent in Pak Ngum District, Vientiane Capital, about her experience and the great value she finds in bringing basic financial services to her community.
<https://youtu.be/gt5j6FhPQTA>

Agents are typically trained at their premises in a one-on-one setting. This allows the BBO to develop relationships with the agent (and their family or staff) and also avoids the need for agents to leave their business in order to acquire training. Training of operational functions are conducted with a hands-on approach, using accounts that are established specifically for these purposes. Teaching agents about promotion of the services is best done through modeling and role playing to solidify the insights gathered from direct interaction with the community. Sharing these best promotional practices is key to agents and BCOME's success.

COMPLIANCE AND SUPERVISION: Compliance is a critical area of Agent Management for



the bank and they are keenly aware that the agent may not follow rules or adhere to certain policies. One such example was the detection of a particular agent who was not following the process of collecting the senders' phone number to enter into the system - rather they were entering their own phone number. While the agent was intentionally trying to help and support the customers, by making the service easier to use, they were actually not following the rules and were non-compliant.

It is the role of the BBO - through regular interactions, training and observation of reporting to make sure that the agent is providing a highly reliable and consistent experience for customers while remaining compliant with the banks' policies. But it is important to consider that the BBOs were not part of the initial phases of the pilot project. The first Agents were recruited trained and monitored entirely remotely by the BCOME team from the Head office in Vientiane.

THE FIRST BANKING AGENTS IN LAO PDR

After the soft launch and first transaction in May 2015, the BCOME Agent Network began its pilot phase in June 2015. Starting from just 11 agents, the network has grown in its first 18 months to become a national network with more than 97 agents. It is estimated that a total network size of approximately 1800 agents would be required to provide a network offering penetration to every commune in the country giving comprehensive last-mile coverage. The shorter term objectives for BCEL are to develop the BCOME network to a total of 410 agents before the end of 2019.

As with all networks the quantity is easily achieved but a consistent quality service is much more elusive. As the agents are the face of the service and there is reputational risk to the bank for non-compliance, BCOME has also focused rigorously on quality. This is done by identifying the top performing agents who are eagerly engaged in the promotion of services, and delivering them to the communities. Let's look at a functional and outperforming agent and then understand what can be done to emulate her success.

Mrs Noutaeng Sibounheuang at Souvannaphoum village, Paklai district, stands out as a successful BCOME agent. Since the beginning, she has consistently outperformed other agents in terms of transactions and revenue, often by more than double. In her own estimation, the top 3 factors for her success are:

1. **TRUST:** Mrs Noutaeng underlined what is known the world over and expressed by other agents: trust by the community is a prerequisite for success.

2. **HIGH VISIBILITY:** BCEL provided promotion for the agent shop exterior. Mrs Noutaeng also did her own in-shop promotion with posters showing additional BCEL products.

3. **LOCATION:** It is key to select an area that has high foot traffic, in her case being a market within 100m from her shop, with plans for massive expansion this coming year.

Additional success factors include:

4. The nearest BCEL service unit is more than 25km away, so BCOME brings much added value to the local community and saves them from a difficult mountain road which is occasionally washed out during the monsoon.

5. A client-friendly separate room is dedicated to conducting the transactions, so it is clear that doing a transaction is separate from "other business".

These are clearly keys to success. But often times just having the right elements will not necessarily lead to someone seizing an opportunity. Why would an agent want to take on this role on behalf of a bank? In other words, what is the specific value proposition? It is not just the money, although commission is a significant incentive and in some case may be enough of a reason. For most BCOME agents, they are not earning more than 500,000 LAK/month (~\$65) - in fact as of December 2016 just about 20% of the agents were achieving this target.

Agents have to invest time and money to build this business. In addition to meeting other criteria, agents must meet the capital requirement of holding 10,000,000LAK (Approx. USD \$1200), half in cash and half in their dedicated bank account.

Mrs Noutaeng Sibounheuang of Paklai District, Xayaboury Province is an outperforming BCOME Agent and attributes her success to her highly visible location and the trust of her community.



