Country Analysis on CI/CO Networks: COLOMBIA

Marulanda & Consultores *

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This slide deck serves as background research for the CGAP Focus Note '**Agent Network Journeys Toward the Last Mile: A Cross-Country Perspective**'.

Acronyms

- ANM: Agent Network Manager
- ATM: Automated teller machine
- BDO: Banca de las Oportunidades
- CCT: Conditional Cash Transfers
- CI: Cash-in
- CDD: Customer Due Diligence
- CO: Cash-out
- Dane: Statistics Department of Colombia
- DNP: National Planning Department
- FI: Financial Institution
- MNO: Mobile network operator
- POS: Point of sale
- SEDPE: e-money issuer
- SFC: Financial Superintendence of Colombia

Financial inclusion since 2007 has been fostered by **two main strategies** adopted by the Government of Colombia: reforms to the regulatory framework and activities set by the program Banca de las Oportunidades.

- Agents have been a critical piece of the financial inclusion progress in Colombia since 2007
- Today the results regarding access are evident: adults' access to at least one financial product has increased by 26% going from 56% to 81% between 2008 and 2018. However, usage remains a challenge due to low activity rates especially in low-value savings accounts.

The first strategy was to promote regulatory reforms to enable financial inclusion. Branchless banking was an essential piece to reach it, in a country of more than 45 million people, with 1.2million square kilometers, and at the time with 35% of municipalities with no financial coverage, and 48% only with a branch of the public bank, Banco Agrario.

- Agent regulation was stemmed on a risk-based approach, setting general guidelines on the minimum requirements and assigning total responsibility to each financial institution on the operational risk derived from it, so not to overburden the operation of what should be a low-cost channel.
- From then on regulation has evolved following either policy strategy or market requirements, which included an opening up to to other types of regulated institutions to use agents, for example insurance companies or stockbrokers
- Agent regulation was complemented with a comprehensive package of changes in financial regulation to promote bank's interest in unbanked segments of the population. Simplified KYC accounts and low-value credits were introduced, remote onboarding was allowed, and interest rate caps were redefined.

The second strategy was undertaken by Banca de las Oportunidades

- Banca de las Oportunidades designed and applied different types of incentives to promote the use of agents to increase outreach and density of banking channels to support the expansion of agent network through two main schemes:
  - Minimum transaction guarantee to assure sustainability of agents in municipalities which economic potential was unknown
  - Co-financing scheme to support investment in the development of agent network in marginal urban areas with the agent model unknown for banks at the time.

As a result the total number of agent points reported by financial institutions (banks, finance companies, financial cooperatives) and SEDPEs, increased by 33 times between 2007 and 2018, from 3,500 in 2008 to more than 116,000 in 2018.

- Since each financial institution is required to report its agent network, and many use the same ANM, this has resulted in double-counting agent points, giving way to an overestimation of the total agent points in the country, of over 50% of agents.
  - The number of outsourced adjusted agent points are estimated at 35,732, so that the number of total adjusted agent points, including direct and outsourced agents as of December 2018 would be 52,753 rather than 116,665 reported agents.
- By 2015, 100% of municipalities (a total of 1,102) of the country have financial presence, of which 238 have have at least one agent.

Banks have developed two main strategies for their agent network :

- Use agents to divert transactions away from branches, or to increase transactional points in areas where they already have branches, mainly for bill collection for utilities in urban areas.
  - This in fact is the strategy implemented by most banks and explains how transactions at agents already represent 21% of the total number of cash transactions made at banks, while in 2008 they were only 3%.
- Use agents as a low-cost channel to penetrate urban centers, typically to far apart marginal suburbs, or to expand their presence to municipalities where they had no coverage and small or no client base.
  - This is how private banks, which in 2007 reached only reached 243 municipalities with branches, of a total of 1,102, now reach over 900.

As a result, two agent models have emerged:

- A **direct agent model**, were the bank is responsible for identifying, connecting and managing the agent point. As of 2018, 32% of adjusted agents were direct agents used mainly by 3 banks.
- **An outsourced model** operated by ANMs, used by most banks.

Banks using direct agents show a more comprehensive and sustainable rural outreach, challenging the general belief that aggregation by ANMs may be the best way to penetrate rural areas.

- This is the result of their responsibility for assuring enough transactional levels at agent points. This means they need to provide a client base that generates enough CI/CO financial transactions, which result in a reasonable commission for a sustainable business model at the agent level.

ANMs also generate this traffic by aggregating other types of transactions as lottery sales, top-ups or postal services, and their networks also generate enough transactions to be viable.

Regarding transactions reported by banks at their agents, those with a direct model show much higher levels.

- The main features of this 'direct agent model' are shown in the case of Bancolombia, although currently, other banks such as Banco Agrario and Bancamía are starting to introduce similar features into their agent models.
- Bancolombia has recognized in agents a channel that can help increase market share and reach geographical areas where it was not present ten years ago, providing a wider range of financial products. This has allowed it to have more balanced set of CI/CO transactions resulting in an easier rebalancing strategy in all types of municipalities

The main challenges facing the Colombian agent model are:

- The systemic risk underlying the dominant post-paid agent e-floats, used currently by most financial institutions.
  - This results from various contracts which a specific agent can sign with different banks and ANMs, which can lead to high cash levels at an agent point in a specific point in time. In turn, this can result in and increased risk at the point and therefore in money being lost and the reputational risk for agents, and loss of confidence in the channel or higher insurance fees to cover up for losses at these points.
- Another challenge is the need to expand the agent network and enable smaller types of merchants to assure higher density in urban areas and greater expansion to rural areas.
  - This will require a combination of models by banks interested in expanding their client base in these rural areas. In this process the most critical factor is how to move away from a "post-paid" relationship to a "pre-paid" one.
- A combination of direct models and outsourced models using ANMs will for sure evolve and coexist, but the main question will be if exclusivity agreements add value or if adequate value propositions for clients can be maintained with shared agent points.
- The possibility to facilitate agent interoperability should also be in the agenda, but the discussion will require an understanding of the technological problems to solve, since all banks use different technological platforms to connect to their agents. Also, it would need to define a business case were interchange fees would need to be defined.

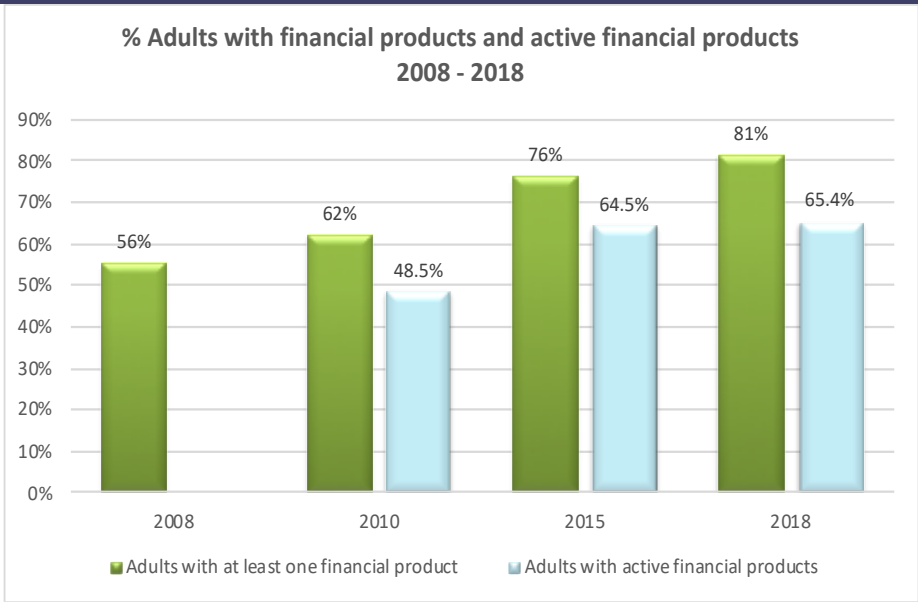
Contents

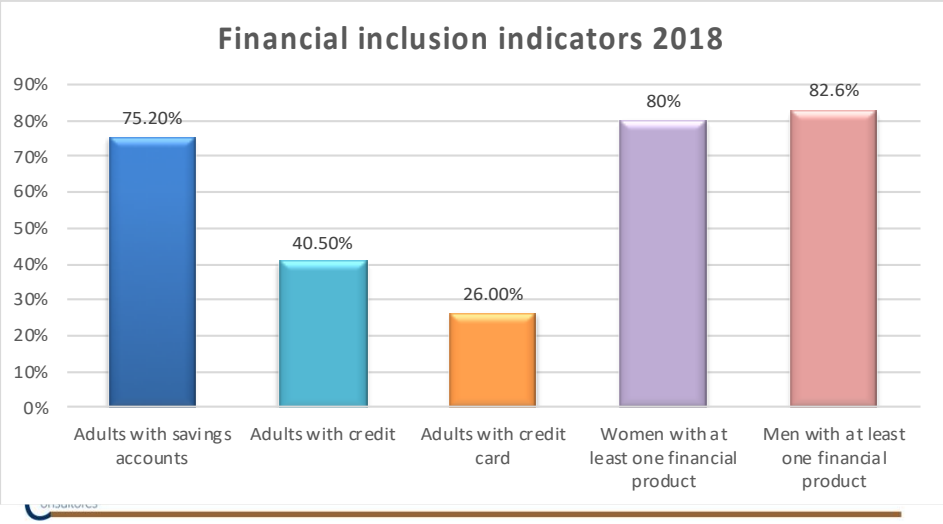
Overview

Financial inclusion and agent networks evolution in Colombia

Colombia has had an impressive improvement in financial inclusion in the past 10 years: 12 million adults were brought into the financial system between 2008 and 2018. Nevertheless great disparities are present between urban and rural communities.

- Supply side data* report adult access to at least one financial product (credit or deposit) rose by 26% in the past 10 years, reaching 81% by 2018.
  - However large differences exist between urban and rural centers, with access to at least one financial product being 22% lower in rural municipalities and 33% lower in dispersed rural areas, where only 55.4% of adults have access to a financial product.
  - Urban centers represent 10% of municipalities, but concentrate 65% of the population





- Savings accounts have the highest penetration rate among adults, 75.2%, of which 51% are reported as active.
- 40.5% of adults had credit:
  - 26% of adults had credit cards
  - 20% of adults had consumption credit.
- In terms of gender gap, men's access to at least one financial product reached 82.6%, 2.6% higher than women.

*Reporte de Inclusión Financiera, Banca de las Oportunidades and Superintendencia Financiera, 2019.

Financial regulation changes for financial inclusion

2006

Creation of Banca de las Oportunidades

Authorization for financial institutions to use of agents

2008 /2010

Authorization of KYC simplified procedures for account opening (including OTA)

Electronic Deposits (mobile accounts)

2012

Authorization to use agents was extended to:

- Investment Management Companies,
- Insurance Companies
- Pension Funds,
- Trust fund companies

2014

E-money issuers authorization *(SEDPES)*

Introduction of low value credit simplified procedures

2020

NewAgent Regulation

- New definition of agents, including mobile or digital
- Introduction of pre-paid model in mobile and fixed agents.
- Information to clients not necessarily printed.

Since 2007, Banca de las Oportunidades launched several calls for proposals aimed at opening agents in 284 unserved municipalities and slums of major cities.

Year	Instrument	Winners	Results / agents	Cost
2007	**Minimum Transaction Guarantee**	Banco Agrario	128 municipalities	Budget: US$1.6 million Real cost: US$850,000
2009	**Minimum Transaction Guarantee**	Banco Agrario	59 municipalities	Budget: US$1,7 million Real cost: N.A.
2009	**Co-fianancing**	Banco Agrario (2 neighborhoods) Banco Caja Social (20 neighborhoods)	26 neighborhoods in 5 major cities	Budget: US$366,000 Real cost: N.A.
2018	**Technical Assistance**	Fundación Capital	Contract in process	Budget: US$369,000
2019	**Technical Assistance and Co-financing**	Fundación Capital - Fundación Sparkassenstiftung	Contract in process	Budget: US$461,500

Until 2018, Banca de las Oportunidades has spent USD 4 million in tender processes to stimulate expansion of agent models

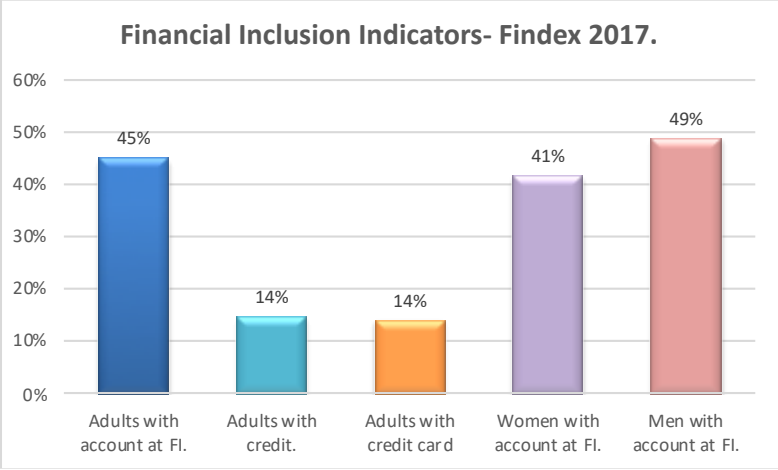
N.A. Not Available.

Source: www.bancadelasoportunidades.gov.co and https://www.cgap.org/research/publication/incentives-introduction-agents-colombia.

Demand side surveys also report progress, but show lower levels of financial inclusion, underscoring the importance of promoting usage: people tend to report in demand side surveys information on the accounts they actually use, rather than those they have

High inactivity rates, specially in savings accounts have been identified as main reason for differences with supply side data.

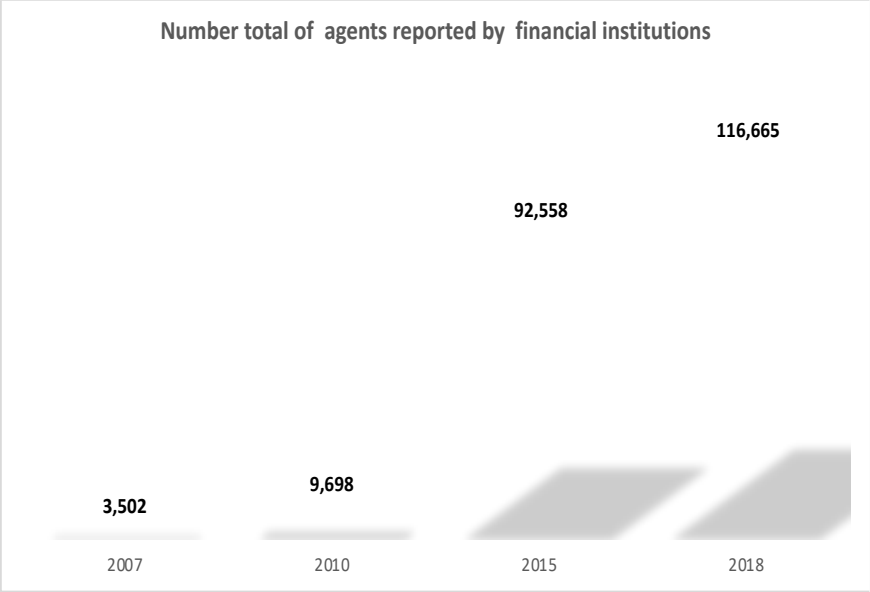
- Taking demand side information, two sources are available: Findex 2017 and the second Financial Inclusion Demand Survey in 2018 and.
  - According to Findex 2017, 45% of adults have access to accounts, with an increase over 30% registered in 2011. This ratio goes down to 41 % for rural population.
  - The Financial Inclusion Demand Survey of 2018 showed that 69.1% has access to at least one financial product.



- In terms of gender gap, Findex identifies a larger difference than the one shown with supply side data: 49% of males with accounts vs. 41% females
- The gap is even higher according to the Financial Inclusion Demand Survey. Access to at least one financial product in males is 78.7% while women's is 60.2%.

- Savings accounts have the highest penetration among adults, but also the highest inactivity
  - Simplified CDD procedures to open low-amount financial products was key to increasing access to savings accounts.
  - CCT payments into the beneficiaries' accounts was a big push for the financial inclusion process.
    - Because of multiple tender processes for CCT payments, reaching more than 2 million beneficiaries predominantly women (more than 80%), and an important turnover, supply side data might be including savings accounts which these beneficiaries do not report as having since they no longer use them to access a subsidy.

Financial inclusion progress has been accompanied by agent outreach expansion nationwide. Indeed, since 201,5 100% of municipalities have financial coverage, led mainly by banks.



Source: Banca de las Oportunidades and SFC

As of 2018, 46% of financial institutions had agents, mostly banks: 15 banks, 7 finance companies, 1 financial cooperative and one SEDPE (e-money issuer), had agents.

The total number of agent points reported by financial institutions (banks, finance companies, financial cooperatives) and SEDPEs, increased by 33 times between 2007 and 2018.

- Most of the growth occurred between 2010 and 2015, where the total number of reported agents grew 10 times to 116,665*.

* This number was estimated after correcting a mistake in the number of outsourced points reported by Colpatria

- Bank agents represent 95% of total reported agents.
- Only 1 financial cooperative, out of 5 in the market, uses agents
- Only 1 SEDPE (Movii) has agents.
- Seven finance companies have 4.3% of total agents.
- 13 savings & loan cooperatives reported 243 agents altogether.
  - Since no information on transactions is available, they could not be included in the analysis.
- Two insurance companies (Sura and Colmena) are currently authorized to use agents with a commercial approach to bring in new customers.
  - They are starting to define their strategy and role out their network, with one having already 50 operational.

Agent outreach in Colombia has developed under two models used by financial institutions to hire and manage agents: direct contracts and outsourced.

Most financial institutions use outsourced agents, while a few banks (for example Bancolombia and Banco Agrario) have direct agents. Banks using direct agents are the ones with a more comprehensive and balanced agent rural outreach as will be shown along this report.
The Agent Network Managers provide an extensive network with national coverage, and aggregate transactions, different from those related to financial institutions, to assure transactional levels at agents.

Outsourced agents are those engaged by a third party, an ANM, which in turn is hired by the financial institution.

- 85.4% of the total number of reported agents as of December 2018 were outsourced.
- Of the 15 banks that reported agent points in 2018, 13 have outs.

- **Agent Network Managers** (ANM) have evolved and developed a large network with national coverage.
  - A specific merchant can have contracts with more than one ANM, as well as a direct contract with one or more banks.
  - These networks enable shopkeepers to sell services from different financial institutions and other entities, such as mobile recharge, bill payments, digital subscriptions, online shopping, betting recharges, and government services, among others.

Direct agents are hired by the financial institution, which identifies them, connects them and offers the platform to connect and operate

- As of 2018, there were 17, 021 direct agents used by 9 banks

OUTSOURCED:
Contract with an Agent Network Manager (ANM)

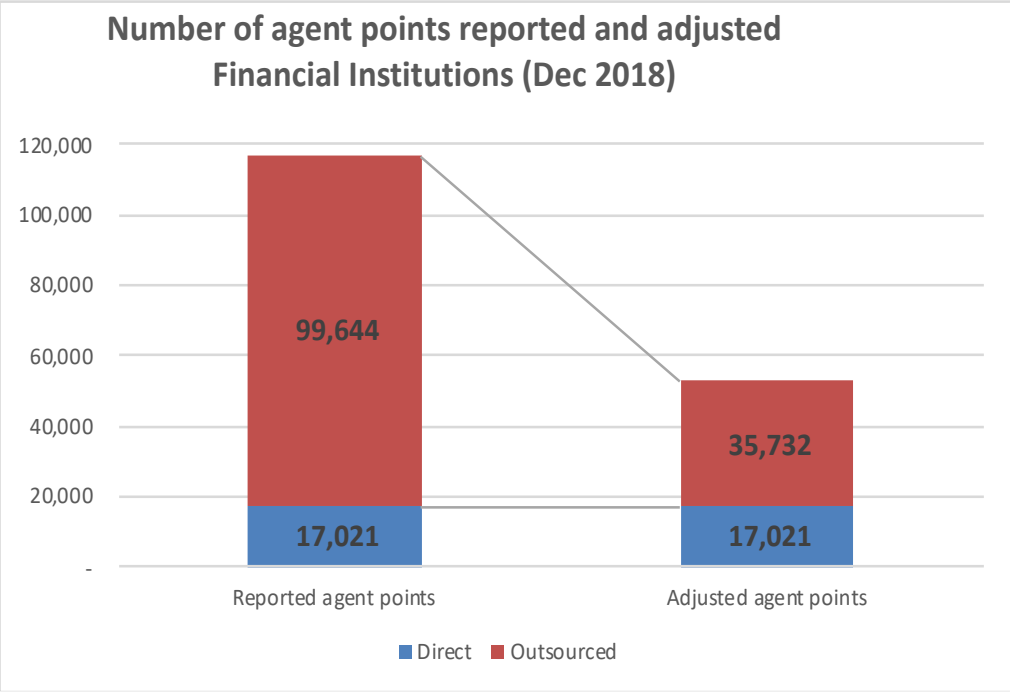
- Assendared
- MovilRed
- Baloto
- Punto Red
- PTM
- Districol

DIRECT :
<u>Direct contract</u> with a financial service provider

- Bancolombia
- Banco Caja Social
- Banco de Bogotá
- Banco Agrario

Since each financial institution is required to report its agent network, and many use the same ANM, this has resulted in double-counting agent points, giving way to an overestimation of the total agent points in the country, of over 50% of agents.

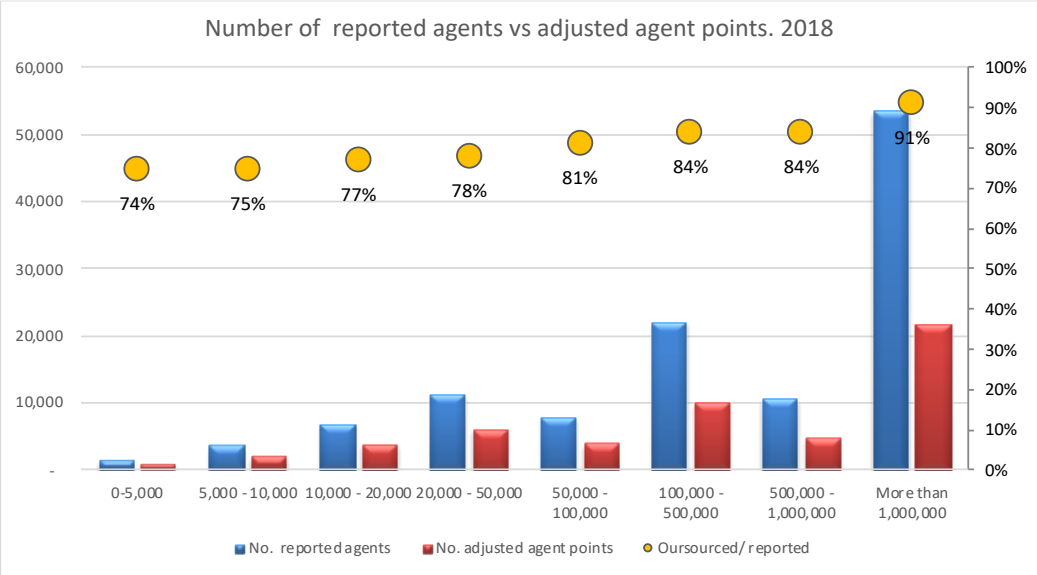
- This double-counting is especially relevant in the case of the largest ANM, used by many financial institutions, as is the case of Via Baloto, with six banks using it, and MovilRed with four banks.
- To analyze the actual agent coverage, a process of elimination of double-counting was performed using detailed information provided by the largest ANMs. (See Annex 1)
- This process allowed a better estimate of the number of points that are agents per municipality: in this document they are called **adjusted agents**.

