

CASE STUDY

BANCOLOMBIA:

FINANCIAL INCLUSION AND BANKING CORRESPONDENTS

The story of how a bank successfully developed its banking correspondent channel to support its growth and financial inclusion strategy

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Table of Contents

<u>ABBREVIATIONS AND ACRONYMS.....</u>	<u>5</u>
<u>EXECUTIVE SUMMARY.....</u>	<u>6</u>
<u>1 INTRODUCTION.....</u>	<u>12</u>
<u>2 DEVELOPMENT OF THE CORRESPONDENT MODEL MADE IT POSSIBLE TO CONSOLIDATE A MULTISEGMENT BANK OF NATIONAL COVERAGE.....</u>	<u>13</u>
<u>3 THE PERFECT MARRIAGE: A COMMERCIAL ADVISER WITH A CORRESPONDENT IN MUNICIPALITIES WHERE THE BANK HAD NO BRANCH</u>	<u>18</u>
<u>4 EVOLUTION OF THE CORRESPONDENT CHANNEL.....</u>	<u>20</u>
4.1 INITIAL EVOLUTION.....	20
4.1.1 CHALLENGES FACED IN THE LEARNING PROCESS	21
4.2 SUBSEQUENT PHASES OF EXPANSION AND THE DEVELOPMENT OF VARIOUS FORMATS....	24
4.3 WHAT ARE THE CHARACTERISTICS OF THE FORMATS?	25
4.3.1 ONE-TO-ONE FORMAT	26
4.3.2 RETAIL FORMAT - DEPARTMENT STORES	37
4.3.3 ROBUST FORMAT	37
4.4 RESULTS.....	44
<u>5 THE BANK'S OTHER STRATEGIC DEVELOPMENTS FOR FINANCIAL INCLUSION</u>	<u>57</u>
5.1 <i>MI NEGOCIO</i>	58
5.2 INTERNATIONAL REMITTANCES.....	59
5.3 <i>AHORRO A LA MANO</i>	59
5.4 SMALL-VALUE LOANS	61
5.5 <i>NEQUI</i>	63
5.6 THE <i>TERRITORIO QR</i>	64
5.7 FUTURE PLANS.....	66
<u>6 BIBLIOGRAPHY</u>	<u>66</u>
<u>7 INTERVIEWS CONDUCTED.....</u>	<u>67</u>

Abbreviations and Acronyms

ALM	<i>A la mano</i>
ATM	Automated Teller Machine
BALM	Bancolombia <i>A la mano</i>
BFA	Bankable Frontier Associates
BC	Banking correspondent
CENS	Centrales Eléctricas de Norte de Santander [North Santander Power Plants]
CI	Cash-in
CO	Cash-out
DIAN	Dirección de Impuestos y Aduanas Nacionales [National Tax and Customs Directorate]
EPM	Empresas Públicas de Medellín [Medellín public enterprises]
ESSA	Electrificadora de Santander [Santander electric power company]
FGA	Fondo de Garantías de Antioquia [Antioquia Guarantee Fund]
PAM	Punto de Atención Móvil [mobile service point]
SARLAFT	Sistema de Administración del Riesgo de Lavado de Activos y Financiación del Terrorismo [Money Laundering and Terrorist Financing Risk Management System]
SED PES	Sociedades especializadas en depósitos y pagos electrónicos [online deposit and payment companies]
SMLV	Salario mínimo legal mensual vigente [current minimum legal monthly wage]

Executive Summary

Many countries have made initial progress in serving rural areas through various types of distribution networks. However, these networks are often disconnected from national financial ecosystems, owing to frictions in the business model among suppliers and the constraints imposed by regulatory and policy frameworks.

Research on the Colombian case conducted as part of the CGAP global project titled “Agent Network Journeys Toward the Last Mile: A Cross-Country Perspective” revealed successful agent models in private financial institutions. An example is Bancolombia, which has integrated banking correspondents with the bank’s other channels to provide financial products that are useful for the population. This is undoubtedly one of the key factors of success in deploying the banking correspondent model profitably in urban and rural municipalities of all types in Colombia.

Development of the correspondent model made it possible to consolidate a multisegment bank with national coverage

The reason why Bancolombia initially took the lead in developing the banking correspondent channel has much to do with its history. Following the merger with Banco Industrial Colombiano (BIC) in 1997, Bancolombia’s main challenge was to consolidate an efficient operation that would enable it to become a universal multisegment bank, especially in smaller and more rural municipalities. It needed to develop a customer service model that would generate additional business in the branches it was operating at that time. To that end, it designed a structured service model that entailed taking the branch’s commercial team to the surrounding municipalities, by setting up mobile advisers (asesores móviles).

Development of the transactional solution for this service model began with the use of Conavitel (a point-of-sales device) in municipalities where there was no other infrastructure through which customers could withdraw cash. Thus, by the time authorization was explicitly given to provide financial services through third-party banking correspondents in 2006, the bank was ready and was the first to install a correspondent in the country.

The perfect marriage: a commercial adviser with a correspondent in municipalities where the bank had no branch

From the outset, Bancolombia viewed this channel as instrumental in providing a transactional solution to municipalities in which it had already deployed mobile advisers. It decided to develop correspondents under a one-to-one model (direct correspondent recruitment and contracting by the bank), associated with the mobile advisers, and opted as well to use exclusivity contracts to guarantee the value proposition and customer experience even in a retail store. Consolidation of the union of the sales force with the transaction point led to placing the mobile adviser where the correspondent was physically located—mobile service points (*Punto de Atención Móvil*, PAM). A mobile adviser can serve two or three

municipalities with commercial targets that include serving the mayor's office, businesses of all sizes, and the inhabitants of each municipality, supplying the entire range of the bank's services.

Bancolombia has achieved impressive results through this model:

- In 2008 it had a presence in 592 of Colombia's municipalities, compared to 131 in 2001. In 94 municipalities, it was the only bank present, and in another 233 it was the only private financial institution.
- By 2009, 477 PAMs were reported to be in operation; and, by that time, 15 had been converted into branches.
- In 2013, the number of PAMs reached a peak of 723 served through 280 mobile advisers.
- By deploying mobile advisers, the bank onboarded an estimated 500,000 new customers between 2003 and 2021.

Evolution of Bancolombia's correspondents

Initially, the correspondent base expanded along with the coverage of the PAMs. Later, as from 2012, there was a rapid expansion to support transaction banking for a growing number of customers. It initially did this under the one-to-one model, contracting with each business or merchant individually, based on an internal unit that carried out the different tasks, from profiling to operations. In this initial phase, several challenges had to be overcome, such as the technology to be used, how to manage liquidity and rebalancing, and how to present the business to the correspondents, thus laying the foundations for subsequent growth.

By 2012, it had achieved a network of 1,143 businesses engaged as correspondents, covering 73 percent of the country's municipalities. From then on, a new growth stage for the correspondent network began, to respond to the pace of the growth in operations generated by the bank. In this process, the correspondent management models were diversified, not only to grow faster, but also to explore and define new correspondent models that would enable the bank to attain various strategic objectives. One of these was financial inclusion and the expansion of its service to the individual person and microenterprise segments.

At that time, the bank already accounted for most of the transactions in Colombia, which entailed assuming one of the highest costs in its operating structure, namely the cost of cash management. To be able to respond more effectively to the challenges of the bank's positioning and growth, new management models were introduced for the correspondent channel that would enable it to grow faster, occupy a place in customers' daily lives, and free up branches in urban areas that were highly congested. This led to the emergence of the manager and aggregator format for managing correspondents one by one, which facilitated faster growth; the retail correspondent format, which gave them a place in customers' daily lives; and the robust format for decongesting branches.

Formats		Contracting modality
One-to-One	Manager	Bancolombia hires a manager to outsource certain activities, but contracts the correspondent directly.
	Aggregator	Bancolombia hires a company with a network of service points (owned by the company or a third party).
Retail		Bancolombia contracts directly with a supermarket chain or department store that deploy its service points.
Robust		Bancolombia hires a firm to set up and operate Bancolombia's own service points.

Results

During this period, the bank has achieved significant growth through its channel strategy: 5.5 million customers in 2009, 6.9 million in 2012 and 16.9 million individual customers by 2021.

The introduction of the new formats enabled Bancolombia to be working with 6,600 correspondents by the end of 2015, after just three years. The dynamics of this strategy paved the way for Bancolombia's correspondent network, which represented just 8 percent of correspondents in the country in 2008, to grow to a 29 percent share by 2020 with a total of 16,300 correspondents.

Although the development of coverage in Bancolombia has been a multichannel process, correspondents have clearly spearheaded the drive to reach the smaller municipalities. Moreover, the one-to-one formats (with managers or aggregators) have enabled the bank to cover almost the entire national territory and to reach municipalities in which it has no branch. In 2007, correspondents were established especially outside big cities and, since then, the bank has pursued a strategy aimed at serving municipalities of all sizes; as a result, it had already provided coverage for 95 percent of all municipalities in Colombia by 2020.

Correspondents are becoming increasingly important in Bancolombia's service channels, to the point where correspondent transactions now outweigh those channeled through ATMs. During 2020, a monthly average of 26 million monetary transactions were carried out in correspondent entities, equivalent to 47 percent of the cash transactions made through the bank's channels. Nationwide, Bancolombia's correspondents are the leaders, accounting for 83 percent of domestic correspondent transactions in 2020.

One of the key characteristics of the development of this channel in Bancolombia is its sustainability, which is underpinned by the transactionality of the service points. The transaction volume of Bancolombia's correspondents is higher than that of correspondents in the rest of the financial system. Since 2009, they have been processing 970 transactions per month compared to an average of 220 in the financial system generally. Between 2015 and 2020, the average has increased significantly, not only in number to reach 1,600 transactions per month, but also the total value of funds handled per service point increased by 2.4 times to US\$198,000 per month on average by 2020. These transaction levels are maintained across the different sized municipalities served, as a result of the bank's commercial offering. This has generated a business volume that is sufficient for correspondents to maintain their exclusivity agreements without affecting the sustainability of the channel.

Bancolombia's financial inclusion and growth process has paid off. By 2021, some 16.9 million Colombians were customers of the bank, and had access to at least three financial products at no cost. When small and medium enterprises (SMEs), firms, and corporate and government clients are included, the customer base is even larger. These results reflect the progress that Colombia has made on financial inclusion: by 2021 the proportion of adults with access to at least one financial product had risen to an estimated 89.4 percent, compared to 56 percent in 2008.

Other strategic developments by Bancolombia for financial inclusion

Bancolombia has developed a variety of initiatives and products aimed at tailoring the bank's product range to segments beyond its traditional scope; and correspondents have been fundamental in supporting the larger volume of transactions implied by the growth in customers. Correspondents also provided a solution at a per-transaction cost that made it feasible to handle a substantial demand for lower-value cash transactions, which would have been impossible if the bank had relied solely on branch-based coverage. Even in the bank's latest developments aimed at fostering greater digitalization, such as the *A la mano* and *Nequi* Apps, correspondents have played a fundamental role in giving customers the assurance that if they need cash, it will be close at hand.

The initiatives that the bank has advanced to deepen its footprint in the country's financial inclusion are exemplified by the following:

***Mi Negocio* [My business]:** supported by a USAID program in Colombia, which had coordinated support for the public financial inclusion strategy launched in 2007, the bank developed the *Mi Negocio* product with a view to serving microentrepreneurs in urban areas. This credit product replicated the credit risk management methodologies developed by microfinance NGOs to serve this segment. Initially, this service model was concentrated in specific branches; but in 2017 it started to cater to the microentrepreneur segment in all branches, adapting the risk models to credit factory processes.

International remittances: In 2006, Bancolombia was invited by the Inter-American Development Bank (IDB) to form part of an initiative to provide alternative remittance services to Colombians abroad, who, at that time, had to pay very high commissions when sending money to their relatives. This made it possible to create a mortgage loan facility for emigrant Colombian families. Today, remittances can be associated with an account, which meant that by 2021, 89 percent of total remittances received could be paid directly into recipients' accounts at Bancolombia.

Ahorro a la Mano [Savings at hand]: as part of the Gateway to Financial Innovations for Savings (GAFIS) project, operated by BFA and promoted by the Bill & Melinda Gates Foundation, Bancolombia developed the *Ahorro a la Mano* account, which was launched in 2013 with simplified remote account opening from a cell phone. Initially, this was SIM card-based using SIM toolkit technology, but in 2018 the smartphone app was launched. This inclusion solution was designed to be supported as part of the commercial services provided by the correspondents, who advise and support customers in opening an account by cell phone, receiving a special commission for doing so. Recently, Bancolombia *A la Mano* was boosted during the pandemic, through its involvement in the distribution of subsidy payments under the *Ingreso Solidario* (Solidarity Income) program. Prior to the pandemic it already had 2 million customers, and by end-2021 the number had risen to 5.92 million.

Small-value loans: authorized in 2015, Bancolombia was the first bank to launch this product in the market, associated with the *Ahorro a la Mano* account.

Bancolombia's *A la mano* App: since its launch in 2018, this app has been marketed as a platform providing services to individuals at the base of the income pyramid, who have traditionally been excluded from the financial system, owing to its complexity and costs. The platform was thus positioned to make financial inclusion a reality. It offers financial and nonfinancial products and services that are convenient and suited to the type of customer it serves, along with a channel, the correspondents, adapted to their needs, reflecting the effort to provide a value proposition that is relevant to these segments.

Nequi: responding to the bank's aim of competing with Fintech companies, *Nequi* was created in 2015, following the establishment of an innovation center within the bank to understand and respond to the new financial market trend. *Nequi* is essentially a "neobank" within the bank, with full autonomy, its own technological platform, and its own network of correspondents, including an account originally targeted to young people. As a result of the pandemic, it received a massive number of customers owing partly to the need to make remote payments, as well as to its involvement in subsidy payments under the Solidarity Income Program. Thus, from serving as a mobile wallet with 1 million customers in late 2019, its customer base grew to 2.5 million in June 2020 and continues to grow, having attained a total of 10 million customers in 2021.

Territorio QR: to continue making progress with the comprehensive vision of inclusion, based on experience obtained with previous products, Bancolombia made it a priority to close the ecosystem by promoting a new model for accepting electronic payments with QR codes. By February 2022, it already had 1 million QR points in 636,000 commercial enterprises. As a result, the bank's QR codes represented 47 percent of digital payment acceptance points in the country. To make the formalization of payments attractive, Bancolombia offers commercial enterprises the potential to sell its products to 16 million customers (6.5 million Bancolombia customers using the app, 7 million active *Nequi* customers, and 2.5 million Bancolombia *A la mano* customers) through transfers between accounts in the same bank.

1 Introduction

The Consultative Group to Assist the Poor (CGAP) is implementing a three-year project on Digital Financial Service (DFS) distribution networks aimed at sharing current knowledge on cash-in/cash-out networks in rural areas in six countries: Indonesia, India, Pakistan, Morocco, Côte d'Ivoire, and Colombia. Lessons from work in the different countries will be shared with a global audience to inform the global financial inclusion agenda.

Many countries have made initial progress in serving rural areas through various types of distribution networks. However, these networks are often disconnected from national financial ecosystems owing to frictions in the business model among providers, and constraints imposed by regulatory and policy frameworks.

The research conducted in the Colombian case within the CGAP project titled “Agent Network Journeys Toward the Last Mile: A Cross-Country Perspective” at the global level revealed successful agent models in private financial institutions such as Bancolombia, which is the focus of this case study. To this end, this document starts in Chapter 2 by briefly describing the history of the bank and, hence, the origin that enabled the development of Bancolombia’s correspondent model, with a view to identifying the success factors that emerged from the outset as part of a comprehensive strategy implemented by the bank to make a substantial contribution to financial inclusion.

Chapter 3 explains in detail one of the most important factors of success—the correspondent’s connection with the mobile advisers—and then goes on to illustrate the two phases of evolution and development of banking correspondents in Bancolombia. Chapter 4 illustrates the two phases in detail, providing a detailed description of the different correspondent formats that have enabled Bancolombia’s correspondents to spread throughout the country. Lastly, Chapter 5 describes the different products developed by the bank within its inclusive product range, which has played a key role in integrating correspondent banking with the bank’s other channels, as it provides financial products that are useful to the population. This is undoubtedly one of the key factors explaining the bank’s success in deploying the banking correspondent model profitably in all types of urban and rural municipalities in Colombia.

We would especially like to thank the CGAP and all Bancolombia staff and former employees who generously shared their experience in these more than 15 years of development of the bank’s correspondent model. We would also like to thank the managers, aggregators, and partners of the bank’s correspondent model for their generous contributions to this case study.

2 Development of the correspondent model made it possible to consolidate a multi-segment bank of national coverage

The reason why Bancolombia was the bank that initially took the lead in developing the banking correspondent channel has much to do with its history.

Banco de Colombia, one of the banks that gave rise to Bancolombia, was founded in Bogotá in 1875, and during its history experienced mixed fortunes until it was nationalized in the 1980s and then privatized in the 1990s. In 1997, Banco Industrial Colombiano (BIC),¹ which was a smaller bank with a corporate profile, took over Banco de Colombia, which was the largest bank in Colombia in terms of number of customers and had the largest private sector coverage, and then merged in that same year.

In the first few years after the merger, the main challenge was to consolidate an efficient operation that would support the strategic decision to convert the bank into a universal, multi-segment bank. This partly involved developing cost-efficient physical coverage, given that part of the branch network was redundant, and another part, especially in smaller and more rural municipalities, was not sufficiently profitable.