☑ ໂອນລອຍ
☑ ໂອນເຂົ້າບັນຊີ

ຕິວແທນ BCOME ນ ໜູ່ ບ້ານ
ບ້ານ ສຸວັນນະຄູນ, ເມືອງປາກລາຍ, ແຂວງໄຊຍະບູລີ, ເມືອງ: ສວ



"I think the service is a benefit to our community. Our village is 27km away from the town, and there is a different level of living standards in the community: some are poor, some have medium income levels" said Mrs Noutaeng.

"I became a BCEL BCOME agent after being introduced to it by a staff team from the Paklai branch of the bank. The project is totally new, no other bank brought this kind of service to this village before.. I can give them friendly advice to use this new, safe and convenient service. They used to send money to their children by a bus driver, their children would have to pick up the money at the bus station. They had difficulties with schedules and sometimes missing the meeting. It was a high risk.

Another important thing that helps me to be successful is word of mouth, people talk and spread out the news,

I have got to know new people through my service. And from being strangers, now I know them well! Most of my clients are female, I feel glad and proud to see women clients.

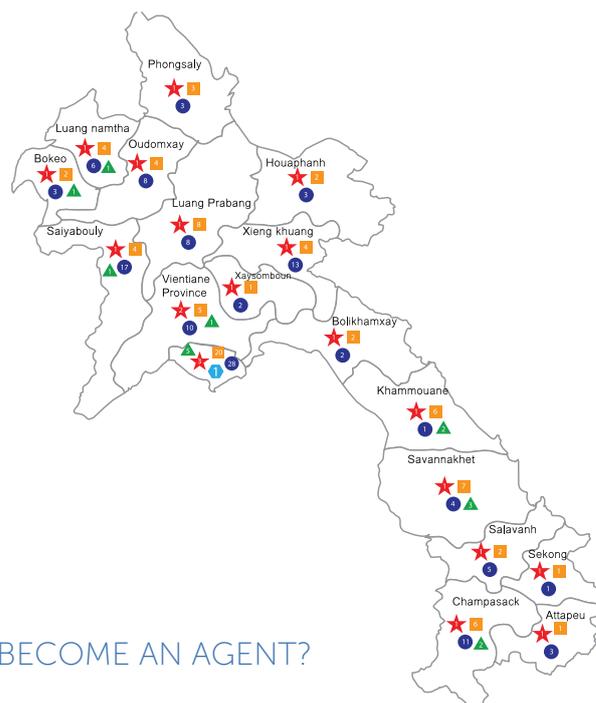
Their operations are mainly sending money to their children who study in other places. I like to see them because we are women and it is easy to communicate and understand each other."

BCEL'S NETWORK NATION WIDE

BCEL SERVICE POINT

December, 2016

- ◆ BCEL Head Office
- ★ BCEL Branches
- 82 BCEL Service Units
- ▲ BCEL Exchange Units
- BCOME Agents



THE BRANCHLESS BANKING EXPERIENCE - WHY BECOME AN AGENT?

Watch video: "The Branchless Banking Experience - Why Become an Agent?" Learn from a top performing BCOME agent, Mrs Noutaeng Sibounheuang of Xaiyaboury Province, as she talks about the value proposition for becoming an agent and the benefits she receives in addition to the commission she earns.

<https://youtu.be/IJhC7FKsmDk>



So what is the value proposition?

A new agent may actually be able to make more money in interest by depositing their money in a bank or MFI, or simply investing it in other aspects of their own business. So if money is not the incentive - why do agents engage with this service when there is little financial gain in it for them especially in the beginning when there are few customers and the service is brand new?

To verify that other benefits beyond money exist, one should look at possible benefits for agents in rural Laos in bringing new services to any area. The stature and benefit of being the business (the individual) that is responsible for alleviating the hassle of financial transactions is seen as having made a contribution to the community. And that is not disputable. The alignment with the largest bank in the country and the marketing and awareness that is created by that relationship further amplifies the social benefit.