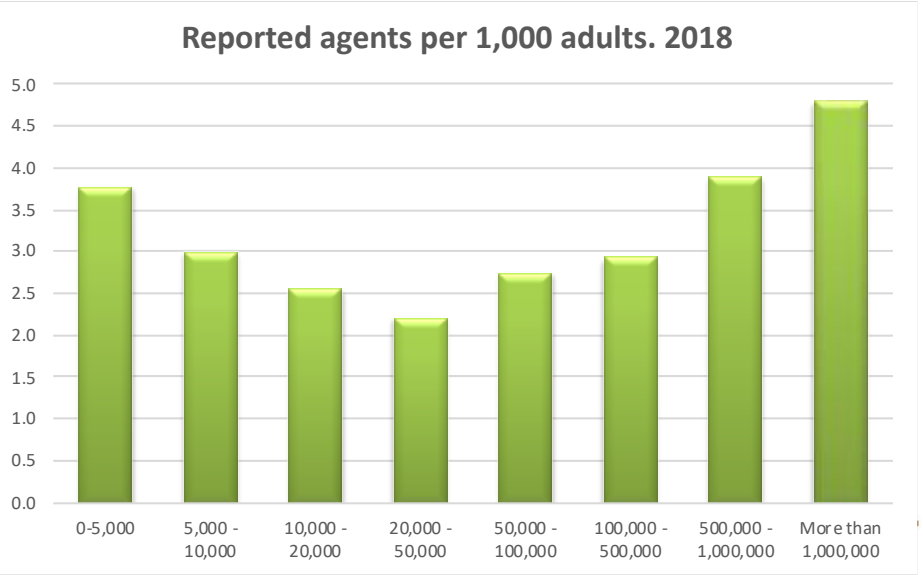


- The number of outsourced adjusted agent points are estimated at 35,732, **so that the number of total adjusted agent points, including direct and outsourced agents as of December 2018 would be 52,753 rather than 116,665 reported agents.**
  - CGAP and BdO calculated for the first time this overestimation in November 2014, when they found 1.9 times over the reported number: 44,494 vs. 87,887.
  - This means agents have grown 18% in 4 years, suggesting there is great potential for higher penetration.

The proportion of direct agents in smaller and more rural municipalities is higher than in large cities, challenging the general understanding that using ANM as aggregators may be the easiest way to reach rural communities

Although outsourcing is important across municipalities of all sizes, it is more prevalent in larger municipalities and so overestimation is more evident in urban settings were ANM have a larger network and work for more than one bank.

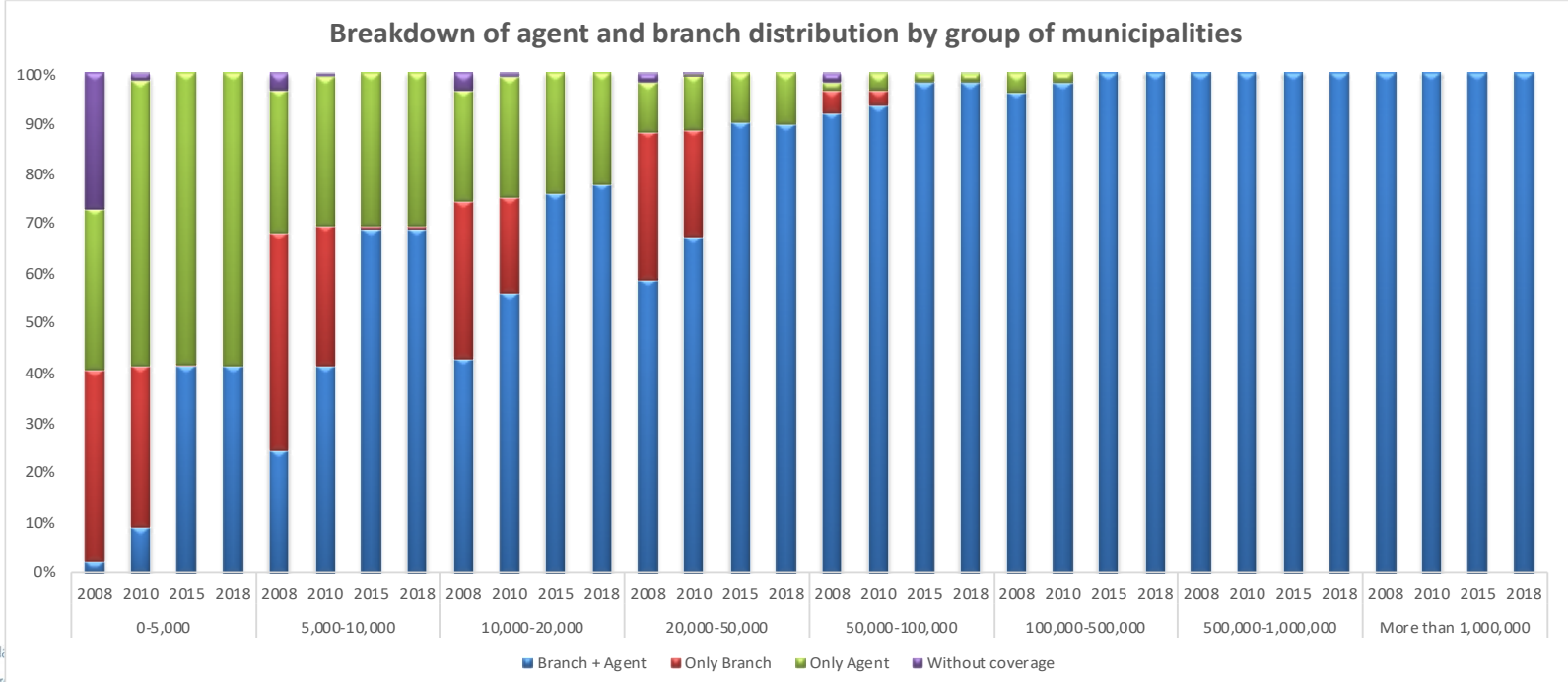




The prevalence of agents operated directly by banks combined with a national coverage of the biggest ANM has resulted in a similar coverage, measured as agents/ 1,000 adults, of smaller more rural municipalities, as well as large cities, with the lowest being those between 20,000-50,000, which represent 23% of municipalities and 16% of population.

Agents have become the best option to deliver financial services to rural and less populated municipalities

- Agents have allowed financial institutions to reach rural and small municipalities with no financial presence, as for municipalities with less than 20,000 people branch coverage was non-profitable (see following chart)
- Agents have also been used to complement channels in municipalities with branches: while in 2008 only 43% of municipalities had a branch and an agent, in 2018 already 76% of municipalities have both.
- In 263 municipalities, agents are the only available channel, 90% of them have less than 20,000 people.
- By 2015, 100% municipalities have at least one agent.



Source: based on SFC and DANE.

Source: based on information from Banca de las Oportunidades and SFC

Agents have allowed a more diversified channel option for clients and users of financial institutions

Number of municipalities by type of coverage category

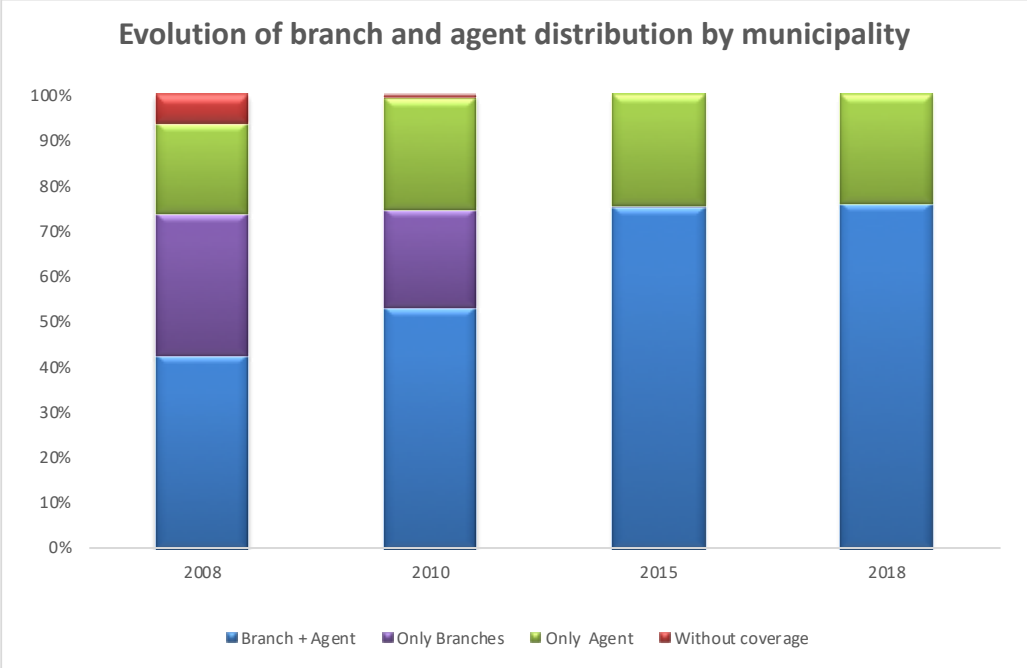
2008		2010	2015	2018
Without coverage: 68	Without coverage	4	1	
	Only agents	63	64	65
	Only Branches	1		
	Both channels		3	3
Only one Agent: 189	Without coverage	2		
	Only agents	182	178	174
	Only Branches			
	Both channels	5	11	15
Only one Branch: 325	Without coverage			
	Only agents		1	2
	Only Branches	219	3	
	Both channels	106	321	323
Both channels: 469	Without coverage			
	Only agents		4	2
	Only Branches	11		
	Both channels	458	465	467

Source: based on Banca de las Oportunidades and SFC

Even more, agents have helped banks (public and private) reach municipalities where there was no financial presence or only the public bank (Banco Agrario) was present

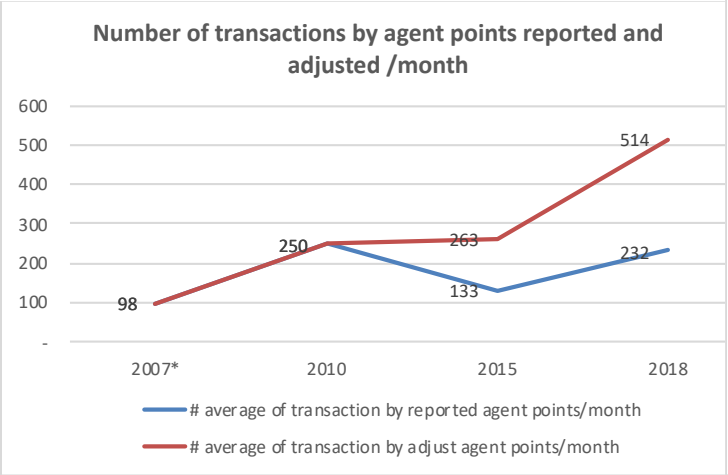
Agents also allowed competition and the increase of the number of financial institutions with more products at the municipal level.

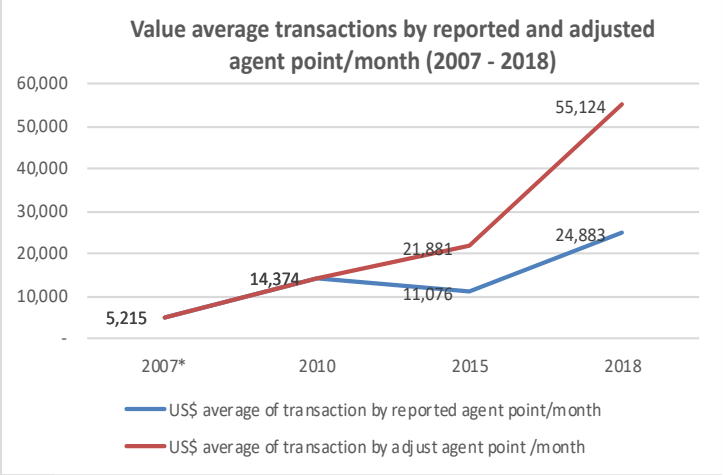
- In comparison to branch expansion, agents were used to expand outreach mainly by private banks which are now present nationwide.
  - In 2008, private banks had branches only in 36% of municipalities while Banco Agrario was the only bank present in 312 with a branch.
  - Of those were only the public bank was present, and using mainly agents, by 2018 226 had presence of eight banks, 26 had six banks and 30 had 3 banks, assuring higher competition.
  - Banco Agrario, became the only presence in 2018 in only 2 municipalities, where it has agents



Source: based on information from Banca de las Oportunidades and SFC

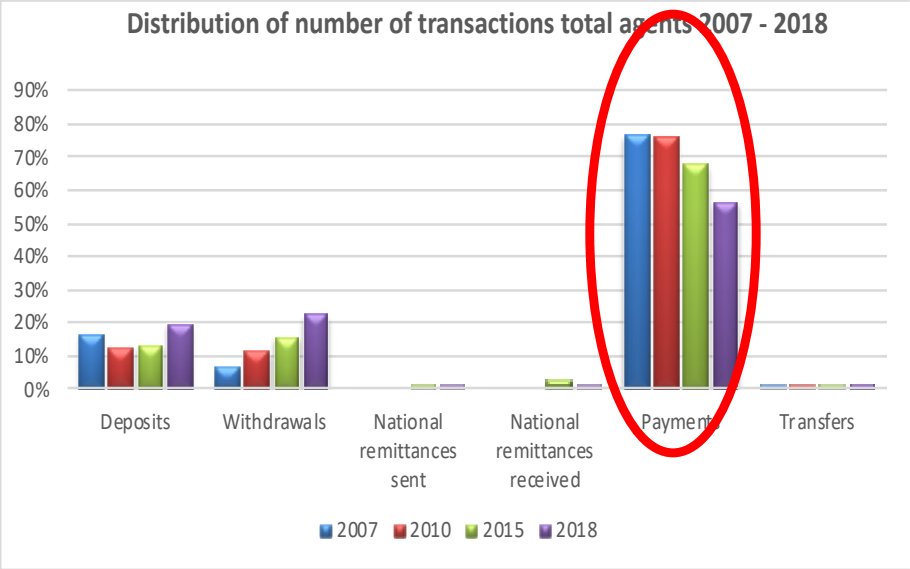
As coverage has grown in the past 10 years, so have financial transactions at agents, concentrated mostly in payments and bill collections.





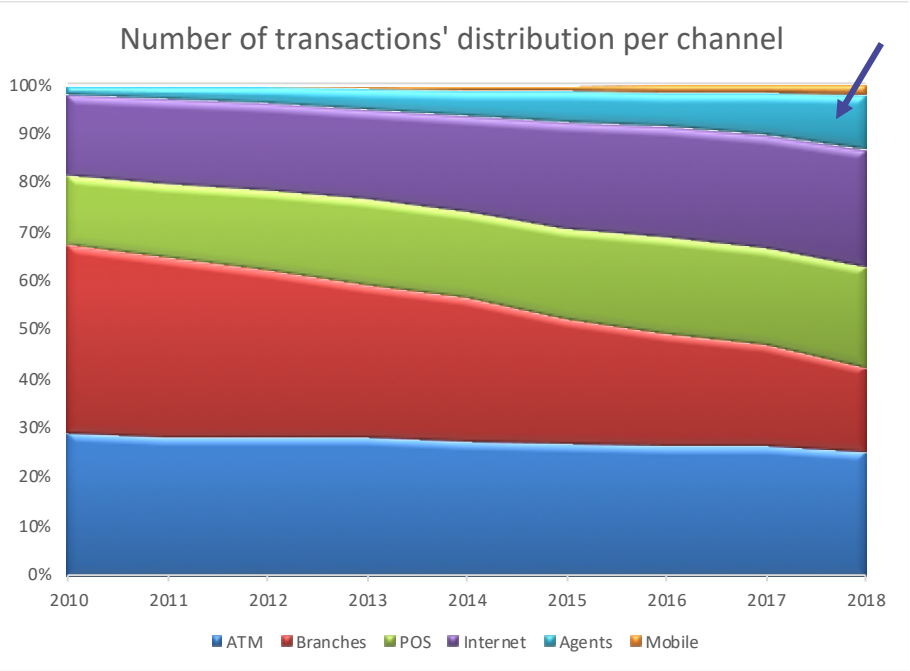
Average transactions have already reached 500 monthly, but important differences exist between agents of different banks, depending on the strategy for which each financial institution has deployed them.
Average monthly value of transactions highlight the volume of resources, and the risks involved in the agent business.

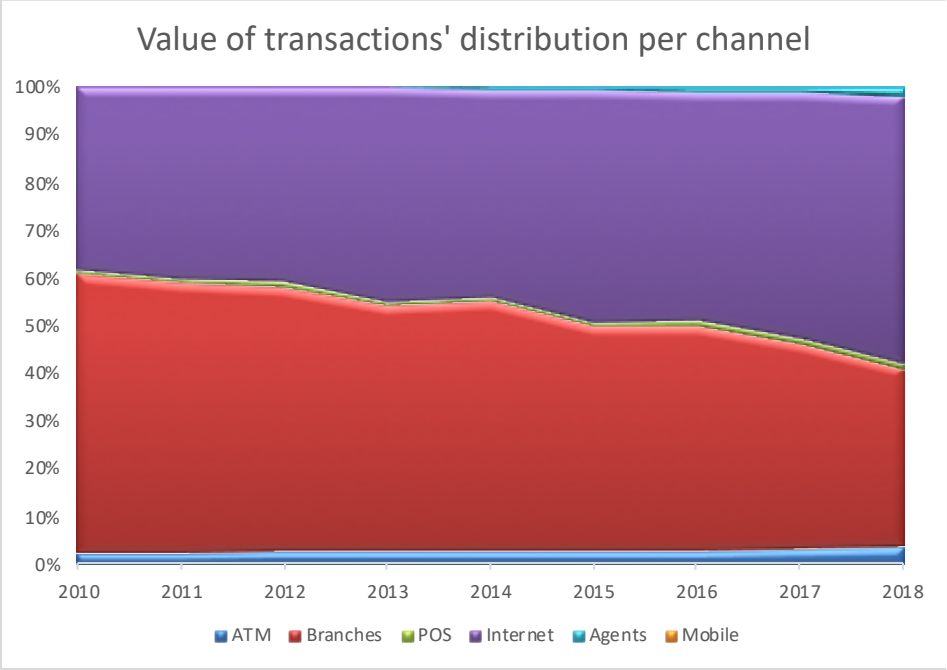
- Underlying this evolution are bill collections and credit card payments for most of the banks, although transactions like deposits and withdrawals, related to accounts, have increased, representing by 2018 almost 40% of total transactions.
  - In 2016 when bill collections and payments were still separated, the former represented 81% while the latter were 19% of the total number of transactions.



Source: based on Banca de las Oportunidades and SFC.

Among the financial services' channels, agents have become quite relevant for small amount transactions along the past 8 years as the number of agent transactions have increased steadily.



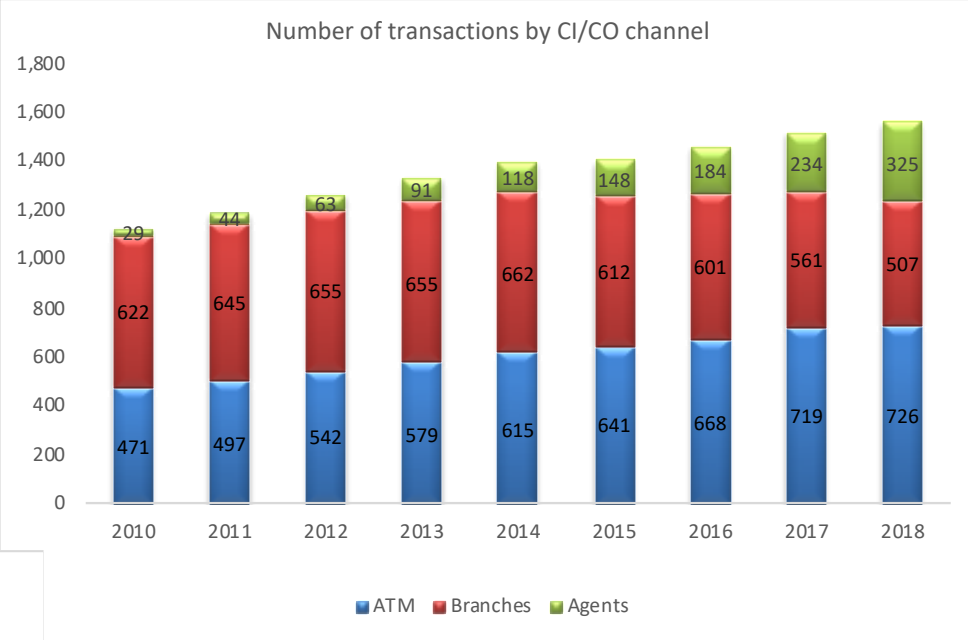


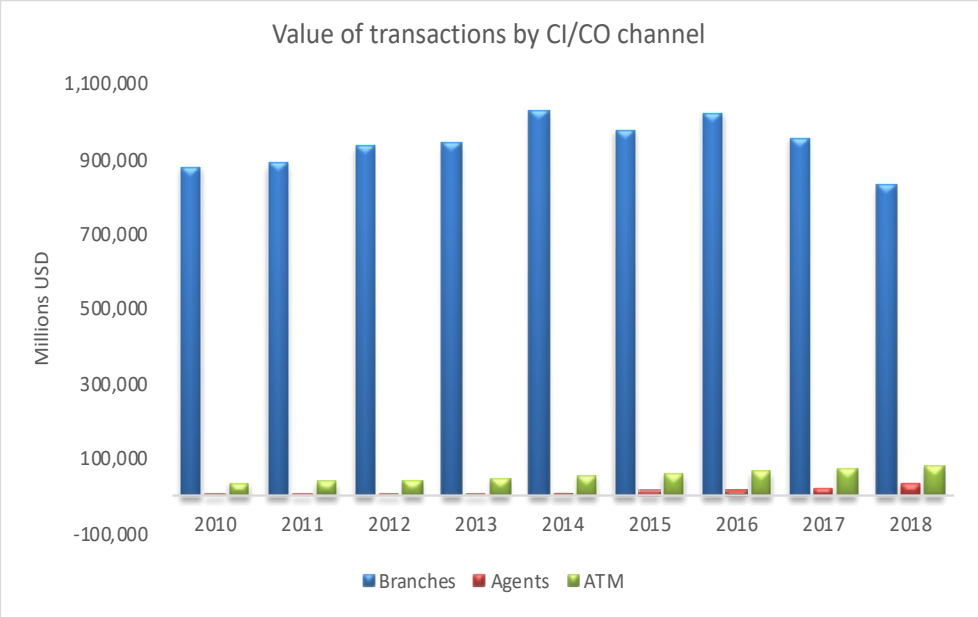
Source: SFC Transactions report.