In 2001, Bancolombia had 453 branches in 138 of the country's 1,089 municipalities. Of the total number of branches, 79 were located in 73 rural municipalities across Colombia, while Banco Agrario (the public bank) had 683 branches, of which 602 were in rural municipalities.

See World Bank, "Colombia: Rural Finance - Access Issues, Challenges and

At that time, it was not an option to stop serving municipalities in which they already had a presence, so it was necessary to develop a service model that would generate more business in each branch.²

From an operational efficiency standpoint, the bank had high operating costs owing to the cost of the branch network, which was the largest of any private bank in the country. It therefore needed to find operational management models that would enable it to continue serving the communities in which it was operating at a loss, or to expand into municipalities where it saw some business potential but not enough to open a branch.

The way to achieve this arose from the initiative of a very dynamic branch manager in the southern part of the country who, in 2003, decided to serve the residents of a neighboring municipality by taking a commercial team to visit them on certain days of the week. This initiative was so successful that the bank decided to turn it into a structured service model and expand it to other areas. This gave rise to mobile advisers, as this itinerant sales force is known in the bank.

¹ Founded in Medellín in 1945

² Based on interview with Santiago Pérez, Vice President of Personal Banking at Bancolombia from 1998-2015

The number of mobile advisers expanded gradually from 2002 to 2007. However, in the process it became clear that a transactional solution was needed that would enable customers connected through the mobile advisers to use their products to make payments, withdrawals, and deposits. To solve this problem, it was decided to use a transactional tool developed by Conavi, another financial entity in the same group,³ with which it merged in 2006. Conavi was a mortgage bank with a very strong record in attracting savings. It had developed a transactional solution based on a special dataphone (Conavitel) located in customer businesses that had large volumes of payment transactions (e.g. schools or high-activity stores). This enabled cash transactions to be made against online transfers to a Conavi account.



This model allowed Bancolombia to make use of Conavitel, installed in the premises of a merchant in the municipality where there was no other transactional infrastructure. Customers were able to withdraw cash against an online transfer to the merchant's account. At that time, the mobile advisers served their customers in a central location in the town, and sometimes at sites made available by the municipalities; so they indicated to customers in each municipality where Conavitel was located for carrying out transactions.

This solution had been in operation for several years until 2005, when the Superintendency of Financial Institutions started to question the model, as there was no regulation authorizing this type of service to be provided through third parties.

This moment coincided with the formulation of the country's financial inclusion policy in 2006,⁴ which led to explicit authorization being given for financial services to be provided through third party banking correspondents. In July 2006, Decree 2233 was issued authorizing financial entities to provide financial services through correspondents under their responsibility, which allowed Bancolombia to continue developing the transactional solutions it had already begun with Conavitel in the municipalities where it had already deployed mobile advisers.

³ Conavi was part of a group of saving and housing corporations created in the 1970s and specialized in mobilizing current account savings from individuals for the purpose of granting long-term mortgage loans. Facing a macroeconomic crisis, similar to the one that would later be experienced by savings and loan associations in the United States, a rescue plan was implemented that required them to be converted into commercial banks, as ordered by Law 546 of 1999. Nonetheless, since the second half of the 1990s a strategic partnership had been launched between Conavi and BIC to take advantage of technological developments and reduce operating costs. (Semana Magazine)

⁴ Decree 3078 of 2006 created the Banca de las Oportunidades Investment Program, which has been the backbone of the country's financial inclusion strategy for the past 15 years. See www.bancadelasopportunidades.gov.co



Don Excelino Santoyo (r.i.p.), the first banking correspondent in Colombia, with his wife, who continues as a correspondent of Bancolombia in Chipatá, Santander.

Thus, Bancolombia was the first bank to install a correspondent in Colombia, as soon as the authorization decree was issued. This first correspondent was opened in Chipatá (Santander), a municipality in which there was no other financial institution at the time. It was launched during a live broadcast at the Banking Convention in August 2006, and demonstrated its commitment to the financial

inclusion strategy launched by the National Government through the creation of the *Banca de las Oportunidades* [Opportunities Bank] Program.⁵

This was when the story of banking correspondents in Colombia began.

⁵ The story of Don Excelino Santoyo, Colombia's first correspondent. https://www.youtube.com/watch?v=ZpHMx_UCREs

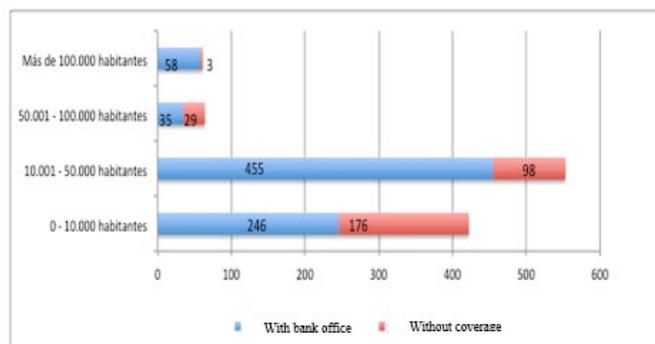
What did the financial inclusion situation in Colombia look like in 2007?

“In 2006, the low-income population had little access to saving instruments.

- The main product connecting the population to the financial system was a savings account. According to calculations by Asobancaria, nearly 12.3 million people had a savings account—equivalent to 51.1 percent of the adult population.
- Nonetheless, in surveys, only about 32 percent of the population reported having a savings account, which possibly corresponded to accounts that people actually used, i.e. active accounts.

In terms of the coverage of financial services, 28 percent of municipalities in Colombia did not have points of access to financial services provided by formal entities in 2006. The predominant service channel consisted of branches located mainly in cities with larger populations, owing to the difficulty of covering the cost and being able to make a branch office profitable in rural areas with few inhabitants.

Financial coverage - Number of municipalities by population range and availability of bank branches, 2006



- Of Colombia’s 1,100 municipalities, 513 were served exclusively by the BAC and 309 did not have banking services; 872 were not served by cooperatives; and 755 did not have services provided by a microfinance NGO.
- Coverage was concentrated in predominantly urban municipalities, where 61 percent of the population lived.

Coverage was represented by indicators of the number of branches per 100,000 adults and the distance to a service point. These indicators stood at 13.3 per 100,000 adults, and 68.8 service points per 1,000 km².

Source: *Banca de las Oportunidades*, on the basis of information obtained from the Superintendency of Financial Institutions. Figures as of June 2006.

Source: Marulanda Consultores, for USAID Public Policy Program. USAID Support for Colombia’s Financial Inclusion Policy Nov. 2013.

Table 1. Summary of the key regulations issued in Colombia on banking correspondents

Regulation	Summary	Authorization	Services Authorized	Operational requirements and technical characteristics of the terminals	Contract	
2006	Decree 2233 of 2006	Initial regulation was very detailed and did not explicitly authorize the opening of accounts from the correspondent and required the use of a single-purpose device.	Credit institutions (banks and nonbanks) were authorized to provide services through third-party correspondents under their responsibility. These third parties could be natural or legal persons serving the public in their own or third-party premises.	Account opening was not explicitly authorized, but the collection and delivery of documents related to the authorized services were authorized, including those related to the opening of current, savings or term deposit accounts, as well as those related to loan applications. The promotion and advertising of services through correspondents was also authorized.	Operations must be carried out solely and exclusively through electronic terminals connected online to the technological platforms of the corresponding credit institutions. The design of that terminal was included, with the stipulation that it serve as a special purpose terminal beginning in July 2007.	The general contract model had to be submitted to the Superintendency of Financial Institutions (SFC) for prior approval. The minimum content of the contract was defined by decree.
2009	Circular 53 of 2009 of the SFC	The SFC clarifies some aspects of the correspondent system.	It was clarified that correspondents could act as authorized third parties to carry out the procedures for opening accounts for financial products, including the interviews needed for contracting with the customer.	Mobile devices were included in the definition of the terminal. The obligation to use a specific-purpose terminal was eliminated, and it was clarified that the transaction documentation did not have to be printed.		
2015	Decree 1491 of 2015	Regulates some of the rules applicable to online deposits and the use of correspondents.	Established that the ordinary procedure for opening online deposit accounts could be carried out in the network of correspondents, agencies, and branches of the respective financial entity; also, the use of the simplified account opening procedures for online deposits.			
2020	Decree 222 of 2020	Collates and updates all correspondent rules while authorizing correspondents that have no physical infrastructure. Includes the possibility of interoperability and the use of prepaid and postpaid models. Establishes the obligation to take out insurance if certain limits are exceeded in cash management, and to safeguard cash.	Mobile and digital correspondents were authorized by expanding the definition of correspondent, as a third party through which they provide their services in fixed physical premises, or through mobile and digital facilities. The correspondent may provide these services independently from its main economic activity.	With prior authorization from the financial institution in question, correspondents may act as authorized third parties to carry out the procedures needed for the institution to contract with customers for the opening of accounts and the establishment of deposits. As a general rule, transactions carried out through correspondents must be executed online and in real time. However, the regulation allows certain services (payment, collection, money transfer, cash deposits and other cash-in procedures) to be performed offline through a mobile correspondent, in areas with low or limited communication network coverage. In this case, institutions must ensure that the operations in question are recorded and entered in the institution's systems no later than the end of the day on which the funds are delivered by the customer. In all cases, they must automatically generate the documentary support for each operation to be delivered to the client, without which they cannot provide any service.	The contract template must be available for review by the SFC at any time (it no longer requires prior authorization).	

3 The perfect marriage: a commercial adviser with a correspondent in municipalities where the bank had no branch

From the outset, Bancolombia viewed the correspondent channel as instrumental in providing a transactional solution to municipalities in which it already had mobile advisers deployed. In contrast, the other banks that developed this channel in Colombia used it to decongest their branches and in particular for payment transactions.

That is why it decided to develop the correspondent channel under a one-to-one model associated with mobile advisers. This made it possible to learn first within the bank about the modes of contracting, training strategies, and the information to be delivered to the customers and to the correspondents themselves. The strategic importance of this channel and the need to guarantee the value proposition and customer



experience even in a store led the bank to decide from the start that its correspondents would have an exclusivity contract—an issue on which the regulations in Colombia were silent (neither for nor against).

From the outset, the decision was made to locate the mobile adviser in the physical place where the correspondent was located, consolidating the union of the sales force with the transaction point. This is what the bank refers to as a Mobile Service Point (*Punto de Atención Móvil*, PAM).

Over the years the bank has developed a model for managing mobile advisers and PAMs that involves several elements. A mobile adviser may serve two or three municipalities, which he/she visits and serves in the PAM of each municipality of the correspondent's store or business. These mobile advisers are also attached to a branch office from where they travel to nearby municipalities, and they report to a regional manager of mobile advisers.

Management plans and business targets are defined for each PAM, against which each adviser's activity is monitored. The business volume targets to be achieved by each adviser start with the accounts of the mayor's office, the stores and businesses that exist in the municipality and, in general, of all its inhabitants.

The portfolio of products offered spans the full range of the bank's services, with no specific products for a certain population type, offering a service model that meets their needs. The mobile adviser has the tasks typically assigned to a commercial executive in a branch, while the correspondent supports the operation in cash-in and cash-out transactions generated by handling of the financial products of the bank's customers. The commercial functions of correspondents are more recent and will be described in Section 5—specifically in easy-to-open accounts for products developed for the base of the pyramid.

The days that the adviser visits a municipality typically coincide with market day, as this is when rural inhabitants go to the town center to sell their products and/or make purchases.

Thus, a perfect union has been consolidated, in which the commercial offering is accompanied by the transactional network.

The results achieved by the bank through the PAMs are impressive:

- In 2008 it had a presence in 592 municipalities in Colombia, compared to 131 in 2001. In 94 municipalities, it was the only bank, and in another 233 it was the only private financial institution.⁶
- By 2009, 477 PAMs were reported to be in operation; and, by that time, 15 had been converted into branches.⁷
- In 2013, the number of PAMs reached a peak; 723 served through 280 mobile advisers, before slipping back to 500 in 2020.⁸

Zona centro de Colombia
Aquí cuentas con un Asesor Móvil Bancolombia

Quiero contarte que Bancolombia y sus Asesores Móviles ahora están más cerca de ti, de tu día a día y de tus sueños.

Contamos con un amplio portafolio de servicios para satisfacer tus necesidades, las de tu familia y las de tu negocio y todo porque queremos hacerte la vida más fácil.

Ven, conócelos y vívelos.

- Para administrar tu dinero, comienza con:**
 - Cuenta de ahorros
 - Cuenta corriente
 - Cuenta de Ahorro a la Mano
 - CDT y fondos de inversión
- Para comprar tu carro o moto, comienza con:**
 - Crédito de Vehículo
 - Seguro de Vehículo y
 - Seguro de accidentes
- Para comprar tu vivienda, comienza con:**
 - Crédito hipotecario
 - Leasing habitacional y
 - Crédito para reformas
- Para proteger el futuro de tu familia, comienza con:**
 - Seguro de vida
 - Seguro de desempleo y
 - Seguro Plan hogar
- Si sueñas con hacer crecer tu negocio, comienza con:**
 - Cartera ordinaria
 - Cartera microcrédito
 - CreditAgil y Creditpaga y una
 - Línea de Financiación para el agro: Agrofácil y Finagro
- Para irte de vacaciones o comprar lo que más te gusta, comienza con:**
 - Crédito de libre inversión
 - CreditAgil y
 - Tarjeta de Crédito Bancolombia
- Si quieres ahorrar, comienza con:**
 - Crédito a corto y largo plazo para pagado
 - Crédito largo plazo posegado
- Para asegurar tu negocio, comienza con:**
 - Plan Pyma protegido

Así de fácil y así de seguro. Ven queremos conocerte, cuentas con nosotros.

Es el momento de todos **Bancolombia**

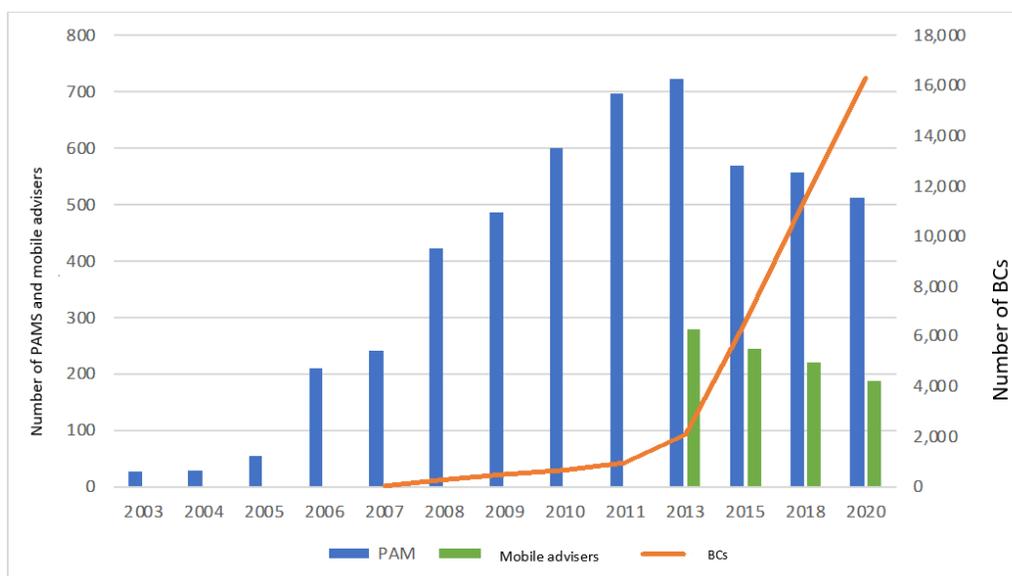
⁶ Management Report, 2008

⁷ Presentation by Carlos Esteban Posada: “Acceso a la banca: Caso Bancolombia”, Seminar in Brazil on correspondents, CGAP, 2009

⁸ Presentation by the Directorate of Inclusion Programs.

- It is estimated that by deploying mobile advisers, the bank was able to serve 500,000 customers between 2003 and 2021.⁹

Figure 1. Number of PAMs, mobile advisers and correspondents, 2003–2020



Sources: Bancolombia presentation at CGAP Banking correspondent Seminar in Rio de Janeiro, Brazil, Sept 2009; *Banca de las Oportunidades* and Bancolombia financial inclusion presentations.

4 Evolution of the correspondent channel

4.1 Initial evolution

The expansion of correspondents was initially limited to keeping pace with the coverage of the PAMs; however, as from 2012, the channel acquired its own identity and began a rapid expansion.

To serve the growing number of customers, either by absorption and incorporation of other financial institutions, or by the expansion of the bank’s customer base, the channels had to support the increased transaction volume. That is why the bank strengthened its correspondent network, one of several strategies implemented in its distribution network. Initially, it did so according to the “one-to-one” model, i.e. engaging each business or merchant individually, based on an internal unit responsible for undertaking the different tasks, from profiling to operation, which slowed down growth in the number of correspondents. This made it possible to gain a full understanding of the dynamics, challenges, and risks of this new channel, as well as its potential. This dynamic continued to operate until 2012.

⁹ Infographic celebrating 15 years of correspondents in Bancolombia

In that initial phase several challenges had to be overcome: the technology to be used, how to manage liquidity and rebalancing, and how to propose the business to the correspondents, laying the groundwork for further expansion.