CUSTOMERS & COMMUNITIES BCOME DELIVERS



BCOME has helped to move BCEL ever closer to its customers in an effort to provide relevant and convenient services. There is an imperative need to serve the customers, and not only any customer but an entirely new customer segment, previously unidentified and unaddressed by BCEL or other formal financial institutions. BCOME has provided a new platform to reach this new customer segment but it also requires adjustment. BCOME has prompted BCEL to reassess its relationship and communication with the customer: new forms of marketing, new face-to-face contacts via the agents and contact line between agent network management staff and customers.

There is little doubt that in the earliest days those first customers who experienced a BCOME transaction via an agent found the experience transformational, in fact perhaps revolutionary.





CUSTOMER PROFILES - EDUCATION

Miss Nou Monekeo (pictured below) holding her student card which doubles as ATM card. BCEL has separate and ongoing initiatives to actively open bank accounts for many students in cooperation with the public universities.

The overall direction of the BCOME transactions soon became apparent to the BCEL team, and it was somewhat

unexpected: money was not being sent from the richer capital or big towns to support the poorer rural areas but rather the opposite, as rural people were sending money to the capital and big towns. This flow was initially counterintuitive but very sensible when considering that the common use case was to support their children through universities and training schools.





"BCOME has so many benefits. Before BCOME arrived here we had a lot of difficulties, we had to go to Vientiane City to do transactions. Many times we got there late and the bank was closed; we had to come back home without sending money, it is really waste of time. To go to the city, we have to spend 2-3 hours just for traveling.

I always recommend BCOME to my friends and tell them not to go to the city to transfer money. Using BCOME here in the village is so convenient and saves money on transportation.

I ask the agent if I can open my account with them and I also want to have an ATM card. I feel like I don't want to carry cash any more, if I have a card wherever I go I can withdraw money from the machine, that is what I want now. If we are able to open the account with BCOME it would be wonderful. I want to be able to experience that."



"My name is Khai and I live in Souvannaphoum village, Xayaboury province. I do farming, growing rice.

I send money to my children using BCOME. One is studying at the medical school in Vientiane Province, and one is studying in Vientiane City. In the past I did the transaction at the bank at Paklai [30km away], but since [I learned that] there is an agency here, near my house, and it is easy I can stop over to do the transaction on the way to my farm in the morning or when I get back home in the evening.

I have told my children's friends who study with them to use BCOME. Even though I don't have to have a bank account. It is very easy."



THE CUSTOMER EXPERIENCE - PARENTS USE BCOME TO SUPPORT THEIR CHILDREN'S EDUCATION

Watch video: "The Customer Experience - Parents use BCOME to Support Their Children's Education" hear from rural customers who use BCOME as a convenient, affordable and safe way to send remittances to their children who are studying in the capital or other large towns.
<https://youtu.be/U0xfoPWi3kl>



Ms Thong Khoun (right), Ban ThaKokHai, PakNgum District, Vientiane Province transacts regularly at her nearby agent and hopes that she may one day open a bank account and experience the convenience of other financial services like an ATM card.



Mr Simmalath Phomduangsy, in downtown Vientiane Capital, finds the agent to be a more convenient way paying his suppliers than traveling to the bank branch.



Mr Chanhoun Ketsithong, Head of village Ban Souvannaphoum, Xayaboury province has been a champion of the BCOME service in his village and believes it will aid in local development to benefit the community.



BCOME ACCELERATES LOCAL ECONOMIC DEVELOPMENT

Watch video: "BCOME Accelerates Local Economic Development" learn from village leaders in Paklai Xayaboury who see the future of BCOME to be able to support local development and accelerate commercial activity in their community.

<https://youtu.be/XleOINuLNAs>

CUSTOMER PROFILES - BUSINESS & COMMERCE



BCOME
IS CREATING
AN EXTENDED
FINANCIAL SERVICES
NETWORK TO SUPPORT
BUSINESS, AGRICULTURE,
INDUSTRY AND
DEVELOPMENT.