- Although the number of agent transactions represent only 11% as of Dec 2018, they have been growing increasingly replacing to some extent branches, internet and even POS transactions. Still, ATM transactions continue to be unchanged as a result of cash prevalence.
- As agent transactions are mostly low-value vis a vis transactions made using or at branches, by value are almost invisible (2%). internet
- Still a clear shift towards digital channels can be appreciated, as well as a clear reduction of transactions at branches. , showing precisely a shift of cash transactions towards ATM and agents.

Indeed, agents have become an increasingly important channel for lower value cash transactions, while transactions at branches have decreased.

- Among the CI/CO channels, as of 2018, transactions at agents represent 21% of the number of cash transactions, while in 2008 they were only 3%
  - This is especially relevant for CI, since multifunctional ATM that receive cash are very marginal in the country.
  - The reduction in absolute numbers of transactions at branches underscores the transformation experienced by banks in terms of cash management channels



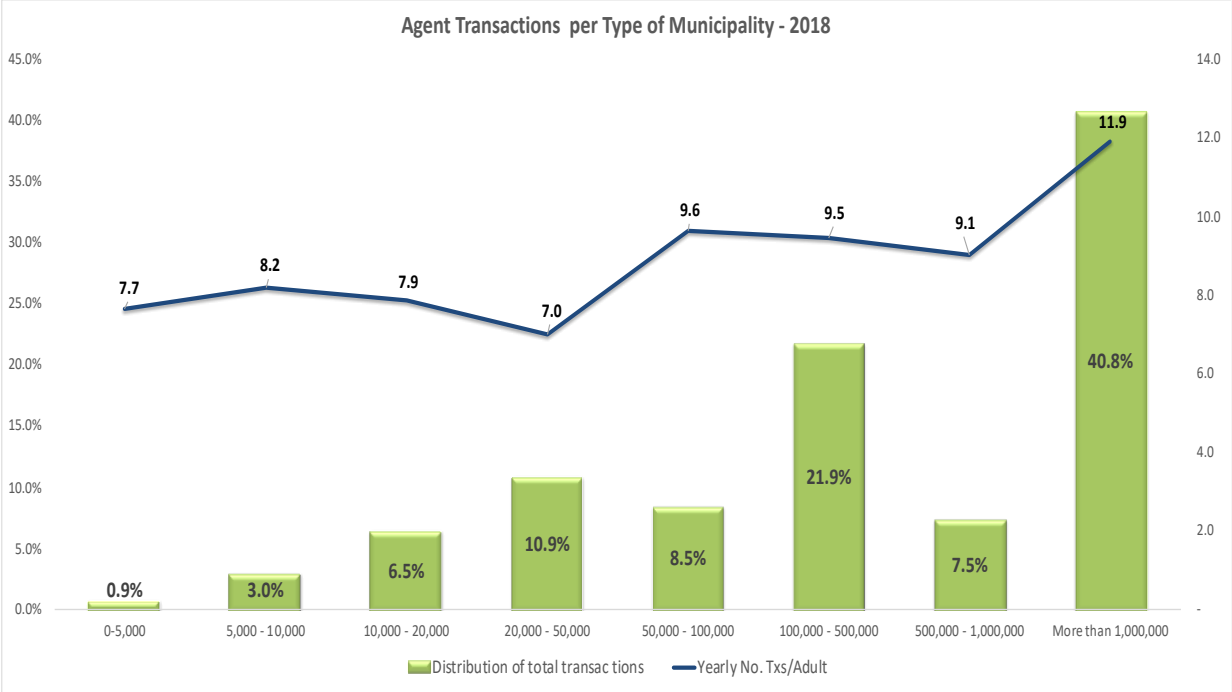


- On the contrary, by value they only represent 4%, indicating higher value transactions are still made at branches.
  - Nevertheless these also show a decrease in absolute value, in this case in favour of digital channels, as seen before.

Source: SFC Transactions report.

Analysing agents by disaggregating their operation by size of municipalities offers a different perspective

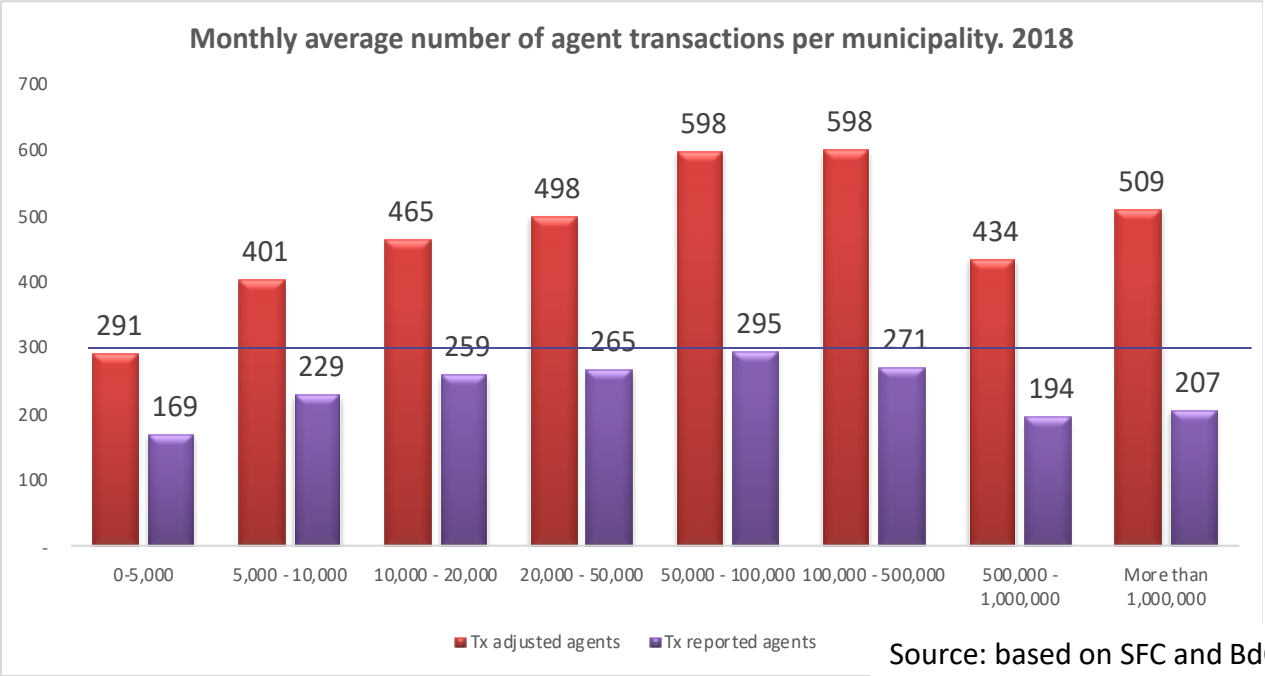
Although agent coverage by size of municipality shows a good level of outreach to rural municipalities, transactional level might be a better indicator of effective outreach and usage



- Total transactions obviously concentrate in larger cities.
- Nevertheless, transactional level per adult indicate national average of 9.7 transactions per year, having the lower levels in those with less than 50,000 inhabitants, although never less than 7.
- As will be shown later, even these averages vary substantially depending on the financial institution using agents, which ratifies that agents activity depends on the value proposition each one of them has offered around this channel.

Average transactions per agent per type of municipality have already surpassed the 300 tx per agent. Nevertheless big disparities between transactional levels at agents of financial institutions exist, specially in smaller municipalities.

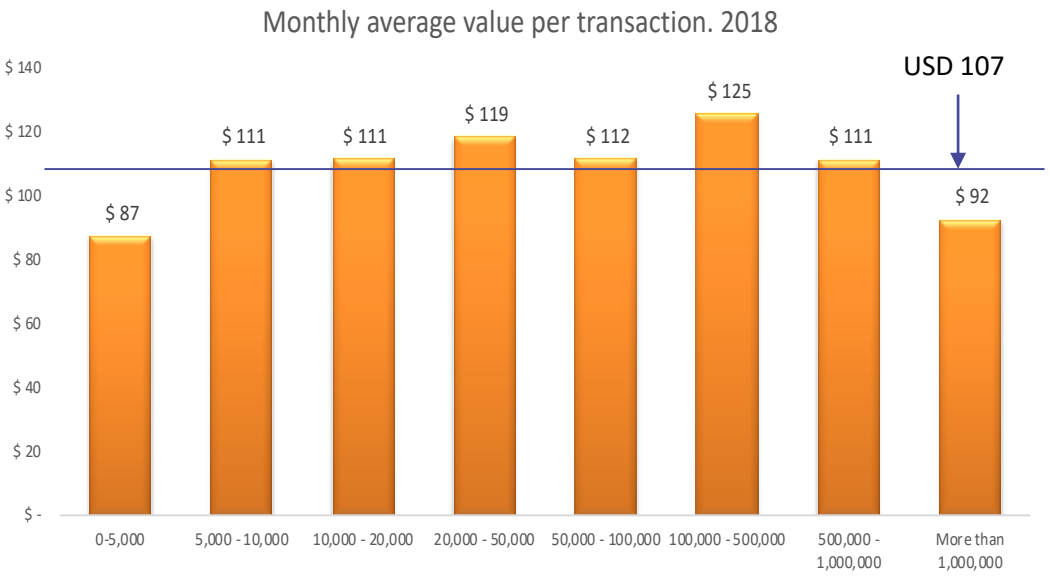
- As reported in interviews with banks and ANM, 300 transactions per month seem to be a general accepted break even point.
- Agents at municipalities between 50,000 and 500,000 people, have the highest transactional levels, reaching almost 600 per month.
- At the smallest municipalities, with less than 5,000 people, agents on average report making 291 transactions a month. For agents, these levels may not justify their risks. Strategies to maintain these points differ:
  - Under a direct model, fees per transaction are higher, operations more diversified, and average transactions higher as will be shown, offering an agent a business model supported on a commercial strategies rolled out by each bank to increase clients, and therefore transactions.
  - For banks using ANM, with less commercial interest in smaller municipalities, these operators assure other income for the agent from other types of transactions like Top Ups, lottery sales or even local bill collection.



Source: based on SFC and BdO

By number, on average each agent nationwide makes 514 transactions each month.

The value of transactions undertaken at agents are high, both per transaction and monthly, underscoring the risks which need to be mitigated, as well as the liquidity challenges involved .

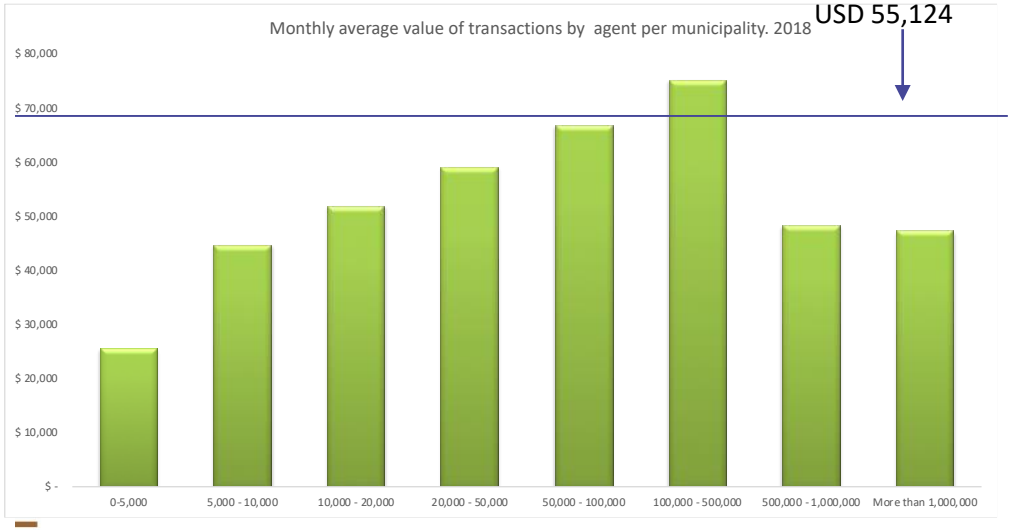


Average value per transaction is a bit higher in rural settings than in large municipalities and even nationwide probably as a result of the type of transactions people make.

- Indeed, larger value withdrawals are made in small municipalities and decrease as the population grows.
- In larger cities bill collection with a lower average value are predominant.

The monthly average value of transactions per agent of USD 55,124 is surpassed in medium size municipalities.

- Even in the smallest ones, monthly flows exceed USD20,000, an element which experts suggests needs a post- paid model based on credit lines, because it would surpass the small merchant's capacity to work in a prepaid model.
- The lower average in big cities confirms lower credit limits, as well as higher capillarity



Source: based on SFC and BdO

Cash management risks are especially significant as a result of the way financial institutions operate and manage their agents, which has also slowed down penetration to smaller merchants and rural municipalities

The Colombian agent model is based on a post-paid relationship between the financial institution and the agent or ANM, were the agent's operation on behalf of the financial institution is funded by a credit line or overdraft granted by the financial institution to support daily agent operations.

- This means that agent deployment is limited to those whose credit risk is acceptable to the financial institution, even if they use ANMs.
- ANMs also must pass the credit risk assessment, and though credit lines are higher, they have to distribute them among their agent points, compromising their own liquidity.

This credit line supports CI/CO transactions at the agents:

- CI transactions ➔ increase the amount the agent owes the financial institution.
- CO transactions ➔ reduce the amount owned to the financial institution.

To have the credit risk in check, credit lines have a limit on the maximum amount of the financial institution's funds an agent can keep at its store:

- When the limit is reached, operations must stop until funds collected are transferred to the financial institution or taken to its closest branch, or enough CO transactions are performed. This is called cash "rebalancing".
- In rural areas where branches are scarce, the credit lines tend to be higher to reduce costs (transfer to another municipality) of rebalancing for the agent

This has an additional problem considering that many stores act as agent for several financial institutions, as shown in the field work, **and have credit lines with each one of them**.

- As financial institutions do not always know if agents have other contracts, they cannot assess accurately the real credit risk, increasing the agent over-indebtedness risk.
- This risk may be higher in rural areas because the lack of other delivery channels requires higher credit lines concentrated in a few agents as there are not many stores suitable for being agents in small municipalities.

As a result of creating an enhanced service offering, agents prefer partnering with several networks instead of one.

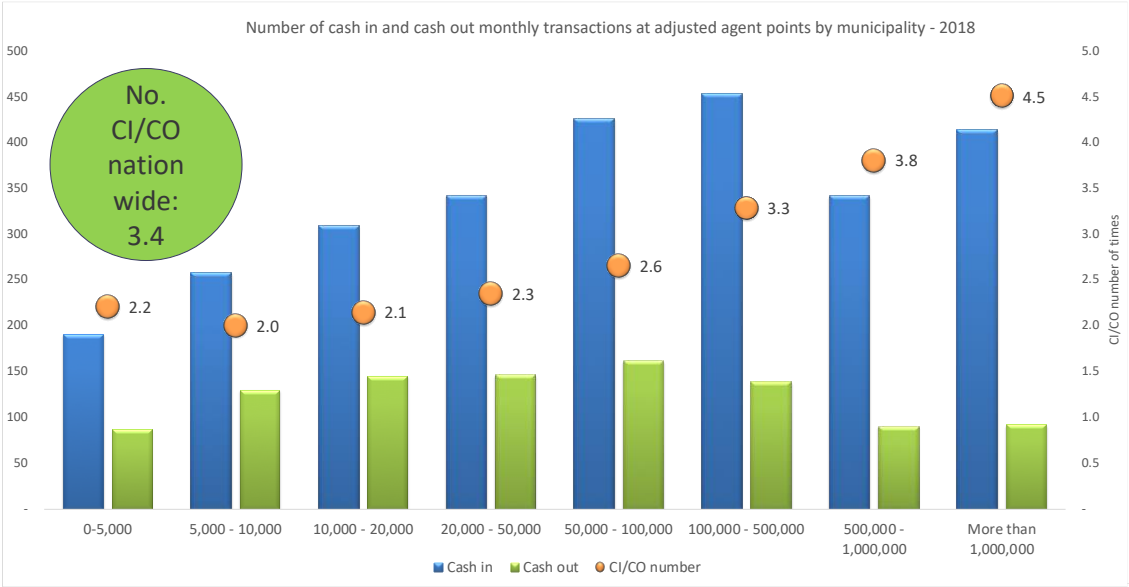
- The first "big bet" for an upcoming agent is to include the full range of basic public services in their store.
- For that reason, most agents sign contracts with more than one ANM and with different banks, in an attempt to have multiple bill payment options available, which an individual operator usually does not offer.
- Agents with multiple contracts tend to setup an ideal mix of a direct contract with a financial institution and one with an ANM. Bancolombia and Baloto was the most common combination found.
- To avoid conflict of interests between financial institutions that prefer exclusivity and ANMs, some agents formally separate their store in two different spaces to avoid any issues with the

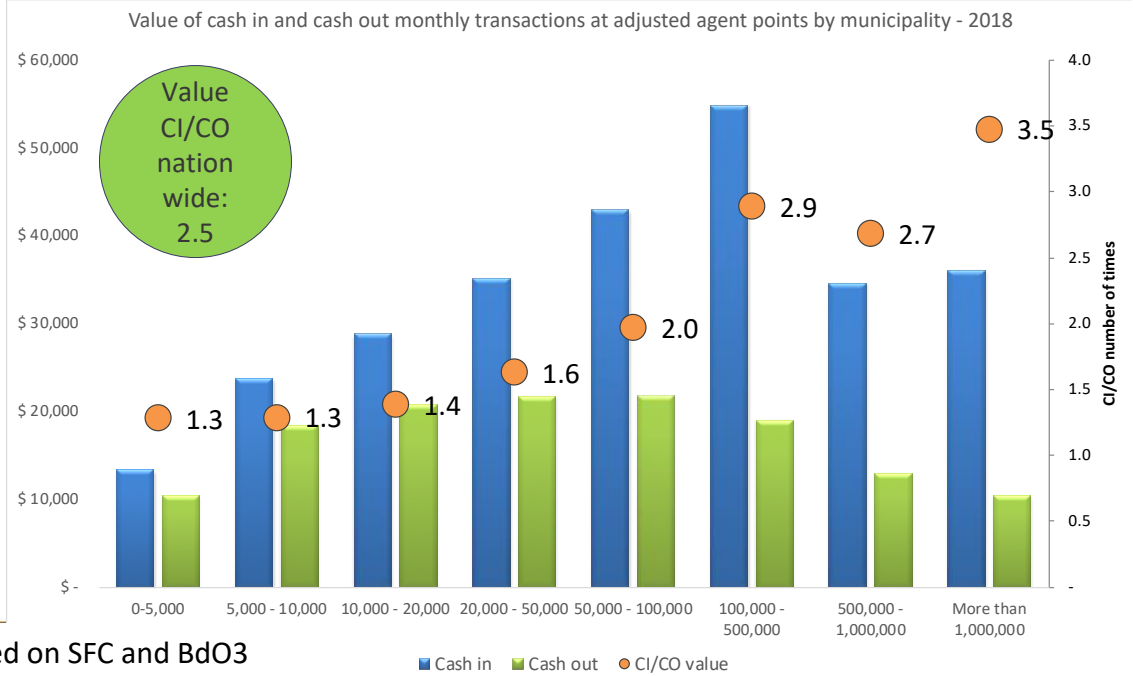
"We plan to setup Servientrega and Efecty in a cabin at the back of the store, and leave Bancolombia as it is in the front. All of them with different company names"

Nidia Barbarán, Cocorná, Comunicaciones, PTM Comcard

Monthly transactions are heavily reliant on CI nationwide (mostly payments and collections) but in rural settings transactions are more balanced, as a result of a more diversified portfolio of transactions, underscoring the challenges faced for rebalancing each agent point

- CI/CO transactions in municipalities under 100,000 people show a lower ratio than the national average.
  - This is a result of a greater importance of deposits and withdrawals, and lesser dependence on bill collection.
- By value, differences are even higher. In smaller towns ratios show almost a balance, while in towns of over 100,000 the ratio is the highest, requiring frequent rebalancing.
  - This again is a result of higher concentration on bill collection and credit card payments.
  - It also coincides with greater participation of agents managed by ANMs, which offer lower credit lines and where rebalancing is more frequent, taking advantage of greater branch density, where agents can deposit excess cash easily.





Source: based on SFC and BdO3

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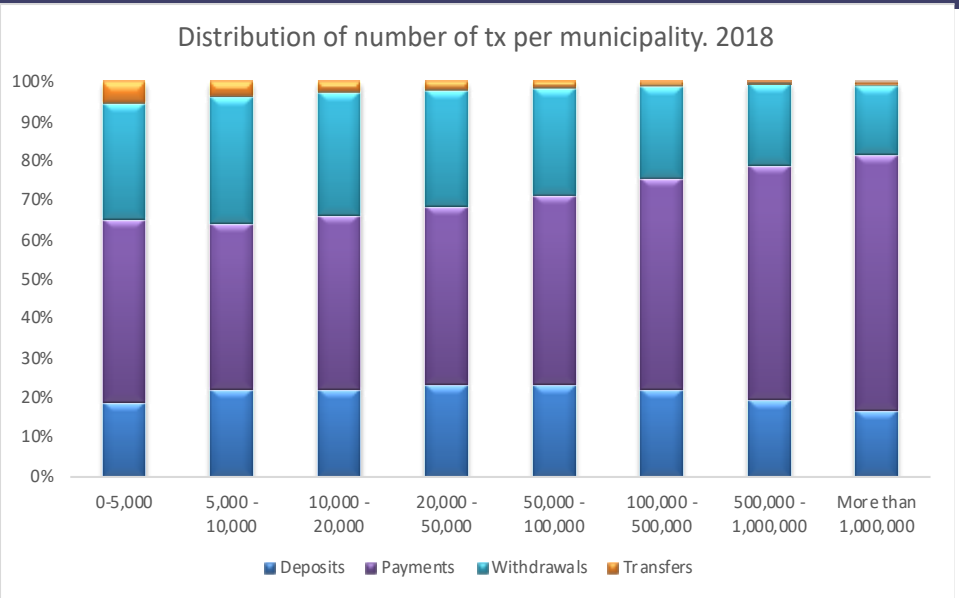
Although CI transactions are prevalent in urban and rural settings, withdrawals are the second transaction in importance nationwide, and more so in small and rural municipalities



By number, payments (including bill collection) are more important in large municipalities rather than in low-populated places.