4.1.1 Challenges faced in the learning process

Which technology should be used?

At the time of launching the channel, the alternative found was a Diebold machine (developed in Brazil for Caixa correspondents that also sold lottery tickets). This machine was very bulky but

made it possible to comply with the initial regulation of the Superintendency of Financial Institutions, which stated that the device had to be for exclusive use (see table 1).

The machine even required a special table because it did not fit on the merchants' typical shelving. For that reason, initially the merchant was given the furniture and the machine and was paid rent for installing all this equipment in the store. This machine was eliminated in 2012 when the Bank entered a partnership with Redeban and Credibanco, the two dataphone networks operating in Colombia. These entities supplied the device, which was a traditional dataphone, and provided the platform for connecting it to the bank's core system. This remains the technology used in all correspondents.

However, the equipment needed to make the connections was not the only challenge. Since many of the bank's correspondents were located in rural municipalities where internet coverage was weak, most of them had to install satellite antennas, paid for by the bank, to satisfy the regulatory requirement that they be connected online and in real time (see table 1).



How to improve management of liquidity and rebalancing?

From the start, a post-payment engagement model was proposed, i.e. the granting of a loan to support the correspondent's operation without compromising its working capital. This

meant using a proprietary risk assessment methodology, which gave rise to a whole discussion as to whether it was a credit risk or an operational risk. The latter was decided on, as a way to ensure that the bank's customers were adequately served. This consideration also led it to grant credit lines that were large enough to sustain the correspondent's operations, especially in the most remote rural areas.

Rebalancing was a major challenge in rural municipalities where correspondents were the only financial presence or where the only other entity was Banco Agrario —a bank with which it has not been possible to reach an agreement that would allow them to buy cash from or sell cash to the correspondents. In view of this, there was a clear need to increase liquidity credit lines to enable the correspondent to work without restriction, in a model that still generated liquidity surpluses since cash-in far outweighed cash-out operations. The credit lines grew from Col\$ 1.5 million (US\$400)¹⁰ to levels as high as Col\$ 45 million (US\$12,000) today, together with an extension of the rebalancing period, thereby minimizing trips to other municipalities to deposit surplus cash.¹¹ Nonetheless, it was also clear that involving correspondents in a commercial strategy of serving different segments with different products would make it easier to balance cash-in and cash-out transactions. This has indeed happened, as will be seen in Section 4.4.

The bank has diversified the type of businesses and locations that it designates as correspondent, but in all cases, to date, the contract continues to be postpaid.

How to present the business model to the correspondent?

The bank has been very active in developing different strategies to make the correspondent profitable. Originally it paid them a fixed monthly amount, mainly as a fee for the occupation of a physical space in the store, when working with the large machine, and to pay for the space occupied by the PAM. However, it soon switched to a model that paid a fixed fee per transaction, differentiating between cash-in and cash-out transactions, and a lower fixed fee for nonfinancial transactions that do not involve the movement of money (such as balance inquiries).

For the bank's customers, the correspondent channel is provided free of charge for most transactions, depending on the type of account they operate. For example, the channel is free of charge for customers who pay monthly administration fees. In mobile wallets in which the main channels are ATMs and correspondents (see sections 5.3 and 5.6) it varies, since

¹⁰ Despite changes in the exchange rate of the Colombian peso against the dollar, the June 2021 average level of Col\$ 3.750 per dollar will be used throughout this document.

¹¹ The most extreme case occurred in a municipality where its branch office burned down. In the ensuing days the correspondents' credit line was raised to Col\$ 70 million, which at that time would have been equivalent to US\$20,000. This aimed to ensure the provision of transaction banking services in that locality until the facilities were rebuilt, thereby demonstrating the advantages of the correspondent network as a complement to branches. (Anecdote recounted by Alejandro Toro, Channels Manager 2012-14.)

Bancolombia *A la mano* charges Col\$ 1,900 (US\$0.50) for withdrawals at a correspondent (except for subsidy-paying customers); in contrast there is no charge at ATMs, while withdrawals via *Nequi* are free in either of these channels.

By 2012 the bank had overcome all of these challenges and continued to base the development of correspondents on the one-to-one model, managed entirely by an internal unit, having achieved a network of 1,143 connected businesses covering 73 percent of the country’s municipalities.¹² In that year, a new stage began, recognizing that the one-to-one model was indeed the bank’s great strength, but its management model had to be rethought to keep pace with the growth in operations generated by the bank.

Expansion of correspondent coverage became a public policy objective

The long-term financial inclusion policy was launched in 2006 with the creation of the *Banca de las Oportunidades* program to implement the policy. The program received public funding of US\$60 million, which it used to finance the incentives and various programs it has developed. Since its creation, it has launched 97 tenders aimed at stimulating expansion of the coverage of financial entities and the design of financial products for excluded population groups.

Since 2007, *Banca de las Oportunidades* has launched several calls for proposals to set up correspondent services in 284 municipalities without coverage and poor neighborhoods in the main cities. Since 2018, two additional tenders have been launched: one to provide technical assistance to three entities to comprehensively improve the services offered by the correspondent channel, and the other to set up mobile correspondents for financial cooperatives using digital technology.

Tender	Winning bidder	Results	Cost
1. Number 6 Year 2007	Banco Agrario	128 municipalities	Budget: US\$1.6 million Final cost: US\$850,000
2. Number 27 Year 2009	Banco Agrario	59 municipalities	Budget: US\$1.7 million Final cost: N/A
3. Number 29 Year 2009	Banco Agrario (2 neighborhoods) Banco Caja Social (20 neighborhoods)	(2 26 neighborhoods in 5 major cities)	Budget: US\$366,000 Final cost: N/A
4. Number 93 Year 2018	Fundación Capital - 4 financial institutions and 2 network managers	27 municipalities in 5 departments of Colombia: Cauca,	Budget: US\$369,000

¹² Management Report 2012

				Cundinamarca, Huila, La Guajira, and Tolima.	
5. Number 95	Fundación Capital	–	Technical assistance	completed. 100	Budget: US\$461,500
Year 2019	Fundación Sparkassenstiftung		correspondents were opened in 7 cooperatives.		

Source: [Banca de las Oportunidades](#).

4.2 Subsequent phases of expansion and the development of various formats

Since 2012, the bank has encountered various strategic situations that have entailed major changes, leading the channels division to diversify the correspondent management models, not only to enable faster growth, but also to explore and define new correspondent models that would make it possible to meet the bank’s various strategic objectives (alongside other strategies in the other channels). Within these models, it is becoming increasingly clear that the bank prioritizes financial inclusion and expanding services to the personal and microenterprise segment. It is on the basis of these initiatives that the bank’s channels division has been formulating the different models that it currently uses and which the bank now refers to as “formats.”

By that time the bank already accounted for most of the country’s transactions, which meant assuming one of the costliest parts of its operating structure, namely cash management. Customer lines were growing longer and longer, but the bank could not expand its branch network owing to the costs involved. In response to this, new correspondent channel management models were introduced to make it possible to respond more effectively to the various challenges posed by the bank’s positioning and growth. Each of these models is a response to various objectives:

How to speed up growth? At that time the bank understood that, while the one-to-one model it had been developing was still the model to be consolidated, an administrative structure was needed with the sole objective of enabling the correspondents to grow at the pace required by the bank. As noted above, by now the bank had already accumulated the necessary knowledge of the correspondent operation, which made it easier for it to start operating correspondents through third parties. Thus, the decision was made to outsource the correspondent operation that had been developed for the one-to-one format, which resulted in what is known today in the bank as the *manager* format. Later, to boost growth further, it was decided to partner with existing recharge networks as *aggregators* of the one-to-one model.

How to position itself in people’s daily lives? Given the movement of other banks, but also to take advantage of other types of relationships maintained with large-scale retailers in Colombia (such as branches inside Éxito stores), partnerships were forged with large supermarkets such as Éxito and Olímpica to enable their customers to carry

out their transactions at the stores' cash registers, thereby giving rise to the **retail** format.

How to free up branches that were heavily congested in urban areas? The bank was faced with the need to redirect customers served in the big-city branches to nearby points that guaranteed the same standards of service.

Initially, they decided to replicate the one-to-one model in cities as well, but found that the necessary transaction volumes were not being generated. In addition, monitoring of the transactions of these correspondents showed them to be saturated and unable to serve customers adequately. To solve this problem, the bank launched a pilot project by installing a booth inside the bank's most congested branches in big cities. The aim was to encourage customers to use correspondents and thus avoid long lines forming at the branches. This pilot also revealed how specialized tellers achieve very high productivity in cash-in and cash-out transactions.

Based on this evidence, they designed correspondents within the **robust** format as transaction points operated by third parties, in which bank customers can carry out most of their transactions, especially those related to cash withdrawals, and thus help decongest nearby branches. For this purpose, they identified several nonbank collection networks that had been developed with a regional focus, for the payment of public utility rates.¹³ These have changed over the years, but the model of a network of businesses specialized in cash advance and cash management transactions, without having an additional business such as a store or drugstore, has been consolidated.

The results of the rerouting strategy quickly became clear and confirmed this model to be a highly efficient complement to the channel strategy. In 2017, a total of 1,335,334 transactions were routed, of which 687,221 were directed to our banking correspondent network, 387,984 to multifunctional cash points, and 226,800 to virtual channels; while 33,329 transactions that tended to be repeated with some regularity were routed to automatic debit, whereby the customer schedules the operation and the frequency of the transaction and the bank henceforth executes it for the customer.¹⁴

4.3 What are the characteristics of the formats?

The different correspondent formats have many elements in common. In terms of technology, they all use dataphones provided by the Credibanco and Redeban networks, which thus far are the main suppliers of these devices for accepting electronic card payments in Colombia. The dataphone is provided under a commodatum contract, the same as is used in traditional

¹³ Banks had decided to cease collecting utility charges for noncustomers in the late 1990s.

¹⁴ Management Report 2017.

acquiring, i.e. the equipment is not the property of the merchant or of the partners contracted to operate them.¹⁵

In terms of fees, the remuneration paid to the correspondent is the same irrespective of format—a fixed amount per transaction performed, although varying according to transaction type.

To guarantee service quality to customers, the transactions that can be carried out and the respective maximum amounts are the same at all correspondents.

Table 2. Maxima per transaction

	Transaction ceilings
Cash-out	Col\$ 4.0 million (US\$ 1,050)
Deposits and payment collections (cash-in)	Col\$ 3.0 million (US\$ 790)
OTC domestic drafts	Col\$ 2.5 million (US\$ 657) (3 SMLMV)

In most cases, the remuneration per transaction paid to partners is variable. In relative terms, partners that handle the robust format are paid more for each transaction, reflecting the level of investment and the risks they assume; retail is paid an intermediate rate, and one-to-one managers and aggregators are paid a lower rate, although always sufficient for it to be a profitable business for all parties. The average cost of a transaction at a correspondent is substantially lower than the cost of the same transaction at a branch or ATM.

Since 2012, the bank has been consolidating relationships with partners and gaining a better understanding of the dynamics and opportunities for which the various formats are a more effective response. This has led them to define a mix of formats that serves as a guide for defining channel expansion targets so that distribution is maintained. The mix makes it possible to achieve the most cost-efficient model to serve the transactional needs of the bank’s customers, given the costs and differential productivity of each point, depending on the format.

The specifics of each format are described below.

4.3.1 One-to-one format

The one-to-one format was what the bank started with and is considered its greatest strength. As noted above, this modality was initially operated directly by the bank, and later through

¹⁵ <https://ptm.com.co/corresponsalbanacolombia/>

managers and aggregators. The two models are used indistinctly at the national level, both for cities and for smaller municipalities.

The correspondent contracted under either of these two models offers the same experience to the customer, since it is always in the store, pharmacy, or small business that a Bancolombia customer can carry out transactions. The bank specifies where to install new points and asks the manager or aggregator to identify new stores/businesses in the required areas (albeit with minor variations, as described below). The bank has a policy that a point cannot be less than 200 meters from another point in cities and 60 meters in smaller towns, so as to keep everyone in business and ensure a high level of transactions.

An important element for ensuring the quality of the operation, so that the correspondent has the wherewithal to operate and is not blocked, is the size of the line of credit granted. At present, the minimum credit line for a correspondent under the one-to-one format, in either of the two models, is Col\$10 million (US\$ 2,650), and the maximum is Col\$45 million (US\$ 11,800), which is scaled up based on the time for which the entity has been a correspondent. As time passes, the credit line increases with the expectation that after six months a point reaches maturity, defined as the break-even point necessary for the bank to maintain it. Nonetheless, the correspondent must reconcile accounts once a month, either with cash-in and cash-out balancing at some moment, or by going to a branch to deposit excess cash.

Risk management is perhaps one of the areas where the bank has developed most, since thus far all correspondents operate under a post-payment model, based on an operating credit line granted by the bank so as not to compromise the merchant's working capital. To this end, the bank has developed in-house analytical models for granting and updating the credit line, complemented with models to predict the probability of embezzlement or theft, and models that detect malpractice such as splitting transactions, "*jineteo de recursos*" (using the liquidity of banking operations for other businesses), and fictitious transactions to obtain higher fees, among others.

The main differences between one-to-one correspondents managed through managers and aggregators are in the back-office, as described below.

4.3.1.1 One-to-one with managers

In practice, these managers act as the bank team responsible for the operation and dealings with the correspondent points. That is why they have exclusive management contracts with the bank. For this purpose, the bank sought firms with extensive knowledge of the traditional commerce channel, such as neighborhood stores, and its operation is divided by geographic regions. The largest of these firms is Valemas, which specializes in store loyalty for various mass consumption businesses (see box). The other is Reval, which also operates the robust correspondent format. Its operation is divided into five regions that reflect the regional management groups into which the bank's general operation is divided.

Managers have specific functions in terms of responsibility in the management and development of correspondents. The manager visits the points to be connected (based either on referrals from the bank's branches or on requests received, together with their knowledge of the street) within a joint process in which the bank indicates the areas it requires to be covered. Once the manager identifies the point, the bank undertakes the know-your-customer (KYC) process¹⁶ based on all the documentation collected by the manager, and then connects it through the dataphone installation and thereafter to the platform with its specific credit line data.

Allocation of the line of credit, follow-up of the operation of these points, transactional monitoring and the risk of the operation are all assumed by the bank, using analytical tools and risk prediction models developed in-house. By following up on transactions, the bank monitors liquidity management and the credit line, to be able to make decisions such as blocking the operation, for example. The direct daily contact and dealings with the correspondent are done by the manager.

Valemas: the partner with which it developed the management format

Origin. This company was created in 2011 to respond to the need to create a loyalty plan for the main merchants of Postobón, one of the leading soft drink manufacturers in the country, because of the importance of the traditional retail channel in Colombia.

The firm has been growing and diversifying not only in terms of its number of customers but also in terms of business lines. One of them, for example, arose from its knowledge of the traditional channel, which allowed it to create the Trade Marketing line, with field teams that can carry out their work in a cost-efficient manner. They provide mass consumption firms with the design and management of loyalty plans, along with the possibility of implementing them in the field, such as mystery shopper projects, installation of point of purchase (POP) material, among other items.

Given the evolution of the traditional channel, Valemas has gone even further, and in late 2020 created ValePass. This platform, which to date has over 39,000 commercial enterprises and more than 20 brands and partners, centralizes incentives, which makes it possible to accumulate and redeem them as benefits that are relevant for their businesses and families. Unlike customized incentive plans, ValePass is an open platform that enables brands and partners to reach affiliated commercial enterprises cost effectively under a pay-for-performance model, aligning the parties' incentives.

¹⁶ [no footnote text]

Its role as manager of Bancolombia's correspondent network, today known as ValeNet, began in 2012 when the bank was offered its services, given its experience not only in the traditional channel but also in the deployment and management of field teams.

Services offered. Valemas has signed a contract with Bancolombia to perform the work of prospecting and direct service of correspondents on a one-to-one basis. The prospecting is based either on the company's own sales force, responding to a specific request from the bank to find points in a particular area, or from the databases that Bancolombia sends them of businesses that have expressed their interest. They collect the documentation that the bank requires to perform due diligence of each point; and, if this is approved, they make arrangements to provide them with original training, since Redeban and Credibanco have already installed their dataphone. Thereafter, they carry out the maintenance of the point, but they never have contact with the money handled in the correspondent business.

The personnel that manage the correspondent network already have over five years of experience; so they have a very broad knowledge of the correspondent business. They have a thorough understanding of the priority issues and the business model that the bank wants to promote.

The correspondent network may or may not coincide with the networks of commercial enterprises that the company manages in its other lines of business. In the future, the ValePass program could be a seedbed of potential commercial enterprises for the bank.

Formats handled. It has only developed the management format. The management work is done in three of the five regions managed by the bank.

Exclusivity. As a company, it understands that in its customer loyalty business, offering exclusivity would restrict its sales and growth significantly. However, in the correspondent business line, it has accepted this with Bancolombia, where it began many years ago. It also considers that it is not sacrificing anything and, on the contrary, sees growth potential not only to expand the network it manages for the bank, but also in the regions. It is also looking for ways to provide other services to the bank, such as managing Bancolombia's correspondent loyalty program, *Somos Bancolombia*.

Risk and liquidity management. Valemas does not take on risk, nor does it have a line of credit granted by the bank, since its work is purely administrative and operational, legwork. Given its knowledge of the channel, it achieves efficient prospecting and service levels that constantly improve the bank's correspondent service. Each correspondent's credit line is granted by the bank's risk department; and the transactional follow-up and monitoring is done directly by the bank, as is the monitoring of the management and balancing of the credit line and prevention of fraud.

