



Banking Agents in Colombia:
Rural Expansion and Its Frontier

March 2016

Main findings

- Standard reporting **duplicates by 98%** the number of banking agents in Colombia.
- **Aggregators operate 72%** of access points and are better positioned to expand rural coverage through increased operational efficiency.
- The existing agent business models **still have room for growth in 38%** of the 691 rural municipalities.
- **22% of rural municipalities struggle** with structural limitations and would benefit from specific policies aimed at improving the quality of financial access.

1. State of the agent channel

Unduplicating access points in Colombia and the role of transactional aggregators

The channel can still grow leveraging its existing model

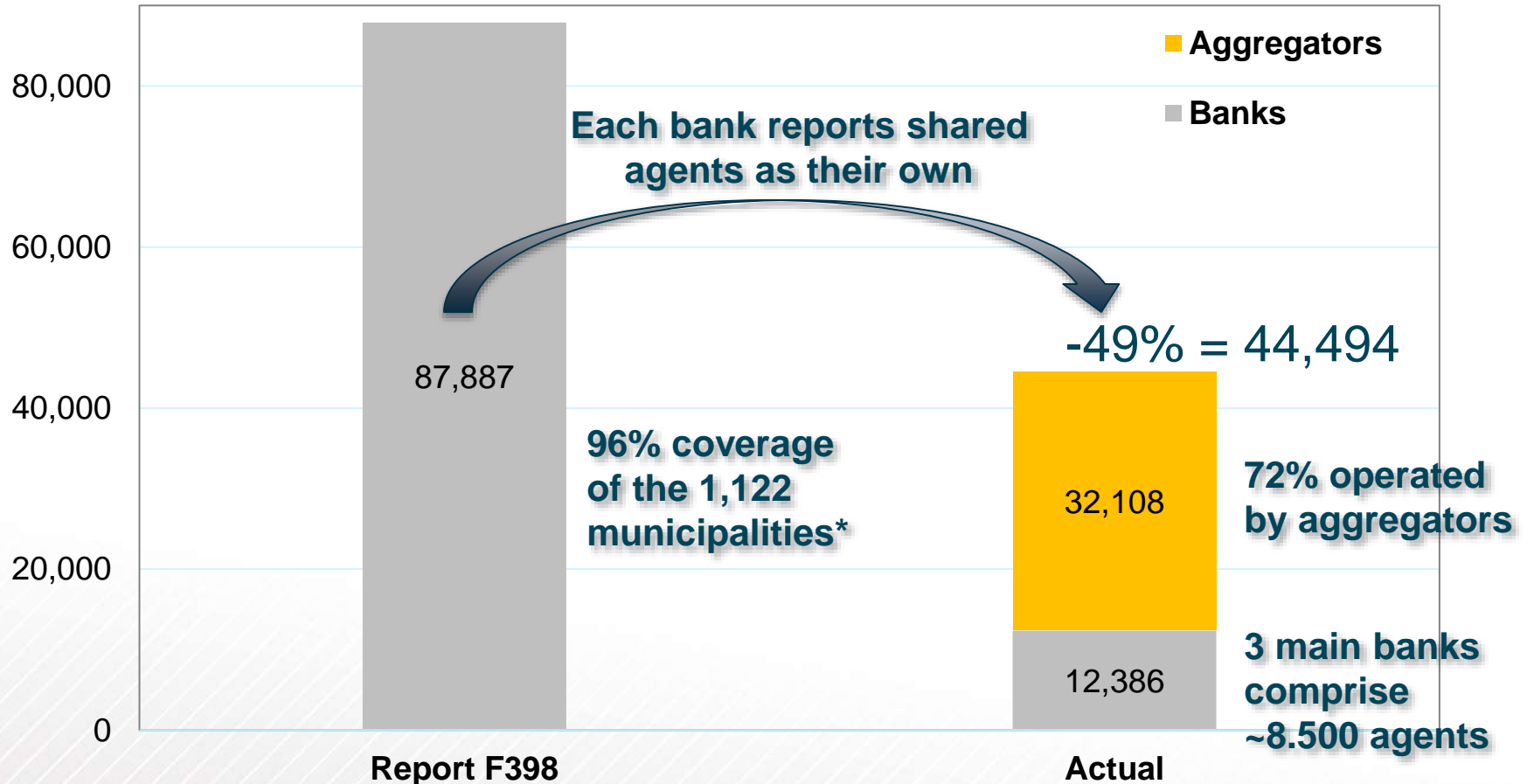
Rural areas still have deficient coverage