"I transfer money to Luang Prabang, paying bills for my business ... and buying wood to build my house.

BCOME provides our community more convenience, we can make transactions whenever we want, and don't have to go to the main bank, and we just walk in to this agency and do it.

In the future it would be very good if BCOME can expand more banking agents.

I think there will be more people using it if there are more banking agents." said Mr Simmalath Phomduangsy.

BUSINESSES OFTEN NEED TO TRANSFER MONEY TO PAY FOR GOODS OR SERVICES AT A DISTANCE. BCOME FACILITATES BUSINESS TRANSACTIONS WHETHER IT BE IN URBAN OR RURAL AREAS.

OTHER BUSINESSES REQUIRE MONTHLY PAYMENTS TO CENTRAL OFFICES – WHICH FROM A REMOTE RURAL AREA WOULD BE COMPLICATED WITHOUT BCOME.



"I am personally impressed by BCOME, so when we have meetings at the village, I decided that I would like to introduce this service to all of the people in the village.

Every month I have to make a transaction to the HPC Company, I am an agent of HPC insurance company, the head office is in Vientiane. And I represent the company here at Souvannaphoum Village.

Before sending money I have to fax the documents to them, and after they receive my documents they will calculate the total amount I have to send. The service here is fast and efficient, and it is convenient because it is near to my house. The transfer method is very easy.

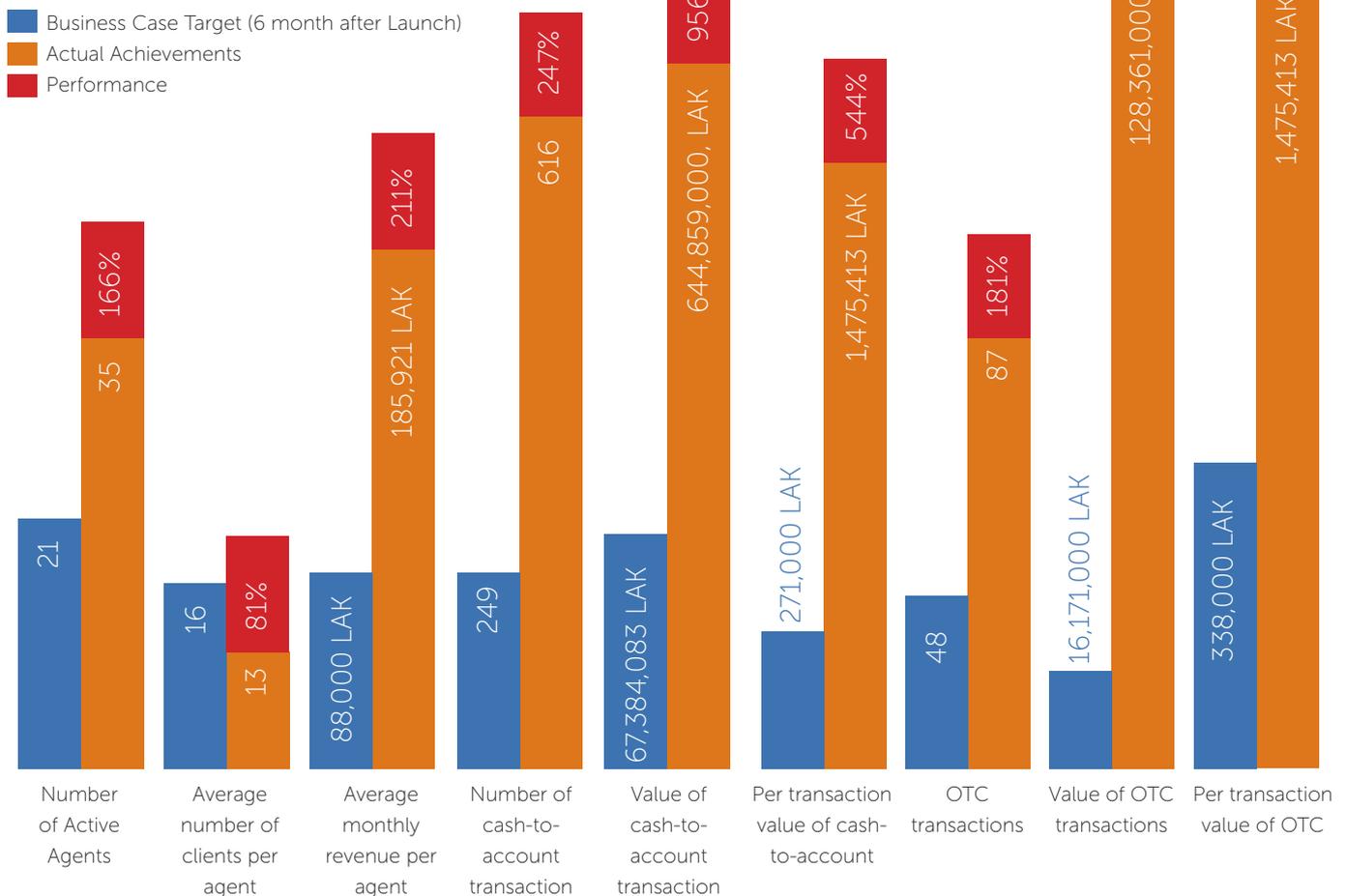
People can see our readiness to improve the living conditions of our villagers; therefore, the government is now supporting us to turn our village into an economic development area. This new market will provide more convenience to traders and villagers - as here it is very close to the banking service - so it will benefit many people for making transactions for their business." said Mr Chanhoun Ketsithong.