Its remuneration plan is based on a fixed fee per correspondent managed, and a variable performance-based fee. This is based on several variables that measure the effectiveness and efficiency of the correspondents it manages for the bank.

Source: Interview with Daniela Ramirez, Vice President of Growth and Business Development at Valemas.

In terms of remuneration, managers are paid a fixed amount plus a variable component that depends on the quality of their work, measured mostly according to the productivity and performance of the correspondents. They do not assume risk, so their fee is less than that of the aggregator, which means that the total cost of each transaction is lower. Nonetheless, as already noted, the commissions paid to correspondents for each transaction are the same, regardless of the contracting format.

This format accounts for the largest proportion of correspondents and the one that the bank wishes to grow the most, since it is the lowest cost format and the one it considers can best control the customer experience.

4.3.1.2 One-to-one with aggregators

To speed up expansion of the correspondent network, the bank sought partners that already had an established network of points that would serve as correspondents. Initially, it approached cell phone recharge distributors. As a result, it partnered with two networks (Commercial Card, (under the trade name of PTM) and Districol, and then with two others (BQuantum and Conexred). The two original networks still account for around 80 percent of this format.

This format represents a much easier operation for the bank, because the channels division only deals with the five companies, since it does not have direct contact with the service points. The aggregator performs a prospection of the points, similar to that of the manager, based on its street knowledge, as part of a joint process in which the bank indicates the areas that need to be covered. The points to be connected are defined by the bank, based on those proposed by the aggregator, such that not all of the aggregator's network operates as a correspondent.

The aggregator handles the day-to-day dealings with the points and also assumes the risks. Thus, the identification of the points and the detailed KYC process is performed by the aggregator, subject to the policies set by the bank, which also carries out a parameter-based KYC process. Once the aggregator identifies the point, it is connected by installing the dataphone connected to the platform with its specific credit line data, following final approval by the bank.

The aggregator receives a global credit line that it distributes among the points, for which it sets an individual credit line and monitors the operation, within parameters in terms of

minimum and maximum credit lines defined by the bank. The individual credit line is reported to the bank; and the bank monitors the operation of each point online, since the dataphone is connected to the bank's platform. The bank then sends this information to the aggregator the next day on a daily basis. This allows the bank, for example, to block the operation of a point if it exceeds its credit line; but it also enables the bank to feed data to its predictive models. Rebalancing must be done by each service point at the bank's branches, to remain operational as it uses up its credit line; and it must also comply individually with the obligation to balance once a month, even if it does not attain the limit during the month. The rebalancing requirement is also managed by the aggregator in terms of its credit line, adding the liquidity accumulated by its points.

The aggregator is responsible for setting and managing the postpaid credit line with which it operates. This means that, if the correspondent suffers a robbery or loses the money, it is the aggregator who is liable to the bank. Nonetheless, to cover the risk, the bank asks aggregators to take out insurance policies. The aggregator in turn is granted a global credit line by the bank, which the aggregator then distributes among the correspondents it manages. The aggregator monitors the network on a daily basis; and the bank focuses on ensuring the quality of the service provided to its customers, and issues warning signals if its predictive models so indicate.

As noted above, in terms of fees and as a bank policy, points receive the same fee per transaction irrespective of whether they operate through a manager or an aggregator. The aggregator receives an additional fee to finance its operation. These fees are paid monthly.

Although these networks have been in the recharge business since their inception, the volume of bank transactions generated by their size, and the products and strategies developed, ensure that each point has a profitable correspondent operation, irrespective of format.

PTM: example of a network that operates two formats for the bank: one-to-one aggregator and robust

Origin. *Comercial Card* is a family business that was established in 2009 in Medellin (Antioquia), selling physical cards for cell phone recharges. In the ensuing years, it developed the virtual cell phone recharge platform, from which the PTM brand was created in 2011. At the same time, it began to collect invoices from the Antioquia public utility company, EPM. This triggered a growth phase and today it has 16,300 points, for which it has developed its own multiservice technological platform, with over 80 products in its portfolio and a presence in 774 municipalities in all departments of the country. It started with eight employees and now has a team of 180.

Based on this network, in 2012 Bancolombia approached it to offer the possibility of developing the correspondent business in the points where it was already selling recharges.

The contract with the bank was ultimately signed in December 2014, and by February 2015 the first eight stores were connected. To date, it already has 2,700 points with the bank, and is projected to continue expanding throughout the national territory.

During those years, two sons joined this family business to lead the firm's different strategies. One of them works in the development and improvement of the platform for connecting with merchants; and the other, who had worked in the development of the microcredit model in Bancolombia (see *Mi Negocio* in section 5.1), is in charge of the correspondent business.

Services offered. The PTM recharge network has continued to grow alongside the correspondent business, since not all who qualify for the former can serve as correspondents. It realized that the important thing is to strengthen its points business. Its interest in offering greater opportunities around the platform led it to develop various services to improve the income of the connected businesses:

- It was the first correspondent of insurance companies (collection of premiums and disbursement of claim payments).
- It has had the *Nequi* correspondent business since 2017 (Bancolombia's "neobank," see Section 5.6), using its own platform and the correspondent's laptop or cell phone at 7,000 points in the PTM network, unlike Bancolombia's that connect through the dataphone.
- It has direct collection contracts with public utilities, including with the EPM Group in Antioquia, ESSA in Santander, and CENS in Norte de Santander.
- It offers correspondent services to online deposit and payment companies (*sociedades especializadas en depósitos y pagos electrónicos*, SEDPES), in points of the network that do not have a Bancolombia correspondent (to comply with the bank's exclusivity requirement).
- Entertainment PINs for digital platforms such as Spotify, Netflix, Deezer, etc. and console games.
- Sports betting recharges and payment of winnings.
- It is launching its sales payment process for purchases on e-commerce platforms such as Tronex.
- Payment of subsidies from *cajas de compensación*, which in Colombia are private NGOs that manage parafiscal resources from a payroll tax.
- It is also starting to offer connection to its platform for mass consumption companies so that purchases and inventory management can be done from its *Clickingpos* platform. This has the advantage that collection is guaranteed

through PTM, to ensure the effectiveness of the sale of these mass consumption products.

- It is also exploring new businesses, such as converting the points into online payment acceptors, both with the traditional dataphone technology, which it has in more than 700 points (taking advantage of those used for Bancolombia) and also through QR codes, currently under development.

“With these services linked to our platform the merchant doesn’t need to connect to anyone else.”

Formats handled:

Aggregator

This model develops the one-to-one format in small businesses connected to the PTM network. In 2021, there were 2,700 of these authorized to provide correspondent services in 480 municipalities.

To connect to the points several plans can be used:

- Own street sales force in the nine main cities of the country.
- Contact center sales force: these offer their services and connect firms from their own databases of potential businesses that are managed with online campaigns, referrals, and other marketing strategies.
 - These two provide follow-up, maintenance, and connection to these points.
- Wholesale distributors: these connect to other smaller networks or through freelance sales personnel who used to sell recharge cards and today work on linking commercial enterprises and their network.

These models have a dedicated commercial team, with over 110 staff who keep permanently up to date to provide the best service to their partners and help them achieve their desired development.

In any of these cases, a potential point is first presented to the bank (with the documentation provided by PTM); and the bank does a general KYC analysis to pre-approve it. For this purpose, it consults internal and external lists and validates its transactional ecosystem to see whether a correspondent is justified in that location. Following preapproval by the bank, PTM does a full approval process based on the microcredit methodology (character analysis). Once a PTM is installed, the firm's audit department conducts training and a monthly follow-up to check whether there are any



doubts or gaps to be clarified. These training sessions are repeated at least four times a year.

Any correspondent fees are paid by the bank to PTM on a monthly aggregate basis. The amount in question is credited to the balance that each commercial business has on the PTM platform, minus the premium of the Antioquia Guarantee Fund (FGA) and the insurance. From that moment on, the business monetizes this income in two or three days by selling the other services it provides under PTM. Thus, they also minimize the costs of the 4x1,000.

Robust

In 2015 it created Redy, a firm that provides the services of robust correspondents, managed and operated by it directly. It has 52 points in regions where the bank has needed coverage, either close to high-foot traffic branches or in smaller supermarkets, which turns out to be a win-win for both businesses. This has been a very challenging model, especially during the pandemic, owing to the reduction in foot traffic resulting from the mobility restrictions imposed.

The motivation for establishing and developing this firm was the chance to respond to other types of customer needs. It must set up and operate each point; in each case it has invested in having fully reinforced premises, a monitoring center operated by it directly with video control systems, control of safes, cash drawers and outsourced operation of armored trucks that collect the cash.

This is a capital-intensive business, with labor costs in which the growth of transactions makes it necessary to increase the number of cashiers. In this case, it considers it absolutely necessary to obtain other transaction contracts to make these service points profitable. Efforts made to sustain the PTM network with transactions have also served them well in Redy, since these are all also available in its service points.

Redy's income is variable and is paid only with transaction fees, which has sometimes caused it to seek assistance from the bank to keep certain points in operation. In those cases it has been offered a fixed base amount and it generates additional volume with transactions. This has happened especially when the bank requires the location of a point either because it needs support owing to an excessive number of transactions in a branch that does not warrant the opening of another one, or because it needs to close a branch that is not generating a sufficient business volume.

Exclusivity. The exclusivity required by Bancolombia is managed at the level of each point because, as a firm, Bancolombia has accepted that it can offer services to other banks or develop its own collection or payment business with firms that do not have an agreement with the bank, all with a view to facilitating its partner's business model.

This means that in the four annual reviews that PTM performs on its service points, or when a point is renewed or extended, various mechanisms are used, including photographic records in the case of a virtual review.

Risk management. In the case of the one-to-one format, they analyze the credit risk (which is how this is understood, unlike the bank, which understands it as a credit line to cover operational risk) and grant credit lines based on their analysis, applying microcredit principles. This is particularly important given the value of the credit lines they have to manage to comply with the bank's guidelines in this area. This has resulted in the average credit line for its points currently standing at Col\$ 8 million (US\$ 2,100). It is the risk analysis methodology that has enabled them to have an overdue portfolio of 0.7 percent to date, with a global credit line with the bank that exceeds Col\$ 20 billion (US\$5.4 million).

- Since early 2020, with a view to backing the individual correspondents' credit lines, PTM signed a contract with the FGA through which the initial credit lines granted to the merchants are backed by a guarantee from the fund, the cost of which is paid by the correspondent. This guarantee is used by 80 percent of the correspondents. The cost can vary between 2 percent and 4 percent of the credit line, depending on how balancing is managed. Thus far, the guarantee has not been activated in any case, but it has made it possible to relax the requirements for accepting businesses as correspondents.
- Since Bancolombia requires balancing at least once a month to reduce the credit line to zero, balancing by correspondents is incentivized with strategies that seek

to remunerate them on certain days of the month, paying them the fees in advance and offering a lower FGA cost.

- This enables it to encourage reconciliation of the credit lines it has opened for its businesses before the date on which the firm itself must settle with Bancolombia.
- In addition, it was able to obtain a policy for the points themselves that not only covers the risk of the funds handled by the correspondent, but also covers the risk of transporting money and the life of the person acting as correspondent; and it insures the business and its merchandise against natural events. It was able to design the insurance with the insurance company at a reduced premium, which in all cases is paid by the correspondent and deducted each month from the fees paid to it.
- Lastly, especially for those that are connected, and because of their risk level resulting from the analysis performed by PTM, it has developed a prepayment plan in which a business that wants to develop the correspondent activity deposits funds with PTM as a guarantee. These can be released after a period of time in which the correspondent demonstrates adequate management of the credit line granted.
- In addition, for all connected businesses, additional documentation is requested, such as validation of the information collected at the points that are visited or those that are operated by phone, requesting as well photos of the business with particular specifications and other documents that make it possible to ensure that the business exists and is operating legally and satisfying all the necessary requirements.

The amount of the credit line and its management is reported to one of the credit bureaus.

Once the credit line has been granted, the correspondent's performance is monitored through an automated scoring system. This indicates whether the correspondent is managing the credit line well; whether an increase in the credit line is required and justified; or whether, on the contrary, there are warning signs that suggest a risk of not balancing or of potential fraud, to be able to initiate processes for canceling the operation. To sustain this system, it uses the data that the bank shares with it each month on the correspondent's transactions. These are not available to the online aggregator, as they all occur in the dataphones connected directly to the bank.

Liquidity balancing. In the one-to-one system, each merchant is responsible for managing its credit line. Balancing can be done during the month as often as deemed necessary to have a sufficient credit line to serve customers; but it must balance out its credit line (i.e. reduce it to zero) at least once a month. This management of each point that operates as a correspondent also applies to the credit lines granted to PTM.

“For PTM, our relationship with Bancolombia is very important and positive. We have grown with it, we have learned together hand-in-hand, as we have consolidated the

aggregator model jointly. Going forward we envision working with it to develop new acquiring models, either with POS or with QR code and BaaS.”

Source: Direct interview with Sebastián Tobón Palacio, Executive Director of PTM, in charge of the correspondent business at Comercial Card.

4.3.2 Retail format - department stores

This format began through agreements with Exito and Olímpica, the two largest supermarket chains in Colombia; but it has since been extended to Alkosto and Ktronix and to some with a strong regional presence. These agreements cover all of the store types that each one manages, ranging from large supermarkets to more regional ones. Although this format provides lower transaction volumes, it is an opportunity to be where the customers are.

Although the credit line is granted to each supermarket chain and then distributed to each store, it is handled centrally. This format uses the same technology as the others; but, in this case, the store’s cash register is connected to the dataphone to send the transaction data. In some large stores, however, it has been decided to move the correspondent out to a specific location in the store so as not to congest the cash register.

By 2021, they had approximately 2,000 points in this format.

4.3.3 Robust format

Unlike the previous correspondent formats that operate in premises used for other types of activities, this one is used in premises that specialize in carrying out cash handling transactions. As noted above, it responds to the need to redirect transactions from highly congested branches and is therefore used primarily in urban areas. It has also been used by the bank in smaller cities to satisfy transactional needs that exceed what a typical correspondent can handle, but which do not justify the opening of a branch.

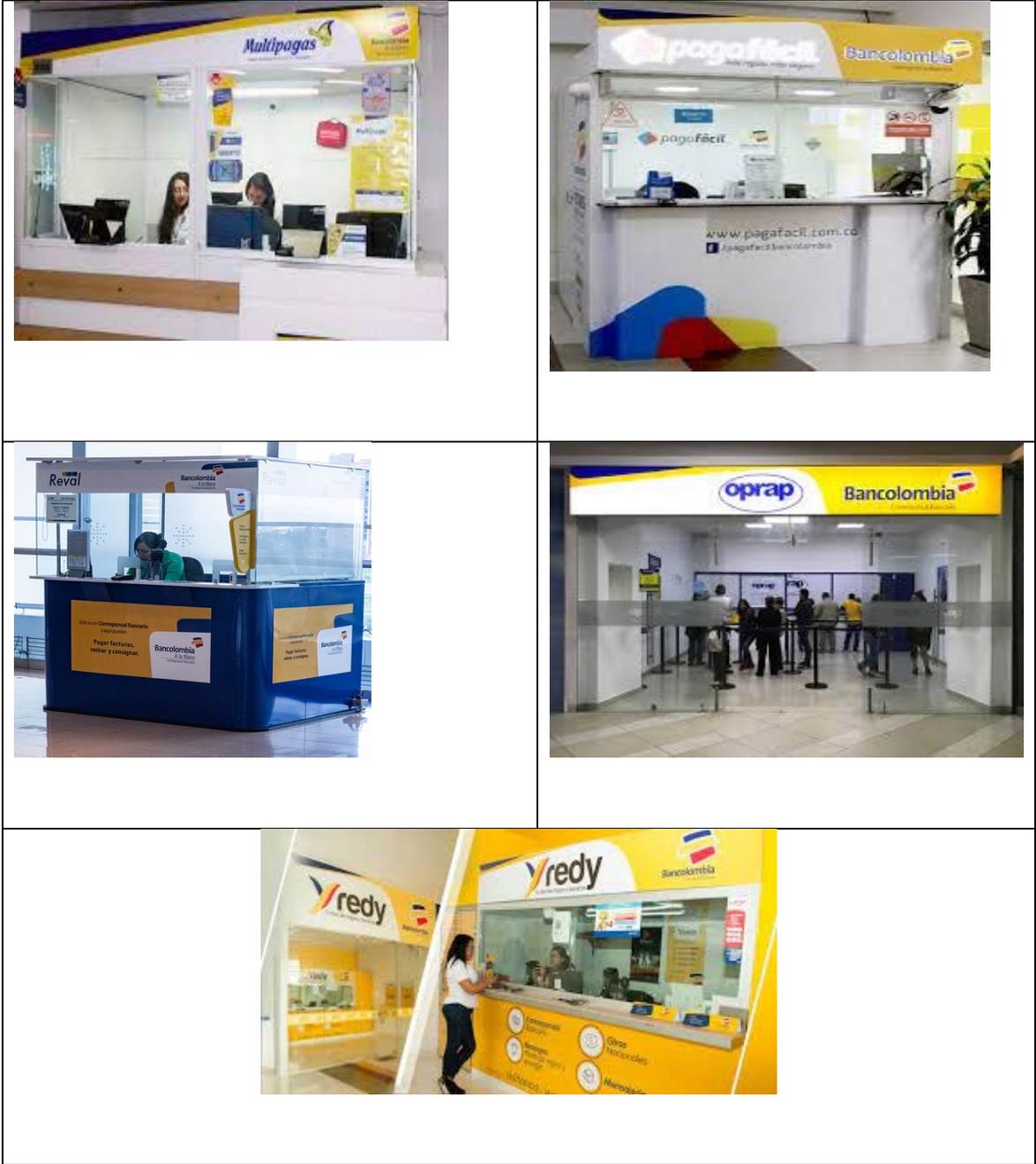
The use of this format began with 21 points of the RapiPagos network, which had been developed to facilitate the collection of public utility (energy and telephone) charges of the Antioquia Public Utilities Company and which, when the contract was terminated, offered its network to the bank to

“When I’m asked what explains Bancolombia’s success in developing this business, it is this: our partners started with us, we taught them the business, but we have also learned together and we have grown together.”