- The state of the banking agent channel is characterized by:
 - Duplication of access points through existing reporting mechanisms
 - A central role of transactional aggregators in operating the bulk of access points across urban and rural areas
 - The channel has not yet reached maturity in rural areas, where there is still room for growth

Reporting procedure duplicates total number of access points

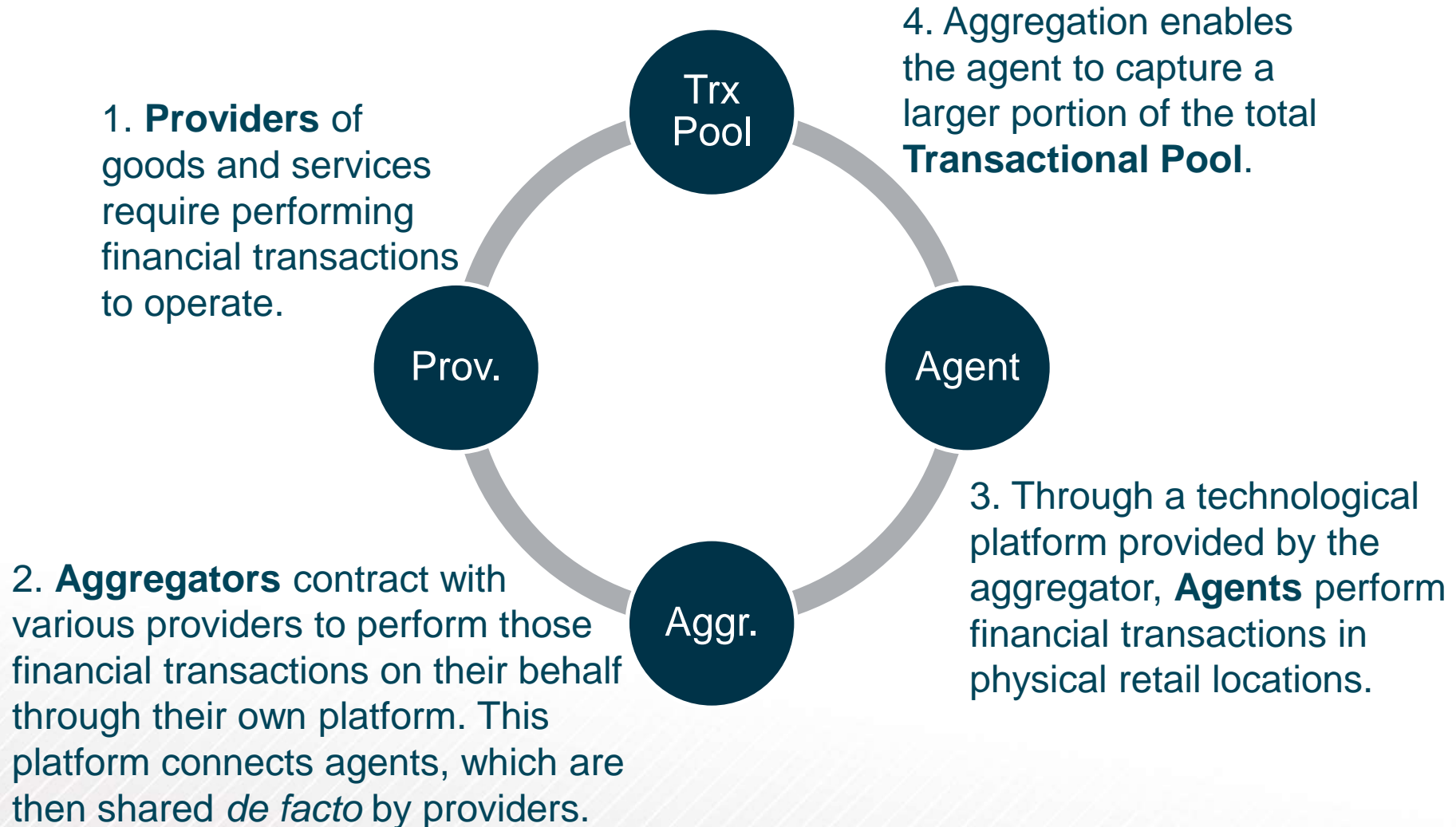
It also obscures the role of transactional aggregators