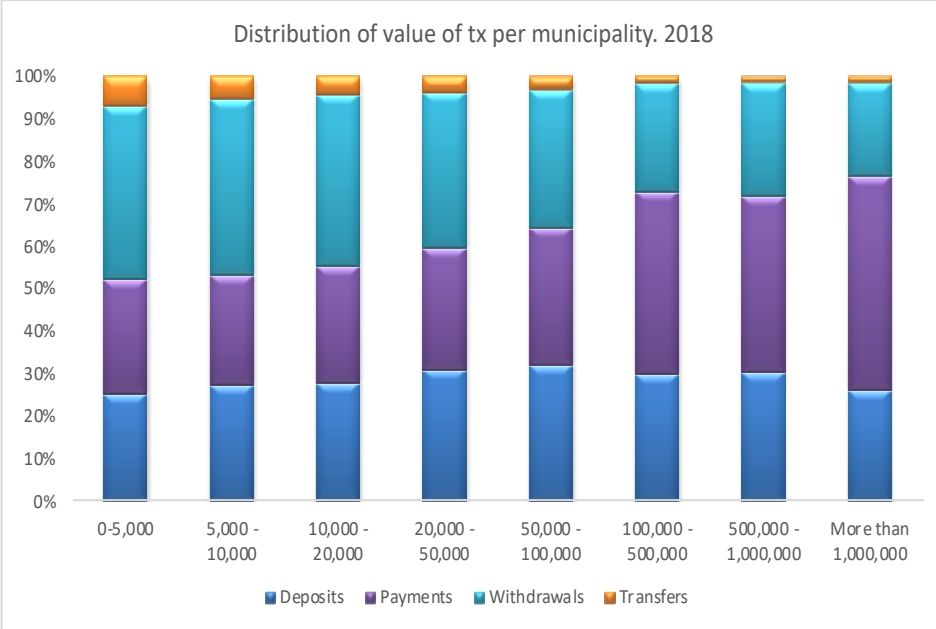
- Since June 2017 payments and collections were aggregated, but as of June 2017 payments were 11% of total transactions, while collections were 48%.
- Average value of debt payments was USD 98, while bill collection was USD64, confirming that the latter are more frequent but of lower average value.

The importance of withdrawals in rural municipalities might be fuelled by the effect of cash-out of CCT payments

By value, payments are less important in small municipalities than withdrawals, which are the most important type of transaction in small and rural municipalities.

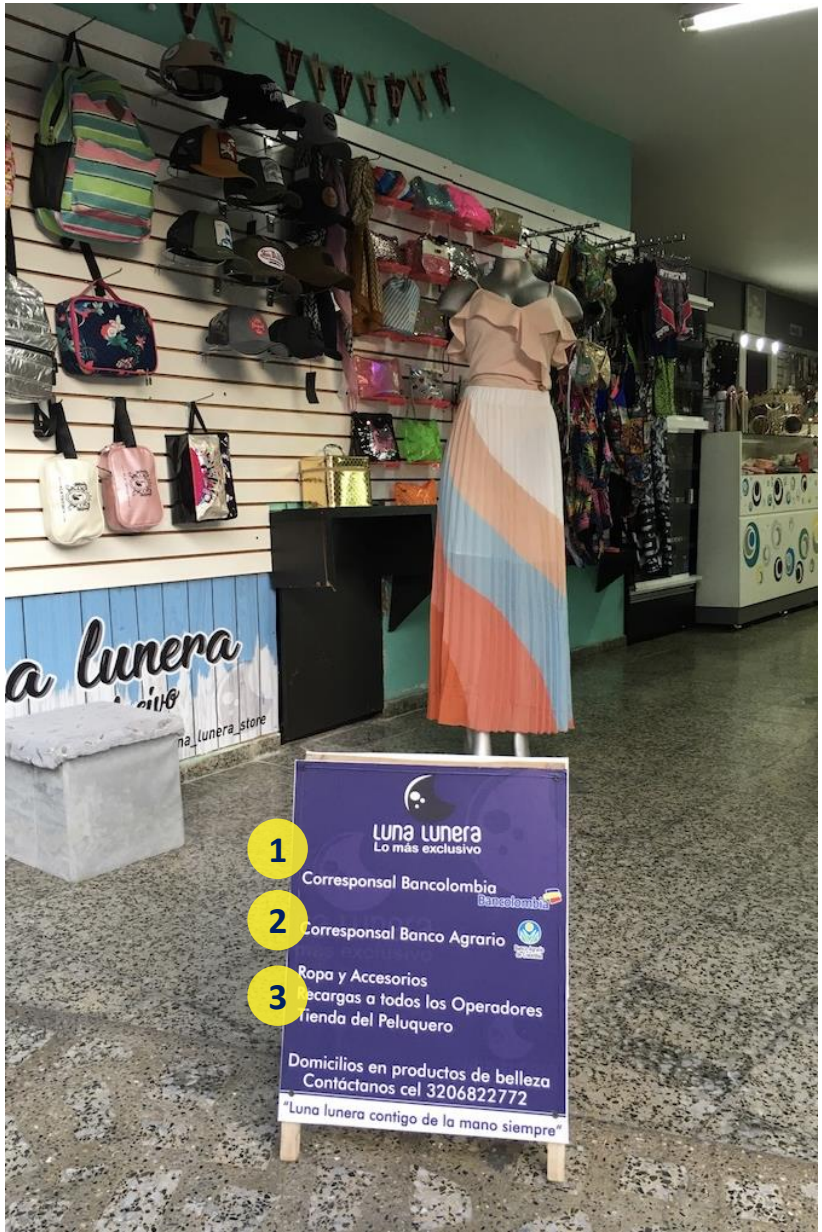
- The lack of adequate payment acceptance networks in small and rural municipalities offers no other option but to withdraw funds to make payments and purchases.

Deposits stand out by value as they have a larger share than by number in all the municipalities, indicating the higher average value per transaction.



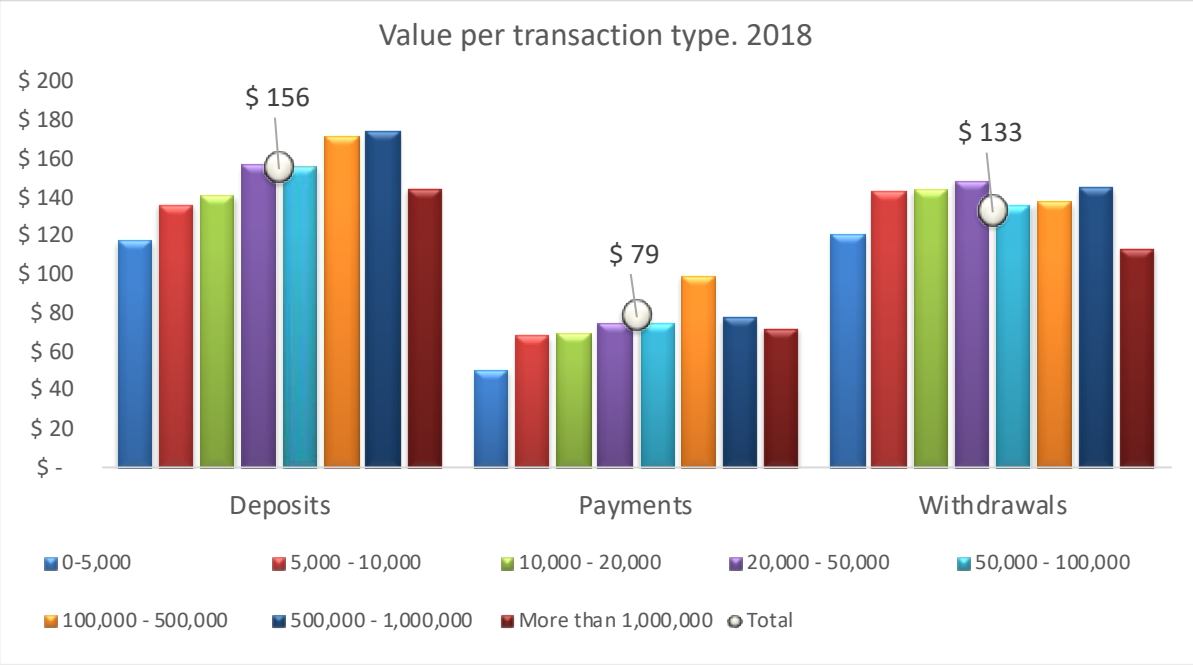
The decision of which network to join is intrinsically linked to their ultimate goal: Servicing clients in a complete and efficient way.

- Most respondents perceive "their business" as something different than that from agent banking.
- However, when operating as an agent, shopkeepers seek to fulfill customers' transactional needs in a comprehensive way, ensuring that their clients can complete as many transactions as possible in one place. *(e.g., withdrawals, deposits, payments for public services, financial transactions and other payments such as building administrations, tuition fees and school pensions, among others).*



The value of account-related transactions is higher than payments in all municipalities, underscoring the fact that transactions related to financial products have almost double the value of bill payments

- Deposit and withdrawals have average values exceeding those of payments, which are mainly composed of bill collection operations.
- The average value of these operations is higher in all municipalities with less than 1,000,000 million inhabitants.
  - This might be a result of agents "redirecting" the type of operations the clients undertake based on their credit lines and commissions (see following slide).
  - or might be a result of scarce alternative channels for clients in medium and small cities, leaving agents as the only option to undertake their financial transactions



Using data from June 2017, last month for which bill collection and payments were disaggregated, average value of debt payments was USD 98, while bill collection was USD64, confirming that the latter are more frequent but of lower average value.

Source: based on SFC and BDO

Agents prioritize transactions based on "cash-in-hand" available on a daily basis.

- When an agents first started, clients mainly withdrew money, because a lack of trust in the system. However, this has changed over time, and nowadays both deposits and withdrawals are common at any agents' location.
- Sometimes agents decide whether they only accept deposits or withdrawals on a particular day, which depends mostly on the agents' need to balance their credit line to avoid rebalancing, and in some cases, due to specific "rules" setup by ANM as a way to run the CICO network more efficiently.
- Whenever agents have contracts with multiple ANM at their shop, they also strategize by using a particular ANM exclusively for deposits, and the other one for withdrawals.

"With Efecty we pay bill collections and other agreements, such as Social Security and Internet bills. We reserve the use of Banco Agrario network to pay for UNAD (Universidad Abierta y a Distancia)."

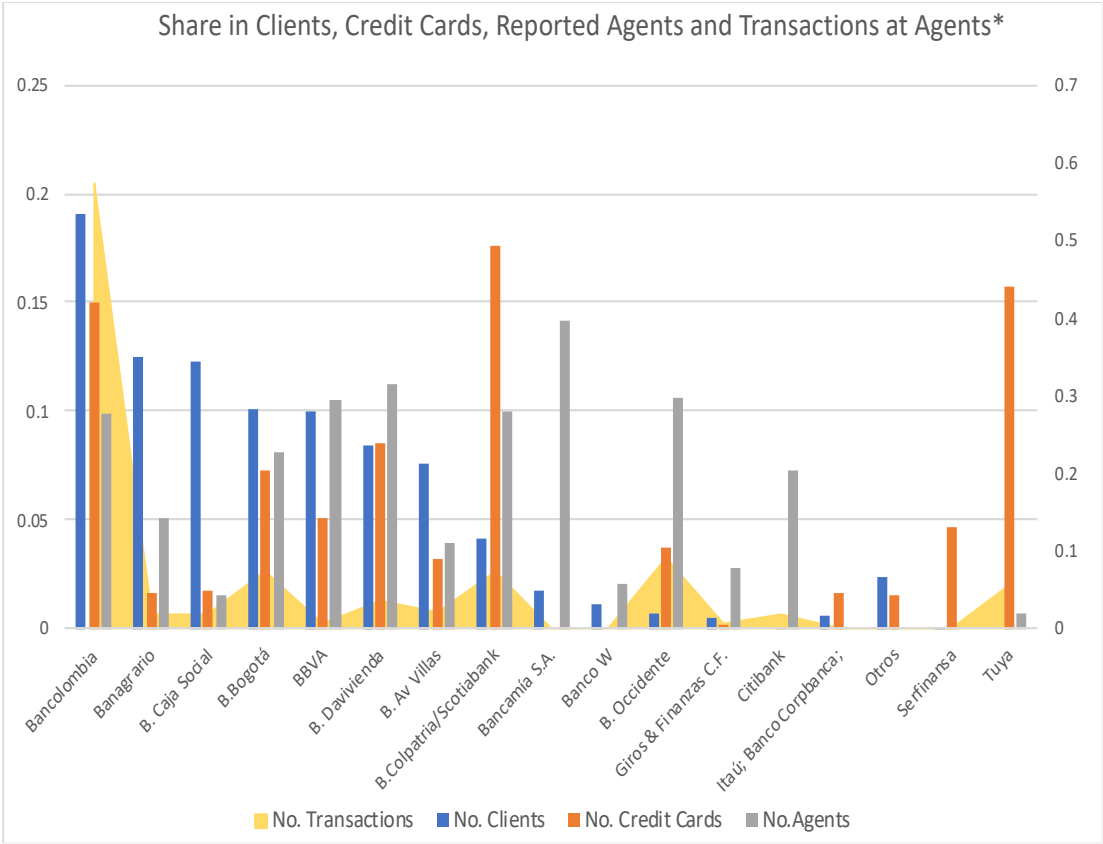
"We use PuntoRed mainly for SOAT, phone recharges, and unpaid invoices. Bancolombia's network is used for withdrawals, consignments, drafts, and overdue invoices. "

- Claudia López, Cocorna, Donde Clau, Puntored/Conexred

In depth analysis of the financial institutions which have the largest agent networks provides insights on their strategies and helps identify those with an agent model more relevant for rural communities

The main financial institutions for agent outreach are those with more than 500 agents as of 2018, which represent 98.9% of agent network. This section's indicators are calculated using the number of reported agents to have a more accurate view from the financial institution's perspective

The decision of each bank to use agents is the result of its channel strategy, which determines the types of transactions that will be carried out and the fees



*Financial institutions with more than 500 agents.
Source: based on SFC and BdO

Research has showed that financial institutions interested in using agents have certain specific characteristics:

- They have an important business in the retail market, so agents provide them with proximity to their clients, facilitating CI/CO operations for saving accounts, credit disbursement or payments, etc.
  - Indeed, the eight banks with more than one million clients, representing 84% of total clients in the banking sector, have 60% of the agents, and perform 86% of the transactions at agents as of December 2018.
- Or they have a strong business in bill collection, specially from utility companies, for which they get paid either a fixed fee or keeping the float for some days, and agents provide services to non-clients at a much lower cost than when they had to receive them at their branches. In most of the banks, this is the main use of their agents.

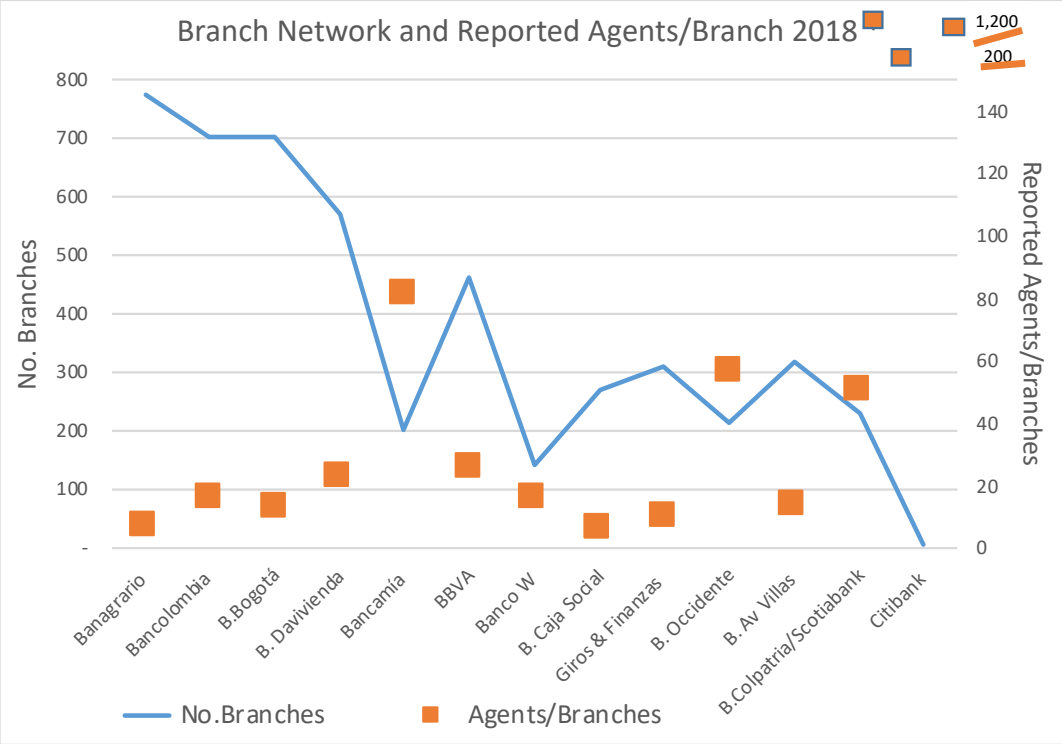
For some financial institutions, agents are the perfect complement for their branch network

Large banks with a large branch network, have used agents to improve and expand their channels for their clients, with some of them even reducing the number of branches

- This is the case of the 4 banks with most branches: Bancolombia, B. Bogota, B. Davivienda and Banco Agrario

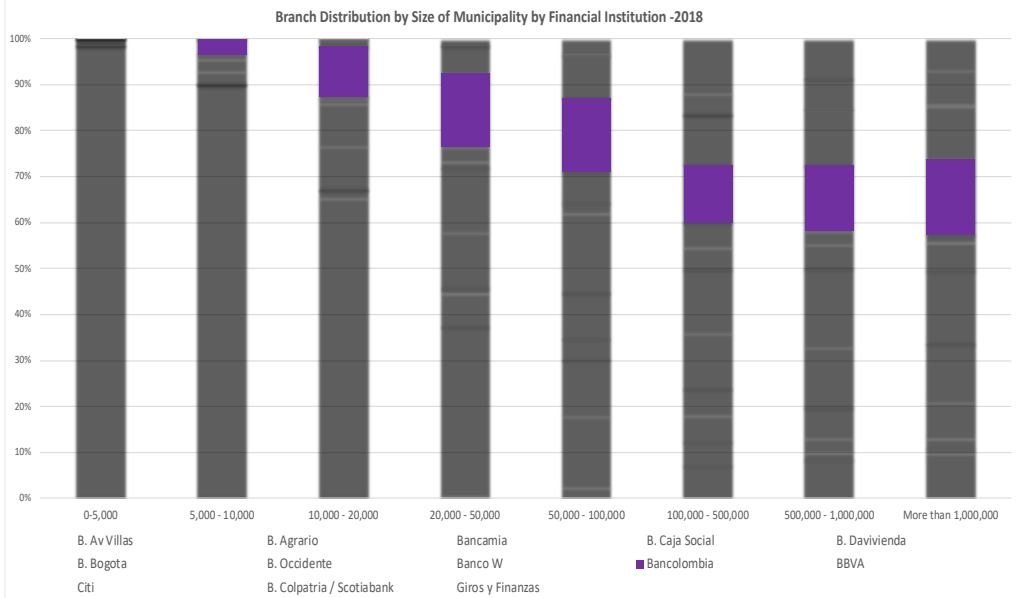
Other banks using agents to expand its network for bill payment collections for clients and non-clients.

- Banco Occidente is a good example for its bill collection services represent more than a 95% of total transactions.
- FI with reduced branches but with important bill collection or credit card business (Citi or Tuya)



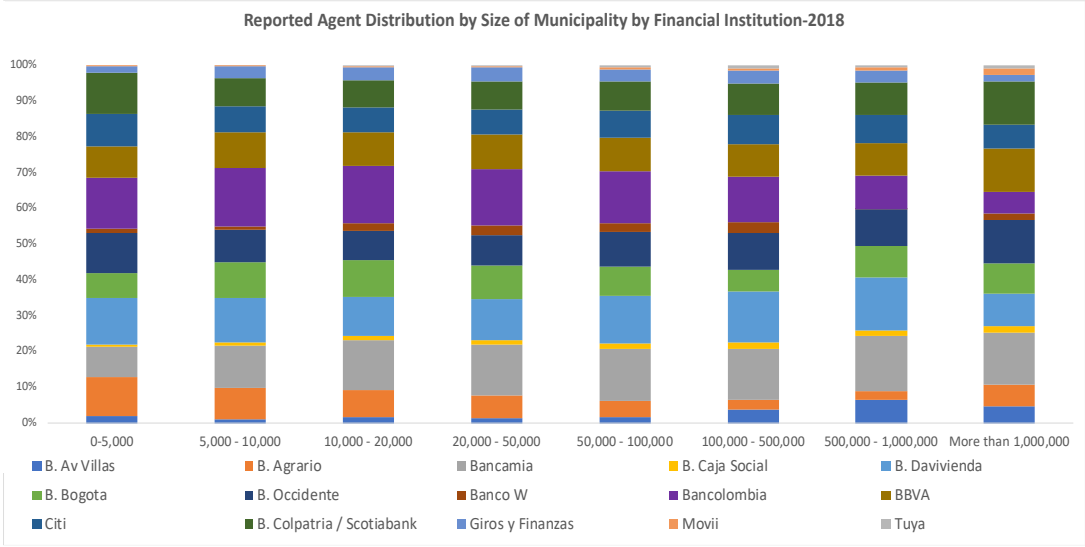
*Financial institutions with more than 500 agents.
Source: based on SFC and BdO

Branch distribution of the group of financial institutions with over 500 agents*, is concentrated in large municipalities, while agent coverage is mostly in municipalities over 1,0000,000 people. Some stand out for their contribution to rural coverage.



- Small municipalities' branch coverage comes mostly from Banco Agrario, the public bank: 74% of its branches are in municipalities between 5,000 and 50,000 people.
- Davivienda, Bancolombia and Banco de Bogotá's branch outreach stands out, for it starts growing significantly in municipalities over 20,000 people.

- Agents working for these institutions are more evenly distributed.
- However, Bancolombia and Davivienda stand out as over 60% of agents are in municipalities with less than 1 million, and Bancolombia has 64% of its agents in municipalities below 500,000 people.
- Bancamía and Banco Agrario have over 40% of their agents in municipalities below 500,000 people.