Dorian Gutierrez, Correspondent Banking and

act as a banking correspondent, since it covered urban areas where the bank did not have a branch. Something similar happened in the south of the country where there was another network specialized in payment collection services for firms in Valle del Cauca. This led to the agreement with Multipagas, a company with a very small initial network, which later expanded because of the link with the bank to the point that it ended up purchasing Reval, which was already providing services to other banks, including the cashier operation in branches.

Currently, the bank works with five robust correspondent operators: PagaFácil, Multipagas and Reval (of the same owner, see box), Oprap and Redy (the latter is managed by the same network that manages the format as PTM aggregators). In all of these cases, except for Reval, the bank has supported their growth and strengthening, as they started as banking correspondents with the bank. The first three account for 80 percent of the volume of this format.



The companies contracted to operate the robust correspondents assume all expenses related to their operation, including rental of the premises, the investment in fittings and furniture, the utilities of the premises, the wages of the tellers and insurance. Initially, the bank itself gave them credit for this, but for the last five years they have been autonomous and no longer require this type of support.

As in the other formats, the location of each point is agreed upon with the bank. In smaller cities, the robust correspondent is also supported by a mobile adviser who visits the locality once a week to make commercial propositions to customers.

Remuneration in this case is also per transaction, although it is anticipated that initially it will be necessary to make monthly payments to cover rental costs while operations are being consolidated. The technology is the same as for other correspondents, while the management companies are developing robust security models with camera monitoring.

In 2020 it authorized a new operation in the robust correspondents, namely rebalancing for one-to-one correspondent network, in order to help small merchants rebalance their liquidity. Given the larger amounts involved in this operation, a higher fee is paid.



Exclusivity in the case of robust correspondents is handled mainly in transactions. This means that, at a single point, a robust correspondent can receive transactions from customers of other banks as long as it is not a transaction that it has with Bancolombia. This is very common in the case of collection agreements that vary according to the contracts signed by the banks. They also offer cash-out of international remittances with other remittance companies (e.g. Western Union). The network itself can also handle local collection agreements that are too small or not attractive for Bancolombia.

The bank has understood that facilitating the diversity of transactions for companies that operate the robust correspondents allows them to balance cash-in and cash-out operations more effectively. It also considers it better to avoid concentrating the operation of these networks in a single institution, i.e. diversify the risk in the operation and offer its partner network the potential to improve its business.

Reval/Multipagas. A payment collection network that grew and strengthened in partnership with Bancolombia and operates the largest number of correspondents under the robust format

Origin and history. The Multipagas company was created in 2004, emerging from the business developed by a businesswoman in Palmira, an intermediate city in the southeast of Colombia. She had offered the regional public gas company the invoice collection services, since the banks in the city did not provide this service. Starting with one point, the business expanded the number of collection points, which enabled it to collect 80 percent of the invoices in that city, not only from that company but also from the others operating in Colombia. It then continued to expand until it had five collection points with a monthly average of 100,000 to 150,000 transactions.

At that time, in 2014, Bancolombia contacted it to explore a new model for managing correspondents. It was one of the networks of this type contacted by Bancolombia to offer them the possibility of converting their points, which only collected utility bills, into points that would be dedicated to performing Bancolombia transactions. Multipagas partnered with one of the most successful with which it grew and learned the development of the new model of a specialized correspondent that would later be called the robust format.

Arising from this partnership, the business continued to grow to the point that in 2018 the Multipagas company bought Reval, another firm that had also been contacted by Bancolombia to expand its correspondent channel. Reval had been established in 2002 by the Colombian subsidiary of Thomas Greg & Sons. Its approach was to operate specialized collection and payment centers for banks in their own offices with high security standards, under a multibank model. It started by offering administration services for the bank branches through outsourcing, assuming total or partial management of the branch, and then set up specialized collection offices.

These two business lines remain independent today, and it is with these networks that it partnered with Bancolombia to provide correspondent services.

The Multipagas network currently has 209 offices in 77 municipalities across 25 departments. Reval has 80 offices in 28 municipalities in 16 departments. Through these two networks, it is already managing to carry out 28 million transactions per month as Bancolombia correspondent, with 10,000 to 11,000 transactions on average per point.

In addition, Reval/Multipagas aims to continue growing and innovating with the bank. It has already developed the correspondent app, with which any Bancolombia client can become a correspondent, under the new mobile correspondent format that the bank is going to launch. This is a process that is in the early stages and in which it sees many opportunities in the future.

Services offered. From the moment the two companies partnered with Bancolombia, they agreed to collect from firms for which the bank is also the collector, as a correspondent. However, over the years they have also diversified the services they provide.

According to the CEO of these two companies, what they guarantee is efficiency in the operation and excellent quality of service for end-customers. Their goal is thus to ensure that these customers can carry out ALL of the transactions they need through their service points, not only those contracted with the bank. That is why there is a wide diversity of transactions:

- Operations as Bancolombia correspondent
- International money transfers
- Operations for pension and severance funds
- Subsidy payments

- Collections (both utilities and other services) under direct contracts unless the contract in question contract is held by the bank in a specific municipality



Format managed

Robust

Both the Multipagas and Reval networks use the robust format. Although the two brands differed fundamentally in the format of the offices, owing to the origin of each company, today they are increasingly similar and differ only in name.

Multipagas grew from the outset by developing a network of lightweight offices that only serve Bancolombia's correspondent operations.

Reval, on the other hand, began the contract with Bancolombia when it already had a network in place, with much larger branches, designed to be a multibank with specialized tellers for each bank. But in practice this has not proven so efficient. Having a branch similar to a banking hall, with high fixed costs and typically dependent on variable income per transaction, poses challenges for the business model, especially before the signing of the contract with Bancolombia, as the other banks were not able to generate sufficient transaction volume, especially to have specialized tellers for each bank. Therefore, after the purchase by Multipagas, this model was changed, eliminating the specialized lines of cashiers so that customers of all banks or companies for which they have a contract can be served in all lines. In addition, to manage the agreements already signed with other banks, they do not provide Bancolombia correspondent service at those points and therefore do not identify themselves externally with the bank's logo (see photos). Moreover, growth is increasingly based on a system similar to that of Multipagas, with smaller offices to reduce the rental cost and adaptations, preferring, if necessary, to install another point in a nearby area, according to the bank's requirements.

This strategy of smaller offices makes it possible to improve the quality of customer service, expand coverage and enhance efficiency.

Bancolombia remunerates its operation on a fee-per-transaction basis. Since it has fixed costs associated with the leasing of the premises and its own employees, the business model depends on the efficiency of each point and the average transaction volume, which averages 10,000 to 11,000 transactions per month. And although Bancolombia may pay a lower commission than other banks, the transaction volume generated by its customer traffic ensures the sustainability of the service points.

Similarly, both networks use the dataphones provided by Bancolombia for each ATM to carry out transactions as correspondent. But at the same time, they are complemented with their own platform to carry out the firm's own transactions.

The installation of each point is agreed upon with the bank, according to its needs. In some cases, it is the bank that requests the opening and Reval looks for alternatives in that area; in other cases, it is Reval that

proposes and sets up only if the bank approves, since it cannot justify the business case with the direct services mentioned above.

Exclusivity. They manage and accept exclusivity because they understand that the bank wants to ensure the value proposition to its customers. They also know that the Bancolombia brand has major pulling power and generates confidence in their clientele; they therefore do not consider that they have lost opportunities, but that, on the contrary, they have grown together. That is why initially, for example, the direct collection contracts that both and Bancolombia had were changed to receive them under Bancolombia's correspondent contract. For example, they operated domestic money orders, but in 2018, when Bancolombia revived that product, they canceled the direct operation they had with a postal payment firm.

In practice, in the correspondent business line, the Multipagas network is exclusive to Bancolombia. However, for example, they provide services to other types of operators for products not offered by the bank, such as international money transfers; and they also act as correspondent for *Giros y Finanzas*, one of the two representatives of Western Union. The distribution of subsidies is done with one of the two banks that have won these tenders with the Government.

"The formula is very easy..... it's going from three, four, or 10 direct agreements to having more than 35,000, which is the portfolio that the bank manages in collections alone!" And they also achieve a diversification of cash-in and cash-out operations, since, as an independent network, this is achieved almost exclusively with cash-in operations.

The Reval network ensures exclusivity for Bancolombia for each point, which is the case in 75 of the 80 points they have open. The reality is that they have closed several service points where they did not operate with Bancolombia, owing to lack of profitability; and all of the new points they have opened are as exclusive correspondents of Bancolombia.

Risk management and liquidity balancing

As a firm in the robust format, Reval manages a global credit line with Bancolombia that supports its operation in the two networks. Nonetheless, the points operate with their own credit line, assigned by the firm, monitored from Bancolombia's platform; and the bank's policy of rebalancing each agent point at least once a month applies to them. In practice, owing to the model and dynamics they manage with the bank, they perform three replenishment processes with all the points, to ensure that no point uses up its entire credit line. With the bank, they perform a global daily reconciliation for which they use the cash collected at each point by the transporter, indicating to the bank how much should be applied to each point in order to keep all points open and with a credit line to operate. For this purpose, it has transaction prediction models, anticipating each point's needs, which depend on the invoice collection cycles, wage payment days, etc. in the area they serve.

The greatest risk they face is from robberies and thefts, which they refer to as external fraud. But in this case there is also the risk of internal fraud, which consists of thefts committed by their own tellers, something that they have very closely controlled by multiple audits and a real time audio and video monitoring center. They also have insurance policies.

Given the way these two networks operate, there is extensive availability of credit lines and cash, which means the customer can always rely on the point for either cash-in or cash-out operations.

Obviously this implies a much more sophisticated cash management operation than in the one-to-one format, and depends on the use of cash transporters. That is why they are the most interested in achieving the highest level of balancing of cash-in and cash-out transactions, as this enables them to save on a major cost in their model, namely cash transportation.

Source: Interview with William Garcés, General Manager of Multipagas.

The main characteristics of the different formats are summarized in the tables below:

Table 3. Main characteristics of the correspondent formats

Formats	One-to-one		Retail	Robust
	Manager	Aggregator		
Contracting				
Contracting Modality	Bancolombia hires a manager to outsource certain activities but contracts the correspondent directly.	Bancolombia hires a company with a network of points (own or third party).	Bancolombia contracts directly with the supermarket chain or department stores that deploy its service points.	Bancolombia hires a company that sets up and operates its own points.
Exclusivity	Yes	Aggregator is not exclusive, but the correspondent points that operate for the bank do require this.	Seeks exclusivity but makes exceptions.	Partner is not exclusive, but exclusivity of the points in banking operations is required. The partner can enter into agreements with other companies (insurance companies, online deposit and payment companies, or collection contracts).
Identification of points (profiling)	Outsourcing with managers	Directly by the aggregator, and Bancolombia approves each point.	They are the retail partner's stores	The retail partner is responsible for setting up and operating each point as requested by Bancolombia.
Correspondent contracting process	Manager collects documents, Bancolombia performs the KYC process.	Aggregator performs the KYC process, submits it to the bank for final approval.	The bank performs the KYC process with respect to the chain of the contracted partner company.	The bank performs the KYC process with respect to the partner company
Training of the correspondent	Manager under Bancolombia guidelines	Aggregator using Bancolombia guidelines	Retail chain using Bancolombia guidelines	Partner using Bancolombia guidelines

Formats	One-to-one		Retail	Robust
	Manager	Aggregator		
RISK MANAGEMENT				
Partner credit line	No credit line is granted	Bank defines credit line according to its risk policy and type of format.		
Correspondent credit line	Set by the bank (between Col\$ 1.5 million and Col\$ 45 million) depending on the type of correspondent and the duration of contract.	Granted to the aggregator who distributes it among its correspondent points (minimum and maximum credit lines are defined by the bank).	Granted to the retailer who distributes it among its points.	Granted to the partner who distributes it among its points.
Credit line modality	Postpaid	Postpaid	Postpaid	Postpaid
Correspondent cash flow rebalancing	At least once a month must be zeroed out	Rebalancing is done by the agents at the bank at least once a month.	Defined by the partner with the cash points designated for each branch to provide the correspondent service.	The rebalancing policy is defined by the partner for its own points.
Partner cash flow rebalancing	The manager does not rebalance because it does not have a credit line.	Rebalancing is done by the aggregator at the bank at least once a week.	Rebalancing is done by the retailer at the bank at least once a week.	Rebalancing is done by the partner at the bank at least once a week.
Risk of repayment, loss, or theft	The bank assumes the risk of the transaction undertaken at the service points	The aggregator assumes the risk of the transaction at the points. The bank requires insurance policies to cover the risk of theft at the service points.	The retailer assumes the risk of theft or loss at its points.	The partner assumes the risk of the operation at the service points. It has insurance policies to cover this risk.
Transaction tracking and monitoring	Bancolombia	Bancolombia and Aggregator	Bancolombia and Retail	Bancolombia and Partner
Formats	One-to-one		Retail	Robust
	Manager	Aggregator		
OTHER TOPICS				
Partner remuneration	Fixed amount with a variable component that depends on performance and the results of the correspondents.	Fixed amount per type of transaction	Fixed amount per type of transaction	Fixed amount per type of transaction
Remuneration of correspondent	Fixed amount per type of transaction			
Transaction technology provided to the correspondent	Dataphone	Dataphone, and the aggregator may provide another device to access the partner's commercial offering.	Dataphone connected to the cash register	Dataphone and cash register to access the partner's commercial offering.
Type of transactions offered by the correspondent	All correspondents offer the same range of services: deposits, withdrawals, transfers, payments, receipt of utility payments, sending money			
Bank /correspondent product offerings	<i>A la mano</i> savings account, insurance products. Some have temporary presence of a mobile adviser	<i>A la mano</i> savings account and insurance products	Does not sell any bank products	Facilitates liquidity rebalancing in the one-to-one model. Some have a mobile adviser.
Partner product offering	Not applicable	The partner offers a platform for gambling, digital content, recharges, and collections other than those of Bancolombia.	Not applicable	Additional collection agreements that the bank does not have in its portfolio, international remittances, and correspondent transactions from another online deposit and payment company.
Personnel operating the correspondent	Business owner or appointee thereof	Business owner or appointee thereof	Retail personnel	Partner personnel

Source: Based on interviews with bank officials and partners.

4.4 Results

The bank now views the correspondent channel as an essential element of its multichannel distribution strategy. By focusing on the customer, the bank must ensure that the different channels it has available comply cost efficiently with the value proposition it has offered to all the segments it serves. In this way, it also meets its objective of being the bank with the best coverage and granularity in the country, while prioritizing its goal of progressively digitizing its transactions.

That is why it still maintains its decision to require correspondent exclusivity. In this way it believes it can better control the quality of the customer experience at each point, and enhance the strength it has achieved over the years as the bank with the best correspondent network in the country.

Through its channel strategy, the bank has achieved significant growth in this period: in 2009 it had 5.5 million individual customers, in 2012 it had 6.9 million and by 2021 it had 16.9 million.

It is interesting to see how the availability of channels and their composition has evolved, and to compare them with what has happened with all the banks in the country.

Table 5: Expansion of Bancolombia channels, 2007-2020

	2007	2010	2015	2020		2007	2010	2015	2020
BANCOLOMBIA					BANCOLOMBIA				
BC	53	693	6595	16,278	BC	41	503	875	1046
ATM		2748	4,014	5,061	ATM	ND	ND	ND	288
Offices	720	724	800	666	Offices	165	182	244	238
REST OF BANKING SYSTEM					REST OF BANKING SYSTEM				
BC*	3,449	8,863	41,359	56,112	BC*	461	857	1106	1105
ATM		8,703	10,803	8,663	ATM	ND	ND	ND	ND
Offices	2,749	3,781	5,267	4,654	Offices	788	808	830	836
Number of points per channel					Number of municipalities covered				

*Adjusted based on estimates of duplication of correspondent reporting. See CGAP 2016 and 2020.