BCOME POST PILOT PERFORMANCE

A comprehensive “360-degree” assessment of the BCOME pilot was completed at the end of the pilot in February 2016. The report, presented to BCEL and BoL, was intended to facilitate a decision on continuation or termination of the project after the initially authorized 6-month pilot. Although the business case was changed prior to launch with fewer types of services and transactions available through agents, the potential of BCOME was becoming very clear. As compared to the projections for the pilot here is how BCOME stacked up as of December 2015. Based upon the success of the pilot, BCEL made some further commitments to continue the roll out of branchless banking in Laos.

MARKETING STRATEGY AND INVESTMENT

Below-the-line marketing campaigns have been enabled and given rise to a greater level of customer awareness and adoption. These campaigns however were a new concept for BCEL and therefore additional support, equally matched by BCEL, was provided in the form of a performance-based grant from MAFIPP. Though the campaigns varied in their duration and effectiveness, the overall impact on the number of customers reached has been commendable.



DEPARTMENTAL OWNERSHIP

The project moved from its original structure within a committee (chaired by the Deputy Managing Director for Electronic Banking and Cards) to a permanent position with the Treasury and International Services Division (TISD). BCEL is a master agent for international transfer service Money Gram, also managed within TISD. Although the business of managing the MoneyGram agencies is perhaps similar to BCOME, there are also fundamental differences.

There was a strong assumption that MoneyGram agents, currently performing cross-border remittances, would be eager to add this new domestic remittance service to their offering. Interviewed agents confirmed that “offering additional service for the clients” was the main motivation for MoneyGram Agents to offer BCOME service. Despite the assumptions and the feedback, data from the pilot indicates that the MoneyGram agents dramatically underperform compared to “stand-alone agents”. Of the 9 MoneyGram agents who had joined the pilot by the end, they were performing only 20% of the transactions of their “stand-alone” counterparts on a monthly basis. As a result, BCEL has been less enthusiastic to engage all Money Gram agents and is recognizing that the value proposition for these two services are distinct.

HUMAN RESOURCE DEVELOPMENT

BCEL increased the number of head office staff and BBOs that are actively engaged in BCOME. The HQ team is currently a team of 3 full time staff within TISD and BBOs are operational in most of the branches and service units. Although additional training and performance indicators are needed to achieve consistent results, these new roles, some within existing staff positions, have

strengthened BCOME’s agent network management.