*Financial institutions with more than 500 agents.
Source: based on SFC and BdO

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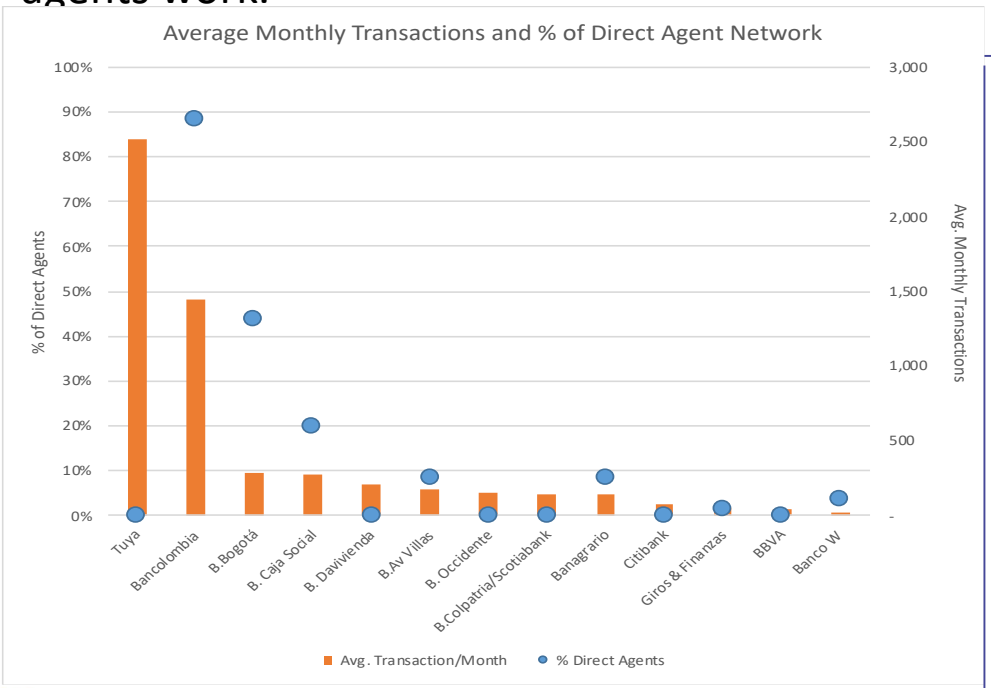
An indicator which might be more relevant to show the relative importance of the agent network for each financial institution is the average level of transactions made by agents per bank

This indicator suggests that financial institutions which have a higher percentage of direct agents develop a strategy to make sure they have enough volume of transactions to generate enough income for their agents. This requires assuring a correct value proposition for the communities where the agents work.



* Average transactions are calculated over the average of agents that were active during the year.
Source: based on SFC and BdO

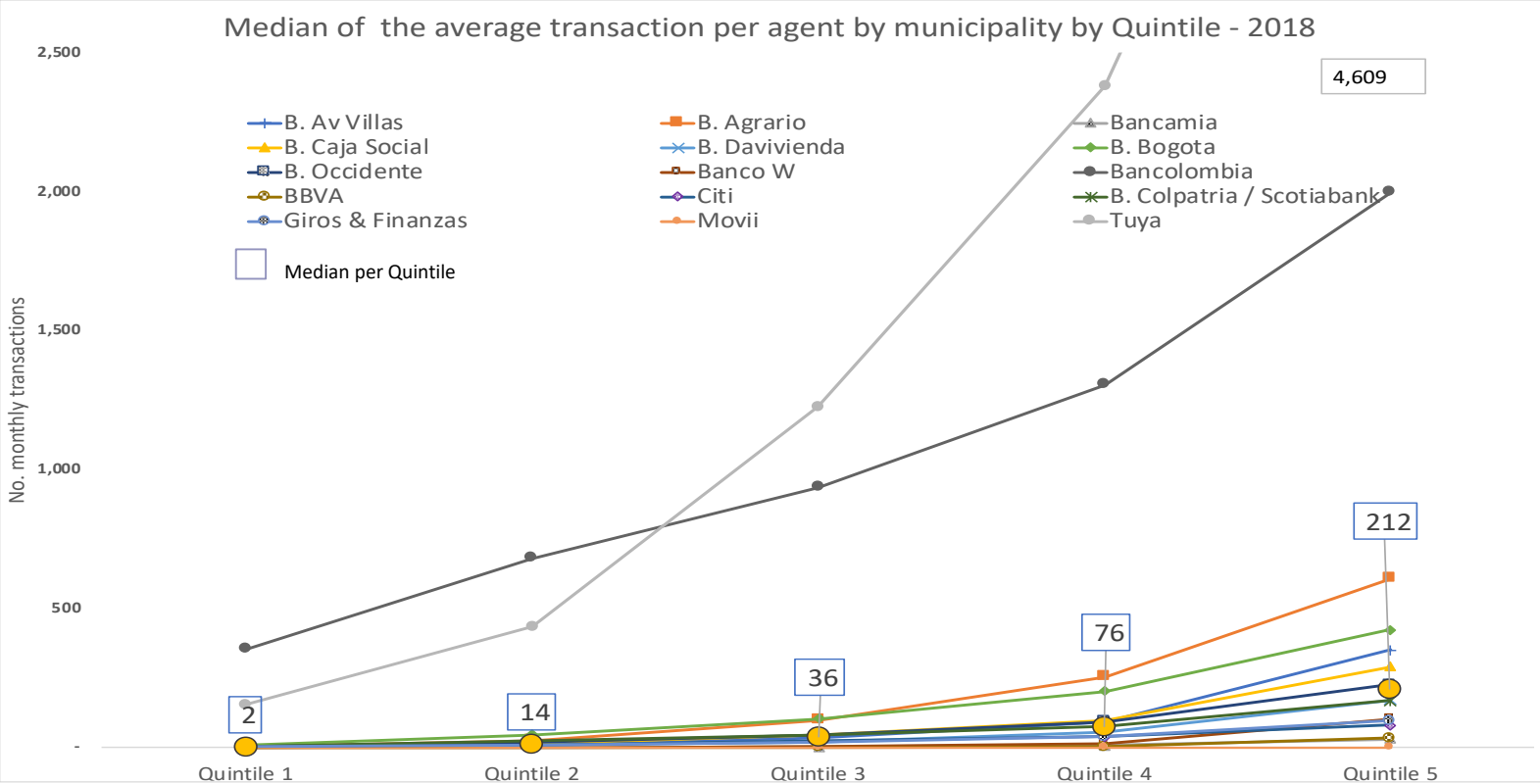
Clearly the exception is Tuya, a finance company specialized in credit cards, which has a small agent network in the retailers' stores providing an easy solution for its clients to pay their monthly credit card.

- This is a model developed for urban centers with higher population density

This analysis requires a better understanding of the behaviour by type of municipality, since part of the urban agents are what banks call their "robust agents", which act as specialized bank CI/CO transactions outlets and are managed by specialized network managers, as will be explained in Section 4.

Because very high transactional agents can skew average, the median of transactions per agent by municipality of each bank was calculated. The results underscore the great dispersion of actual usage of agent networks

- On an aggregate level, except for Tuya and Bancolombia, not even the median of the highest 25% of municipalities reach over 500 transactions per month, for banks with the largest agent networks.
- For other banks,
  - The median of average transactions which do not reach 100 per month highlight the necessity to aggregate traffic to these agents, for which ANM are crucial.
- Transactional levels seem more related to the strategy of each bank regarding this channel, than with the size of the municipality.
  - *The same exercise was done for each category of municipalities, confirming this. Results can be found in Annex 2.*



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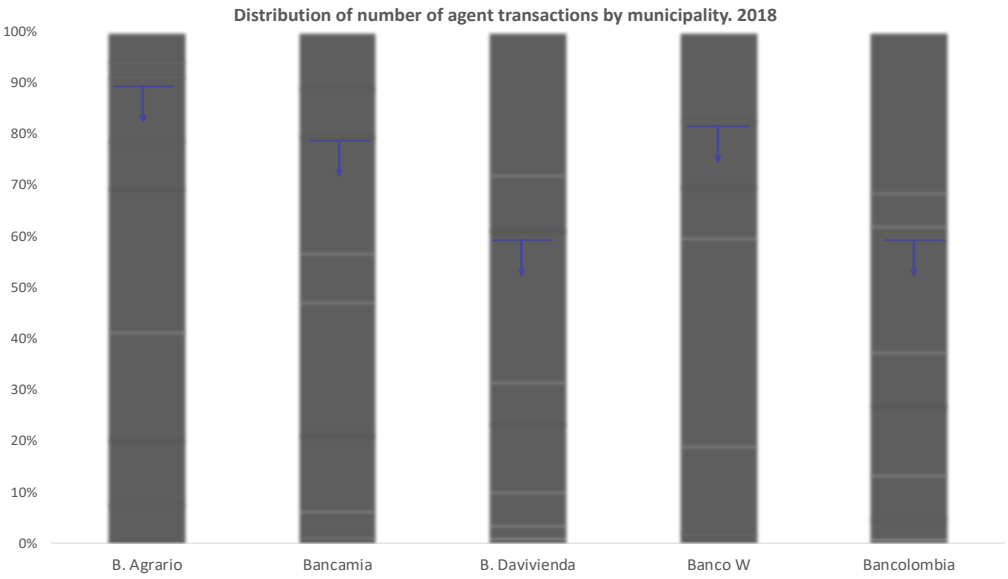
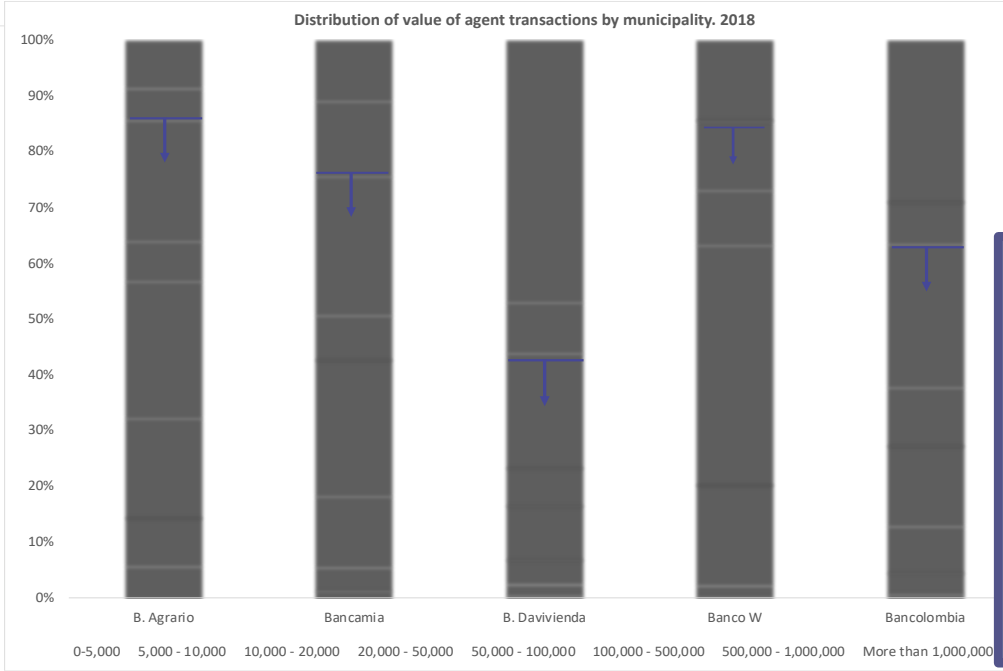
Banks which undertake over 60% of the number of its agent transactions in small municipalities, under 500,000 people were selected to better understand their strategy.





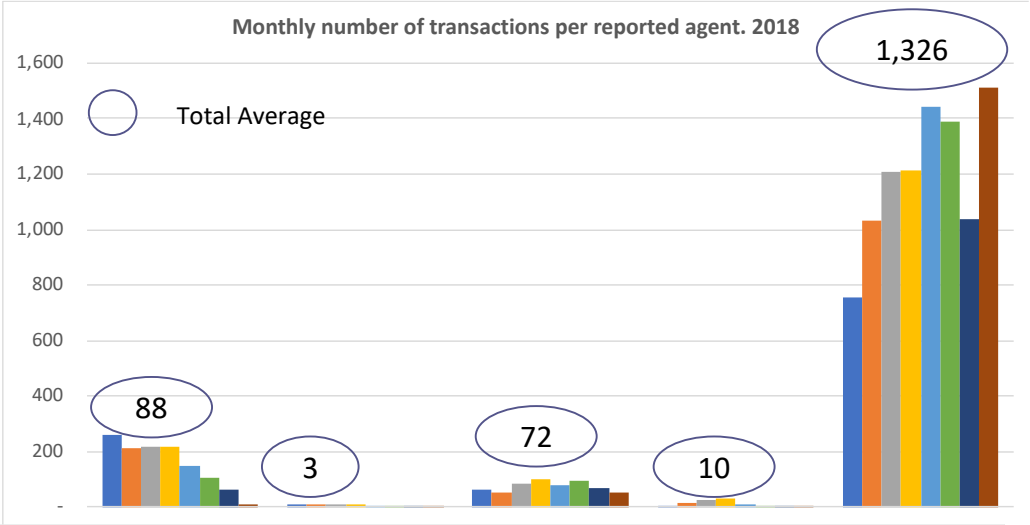
Five banks in Colombia make over 60% of transactions by number in places under 500,000 people.

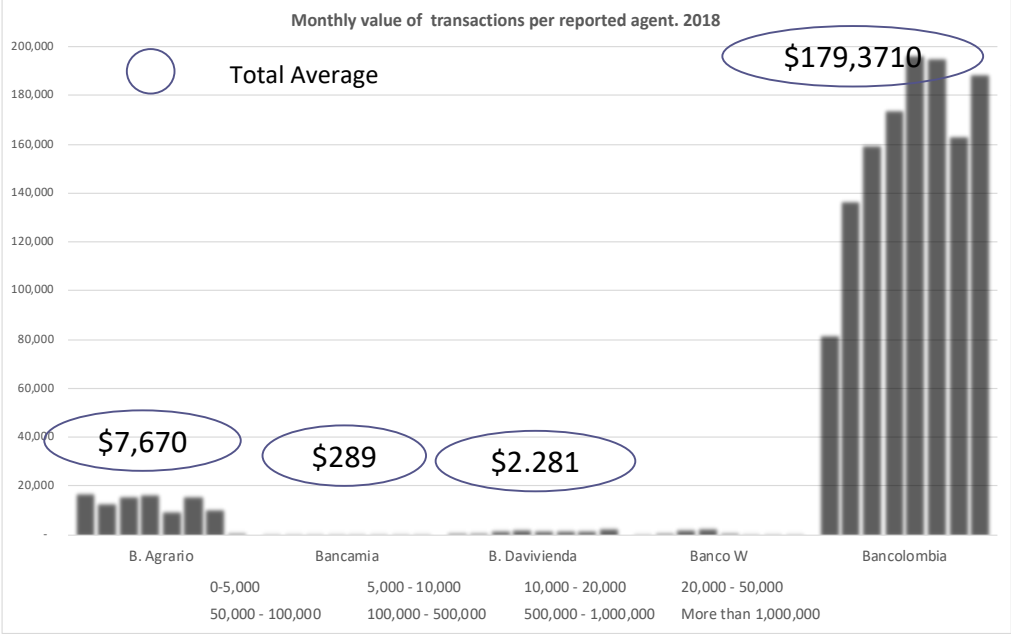
- Indeed, both by value and number, over 60% of transactions at agents of Banco Agrario, Bancamía, Davivienda, Banco W, and Bancolombia are made at municipalities below 500,000 people.( ).
- Around 80% of transactions by number and value at Banco Agrario, Bancamía and Banco W agents are made in municipalities under 500,000 people.
  - In the latter 2 nevertheless the average number per agent are quite low.

The level and type of transactions made at rural agents, the CI/CO balance, together with municipal distribution and type of contract, depict more accurately the rural strategy of these financial institutions with a strategy to increase rural outreach. This analysis follows

The monthly number and value of the transactions per reported agents by municipality shows the huge difference in the strategic approach of Bancolombia versus the other banks with transactions in small municipalities

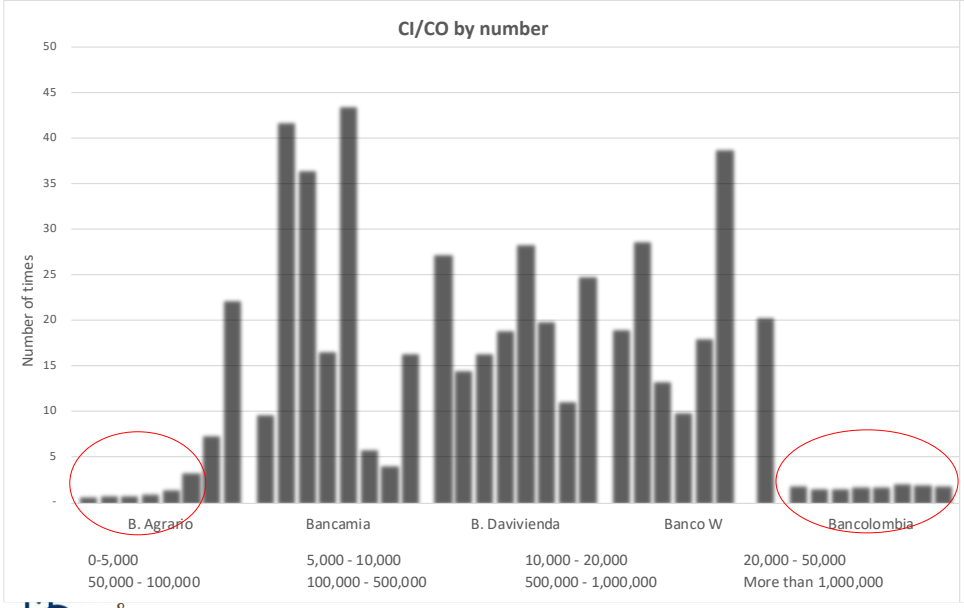
- Low transaction levels for BancaMia and Banco W result from using an extensive agent network, provided by ANM, to repay microcredits, the only operation authorized at agents, using only part of the network.
  - In these cases using an ANM is the only way to aggregate volume to make the business case interesting for each agent.
- Bancolombia has the highest average of transactions as a result of its aggressive campaign to expand coverage using s mobile commercial force, with direct agents. It also results of a specialized model implemented, the "robust agents", as will be explained later.
  - The average amounts involved even in the smallest municipalities underscores the difficulty of implementing a "pre-paid"model for these agents, since it would compromise an important part of the agent's working capital.
- Banco Agrario, with a mixed model of direct as well as outsourced, has a more even distribution, with greater average transactions as well as value being reached in smaller municipalities

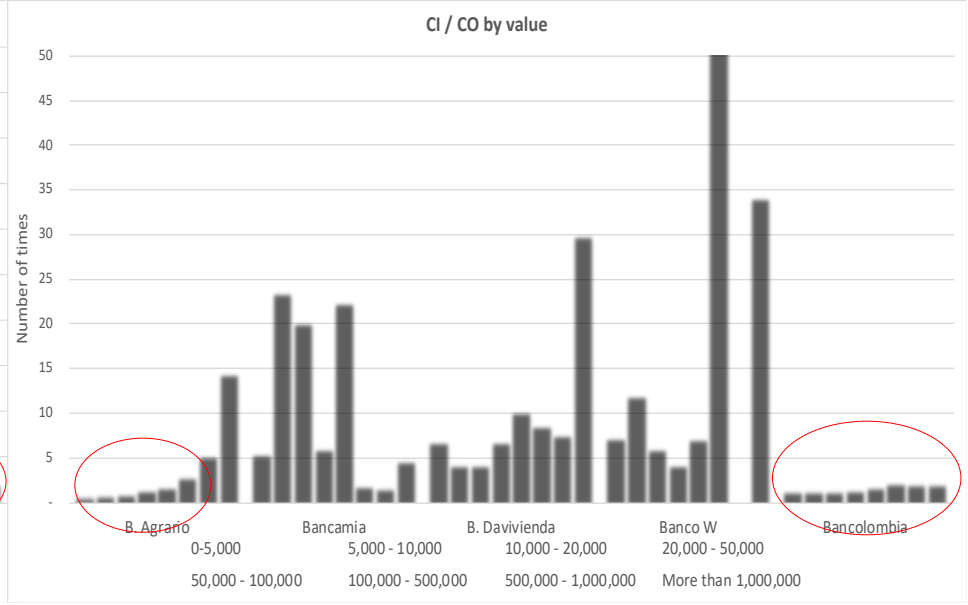




Banks offering multiple financial services (deposits, payments and credit) have been successful in facing the challenge of balancing CI/CO even in rural communities

- Banco Agrario and Bancolombia show lower ratios of CI/CO transactions in small municipalities: though this may be the result of portfolio of transactions enabled at agents, it is also an indicator of the success they have had in promoting access and usage of financial services in specific communities.
- Bancolombia shows the more balanced ratio of all, across all the country, while Banco Agrario is more successful in smaller municipalities.
  - In the case of Banco Agrario, it is the main payer of CCT, specially in non urban areas as of 2018.
- On the other side of the spectrum within this group of banks are Bancamia, Banco W, and Davivienda showing the highest ratios in the number of transactions and lower ratios by value.
  - Since Bancamía and Banco W use their agents mainly for microcredit collections CI are several times CO operations, with differences per municipality showing their regional concentration.
  - The case of Davivienda is somehow surprising since their main transaction at agents was CO of Daviplata, due to CCT dispersion. These apparently offset CI in value in smaller towns, but do not compensate bill collection in larger cities





Balancing CI/CO ratios has been a challenge in rural settings: some have opted for working with larger credit lines in rural municipalities, but those mostly using direct agents have been successful by allowing CI and CO transactions to help balance agents

Direct agent models allowing an easier balancing of CI and CO transactions also pay larger fees to their agents in comparison to ANM: agent's service is better for customers of those banks.

Fees paid to agents:

- In interviews, levels mentioned were between USD 0.09 and USD 0.25 (COP 300 to 800) per transaction.
- Fees vary depending on the complexity of the operation, and even non-monetary transactions, like balance inquiries, are paid, since they require agent's attention and time.
- Fees also vary between agents depending on the type of contract:
  - Directly hired agents are paid more than agents outsourced through an ANM.
  - Higher fees in some cases compensate for lower levels of transactionality or are used to assure loyalty form the agent.
- Fixed fees per transaction have an important downside which is the incentive for agents to "split" a higher value transaction into smaller ones.
  - ANMs and financial institutions report important investments in data management packages to detect these types of behaviours.