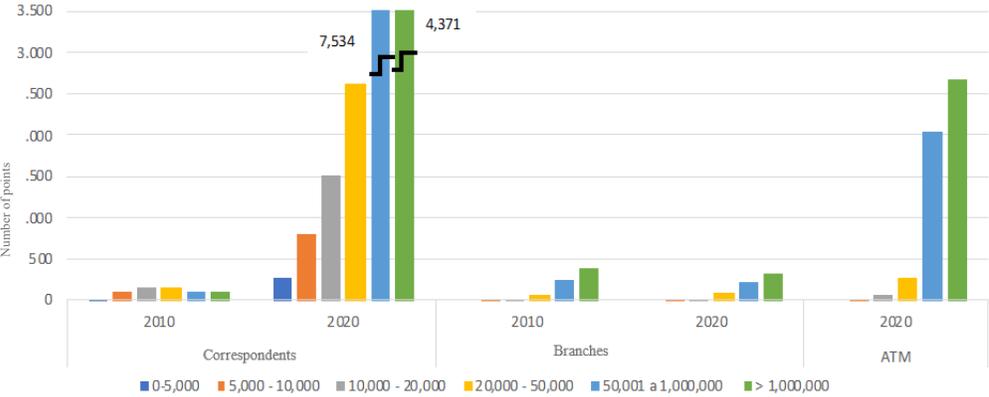
Source: Bancolombia, *Banca de las Oportunidades* and the Superintendency of Financial Institutions.

The first thing to note is obviously the growth dynamics of both Bancolombia and the rest of the banks in terms of correspondent networks, which at an aggregate level since 2010 have already surpassed the total number of ATMs. Bancolombia's start was not so rapid; however, from 2012, when it registered 1,143 correspondents, the expansion phase already described began with the introduction of the new formats. As a result, the number climbed to 6,600 just three years later. Under this dynamic, Bancolombia's correspondent network, which in 2008 only represented 8 percent of the correspondents reported in the country, by 2020 accounted for 29 percent, reaching a total number of 16,300.

Equally noteworthy is how the spread of both ATMs and correspondents had led to a reduction in the number of branches in the financial system by 2020, which is also evident in the case of Bancolombia. Progress in digitization, stimulated by the COVID-19 pandemic, is a key part of the explanation, as described when analyzing its impact on Bancolombia's two mobile wallets in sections 5.3 and 5.6.

In terms of geographic coverage, it is through the correspondents network that financial presence has been achieved nationwide since 2015. In the case of Bancolombia, although coverage development has been a multichannel process, correspondents have clearly been the spearhead for reaching smaller municipalities, as shown in the figure below:

Figure 1. Number of points per Bancolombia channel, according to municipality size



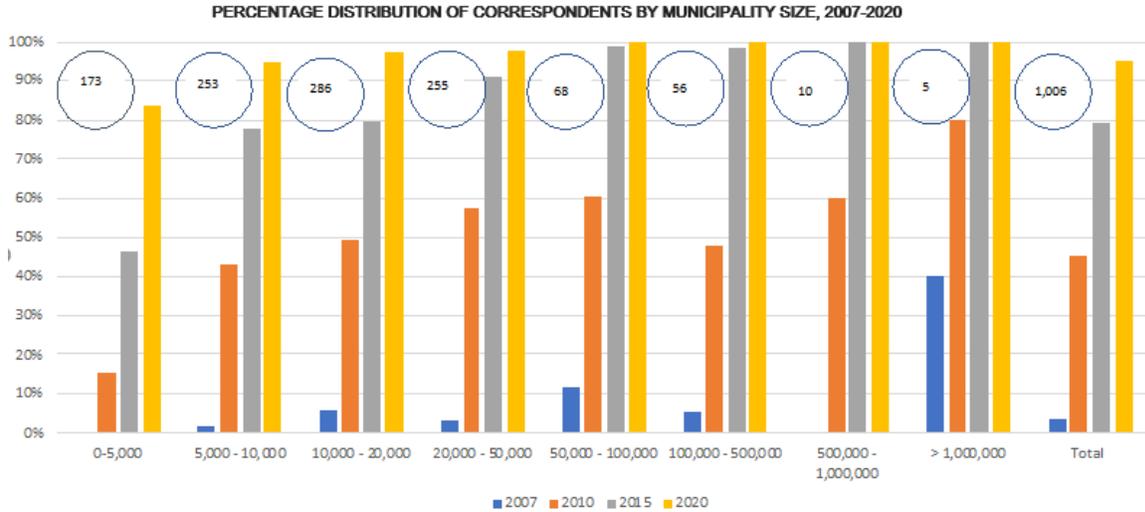
Source: Banca de las Oportunidades and Superintendency of Financial Institutions

Although it was impossible to reconstruct the evolution of correspondents by format, it is clear to all interviewees that it was the one-to-one (with managers or aggregators) format that has enabled the bank to cover almost the entire territory and, in particular, to reach municipalities in which the bank does not have branches.

As can be seen in the figure below, it is clear that in 2007 correspondents were established especially outside big cities; and since then the bank has had a strategy to cover municipalities of all sizes, so that by 2020 only in those with fewer than 10,000 inhabitants does a shortage to be covered still exist, which represents a major success. Obviously, it is in the period between 2012 and 2015 when the greatest effort was deployed. This enabled Bancolombia to go from being a bank with a presence in just 18 percent of the territory with transaction points in 2007 (although with a commercial offering through mobile advisers in 386 additional municipalities to make a total of 592), to being present in 80 percent of the municipalities by 2015 and reaching 95 percent in 2020.

The following paragraphs analyze how, from the outset, the sustainability of the channel, ensured by the transactional nature of the points, has also been another characteristic of the development of this channel in the bank.

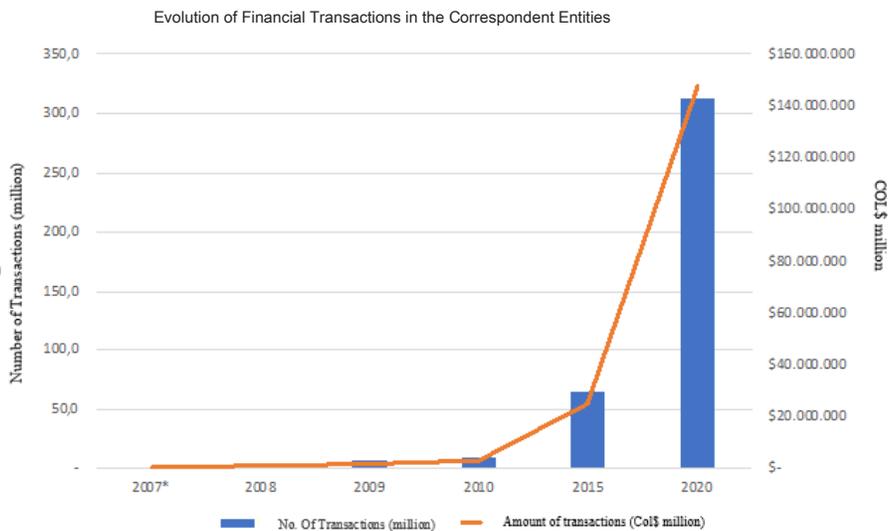
Figure 2. Evolution of municipality coverage with Bancolombia correspondents by municipality size



Source: *Banca de las Oportunidades* and Superintendency of Financial Institutions

The expansion of the correspondent network through the different formats has also meant that their participation within the bank’s operation has changed, demonstrating their importance today. This is clearly shown by the evolution of monetary transactions channeled through correspondents, as shown in the figure below:

Figure 3. Evolution of the number and amount of transactions channeled through Bancolombia correspondents



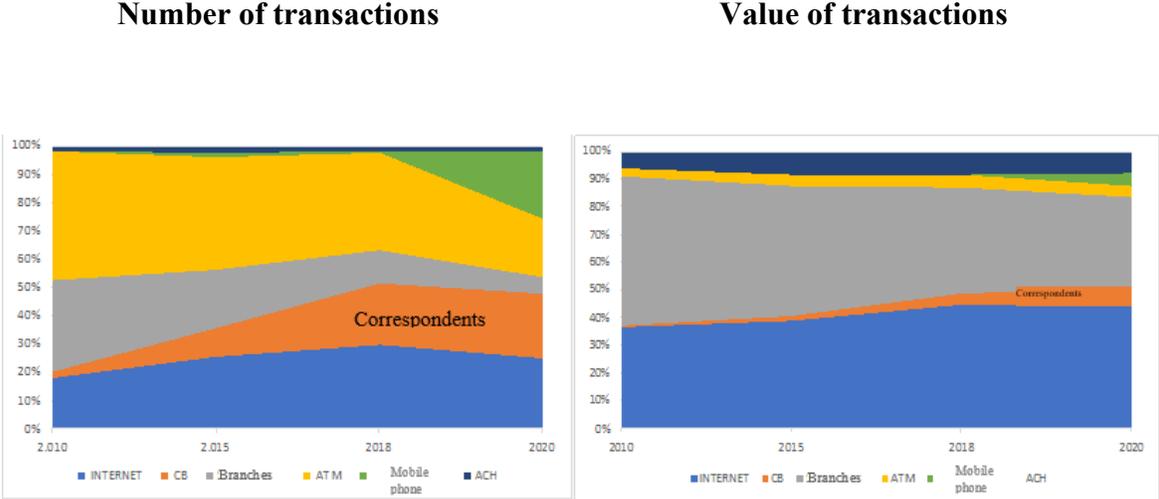
Source: *Banca de las Oportunidades* and Superintendency of Financial Institutions

This growth has resulted in a change in the relative importance of the channel among all of the channels that the bank has deployed to serve its customers in recent years.

Although, starting in 2015, transactions conducted using mobile devices through the mobile wallet, the Bancolombia App, QR code transfers, and the *Ahorro a la Mano* App) [sic] exceeded those made in the bank’s other channels, correspondents display a rising share.¹⁷

The number of transactions conducted through the correspondent channel already exceeds those carried out at ATMs, representing 12 percent of the total. On average, 26 million monetary transactions per month were carried out through correspondents in 2020. In value terms, given the low average size of transactions carried out in correspondents, those carried out in branches and digitally through the Internet clearly predominate. Nonetheless, in value terms, those carried out in correspondents already exceed those carried out in ATMs and are equivalent to 6 percent of the volume transacted in the bank, representing an average monthly volume of US\$3.240 billion.

Figure 4. Distribution of Bancolombia transactions by channel type, 2010-2020



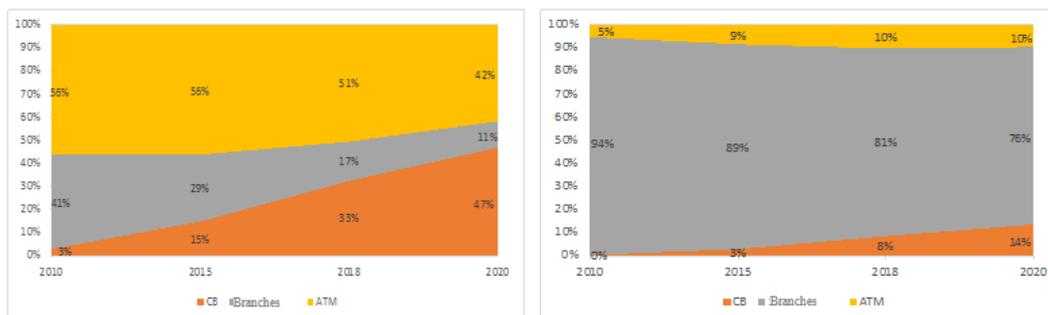
Source: Banca de las Oportunidades and Superintendency of Financial Institutions

In terms of cash transactions (assuming that monetary transactions at ATMs and branches primarily involve cash), the role of the correspondent channel is even more remarkable, since correspondent transactions accounted for 47 percent of the total of the bank’s physical channels by 2020.

¹⁷ Management Report 2015

Figure 5. Distribution of Bancolombia cash transactions by channel type, 2010-2020

Number of Transactions Value of Transactions



Source: Banca de las Oportunidades and Superintendency of Financial Institutions

Comparing the importance of the channels that banks typically use to steer customers (ATMs and correspondents where they are authorized) owing to the high cost of a transaction in a physical branch, it is interesting to see how correspondents in Bancolombia fulfill this role, especially in smaller municipalities. In 2020, in municipalities with fewer than 500,000 inhabitants, over 50 percent of the transactions performed by the bank’s customers were conducted through correspondents. As the size of the municipalities decreases, and therefore the population served, obviously the transaction volume is much smaller in absolute terms. Because of this, however, and in the absence of branches and cash distribution networks to ensure the supply to ATMs, correspondents become the only channel available for bank customers to make their cash transactions, as shown in the figures below.

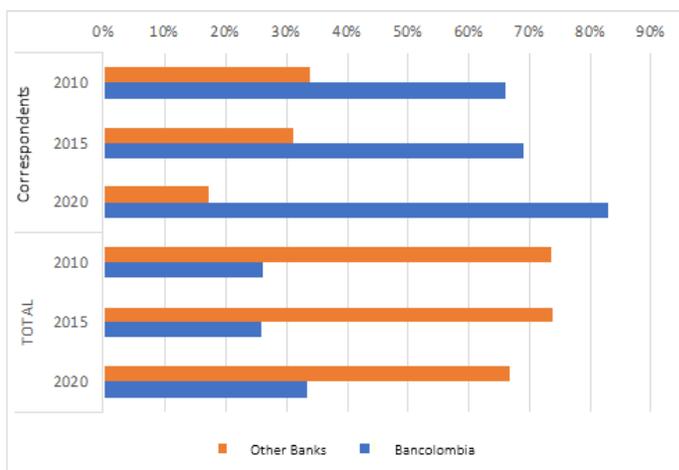
Figure 6. ATM and correspondent transactions by municipality size, 2015 and 2020



Source: Bancolombia

Considering the increased importance that Bancolombia’s correspondents have acquired over the years, it is not surprising that they currently (2020) account for 83 percent of all transactions carried out in the country through this channel. In comparison, the bank accounts for 33 percent of the total number of transactions channeled through the banking system as a whole.

Figure 7. Bancolombia’s share in the total number of monetary transactions in the banking system and in those carried out in correspondents 2010, 2015 and 2020



Source: Banca de las Oportunidades and Superintendency of Financial Institutions

Turning to a specific analysis of the development of the correspondent channel, even though this has gone through different stages, as noted above, a key characteristic is that the average transaction level per point has always been considerable. For example, in 2009, when the bank only had 509 correspondents in 406 municipalities out of the total of 429 in which it was present at that time, the average number of transactions per correspondent was already high—970 transactions per month compared to an average of 220 in the financial system as a whole—precisely because of the partnership with the commercial offering of the PAMs with which it was created.

This level has not only been maintained over the years, but, as a result of the introduction of the robust format between 2015 and 2020, the average has increased significantly—not only in number, growing to 1,600 transactions per month, but the average total amount of resources handled by a point per month increased by 2.4 times to reach a level of US\$198,000 per month by 2020.

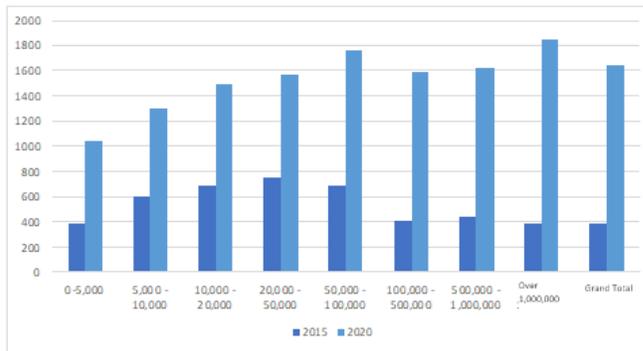
Figure 8. Monthly average number and value of transactions by correspondent, 2008-2020



Source: Bancolombia and Banca de las Oportunidades

Even more remarkable is that the average transaction level achieved in its correspondent points is maintained across the different sizes of the municipalities it serves. This confirms that the bank alone, with its commercial offering, has generated a sufficient volume of business for correspondents, which allows it to maintain its exclusivity agreements without affecting the sustainability of the channel.

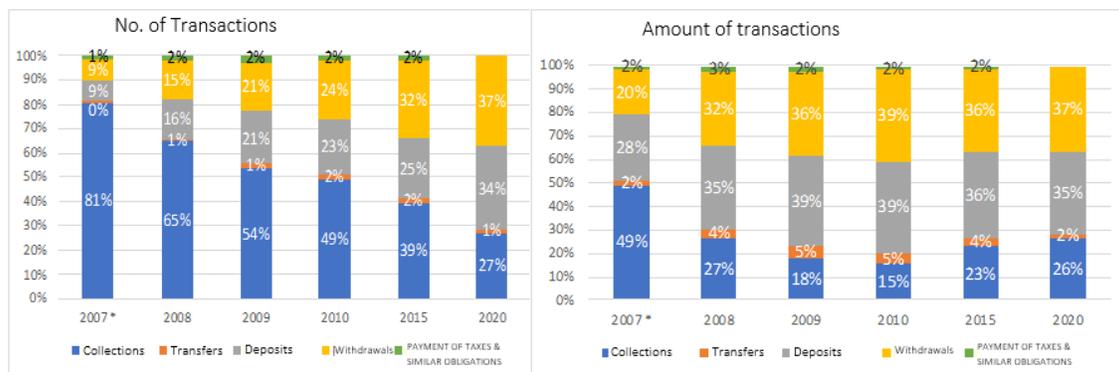
Figure 9. Monthly average transactions per correspondent, by municipality size, 2015 and 2020



Source: Bancolombia and *Banca de las Oportunidades*

The large volume of transactions that Bancolombia is able to secure through its correspondent network is matched by an increasingly wide range of services. This is particularly noteworthy in a country where banks have used correspondents mainly for collection operations and where cash-in therefore predominates.