RELATIONSHIPS

With the development of the national network of agents, more businesses and particularly MFIs are joining the network and acting as BCOME agents. MFIs are emboldened by being able to act as agents, and also have particular insight into serving the rural communities that BCEL can learn and benefit from. Other relationships with leasing companies and other sorts of billers, or bulk payers such as NGOs are being explored.

TECHNOLOGICAL INTEGRATION

BCEL also integrated BCOME directly into their mobile banking application BCELOne. Now with this transaction, any account holder who uses BCELOne can send funds directly from their phone to anyone in the country. The fees are in-line with in bank remittances, and the opportunity to use such a service to promote financial inclusion and opening of bank accounts by recipients is

significant. On the other hand, the integration of withdrawal functionality into BCOME has been more difficult to develop. Previous plans explored capturing customer biometrics and then using a biometric POS device for withdrawal identification. However, costs, time and overall complexity have made that plan untenable in the next year. Current plans include integrating withdrawals into POS devices, already commonly in use, but with some additional back-end integration to manage fees and calculate commission.

AGENTS	128
CUSTOMERS SERVED	4875
TRANSACTIONS	11,485
TRANSACTION VALUE	LAK 17.8BN / USD 2.2 mn

FIGURES FOR BCOME ACTIVITY FOR Q4 2016

⁵ Cash-to-account transaction far outperformed OTC transactions during the pilot and beyond. Although BCOME was initially intended to serve as a cash-to-cash service, it is not surprising that users strongly identify the service with BCEL and therefore have rallied around the new access points as a convenient way to transact with their own accounts or other accounts holders.

LESSONS LEARNED & SUMMARY

BCOME exists, and it took a lot of effort from 2013 to 2015 to realize that. And it is not over. The project does not end. It will carry forward and more learnings, experimentations, and trials will be engaged while pursuing financial inclusion for rural people in Laos. Some of the lessons learned from this launch in a greenfield market include the importance of the following elements:

CUSTOMER-CENTRIC PRODUCTS:

There is much to be said about the design of a DFS product that is suitable for the local context and easy for customers to use. Identifying the actual – rather than assumed - use cases is a critical factor in the present and future success of BCOME. At the outset, the channel is based on the initial assumption that rural customers will require and accept agent-assisted transactions through a formalized Over The Counter (OTC) type of service. The validity of the approach of an OTC service has been questioned in other markets but so far has been proven to be acceptable to all stakeholders. Use cases of BCOME are somewhat different from initial assumptions. The business case defined a large suite of services that would have targeted specifically rural farmers and their needs to open and access a full-fledged bank account. Currently, due to the limited subset of initial services, the dominant use case for BCOME agents is for “cash-to-account” transactions effectively for making third-party payments. With

further customer interaction through compliance and quality calling as well as data analytics, the actual types of payments could be understood to more specifically tailor the products to the customers’ needs and use cases. Today, this is largely based on limited anecdotal evidence that supports that a majority of these transactions are targeted at education. However, it is unclear if the funds are sent directly to an institution, to the student or to another party for the benefit of either of the two.

SUPPORTIVE REGULATORY FRAMEWORK AND REGULATOR:

BoL’s learning-by-doing approach made the launch of BCOME possible even in the absence of specific regulation on agent-based banking. Some of the confidence of BoL was enhanced through the relationship with BCEL as well as the advisory support of UNCDF.

A FUNCTIONAL STEERING COMMITTEE AND PROJECT TEAM:

During the project phase in particular, it was critical to have a steering committee and project team with defined roles. The amount of time directly invested within a project is never as much as any participant hopes for but the structures allowed for the project to move forward with technical advisory support and clear project management objectives.