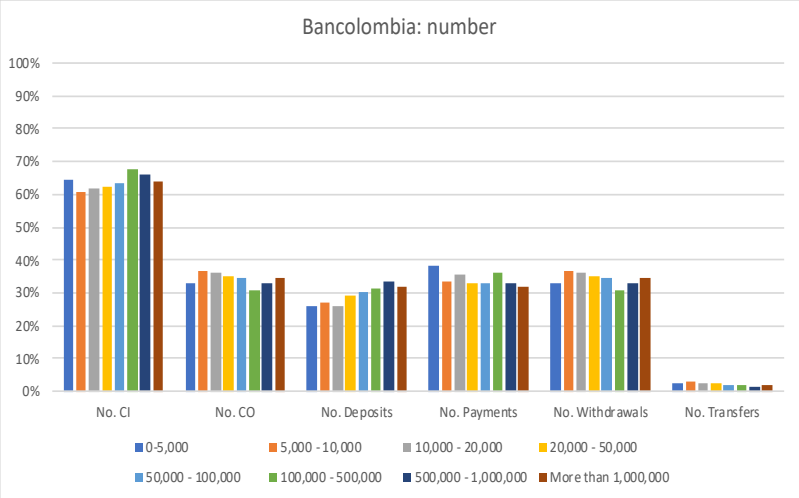
Fees for clients

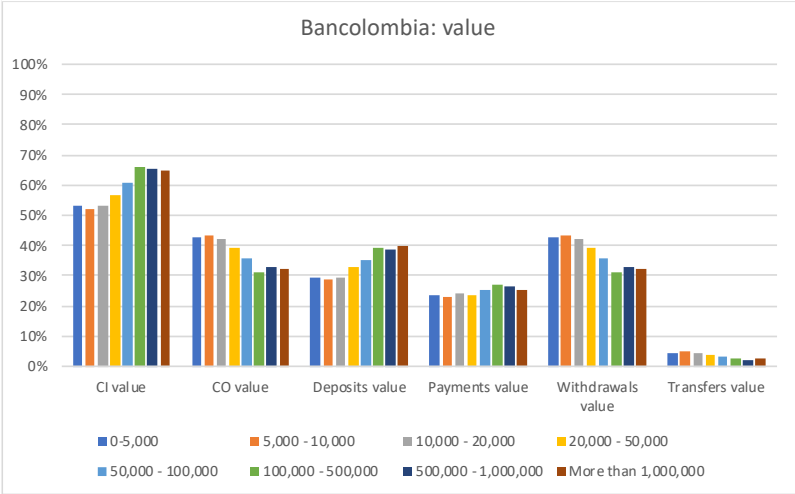
Typically :

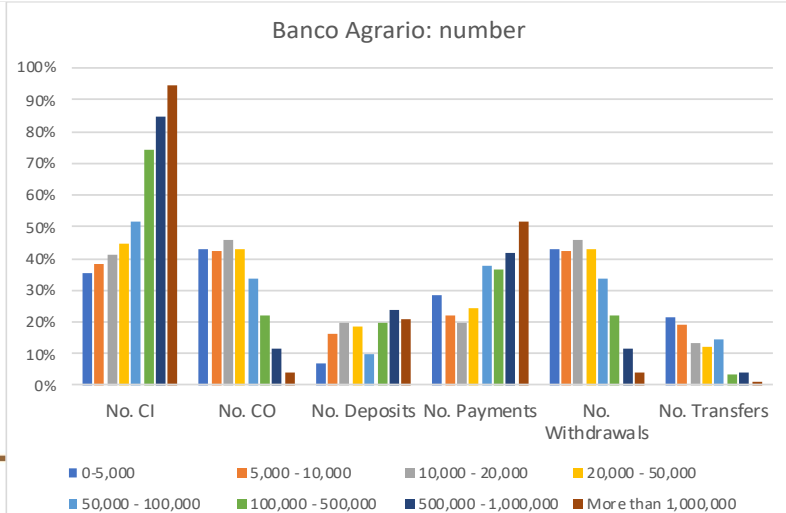
- Deposits are free
- Withdrawals cost USD 0.50 (with small differences between financial institutions).
- Cashless transactions such as balance inquiry range between US 0.5 to USD 1.4, suggesting FI maybe disincentivizing these inquiries, in favour of digital channels where they are free.

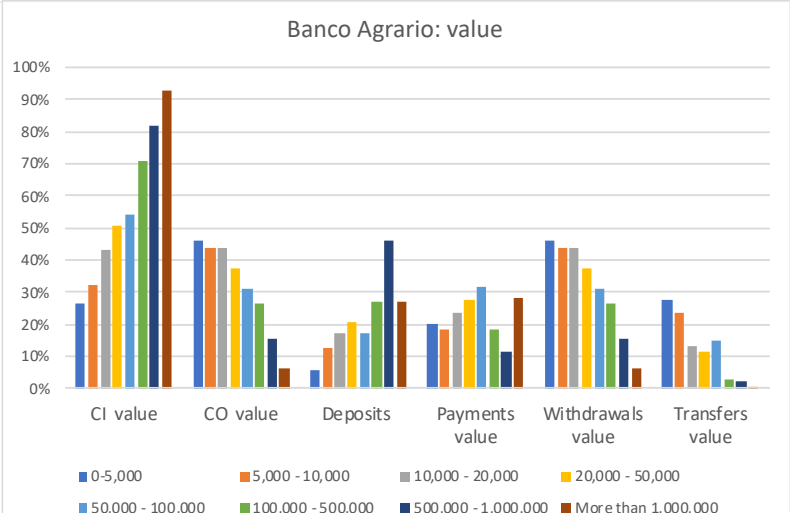
The scope of financial transactions offered at agents sets a difference between banks, and explain transactional difference at agents

- Indeed, Bancolombia and Banco Agrario stand out with a wider range of CI and CO services across all the municipalities.
- But, Bancolombia has the most wider variety of transactions, with deposits, payments and withdrawals being equally important across municipalities.
- Banco Agrario, has distinctly more CI transactions than CO in larger municipalities, with withdrawals in smaller municipalities being a result of CCT payments made into savings accounts.









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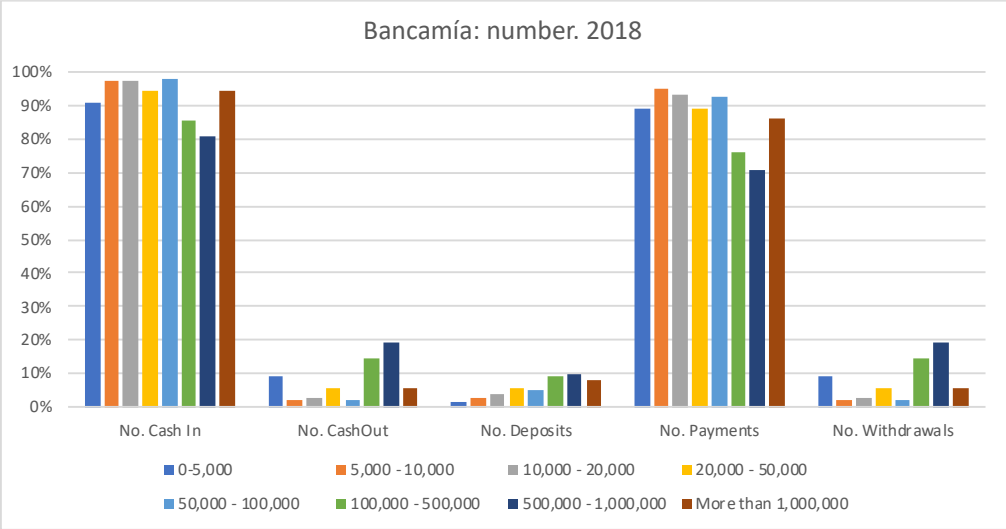
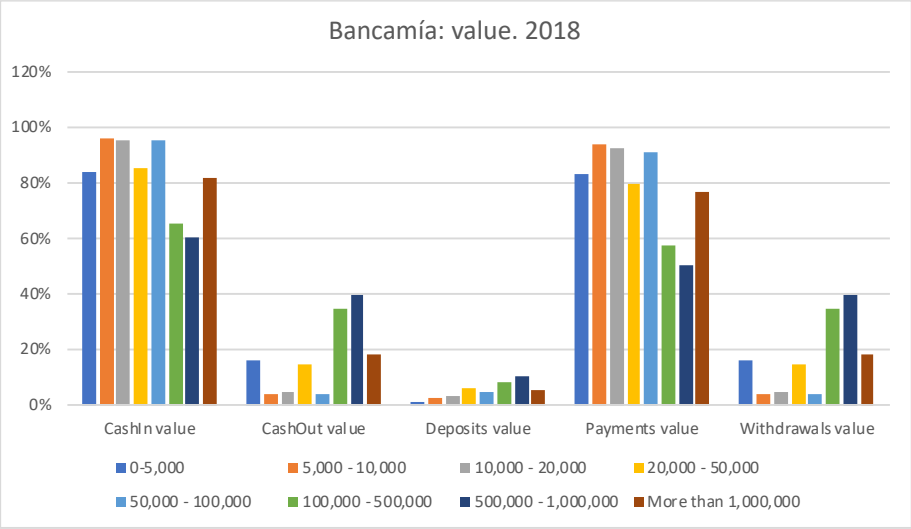
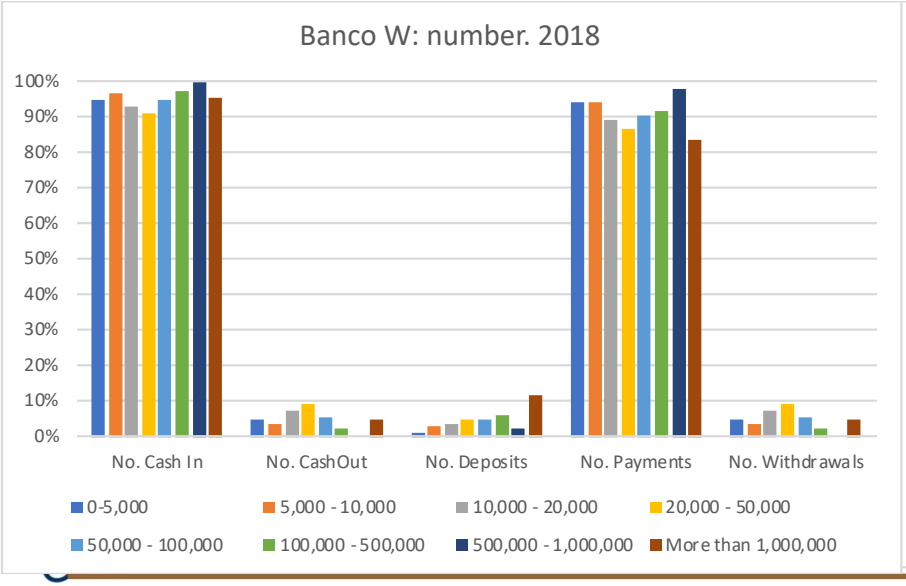
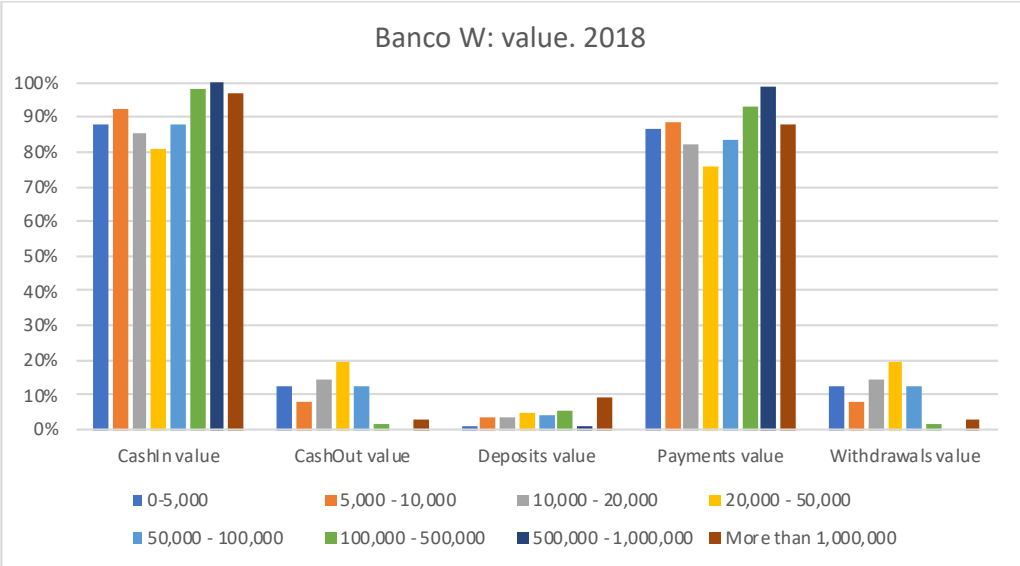
Bancamía and Banco W are mostly focused on payments where most of them are credit collection operations rather than bill collection



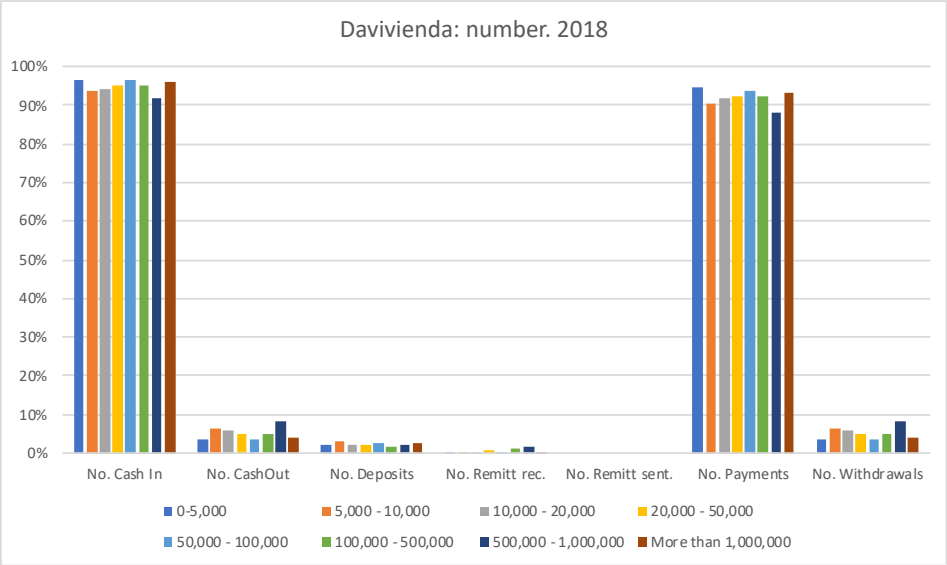


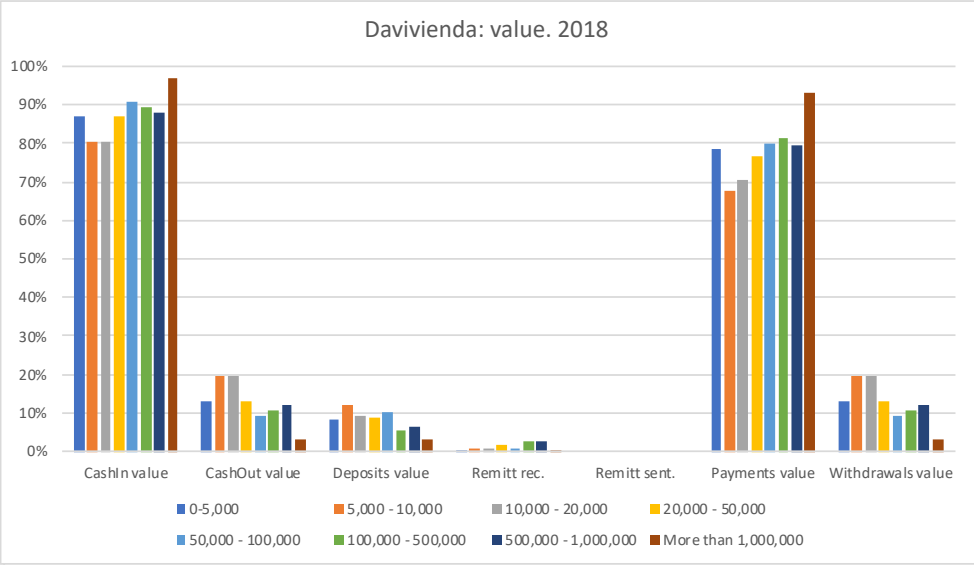




Davivienda on the other hand has clearly mostly CI transactions: payments

- In value, however, some CO transactions stand out in small municipalities probably resulting from CCT payments for Familias en Acción and Jóvenes en Acción they still made by the end of 2018.





Geographic location as well as merchant size determine volume of transactions as well as rebalancing strategies.

Small agents:

Located in capital cities, perform 80-100 transactions a day. The number decreases in intermediate and rural municipalities to 30-60 when there is payment for public services, and 15-20 when there is not.

Medium agents:

Perform 120-350 during peak days, decreases up to 25 in days without movement. In rural municipalities, this number can fluctuate between 50-100 on peak days, and decrease up to 10 in slower days.

Larger agents:

In capital cities, they can perform between 450 to 600 transactions a day; The number of transactions that a small agent might reach during an entire week or more

During peak days, agents might have to rebalance at least twice a day to keep the agent point running.

They tend to have in-depth knowledge about their frequent clients, which they use to establish transactional rebalancing routines at their store.

Medium and small agents tend to prefer not handling too much cash; therefore, they tend to rebalance more often than larger agents. As a strategy to rebalance often without taking too much time visiting the branch, agents usually transfer money between the different agent networks they operate with.

An absolute level of commission fee is less important than a collection agreement with enough transaction potential.

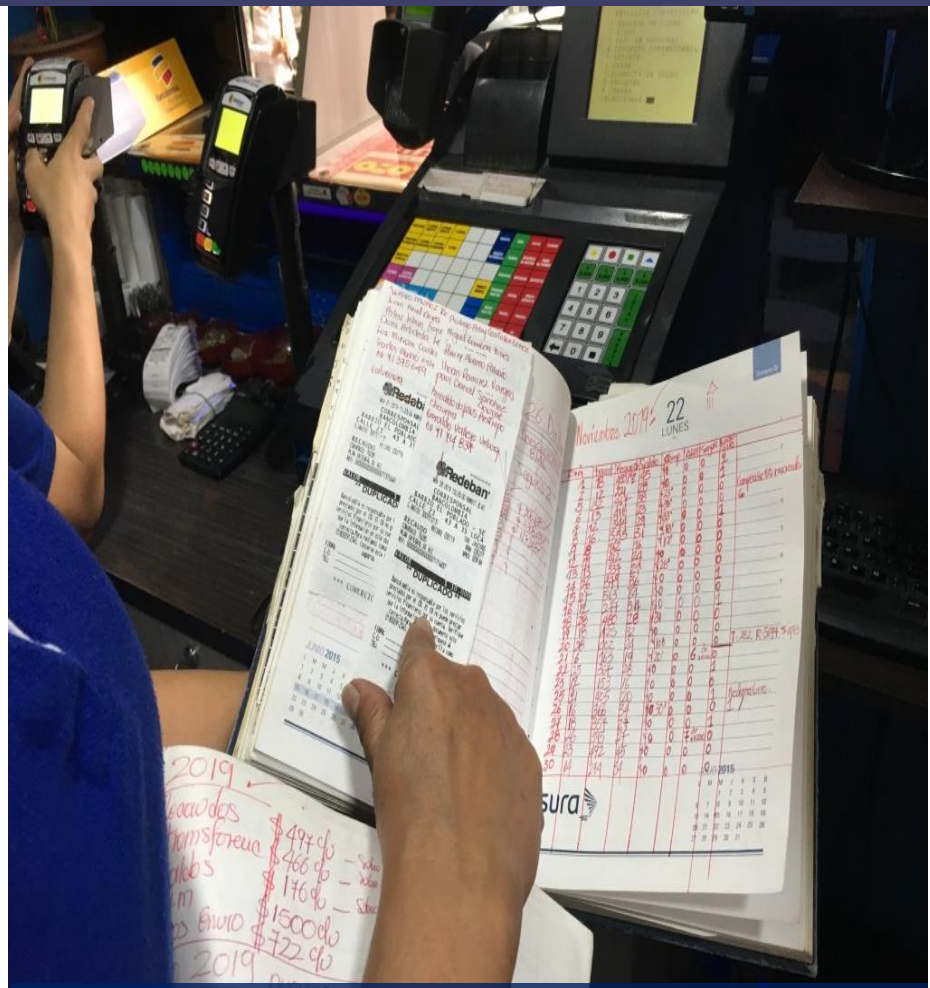
- Agents tend to report commission units inaccurately, and those who report them, do so in approximate values (from USD 0.11 to 0.15).
- What seems to be essential for an agent is the aggregate amount that an entity pays or deducts from the commissions, once rebalancing is made at the end of the cycle. However, it is well known by agents that banking transactions pay better commissions than ANM services.
- The most significant difference between commissions lies between bill collections and recharges. The approximate value reported is USD 0.6-0.9 for all finnacial transactions and a ~ 4-5% for top-ups.
- If there is a bill collection agreement offered by two providers (a financial institution and ANM), the priority is always to use the

"I know that for each transaction, I get a small amount, but several transactions add up, and I feel satisfied with what Bancolombia usually pays me at the end of the cycle."

- Wiliam Caceres, Bogotá, D.C., Papelería CYM

Income from commissions can vary significantly according to the agent's size.

- Largest agents claim satisfaction with income coming from being an agent, since they represent an additional income flow for them, and ultimately plays the role of a "stable income" of sorts.
- Commission earnings can vary significantly across agents, from USD 12 to 1662 a month, and in many cases are influenced by the shop's location.
- For medium-sized agents, income as agent ranges between USD62 and 123 per month. For female agents, these earnings represent an income that they did not have before and is seen as an opportunity to fill times of scarce sales of goods at the shop.
- Only within a group of medium-sized agents, we identified certain dissatisfaction with commission fees, given that they initially had higher earnings expectations and expected significant economic stimulus from the financial institution or ANM.



"I usually receive USD 108-123 during a monthly cycle."

- Nidia Barbarán, Cocorna, Cororna Comunicaciones, PTM Comcard

"I feel happy with the service but I'd like them to increase commission fees since they're quite small "

- Edgar Quintero, Droguería La Súper Rebaja, Tibasosa, Bancolombia

A closer look into specific agent models used by these banks

Bancolombia

Agents are regarded as a strategic channel to provide services to traditional and new clients: transactions are mostly financial, and agents are accompanied by the bank's commercial officials.

- Bancolombia is the largest bank in Colombia both in terms of clients as well as assets. It defines itself as a “universal bank” catering to all segments of the market.
- Was the first bank to establish an agent and has developed the largest direct agent network.
- Although Bancolombia reports most of its agents being direct, in practice it has used different models to roll out its agent network.
  - One by one : It represents half of the agent network, accounting for 60% of total transactions and 50% of the value.
  - Network Managers: Only work for Bancolombia. They represent around 19% of the agents, account for 13% of the number and 9% of value of transactions at agents.
  - “Robust” agents: Mainly in urban areas. They are specialized Cash management companies which operate each point with own personnel. Although they represent only 4% of the agents, they process 36% of transactions value

- Bancolombia’s agent network has the highest level of transactions on average, in part due to the decision of the bank to offer this channel for its clients since the very beginning.
- It has “mobile advisors”, which are bank employees which visit agents to attend clients and potential clients on a specific day of the week. As of December 2018 the bank had 500 advisors.
- It also has the most diversified types of transactions at agents.

Bancolombia has used its agents, called “Corresponsal A La Mano”, as channel for new digital products developed within its financial inclusion and digitization strategy

- Ahorro a la Mano, is mobile savings account (simplified KYC), launched in 2013, can be opened digitally, provides basic transactions (deposits, withdrawals, transfers and collections).
- As part of the package, the bank designed “Crédito a la Mano” in 2017, an online credit ranging from USD33 up to USD500, granted without additional documents for disbursement into Ahorro a la Mano in less than a day. .
  - As of 2018, Bancolombia had enrolled more than 870,000 customers to Ahorro a la Mano. Of these, 110,000 were first time customer to the financial system..

In 2017 Bancolombia took a step further creating Nequi as Colombia’s first neobank

- Nequi is an account operated through a digital independent platform.
- The APP offers “pockets” to save, goals to reach, transfer to any other account in the country, payments using QR codes, and reception of international remittances through PayPal.
- It also offers a digital debit card with CCV codes to enable e-commerce payments and lastly, it provides access to a digital mini credit, based on the client’s transactional profile.
- CI and CO for Nequi can be done free of charge at any Bancolombia agent, but they have had also independence to develop their own agent network, which are identified with their own logo.
- As of the end of 2018, it had more than 1 million clients.