Figure 10. Evolution of the composition of transactions conducted through Bancolombia correspondents



* As of December 2017, collections and payments of taxes and similar obligations are reported jointly, so in 2020 the latter are not disaggregated.

Source: Bancolombia and *Banca de las Oportunidades*

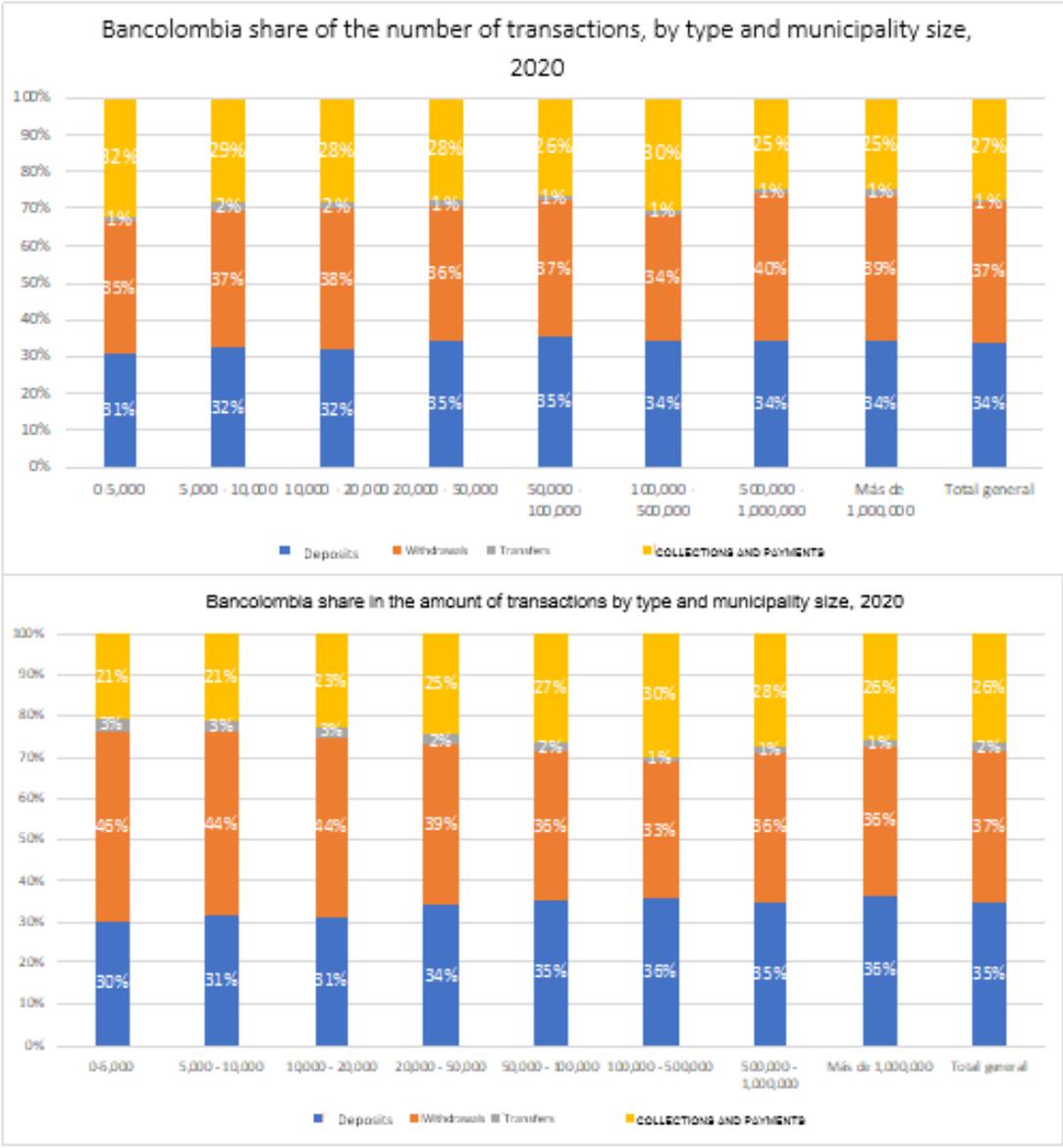
As shown in the figure above, the composition of the type of transactions carried out at Bancolombia correspondents has changed substantially. From a model that prioritized the collection operation in terms of both number and value, it has transitioned to an operation that combines deposit and withdrawal transactions. These two categories already predominate in 2020 with aggregate shares of 72 percent and 71 percent in number and value, respectively. This contrasts with the operations carried out by the other banks, which have

used the correspondent channel and continue to do so mainly for collections from customers and noncustomers. In 2020 these represent 75 percent and 67 percent in number and value, respectively, of the total transacted through this channel.

This reflects the commercial model that has supported the growth of the channel over the years. It also shows how the portfolio of products deployed by the bank to reach various segments and different geographic areas, especially on the deposit products side with mobile wallets (see section 5), can be used when cash transactions need to be made through a lower cost channel such as correspondents. This facilitates financial inclusion initiatives characterized by low-cost operations, in which certain fixed costs may make them unsustainable.

This is confirmed by analyzing the composition by different municipality population size:

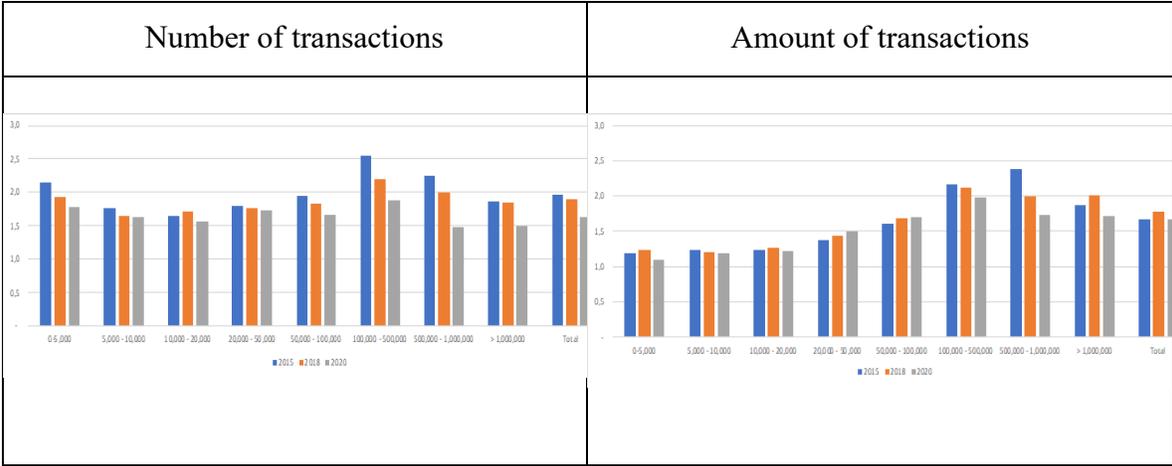
Figure 11. Composition of transactions in Bancolombia correspondents by municipality size, 2020



Source: Bancolombia.

This diversity has also made it possible for their correspondents to achieve cash-in/cash-out balance, thereby facilitating more suitable management of the rebalancing of cash held by the correspondents, which is the most significant risk and therefore the most complex issue in correspondent management. This is especially true in smaller municipalities:

Figure 12. Cash-in/cash-out transactions by municipality size, 2020

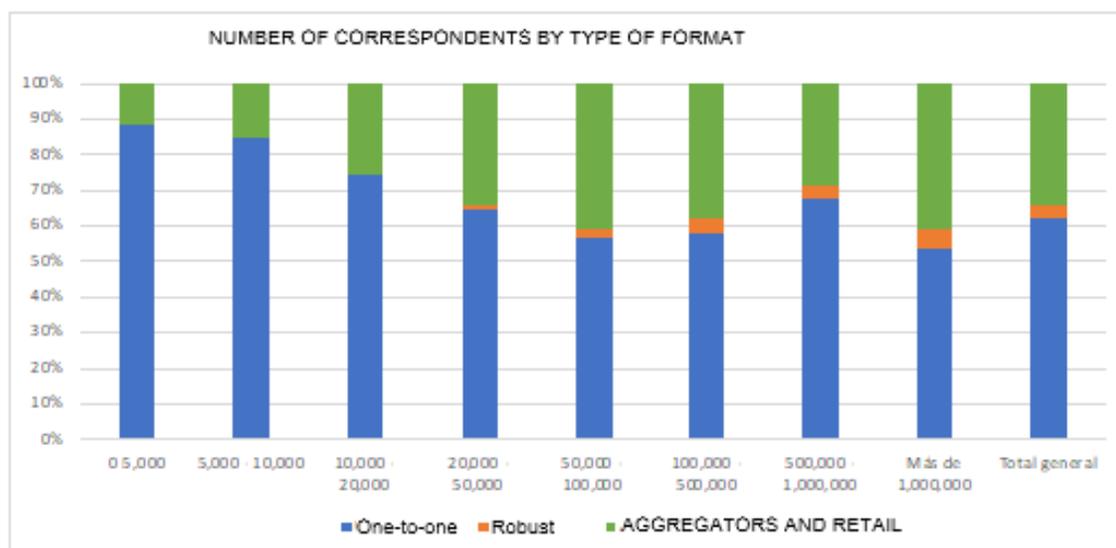


Source: Bancolombia

Note: Calculated as a ratio of the number or amount of cash-in transactions to the number or amount of cash-out transactions by municipality size.

The better ratio reported in the smaller municipalities is explained by the fact that the transaction mix is more diverse. There is a wider use of operations related to financial products rather than collection operations, as can be seen from the distribution of transactions mentioned above. In contrast, in urban areas, collection predominates, which is also supported by the greater use of the robust format. In fact, by municipality size, the points according to formats are distributed as follows (without differentiating the one-to-one operator by aggregators from the retail ones):

Figure 13. Number of points per format by municipality size, 2020



Source: Authors' estimates based on Bancolombia data

The greater presence of robust correspondents in the larger municipalities, which are used to redirect transactions that would otherwise be carried out in branches, also explains the greater liquidity imbalances seen in the larger municipalities.

Table 4. Share of the number of cash-in and cash-out transactions by format, 2020

Format	Cash-in	Cash-out	Total	CI/CO
One-to-one Aggregator	20.9%	23.7%	22.0%	1.4
One-to-one Manager	58.9%	62.8%	60.4%	1.5
Robust	16.7%	8.9%	13.7%	3.1
Retail	3.6%	4.6%	4.0%	1.3
Total	100.0%	100.0%	100.0%	1.6

Source: Authors' estimates based on information from Bancolombia

As can be seen, it is in the robust model where there are three times more cash-in than cash-out transactions. In contrast, in the traditional one-to-one model, whether managed by a manager or an aggregator, cash-in transactions outnumber cash-out transactions by 1.5 times.

The channel has been strengthened so much in terms of its transactions that in recent years the channel division has also focused on how it can also be used to sell the products and services of the bank or the financial group. The greatest development has been achieved in insurance and with the *Ahorro a la Mano* accounts (see section 6.3). These used to come at a rate of 6,000 advisories per month, for which they receive a higher commission than for a transaction, and they have doubled as a result of the pandemic.

A special insurance product has also been developed, in partnership with SURA, the insurer that belongs to the same business group. It consists of accident insurance tailored to the

population that uses the correspondent channel (in the one-to-one format), and is also very easy for merchants to explain and sell. The bank considers that this business has been very successful and represents huge opportunities for the future.

5 The bank’s other strategic developments for financial inclusion

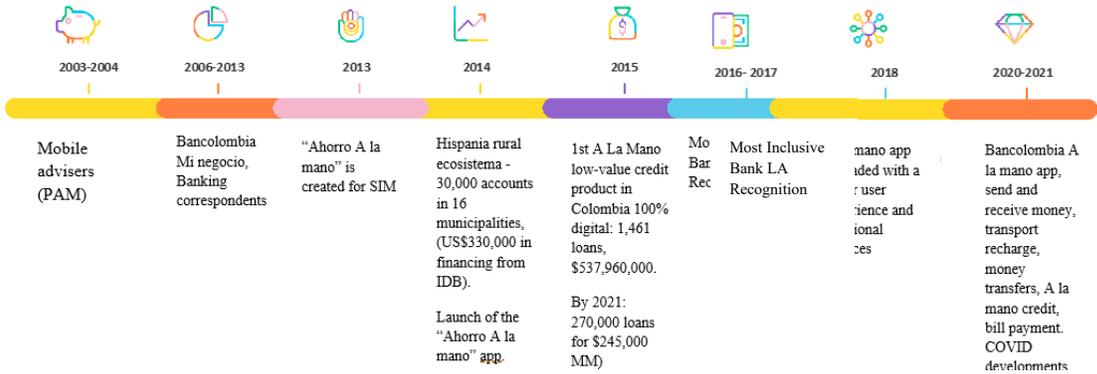


The development of correspondents is not the only new initiative to have been implemented by the bank since 2003. There are a variety of examples of initiatives and products aimed at adapting the bank’s value proposition to segments not traditionally served, in which correspondents have been fundamental in supporting the greater transaction volumes as a result of the increased number of customers. The correspondent channel also provided the transactional solution at a cost per

transaction that made it feasible to handle substantial demand for small-value cash transactions, which would not have been possible to meet if the bank had relied solely on branch-based coverage.

Even in its latest developments aimed at promoting greater digitization, such as the *A la mano* and *Nequi* apps, correspondents have been fundamental, among other things, in giving customers the confidence that, if they need cash, it will be available at a nearby point.

Milestones in the development of Bancolombia’s Financial Inclusion Model



Source: Bancolombia Financial Inclusion, June 2021

Although the bank made the strategic decision to develop the correspondent channel to complement its customer service model and ensure a cost-efficient value proposition, it also became clear that its value proposition to certain segments was incomplete. Accordingly, over the years, it has been implementing and developing innovative businesses and products to serve them.

As a result of its strategic decision, in 2013 it created the Financial Inclusion Department, which since then has been tasked with developing initiatives targeted at segments not traditionally served by the bank. In 2017, this decision was strengthened further by enabling the Department to adopt a cross-cutting approach involving all units in the bank, assigning the Department budget and access to the technology team with a view to streamlining changes that were affecting the core business and made it very slow in its responses.

This division handled the growth of the correspondent channel at one stage (among other reasons, because of its affinity with the microentrepreneurs segment served by *Mi Negocio*, described below); however, the channels division subsequently resumed responsibility for the correspondents, especially when the formats with which the bank extended this channel diversified.

Bancolombia's financial inclusion and growth process has clearly paid off. As of 2021, about 16.9 million Colombians are Bancolombia customers, with access to at least three financial products at no cost. When SMEs, companies, corporate, and government customers are included, the number of customers in the country is even higher.

Obviously, this panorama coincides with the progress that Colombia has made on the financial inclusion front since 2008, when 56 percent of adults had access to at least one financial product. By 2021 this figure had reached 89.4 percent of adults, a process to which the progress made by Bancolombia has undoubtedly contributed.

The following is a summary of the initiatives that the bank has undertaken to deepen its financial inclusion footprint in Colombia.

5.1 Mi Negocio

Based on a program developed by USAID in Colombia, which had coordinated its support for the public financial inclusion strategy launched in 2007, the bank developed the *Mi Negocio* product to serve microentrepreneurs in urban areas. This credit product replicated the credit risk management methodologies developed for this segment by microfinance NGOs.

In 2008, Bancolombia's model for serving microentrepreneurs achieved a coverage of 21 branches in 12 municipalities, with more than 20,000 customers and an active portfolio of

Col\$ 42 billion. By 2015 it had 190 commercial managers who visit businesses to offer them financial products and services.¹⁸

At one point it had over 200 advisers, serving more than 30,000 microentrepreneurs in 20 branches. In 2017 the bank decided to provide cross-cutting services to this segment in all of its branches and adapt its risk models to its credit factory processes. This incursion has enabled it to provide a special service model to the microenterprise segment that has now been extended to most of the branch network.

5.2 International remittances

Colombian banks had withdrawn from this business in the 1990s owing to the risk of money laundering and the absence of the necessary mitigation measures and controls. Bancolombia was no exception in this regard. In 2001 Bancolombia began to explore the remittance market, given its link with American Express and through it with Money Gram. This is how it decided to enter this business and establish direct connections with several remittance companies. During the next four years it worked to understand this business and the players and to diversify its partners.

In 2006 the bank was invited by the Inter-American Development Bank (IDB) to participate in an initiative to provide alternative remittance services for Colombians abroad, who, at that time, had to pay very high fees to send money to their relatives. This coincided with the merger of Bancolombia and Conavi, and with the Government's "Colombians Abroad" initiative. Real estate fairs were held in conjunction with the country's construction companies, which made it possible to create a mortgage credit product for these families living abroad.

This is a business that will enable the bank to provide better quality services by not only offering to pay remittances in cash, but also to link them to an account. This is why it launched the offer of opening virtual savings accounts, as well as Bancolombia *A la mano*, for remittance recipients. This made it possible for 89 percent of the total remittances received in 2021 to be paid directly into the recipients' accounts at Bancolombia. In that year, it disbursed 13.4 million remittances totaling US\$5.343 billion and representing 62.1 percent of the value of the remittances entering the country. A total of 1.7 million family remittances were paid into Bancolombia *A la mano*.

5.3 Ahorro a la mano

In 2010 the bank agreed to join the GAFIS project operated by BFA, which was promoted by the Bill & Melinda Gates Foundation with support from Microsave. This aimed to engage large banks in five countries around the world in the development of accounts designed to meet the needs of the poorest population groups.