TECHNICAL ADVISORY SUPPORT SPANNING ALL PHASES OF THE PILOT:

The objective of the technical support is to transfer knowledge to catalyze the growth and promotion of a new channel. Placing long term consultants inside an institution like BCEL is not easy, or maybe not even advisable. Short missions with targeted deliverables during the preparation, testing, training, launch and post-launch phases helped to meet the objectives of catalyzing and guiding the sustainability of the activity.

TESTING ASSUMPTIONS IS A CRITICAL ELEMENT TO A PILOT

The purpose of the pilot is to test hypothesis. And in an unexplored DFS environment like Laos, this is even truer. In this instance the understanding of the Bank that MoneyGram agents would have a different value proposition and expectation than new BCOME agents was just one of the significant learnings from the pilot.



BCOME AND THE FUTURE EVOLUTION OF SERVICES FOR RURAL COMMUNITIES

BCOME's continued expansion will include a broader number of agents in increasingly rural areas but more significantly it will also involve a range of new services.

CASH WITHDRAWALS

Although BCEL has identified a pathway to be able to integrate withdrawals to the BCOME service offering, this is heavily dependent on other prerequisite core banking technology upgrades. As it is normal in these sorts of technological innovations, the service or idea that is most wanted is likely to be the longest to implement. Nevertheless, withdrawals are the most demanded service and will surely contribute to greater adoption, activity and awareness of agents.

ACCOUNT OPENING

Account opening, or more specifically account origination at agents, will be a major contributing factor to BCEL's ambitions of reaching rural communities with banking services. Processes and procedures for agents to facilitate the account opening process will be put in place, though actual account opening will still be maintained at the branch or service unit level. Customer due diligence and all aspects of compliance remain the responsibility of the Bank itself, and the veracity of these obligations cannot be compromised.

PARTNERSHIPS

As BCOME continues to expand across the country, it will attract and in fact need to strengthen partnerships. Already taking root are relationships with several Micro-Finance Institutions (MFIs) who are able to leverage their community level relationships in order to promote the use of BCOME. BCOME and MFIs may be able to work in partnership for account acquisition, liquidity support, and agent network management. For now, the MFIs acting as agents is a first step.



BANK OF THE LAO PDR (BOL)

www.bol.gov.la

The central bank of Lao PDR was founded in 1968 and is regulated by the Law on Bank of Lao PDR of 1995: it has a mandate of macro-economic stability and of the licensing and supervision of all financial institutions in Laos. BoL has tasked its Financial Institutions Supervision Department (FISD) with the Financial Inclusion agenda: on this ground FISD has received the responsibility for initiating and supervising DFS in Laos for all non-banks. BoL has then established an ad-hoc intergovernmental DFS Regulatory Committee to develop the regulatory framework for DFS. The committee is comprised of 10 members from diverse departments of the BoL with additional representation from the Ministry of Posts and Telecommunications.

BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC (BCEL)

www.bcel.com.la

From its establishment in 1975 to 1989, BCEL played a special role as a branch of the State Bank (Central Bank) of the Lao PDR and was officially assigned as the only one to be able dealing with any international banking activities. Since that time BCEL has continued to grow and is presently the largest bank in Lao PDR in terms of balance sheet, retail customers, branches and ATM network. BCEL is the only bank listed on the Lao Securities Exchange; it is currently owned 70% by the Lao Government, 10% by the French foreign bank BRED, 10% by other foreign investors, and 10% of its capital floated to the general public. With their marketing tagline of "Modern, Quick and Reliable" BCEL has developed innovative approaches to