Davivienda originally used agents mainly to provide CO for its mobile wallet, Daviplata, but it is taking advantage of this channel for its other products

Winning the 2012 CCT tender process posed the challenge to rollout a significant agent network

- In 2011 Davivienda created Daviplata, the first fully mobile electronic deposit in Colombia (equivalent to an e-money account)
- In 2012 it won the tender process to pay a third of the beneficiaries of the Familias en Accion CCT Program.
  - This required t account opening and paying more than 900,000 beneficiaries every 2 months.
  - Since its ATM network were not enough, the bank decided to look for an agent network to assure CO in those municipalities where it had no presence.
  - They identified Conexred, signed an exclusivity contract, specializing it only in CO operations for Daviplata.

- Until 2017 they used exclusively Conexred as their only ANM and only for CO of Daviplata.
- In 2015, agents started to be seen as a viable alternative for other bank products.
  - That required not only authorizing CI and CO operations for other bank products, but also a different geographic coverage, giving way to new options of network managers, authorized to manage both debit and credit operations.
- As of 2018, Davivienda manages three network operators, for which different technological developments have been implemented, a process in which they have invested more than a year, becoming operational in terms of CI and CO only in 2019.

Daviplata was designed as a product for financial inclusion, with no fees charged to the account holders

- Originally designed to be used in feature phones, (using SIM toolkit), in 2017 an associated APP was launched.
- By December 2018 Daviplata reported having 4.8 million clients, of which 1.5 million uses the APP*.
- Daviplata's clients already outnumber the bank's savings accounts clients, although they have a much higher dormancy rate (aprox 60%).

Using Daviplata, In 2016 it launched a project for a "cashless municipality", a pilot from which the bank has learned many lessons.
From then it has moved on, understanding that a "cashless" strategy requires a whole functional ecosystem to provide correct financial solutions for a whole community. Agents are just one component.

*(Davivienda, Marzo, 2019)

See Marulanda & Consultores, "Going Mobile with Conditional Cash Transfers:Insights and Lessons from the payment of Familias en Accion through DaviPlata wallets in Colombia". Report Commissioned by CGAP, June 2015.

A microfinance bank which has enabled agents to facilitate repayments of microcredits

- Bancamia is a microfinance bank, resulting from an alliance between two local microcredit NGOs (WWB Bogota and WWB Medellin) with Fundación Microfinanzas BBVA.
- Although the original NGOs had an urban bias, soon after the creation of the bank it was decide to focus their attention in rural areas where financing facilities were scarce.
- The bank saw in agents a way to expand outreach to municipalities where it had no branches, using for that purpose mainly network managers.
- The main transaction at agents are repayment of microcredit loans, since savings accounts are still not very active.

Recently it revised its strategy:

- Agents are now being used to increase capillarity in urban centers
- A 1 to 1 direct model is being rolled out, and leveraged with mobile microcredit advisors the bank uses in municipalities where it has no branch

Banco Agrario de Colombia

The public bank responsible for most CCT payments, has used agents for subsidy dispersion and coverage expansion

- Banco Agrario is the only government owned bank in Colombia,
- Apart from providing financial services to rural communities, especially agricultural credit, part of its mission is to provide financial presence nationwide, assuring that channels are sustainable.
- Agents were the adequate option to increase coverage of municipalities where it was no present (30% in 2007).
  - It has had a combined model since the beginning: direct agents as well as outsourced.
- 70% of its agents are in municipalities where the bank has a branch, an exception, taking into account that it is the bank with the most extensive branch network in the country.

Since then Banco Agrario's agent network strategy was basically to support the CO for CCT payments.

It is therefore no surprise that while for the other banks CI represents most transactions in number as well as in value, in the case of Banco Agrario agents operating in municipalities of under 50,000 people have cash deficit.

Indeed, Banco Agrario faces the challenge of taking cash into an important number of municipalities to support the withdrawals by beneficiaries of the CCT program who prefer cash and claim it within a few days after receiving notice of its deposit.

With their extensive experience they have developed a new model of "robust"agents, administered by one of the specialized ANM: Reval. In 97 they have an advisor to sell and help customers, in a model which they hope will enable better results in terms of financial inclusion in these communities

The expansion and outreach of agents in Colombia has been fuelled mainly by :
1) a coherent public policy,
2) specific strategies developed by banks, and
3) a dynamic set of ANM which have supported with their outreach

The success some banks have had in Colombia using agents is the result of a strategic decision focused on deepening their financial inclusion by relying on agents to serve rural communities. In these cases, agents are not just another channel, rather they are the centre of their rural financial penetration

1.

Public policy has had three main components:

A. Regulation

B. Government's support

C. G2P Payments

With changes to the regulatory framework, a program of incentives and decisions related to its own payment streams, the government of Colombia since 2007 has consistently promoted and monitored the evolution of financial inclusion.

Agents were a key component in this strategy

A.

Agent regulation was one of the initial public policy components to promote financial inclusion

Use of agents for financial institutions was authorized in 2006

Requirements

- Financial institutions are required to use contracts with models approved by the SFC
- Third parties (natural or legal) should provide services in their own facilities, implying physical fixed facilities
- Electronic devices must be connected on-line, to ensure that operations are carried out in real time and encrypted
- Confirmation mechanisms for the client using printed strips with the operation's details
- Authorized one or more entities to offer services through the same agent point
- Authorized transactions: collections, transfers, deposits, withdrawals, drafts, payments, balance inquiries, issuance of extracts and credit disbursements

2006 / 2007

Decree 2233/2006

External Circular 26 of SFC, august 2006

Information Referral Format 398, may 2007

2008 /2009

Decree 1121

External Circular 053

- Authorization to:
  - Open simplified KYC accounts and electronic deposits at agents,
  - Conduct interviews for CDD and receive documents to open for full KYC accounts including signatures and fingerprints

2012

Decree 2672

- New types of financial institutions were authorized to use this channel
  - Investment Management Companies,
  - Securities Companies,
  - Pension Funds,
  - Fiduciary Companies

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A. Regulation has evolved as the model required changes, and modifications have been introduced following either policy strategy or market requirements

- Authorization to allow opening of electronic deposits using ordinary KYC procedure that requires the physical presence of the financial consumer.
- Authorization for insurance companies to use agents for:
  - commercialization of the policies,
  - collection of premiums
  - payment of indemnities
  - delivery and reception of applications, extracts and documents for claim

2015
Decree 1491

2017
External Circular 024

- New format for for statistics reporting changes to 534

2020
Decree 222

- New definition of agent, Including other types of agents, such as mobile or digital agents.
- Pre-paid model in mobile and fixed agents explicitly mentioned.
- Information to clients not necessarily printed.
- Models of insurance policies must be authorized by the SFC

B. Public policy to promote financial inclusion started in 2006, with an emphasis on creating the necessary conditions for access to financial services: increased coverage

- The long-term financial inclusion policy was launched in 2006 creating *Banca de las Oportunidades**, a program which from then on has been in charge of executing the financial inclusion policy.
- Initially the policy focused on ACCESS:
  - Promoting changes to the regulatory framework (low-cost delivery channels, CDD simplified procedures, secured transactions regime reform, redefinition of interest rate caps)
  - Designing and implementing supply-side direct incentives: subsidies and cost co-financing.
  - Collecting and publishing statistical information on financial inclusion
    - Supply- side information is collected from financial institutions periodically.
    - The financial inclusion report is published on a quarterly and annual basis
    - Demand-side surveys are being performed every 2 years since 2014.
- An intersectoral effort guided by the Minister of Finance, with permanent interaction with the Financial Superintendency, in close interaction with the financial sector, has assured a long term strategy which has proven to be successful.

Banca de las Oportunidades program was created with public resources amounting to USD60 million.

- This equity funded both its operation as wells as the incentives and diverse programs it has developed

Since its creation, *Banca de las Oportunidades* has launched 97 tender processes, aimed at stimulating financial institutions to:

- increase their outreach
- design financial products for excluded segments
- receive institutional strengthening when committed to financial inclusion.

*http://www.bancadelasoportunidades.gov.co/

B.

Public policy for financial inclusion has continued its evolution by closely following developments and requirements of the market

- In 2014, the Financial Inclusion Law was issued authorizing e-money issuers called SEDPES. To date, four SEDPES are already operating.
- In 2016, the next steps of the financial inclusion strategy were defined, mainly focused in:
  - promoting the use of financial services
  - cash reduction and increase in payment digitization
  - rural financial inclusion (both access and use of financial services).
- Also, the Economic and Financial Education strategy was launched in June 2017, to create a special institutional framework defining target population groups and the need to design monitoring indicators.

B.

Incentives and co-financing schemes were designed and implemented to promote agents together with the digitization of CCT payments

Incentives and co-financing schemes

- In 2008, one year after agents were authorized, agent coverage had only extended to 25 out of 309 municipalities without financial coverage at that time, mainly in rural and marginalized areas of the country.
- The target was to reach 100% municipal coverage with at least one financial institution contact point.
- To stimulate financial institutions' interest in reaching un-served municipalities, or marginal sub-urban areas, Banca de las Oportunidades launched a set of calls to provide incentives under various schemes
  - Ones were based on minimum transaction guarantee, assuring break-even point.
  - In urban centers, cofinancing was used

Until 2018, Banca de las Oportunidades has spent USD 4 million in tender processes to stimulate expansion of agent models

Transaction guarantee at agents: how did it work?

- It paid the difference between actual transactions and the break-even-point minimum number of transactions, based on a preestablished fee.
- It decreased in time: 100% of the difference first year, 50% in the second and 0 in the third.
- Funds were awarded to the FI requiring the lowest number of transactions guaranteed
- The winning FI had to commit to keep the agent open for 3 years.
- Later on, to reach even more rural municipalities, the guarantee and the commitment were extended for 4 years required appointment of a commercial officer from the FI to visit and follow-up the agent.

A detailed analysis of these programs can be found here.

B.

Since 2007, Banca de las Oportunidades launched several calls for proposals aimed at opening agents in 284 unserved municipalities and slums of major cities.

Two additional calls were launched from 2018 and are in execution.
The first as a technical assistance to financial institutions to comprehensively improve the offer of the agent channel, seeking to improve use, includes a pilot with 3 financial institutions. The most recent call is a combination of Technical Assistance and Co-financing, to Cooperatives, to install mobile correspondents with digital technology. Includes accompaniment during one year of operation.

Tender	Winners	Results / agents	Cost
First (#6)	Banco Agrario	128 municipalities	Budget: US$1.6 million Real cost: US$850,000
Second (# 27)	Banco Agrario	59 municipalities	Budget: US$1,7 million Real cost: N.A.
Third (#29)	Banco Agrario (2 neighborhoods) Banco Caja Social (20 neighborhoods)	26 neighborhoods in 5 major cities	Budget: US$366,000 Real cost: N.A.
Fourth (# 93)	Fundación Capital	Contract in process	Budget: US$369,000
Fifth (# 95)	Fundación Capital - Fundación Sparkassenstiftung	Contract in process	Budget: US$461,500

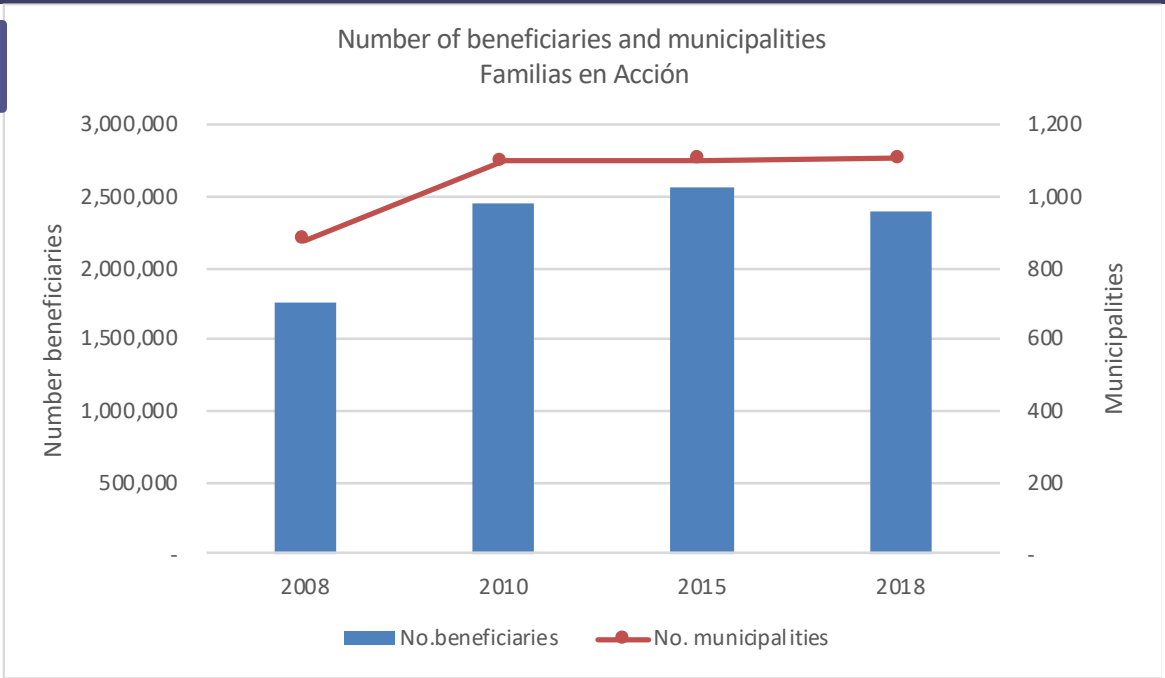
N.A. Not Available.
Source: www.bancadelasoportunidades.gov.co and https://www.cgap.org/research/publication/incentives-introduction-agents-colombia.

B.

Digitization of CCT payments required strengthening the financial institution's cash-out infrastructure, so agents were a perfect match

Dispersion of CCT payments

- The increasing number of CCT beneficiaries and the need for available nationwide pay-out channels coincided with the initial financial inclusion target to increase the financial sector's coverage to 100% of municipalities.
- The CCT program had been increasing its coverage since 2005.
  - In 2005 it had 650,000 beneficiaries and expanded to approximately 1.6 million by 2009.
  - By 2018 it had reached 2.3 million families



Source: DPS, Management Reports.

Until 2008, payments were made in cash by money orders or using rechargeable cards for ATM withdrawals, but **the program's expansion led to the need to deliver payments in all municipalities thus justifying the agent expansion.**

2.

The strategy developed by different banks determined agent expansion and usage, specially in rural areas

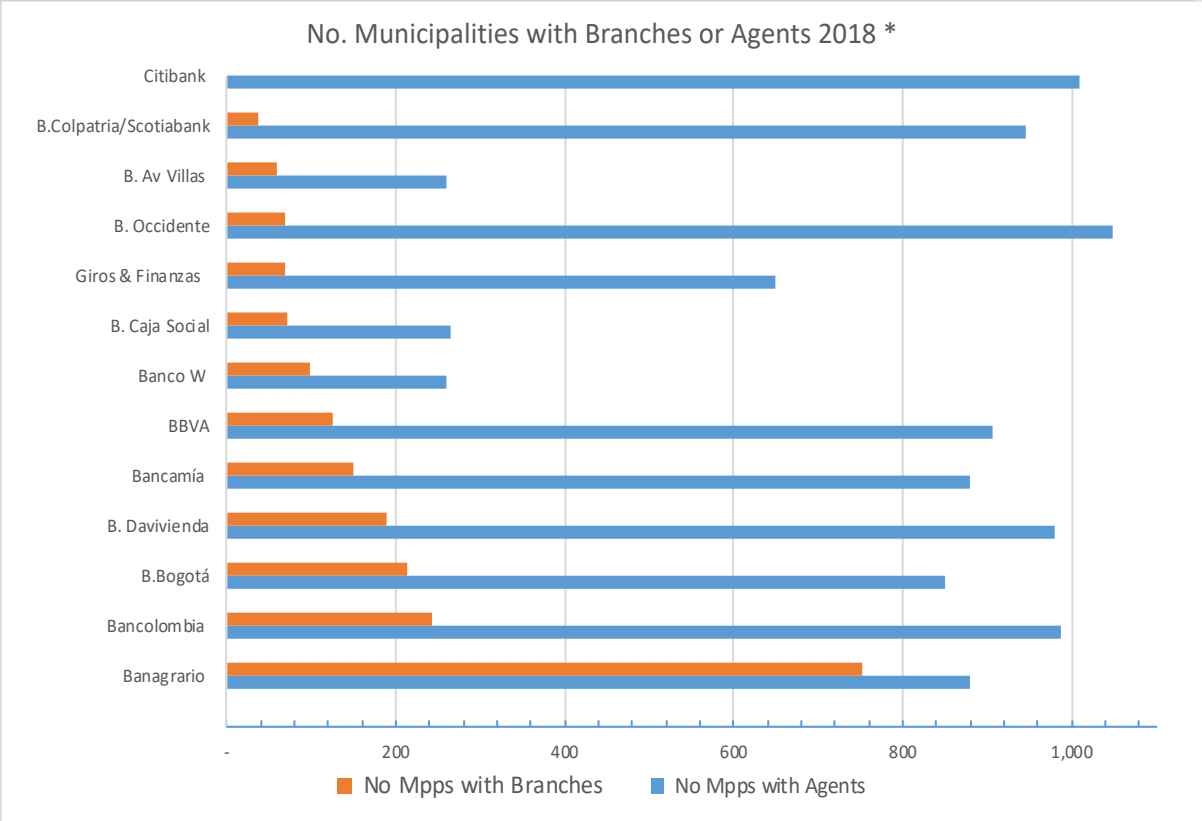
A successful model to penetrate rural communities depends not only on deploying a large agent network, but also in designing a coherent strategy to use it to expand access and usage by new segments previously not attended by the bank

Most of the banks have used agents to expand coverage dramatically and to facilitate CI/CO facilities in areas were they had no branches

Private banks expanded dramatically their coverage with agent networks.

- With branches, the largest bank in Colombia only reached 243 municipalities of total of 1,102, obviously those with the highest concentration of population in 2007.
- Using agents, eight of them reach now over 900 municipalities.
- However, the effectiveness in terms of delivery of financial services in those municipalities depends on the strategy each bank has.

Banco Agrario is the only public bank, and as such has the mandate to provide financial services and channels in most municipalities. It reached out to 187 additional municipalities through agents, where a branch was not sustainable.

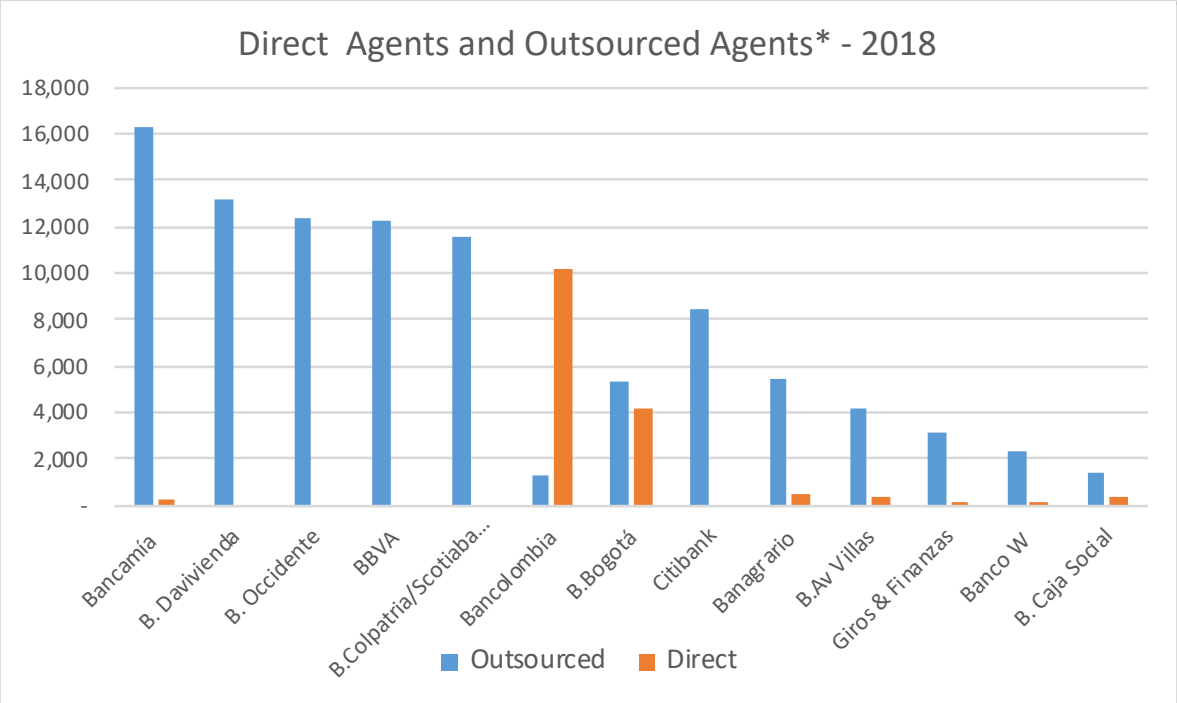


* Financial Institutions with more than 500 agents
Source: based on SFC and BdO

By 2018, Banco Agrario still is the bank with the greatest coverage with branches, which clearly represents an advantage for liquidity rebalancing for its agents, a challenge faced by the other banks without this coverage.

Agent outreach expansion was based on direct and/or outsourced to ANMs, depending on each bank's strategy and transactions enabled at this network

- Most of the financial institutions with more than 500 agents have used mainly outsourced agent networks.
- Bancolombia and Banco de Bogotá stand out as the ones that have developed the most extensive direc agent network, followed by Banco Agrario and AV Villas with a small group of direct agents.
- Bancolombia is the one that has a larger direct network and requires exclusivity from its agents.

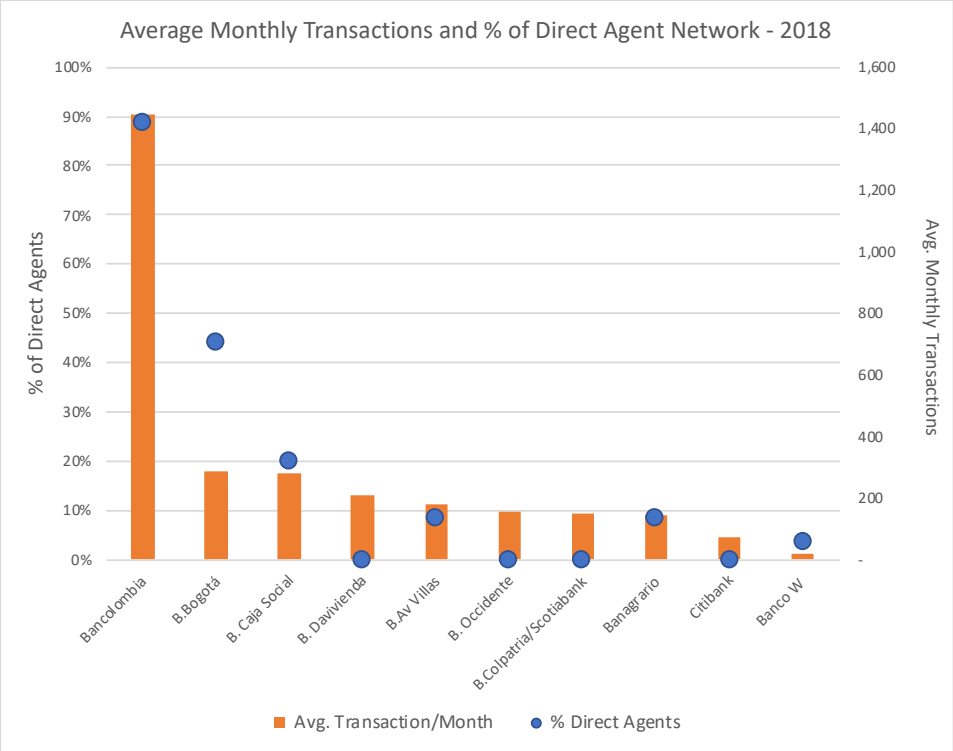


* Financial Institutions with more than 500 agents with relevance for rural presence analyisis
Source: based on SFC and BdO

Financial institutions that use an outsourced model present differences in terms of the types ANMs used, as well as the number of agents linked to ANMS.