¹⁸ Management Reports 2008 and 2015

Bancolombia became involved with a view to providing an adequate service to more than 2 million accounts that it had open but with little or no activity. A consulting team carried out a diagnostic assessment of these inactive accounts. An evaluation of the correspondent channel, which would be essential for placing a product that would be “at hand” and suited to the targeted population segments, was also conducted.

The work resulted in the *Ahorro a la Mano* account, which was launched in 2013; it was the second simplified processing account¹⁹ available in the country that could be opened and operated from a cell phone. Initially it was based on the SIM card with SIM toolkit technology, with the smartphone app not being launched until 2018.

Throughout these years, the product has been steadily improved with various add-ons. In 2015, Bancolombia was the first bank to launch a fully digital small loan product, linked to customers in the basic personal segment and exclusive customers of Bancolombia *A la mano*, as described below. In 2016, for example, it launched an insurance product developed in partnership with Sura (the group’s insurance company), with very low annual premiums targeted to the base of the pyramid. In 2018 it connected remittances from abroad; and, by 2021, it already had 83,986 commercial enterprises with QR codes associated with Bancolombia *A la mano* within the *Territorio* QR strategy. This strategy was developed by the bank to expand the network for accepting electronic payments, through which it already has more than 494,325 small commercial enterprises connected.

As noted above, this inclusion solution was designed to provide support and assistance to correspondents,²⁰ as part of the channel’s commercial offering. The correspondents provide advisory services and support to customers with making small deposits²¹ during a process that takes place on the customer’s cell phone; and they receive a special commission for these services. As a result, from just over 13,000 account openings with assistance from a correspondent in 2016, the number had already risen to almost 125,000 by 2020. This growth continued, with 93,012 account openings in 2021.

Bancolombia *A la mano* received its most recent boost during the pandemic, not only because of the dynamizing effect on the digitization of payments, but also because of the linking of this product to the distribution of subsidy payments within the *Ingreso Solidario* program, created to counteract the negative effects of mandatory isolation on the vulnerable population.

¹⁹ Decree 222 of 2020 of the Ministry of Finance grouped online saving accounts and online deposits under the heading “Small-value deposits.”

²⁰ Its initial link in the correspondents channel is described in GAFIS-Focus Note #4.

²¹ Since the issuance of Decree 222 of 2020, online deposits and simplified processing accounts are called “Small-value deposits.”

The growth of Bancolombia *A la mano* as a result of the pandemic was enormous, expanding from 57,000 customers in 2012, to 410,000 in 2015, and 2 million before the pandemic started, to 5.92 million customers by the end of 2021. In that year it also supported consolidation of the merchant acceptance network using QR codes, as described below.

5.4 Small-value loans²²

In 2015, partly thanks to Bancolombia's insistence with the authorities, the small-value loan was created as a category that enables banks to originate loans based exclusively on information obtained from alternative sources, without proof of income from customers.

Bancolombia was the first bank to launch this product on the market, linked to the *Ahorro a la Mano* account, to offer customers with these accounts very small loans to meet their needs or emergencies. In the year of its launch it granted 1,461 loans, and by 2021 had 438,000 loans for an average amount of US\$300.²³

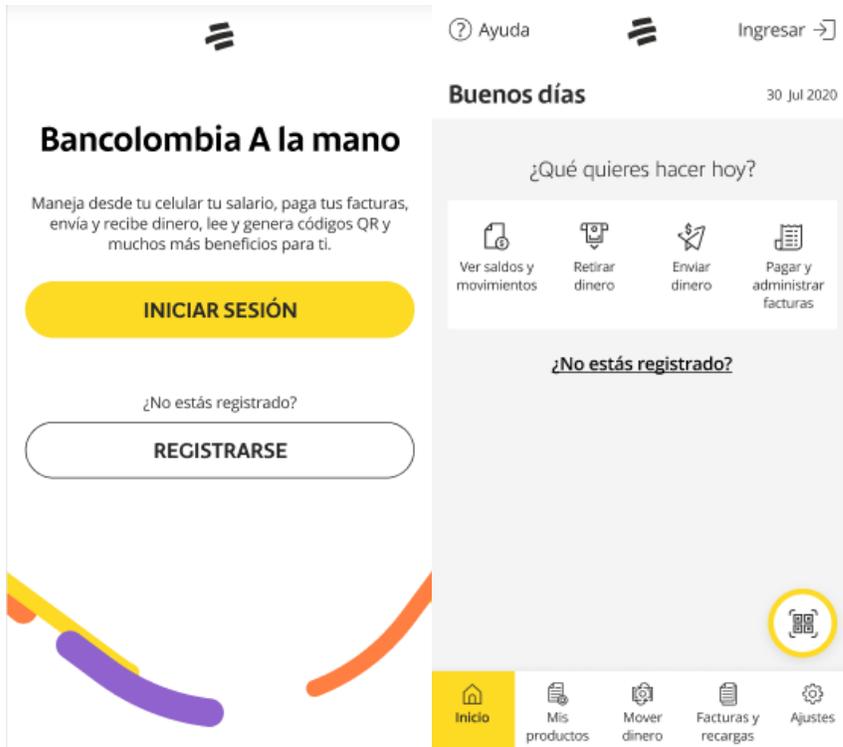
The Bancolombia *A la mano* app — a vision of the future

Once Bancolombia's *A la mano* app was developed, complemented with the correspondents network, the bank decided that the value proposition best suited to the needs of the newly included segments would be a comprehensive service offering that would enable it to satisfy all the needs of this customer segment. In fact, since its launch in 2018, the *A la mano* app has been marketed as a platform providing services to individuals at the base of the pyramid. As this population group has traditionally been excluded from the financial system owing to its complexity and costs, the app positioned itself as the platform for making financial inclusion a reality.

In other words, the concept evolved into a platform that offers financial and nonfinancial services and products that are convenient and suited to the type of customer it serves (payment of bills such as utilities, cell phone recharges, transportation, salary, money transfers from abroad, health care), together with a channel, the correspondents, adapted to their needs where they all share the "*A la mano*" name, reflecting the effort to provide a value proposition that is relevant to these segments.

²² According to the provisions of Decree 2654 of December 17, 2014, the small-value consumer loan is an active credit operation intended exclusively for natural persons, for a maximum amount of twice the current legal monthly minimum wage (SMMLV) (equivalent to roughly US\$400) and a maximum term of 36 months. The special feature of this credit product was authorization for financial entities to use alternative evaluation methodologies, based on information obtained from alternative media, to demonstrate the payment habits of potential customers.

²³ Presentation by Mauricio Múnera, June 2021.



The financial inclusion platform

makes it possible to use a cell phone to pay bills, recharge a cell phone, receive payroll payments, receive proposals for immediate loan disbursements, and receive international money transfers.

Through this platform, which is accessed through Bancolombia's *A la Mano* app, the bank offers 100 percent digital small-value deposits through cell phones, small-value loans, and domestic and foreign money



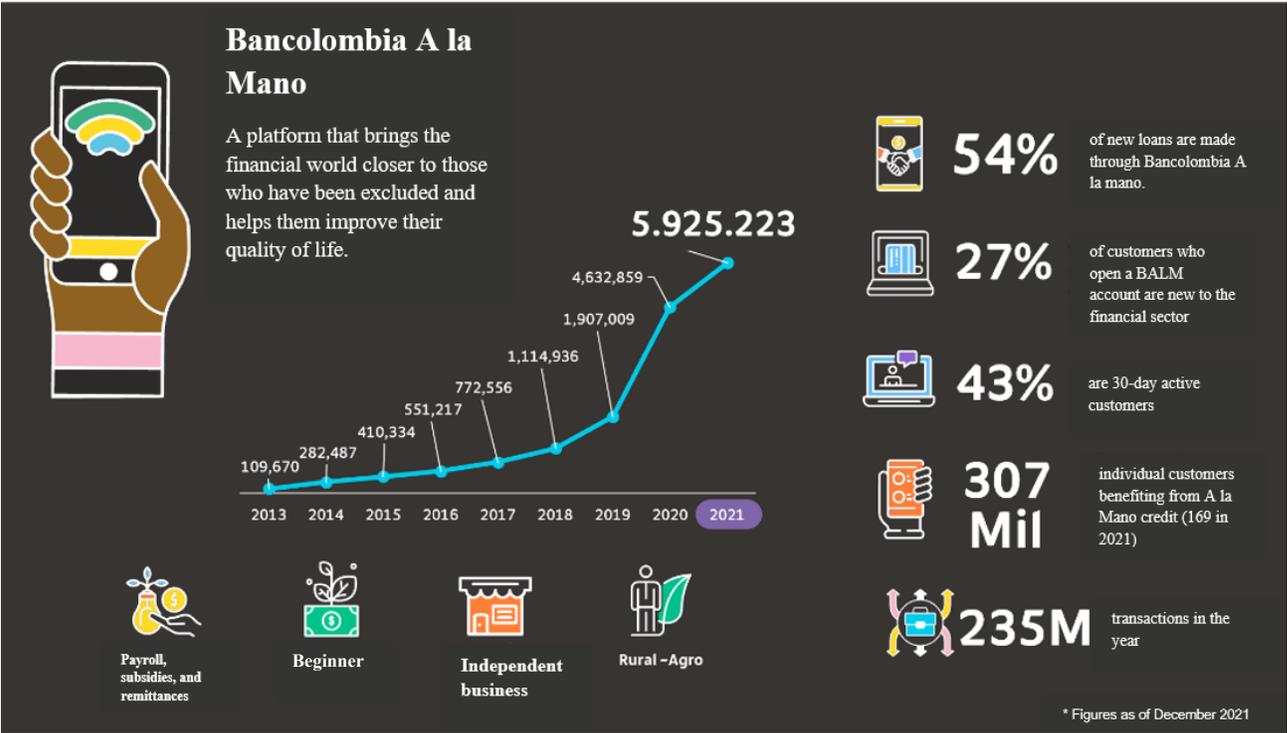
Ambición

Ser la **plataforma digital preferida que acerca el mundo financiero y no financiero** a quienes han estado fuera del sistema financiero o de Bancolombia y que **buscan mejorar su calidad de vida**

In the Bancolombia *A la mano* (BALM) value proposition, the correspondents are considered a key element, especially in the one-to-one format, because they have become the commercial

sales force and are used to assist customers in processes such as the opening of a BALM account. They also assist customers who are the target of financial inclusion, in services such as the management and payment of small payrolls for the microenterprise and SME sector.

Figure 14. Financial inclusion figures in Bancolombia



5.5 Nequi

Without forming part of the financial inclusion segment but responding to the bank’s objective of facing down the competition from fintechs, *Nequi* was created in 2015, following the establishment of an innovation center within the bank with a view to gaining an understanding of, and respond to, new trends in financial markets.

This was essentially how a “neobank” (*Nequi*) was set up within the bank, with total autonomy, its own technological platform, and a team (40 percent of team members from the bank itself and 60 percent from other industries) to contribute that new vision and knowledge. This autonomy afforded it the speed and adaptability of a startup, paving the way for the launch of the *Nequi* simplified digital account in 2016. It ended 2016 with 29,625 customers and 2017 with 270,000.

This product was originally targeted to young people, for whom services were designed using the “design thinking” methodology. Research was conducted to design an account with wallets that makes it possible to set saving targets and enables online purchases through a

virtual debit card.²⁴ This product is constantly evolving to adapt its services to customers' needs. For example, it is one of the most successful in linking with PayPal to offer Colombian entrepreneurs the possibility of selling abroad, using PayPal as a means of payment, and then bringing the funds back to the country with *Nequi*.

Nequi does not have a sales force, but relies primarily on digital outreach strategies, word-of-mouth, and referral campaigns, for example, that reward those who bring in the most customers. It offers QR shopping by taking advantage of the QR code acquisition strategy deployed by the bank (see below).

Although originally targeted at a specific customer profile, the COVID-19 pandemic transformed it with the massive increase in the number of new customers who needed to make remote payments, together with *Nequi's* participation in paying subsidies from the Solidarity Income Program. Thus, the number of mobile wallets customers grew from 1 million customers in late 2019 to 2.5 million customers in June 2020 and continues to expand, attaining a total of 10 million customers by 2021.

Surprisingly, *Nequi* has its own correspondent network. In fact, *Nequi* withdrawals can only be made at Bancolombia ATMs and in two correspondent networks, since it cannot use Bancolombia correspondents as the one-time password (OTP) it generates is not yet linked to the correspondents' dataphones. Accordingly, it is only available in the PTM and Punto Red networks that operate on their own platforms.

5.6 The *Territorio QR*

Lastly, it is important to mention another area in which Bancolombia was a pioneer and has obtained impressive results. In its effort to continue advancing the comprehensive vision of inclusion, based on its experience gained with the previous products, it made it a priority to close the ecosystem by promoting a new model for accepting electronic payments. This was clearly not unfamiliar territory, since it was also a market leader in the business of acquiring commercial enterprises for card payments.



Thus, in 2018 it embarked on another innovative project to construct a payment acceptance network using QR codes. Starting with 800 street businesses with QR in that year, by

²⁴ An innovation in Colombia, where most physical debit cards are not enabled for online purchases.

February 2022 it already had 1 million QR points in 636,000 commercial enterprises. It is connecting 40,000 businesses per month on average; and, from 150,000 transactions per month in 2019, it achieved 2 million purchases per month with QR codes in 2021.



Bancolombia's QR codes thus represented 47 percent of electronic payment acceptance points in the country.

This has been achieved through various strategies, ranging from a webpage (a landing page) on Bancolombia's website, for a business to apply, to street sales groups (the troops) to reach all the small informal businesses, most of which did not even have an account and ran their entire business on a cash basis. To do this, it supported Bancolombia *A la Mano* to provide the account in which their payments will be received immediately.

This success is based on several factors. The first is that payments are received by merchants WITHOUT having to pay anything, i.e. they do not pay the merchant discount rate that is typical for card transactions. This is made possible by having a closed network consisting exclusively of Bancolombia customers. To make the formalization of payments attractive, Bancolombia offers the potential to sell to 16 million customers: 6.5 million Bancolombia customers using the app, 7 million active *Nequi* customers, and 2.5 million Bancolombia *A la mano* customers. Lastly, this operation is structured as a transfer, i.e. a transfer of funds from one Bancolombia account to another, which avoids having to withhold taxes (VAT and ICA) which can reduce the value of each sale by 6-9 percent when paid with cards. The National Tax and Customs Directorate (DIAN) is aware of this arrangement and is of the view that the formalization of sales that is ultimately achieved will generate huge benefits in terms of taxation in Colombia, by formalizing payments and improving traceability.

The possibility of linking the network that accepts QR payments to the correspondents network is not clear, because, among other reasons, the profile of the bank's correspondents is much higher than that of correspondents linked to the *Territorio QR*. The apparent contradiction generated in the correspondent that as a merchant it receives a fixed commission per transaction but earns nothing for accepting QR payments (not to mention the fact that a payment by card is also subject to a discount) has sown the seeds of a new banking correspondent model. The monitoring of QR code transactions started to show that several taxi drivers who already had QR codes (there are about 40,000 in the country) were receiving transfers for more than the cost of the journeys made. Further investigation showed that the taxi drivers were offering a cash-back facility to customers who paid with a QR code. The taxi driver thus reduced the amount of cash he/she was carrying and provided a better service to the customer who could obtain cash without going to an ATM. This led the bank to launch

the first mobile correspondents pilot plan, which will surely become a new correspondent format for the bank in the future.

5.7 Future plans

In line with Bancolombia's stated aim of promoting sustainable economic development for the well-being of all, three pillars have been defined:

1. Strengthening the production fabric
2. Developing smart and sustainable cities
3. Financial inclusion and financial education

This is why financial inclusion is even more important and why the Bancolombia *A la mano* platform is so relevant. It is through this platform that the bank seeks to make its commitment to financial inclusion a reality, by providing access to the included segments. The Bancolombia *A la mano* platform envisions including access to financial and nonfinancial services, to improve the quality of life of lower-income population groups that today have no dealings with the financial sector.

Following the issuance of the latest regulation authorizing mobile and digital correspondents, the bank is currently forging a partnership with new networks that can offer digital correspondent services. In terms of mobile correspondents, it is in the process of enabling the correspondent service within the Bancolombia app, so that a merchant can use his/her cell phone as a device for communicating with the bank. It recently launched a partnership with a taxi service app in an intermediate city (Taxia). This will provide the service through affiliated drivers, while accepting payment for the journey using the QR code.

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7 Interviews conducted

Name	Institution
Santiago Pérez	Bancolombia (Former staff member)
Luz Maria Velásquez	Bancolombia
Augusto Restrepo	Bancolombia (Former staff member)
Carlos Esteban Montoya	Bancolombia
Lina María Duque	Bancolombia
Mauricio Múnera	Bancolombia
María Clara Palacios	Bancolombia
Dorian Gutiérrez	Bancolombia
María Teresa Builes	Bancolombia (Former staff member)
Juan David Ramírez	Bancolombia
Miryam Botero	Bancolombia
Juan Camilo Vélez	Bancolombia
Astrid Cárdenas	Bancolombia (Former staff member)
Alejandro Toro	Bancolombia
Gabriel González	Bancolombia
Alejandro Betancourt	Bancolombia
Daniela Ramírez	Vale más
Sebastian Tobón	Comercial Card/PTM
William Garcés	Reval/Multipagas