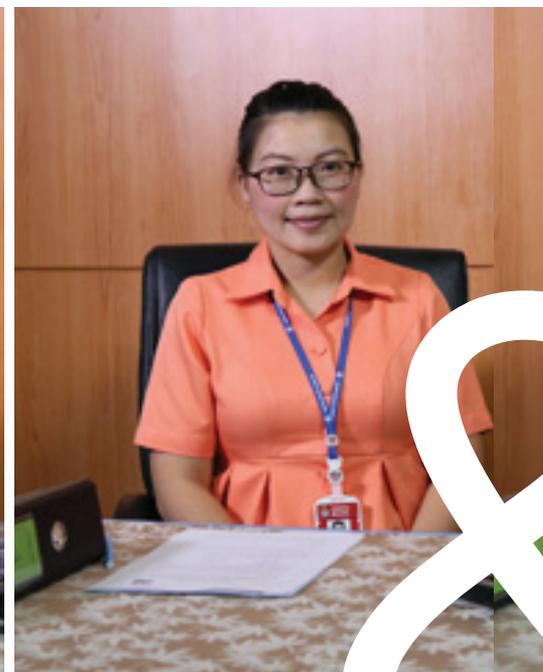
electronic banking including pioneering internet banking - (i-Banking) and mobile-banking (BCEL One) which have all contributed to the creation of BCEL Community Money Express.

UNITED NATIONS CAPITAL DEVELOPMENT FUND(UNCDF)

www.uncdf.org

is the UN's capital investment agency for the world's 48 least developed countries. UNCDF

STAKEHOLDERS



offers "last mile" finance models that unlock public and private resources, especially at the domestic level, contributing to Social Development Goals, especially SDG#1-End Poverty and SDG#17-Partnerships for the Goals.

UNCDF'S FINANCING MODELS WORK THROUGH TWO CHANNELS:

financial inclusion that expands the opportunities for individuals, households, and

small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and

Showing how localized investments – through fiscal decentralization, innovative municipal finance, and structured project finance – can drive public and private funding that underpins local economic expansion and sustainable development.

In Laos, UNCDF promotes Financial Inclusion in partnership with BoL according to its priorities. Both institutions jointly run the 2010-2017

[Making Access to Finance More Inclusive for Poor People \(MAFIPP\) www.mafipp.org](http://www.mafipp.org) with funding from the Australian Government and UNCDF, to increase the access to and the use of financial services for the economic development of poor households and micro-entrepreneurs in Laos, particularly in rural areas.



motivated commercial actors, directly BCEL in setting up its first agent-banking pilot BCOME. This support encompassed oriented exposure visits and study tours, the provision of technical assistance.

PHB DEVELOPMENT

www.phbdevelopment.com

is a specialist consulting firm committed to increasing financial inclusion for underserved markets in developing countries. PHB Development managed the support of 7 international experts and 2 national consultants to support BCEL's launch of branchless banking over a period of more than 18 months through all phases of preparation, testing, training, pilot and commercial launch. The consulting team included specialists in project management, branchless banking agent management, risk and compliance, business and back office process management, marketing, and product design and development. The inclusion of national consultants in the team served not only to facilitate smoother communication - but also enables the transfer of knowledge through constructive mentorship.

MICROSAVE

www.microsave.net

An international financial inclusion consulting firm providing customer research, strategy, and ongoing implementation support to donors such as UN, IFC, and the Gates Foundation and rural

CONTRIBUTORS

MAFIPP has drawn the expertise from UNCDF global programme [Mobile Money for the Poor \(MM4P\) mm4p.uncdf.org](http://mm4p.uncdf.org) to establish in Laos branchless banking and mobile financial services initiatives collectively known as Digital Financial Services. In Laos, UNCDF supported BoL in developing an enabling regulation and, among

or regional MFIs, banks, and MNOs. MicroSave supported UNCDF to conduct a scoping mission to assess the market opportunity in Laos and provided early short-term consultancy to develop the business case for BCEL to enter into branchless banking.

CONTACTS:

UNCDF - MAFIPP Programme
Mr. Cedric Javary,
Int'l Technical Specialist
Tel: (+856) 20 7721-7318 cedric.javary@uncdf.org

Ms. Somsanith Mounphoxay,
National Programme Officer
Tel: (+856) 21 267 738 somsanith.mounphoxay@uncdf.org

www.mafipp.org | www.uncdf.org

Bank of the Lao PDR
Financial Institutions Supervision Department
Tel: (+856) 21 265 712
www.bol.gov.la