- As of December 2018, four institutions used only one ANM: Citibank, Banco de Bogota, Banco Caja Social. On the other hand there are various institutions which use more than three.
- In any case, banks can use the same ANM for different transactions, and when using more than one they can assign different transactions to each of its managers

Financial institutions with a higher percentage of direct agents had to develop a strategy to assure enough volume to generate sustainable income for their agents.



* Average transactions are calculated over the average of agents that were active during the year.
Source: based on SFC and BdO

This required assuring a correct value proposition for the communities where the agents work, and mostly in rural areas for those banks with this market focus

This was based on a model that promotes expansion of their client base in communities where banks have no branch:

- Mobile commercial forces have been particularly effective for "onboarding" new clients.
  - Banks have concluded that agents cannot manage "selling" bank products because of time restrictions and complexity of some products.
- In rural communities one bank is using specialized agent, managed by an exclusive ANM, which operates as a "mini" branch which is visited by a bank employee periodically to offer financial products to the community

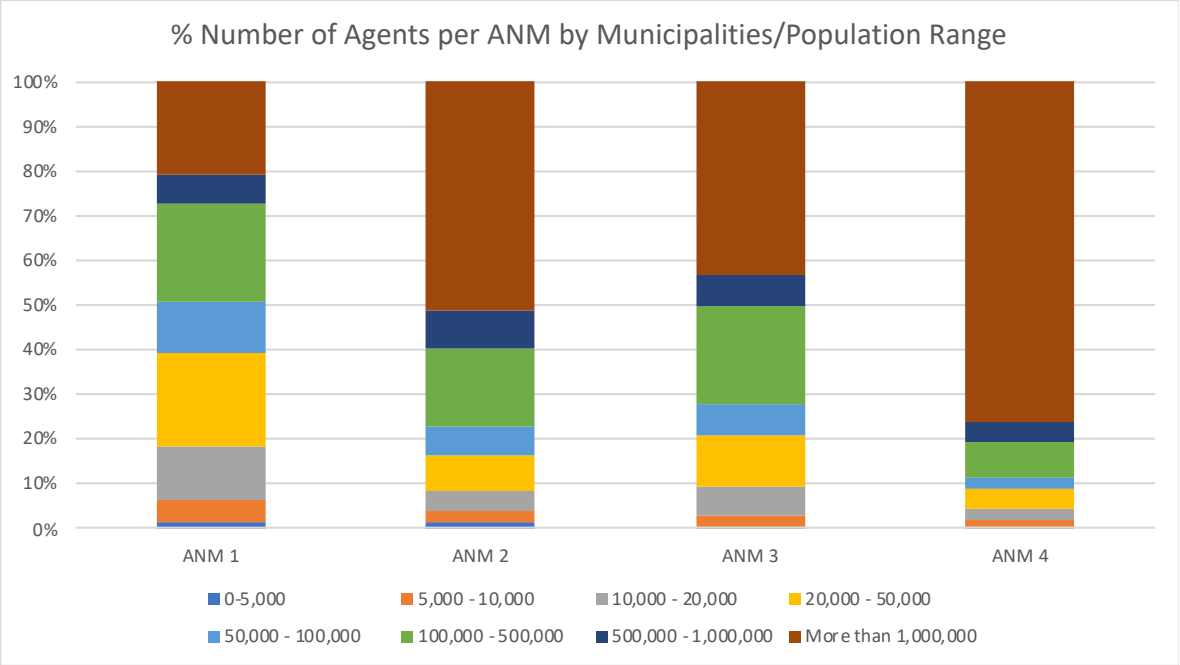
3.

Dynamic ANM have supported outreach and expansion

For banks interested mainly on facilitating CI/CO transactions for bill collection and credit repayments, ANM have been crucial to assure transactional levels for agents

Clearly, the role of ANMs and the way financial institutions have used them to expand their outreach is another factor in Colombia's success in agent expansion

- ANMs in Colombia have a very comprehensive outreach.
- Some ANMs are more urban oriented while others have assured a national presence.
  - An initial distribution by size of municipality based on the information obtained directly from four of the largest ones them shows the following:

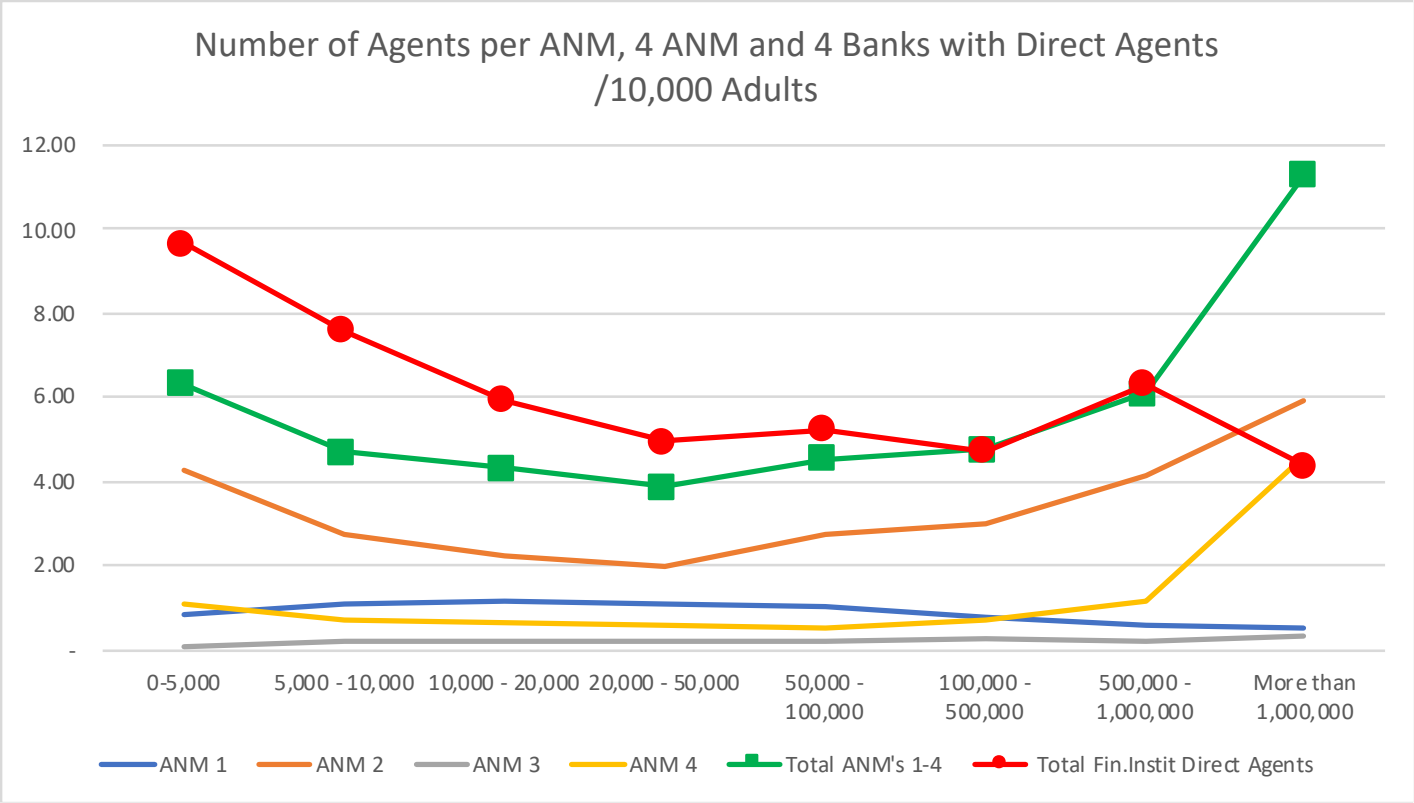


Source: Databases from the ANM, 2018

- Except those linked to Bancolombia, ANMs offer non-exclusive services and serve as distribution channel for financial as well as non-financial services.

Financial institutions have used ANMs to quickly expand their agent network. Rural penetration nevertheless is still a challenge

- The surprising fact is that financial institution's direct agents have a higher penetration rate in smaller and more rural municipalities per adult, than those deployed by these 4 ANMs.
- Even more, it is only in municipalities over 1,000,000 people that agents for these 4 ANMs surpass the financial institutions' direct agent penetration per adults, which even decreases for the largest cities.



Source: based on SFC and BdO and Databases from the ANM, 2018

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Network managers are developing their own business, and alternative transactions, seeking to provide higher traffic and generate more income for their agents

- ANMs have sophisticated business strategies where aggregation of services is their way of assuring higher income for them and for their points.
- Depending on their origin, ANMs have a basic set of transactions (normally non-financial transactions) that provide them with a basic income, derived from contracts and businesses they manage. These are either top-ups, lottery sales or remittances.

In order to grow and assure better income to their agents, they have developed new services or increased their contracts with similar providers:

They provide :

- ✓ CI/CO services for various financial institutions apart from the original with which they started.
- ✓ Bill collection to other types of sectors: prepaid TV, insurance companies for microinsurance, government e-procedures.
- ✓ In regions were electricity companies are offering "prepaid" plans, ANM are being used to CI these payments.
- ✓ In medium and smaller municipalities they offer directly bill collection to regional public service companies, which are not able to comply with bank's technological requirements, while ANMs are willing to help them either in enhancing their technological platform or providing more manual type of collection.

- ✓ CI/CO services for new businesses linked to e-commerce. Payment facilitators and on-line marketplaces are offering payments in cash as an alternative for clients who do not have credit cards. Starting to be very popular are monthly subscriptions to internet entertainment services like Netflix or Spotify.

ANMs have also been able to develop more use cases for their clients beyond financial transactions. Different origins explain their business model

A. Betting in **lotteries** is imbedded in the Colombian culture.

The gambling business in Colombia is a complex industry composed of regional players and national players.

- To operate a lottery, a license is required from the estate's government, to which they transfer their franchise fees.
- Total estimated value of sales for 2018 amount to USD 851 million. Although lower than transactions at FI agents (USD34 billion), estimated number of transactions suggest higher traffic at the lottery sale because of the low value of the average transaction.

B. **Postal Service** providers are the main actors for CI/CO of internal remittances.

There are 46,000 postal points, which have similar coverage to the one offered by financial institutions' agents (adjusted), which have started to use the postal network.

- In 2018 the total value of national remittances sent was USD5.5 billion with a total of 236 million remittances sent, an average value of USD47.
- In terms of transactions, remittances, although lower than total financial transactions done at agents are quite high specially in municipalities between 20,000-50,000 people.

ANMs have also been able to develop more use cases for their clients beyond financial transactions. Different origins explain their business model (ii)

C. Airtime top-up networks are also important allies for FI.

The top up networks have larger networks than the ones used and enabled by FI as agents.

- The model used typically is a prepaid model for "only" top up models assure higher penetration to smaller merchants.
- Examples vary:
  - Conexred, a network nowadays with more than 72,000 top-up points of which 3,000 are agents, hired by Davivienda as an ANM to assure CO services for CCT beneficiaries. Since 2019 offers its network to other financial institutions.
  - Another example is Movilred which strategically decided it would serve multiple financial institutions. Since 2018, operating under a license es e-money issuer.
  - PTM/Commercial offers exclusivity to Bancolombia, in almost 10% of its points. It has 15,000 points and 1,468 are agents.

D. Specialized ANM

As the agent model evolved, different companies decided to establish a new business offering a specialized network linked by them and dedicated only to financial institutions.

- One type are ANM which can identify and provide technological platform to link typical small merchants.
  - An example is Assenda, the first one that developed an agent for Banco Agario the public bank in 2008.
- Demand for higher transactionality points gave way for a new version of agents: specialized CI/CO for financial transactions, operated directly by personnel of the ANM. These are called "robust" agents.

Main Findings

Colombia has developed an agent network serving as an alternative channel for financial institutions, mainly banks.

- Therefore the expansion and usage of these networks depends on the channel strategy deployed by each bank:
  - As an alternative channel to divert transactions away from branches, or to increase transactional points in areas where they already have branches.
    - Mainly to support bill collection (from clients but mainly of non clients), and low value payments (mainly credit card payment collections).
  - As a low-cost channel to penetrate urban centers, typically to far apart more marginal suburbs
    - With a value proposition relevant to new segments (simplified KYC accounts, microcredits or low value credit cards), offered only in one case by agents, but mainly done by "mobile" (travelling) commercial forces or digital channels.
  - As a low-cost channel to expand their presence to municipalities where they had no presence and small or no client base.
    - To provide CI/CO points in municipalities where client base is small, but where bill collection contracts may require collection points
    - To expand outreach to new, more rural, parts of the country, increase their client base with mobile commercial forces, leaving CI/CO to agents, with a variety of products and transactions for these new clients.

- It is a channel used by most banks as a collection point to serve both own clients as well as non-clients which pay mainly their public utilities at agents, therefore CI transactions are dominant in most banks
  - That is why "rebalancing" their overdraft credit lines is one of the main challenges and costs for each agent point.

Main Findings

As a result of these diverse strategies, two models have emerged:

- A direct agent model, used by banks that have a penetration or an expansion strategy that allows them to generate enough transactional levels to assure a sustainable business model at the agent level. In the banks with the largest number of agents under this model, exclusivity is required.
- An outsourced model, using highly diversified ANMs, which assures enough transactional levels at agent points by aggregating financial transactions with other types of transactions as lottery sales, top-ups or postal services.

In both models a "post paid" contract is the main type of contract used, requiring an overdraft facility for the agent who needs to rebalance either with CO transactions or by depositing at the nearest branch

- This has led to larger and more formal agents since they need to undergo a credit risk analysis, limiting the expansion and the availability of merchants that qualify as agents.
- It has also resulted in an agent having various contracts with banks and ANMs, with a credit exposure which is not public, generating a risk that needs to be analyzed further to understand possible systemic risk.

As banks have developed these models, they have identified that they are not mutually exclusive

- Nowadays banks which started out using only a direct model are now using combined models as they have recognized the benefits of ANMs for rapid expansion.
- Banks which only used ANMs are now developing a direct model when seeking a more robust value proposition for clients

ANMs in Colombia provide transactional services which in other countries represent an important volume of CI/CO services at agents, mainly national remittances, under their license as postal service providers.

- They have presence in all municipalities of Colombia providing different services to their communities.
- Since their origins are based on other types of services (top-ups, lottery sales, or postal services), banks report finding it difficult to use them as commercial outpost to bring in new clients. Therefore, they are used only as CI/CO points, and mainly for CI transactions, mostly bill collection or credit card collection.
- New ANMs are emerging, as "specialized financial agent network" managers, working as an outsourcing facility which enable specialized management for the bank.

Main Findings

In smaller, more rural municipalities, the direct model shows higher transactional levels precisely as a result of the financial institution's strategy using them.

- Although banks with ANMs have apparently high coverage of many municipalities, including rural areas, transactional levels suggest they are having low levels of transactions.
  - Therefore banks without a strategy to penetrate new segments or new areas need to use ANMs to assure enough transactions at each agent point.
  - For a bank and an e-money issuer which have mobile wallets, using ANMs offers high capillarity CI/CO points, mainly in urban areas where these are being used.
- Banks using direct agents have developed a commercial mobile (travelling) advisors force which visit communities every certain day in a week, serving customers normally at the agents' own store, thus assuring a client base that uses CI/CO agents.
  - They offer the full product portfolio of the bank, although each bank's portfolio differs.
    - One of them offers simplified KYC accounts as a mobile wallet, but other products are also offered by these mobile commercial advisors.
  - A newer alternative model is being developed by the state rural bank, with a specialized ANM, rolling out a "robust" agent point which only offers bank's transactions, (a "micro" branch) and where an employee of the bank can be permanently based or is visited frequently by a mobile commercial force.
- Direct agents have higher transactional volumes but also a more diversified portfolio of transactions facilitating rebalancing
  - This is especially important in rural communities where rebalancing can represent an important factor in the cost structure of an agent due to time and transportation costs of traveling where branches are scarce or non-existent.
  - This has also motivated higher credit limits for agents in these locations, a procedure which is easier for banks with a direct model since they can offer credit as part of their core activity but is more difficult for ANMs which do not have such a financial capacity.

Challenges

- Expansion to smaller types of merchants and higher capillarity in rural areas may require a combination of models by banks interested in expanding their client base in these rural areas.
  - Having learned very well and understanding the dynamics in rural communities from their experience as direct agent managers may result in their usage in more diverse forms, although none seem to identify using agents as a commercial force.
  - This will require, moving away from a “post paid” relationship to a “pre-paid” one.
    - The new regulatory framework provides an enabling environment.
    - The main difficulty in this will be finding an adequate cash level for a higher average value of transactions vis a vis, for example, top-ups where this is used, without compromising working capital from the merchant.
    - To control systemic risk, credit lines for each agent by each bank or ANM with which it has a contract should be reported as an exposure, centralized by Credit Bureaus.
    - One of the most challenging issues resulting from the analysis of Colombia’s case is how to deepen agent usage by financial institutions in rural areas where agents require larger overdrafts but are at the same time small businesses that cannot afford prepaying larger bank funds to operate their agents.
- A combination of direct models and outsourced models using ANMs will for sure evolve and coexist
  - The main question to resolve will be if exclusivity agreements add value or if adequate value propositions for clients can be maintained with shared agent points.
- Both of these elements should be discussed in combination with the possibility to facilitate agent interoperability
  - This discussion will require an understanding of the technological problems to resolve, since all banks use different technological platforms to connect to their agents.
  - And obviously it would need to define a business case were interchange fees would need to be defined.

Challenges

- For expansion to rural areas with a value proposition to expand financial inclusion, the agent channel has already evolved but represents just one part of the formula
  - Colombia's rural population and agricultural sector requires a strategy with rural focus on the part of many more financial institutions.
  - A dialogue between financial sector and government institutions should identify main challenges and opportunities, to define roadmaps to help higher penetration to these areas.
  - More in-depth analysis of opportunities and business case possibilities should be performed to provide insights for financial institutions to facilitate this path.
- The possibility to revamp the idea of a Rural Financial Inclusion Observatory to solve information restrictions and also highlight successful case studies or rural financial services should be included.
  - This could be accompanied by a public policy using the instruments used for example by Banca de las Oportunidades (incentives and Technical Assistance) to role out the agent network, should now develop new initiatives to stimulate rural focused strategies.
- CGAP could support these efforts using design workshops where stakeholders can identify projects and processes to face these challenges.
  - Efforts can be undertaken by specific financial institutions interested in this area.
  - International experts with knowledge of successful strategies could be brought in to provide knowledge and a space for co-creation for specific institutions

Colombia and CGAP's Principles for Inclusive Agent Networks

Principle 1: Enable rural CICO agents to generate more revenue streams.

The models used in Colombia show two ways to assure adequate level of activity at the agents and an improved revenue stream:

- A direct agent model offering an array of financial solutions (deposits, credits, bill payments) that meet the needs of agent's customers. Sometimes include a traveling sales force to make sure new customers area also attended.
- An outsourced model, which enables FI to deploy a low-cost channel and the ANM assures the level of transactionality required for their viable operation by aggregating transactions from different providers
- In large cities e-commerce payment facilitators are reaching out to ANM to facilitate cash payments, based on a PIN number given in exchange for cash for a specific purchase
- Still agents with good transactionality seek to complement income with additional contracts, also diversity of services to maintain client's loyalty to their specific agent point.

Principle 2: Make CICO agents more accessible to rural customers, as defined by the local context.

- Geographic proximity is a critical element to define which point in a community can act as agent: this is a challenge in rural areas.
- Public policy efforts to facilitate rural coverage:
  - Since 2008, the Financial Inclusion Policy, launched several programs to subsidize agent networks in rural communities where initial transactionality was expected to be low.
  - The largest CCT program pays 2 financial institutions for each bi-monthly payment an amount that allowed them to deploy an agent network in rural areas where neither of them had branches or ATMs, therefore assuring a minimum of transactions to an agent point.

Principle 3: Expand the range of people that can serve as CICO agents.

- The “post paid” model prevalent in Colombia, based on an overdraft facility has implied that more formal type of businesses are the ones that have been selected.
- Regulation required agents to have a fixed working space and be a registered business. To facilitate rural coverage, new regulation issued in 2019 is authorizing mobile agents, which had not been allowed until now.
- It is expected that this new model will be “prepaid”.
- The new regulation authorizes offline bill collection transactions taking into consideration rural communities where even mobile connection is scarce.

Principle 4: Identify and manage consumer protection and other risks posed by rural agents without stopping innovation.

- The Financial Superintendence, financial institutions and ANMs have reported very small number of claims related to agent CI/CO transactions.
- Good agent training and permanent monitoring have proven to be more effective in consumer protection
- Competition is present both in the supply of financial services, and in the agent management realm, assuring no single provider has power that can hamper customers choice.
- Multiple contracts with different unknown credit limits an important risk for the agent model, specially now that “off-line” operations will be allowed

Principle 5: Develop a data-driven strategy to close the gender gap in CICO access and use.

- Date on gender access to financial services, both based on supply and demand data suggest that gender gap is negligible in Colombia
- Gender is not an information gathered in public information, so it was impossible to identify further elements.
- Although collecting sex-disaggregated data on customer and agent transactions to identify specific gender-based constraints is valid, it is a costly burden for financial institutions using agents as a low-cost channel. A demand survey data from publicly funded surveys could be a better alternative.

Principle 6: Expand public and private partnerships that share CICO agent networks.

- ANMs have become the mechanism to allow financial institutions an aggregation of services to assure enough transactions for agents across the country.
- The interest of financial institutions to expand access to financial services in rural areas is the real problem.
- The strategy of the financial institution guarantees expansion of financial services to rural communities.
- Nevertheless the volume of CCT payments and the concentration in time (one week at the most) have required that financial institutions and/or their ANMs have enough cash supply for these points: this makes these payments more expensive and an operational challenge in rural areas.
- Since bill collection is a driving force in terms of transactionality of agent networks, special efforts should be made to facilitate electronic bill issuance by smaller public service companies like small rural water companies or regional electrical companies.