Agents/Banking correspondents as of Nov. 2014



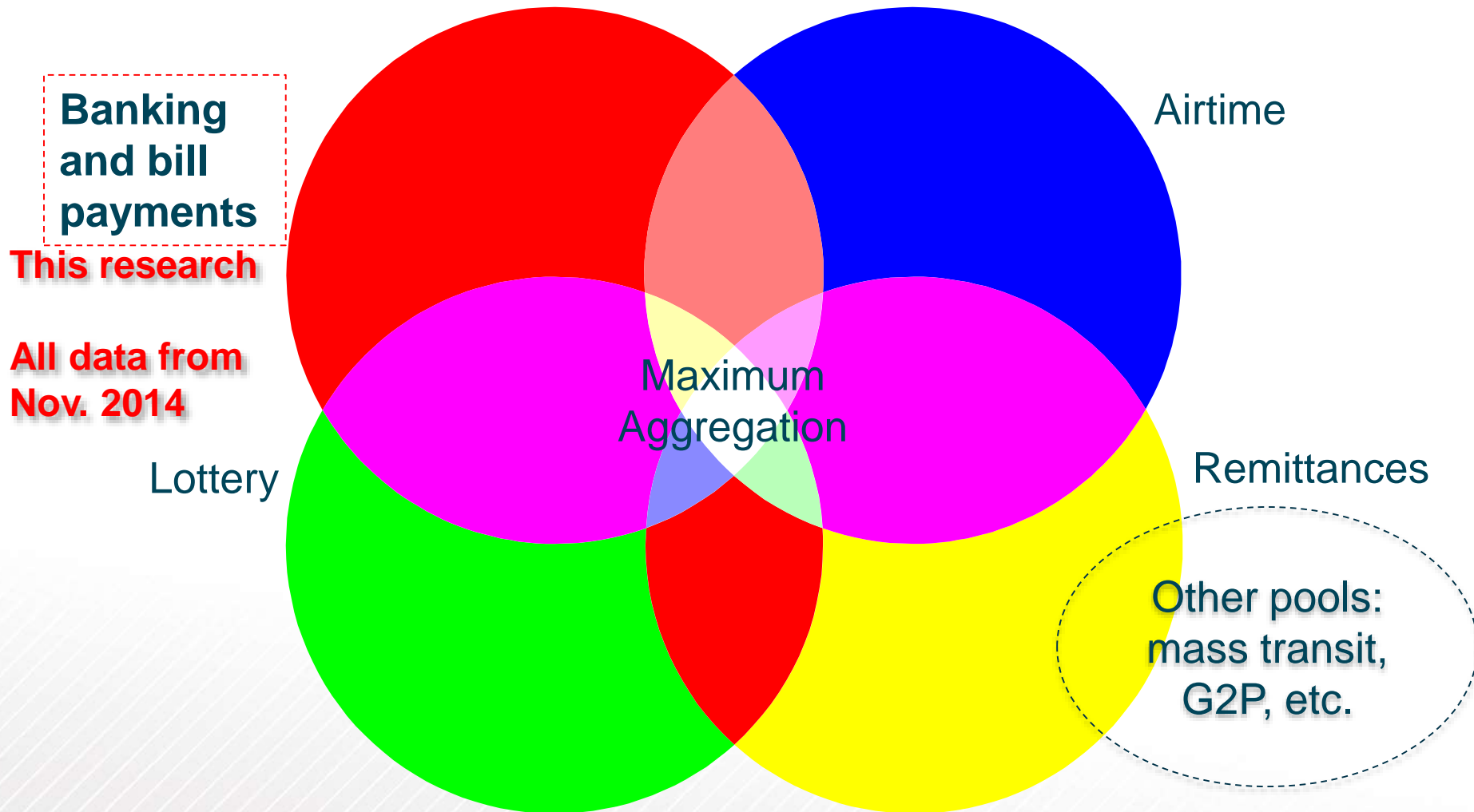
What is the role of aggregators in expanding access

Aggregators increase revenue and thus viability for agents



Agent's transactional pool in Colombia

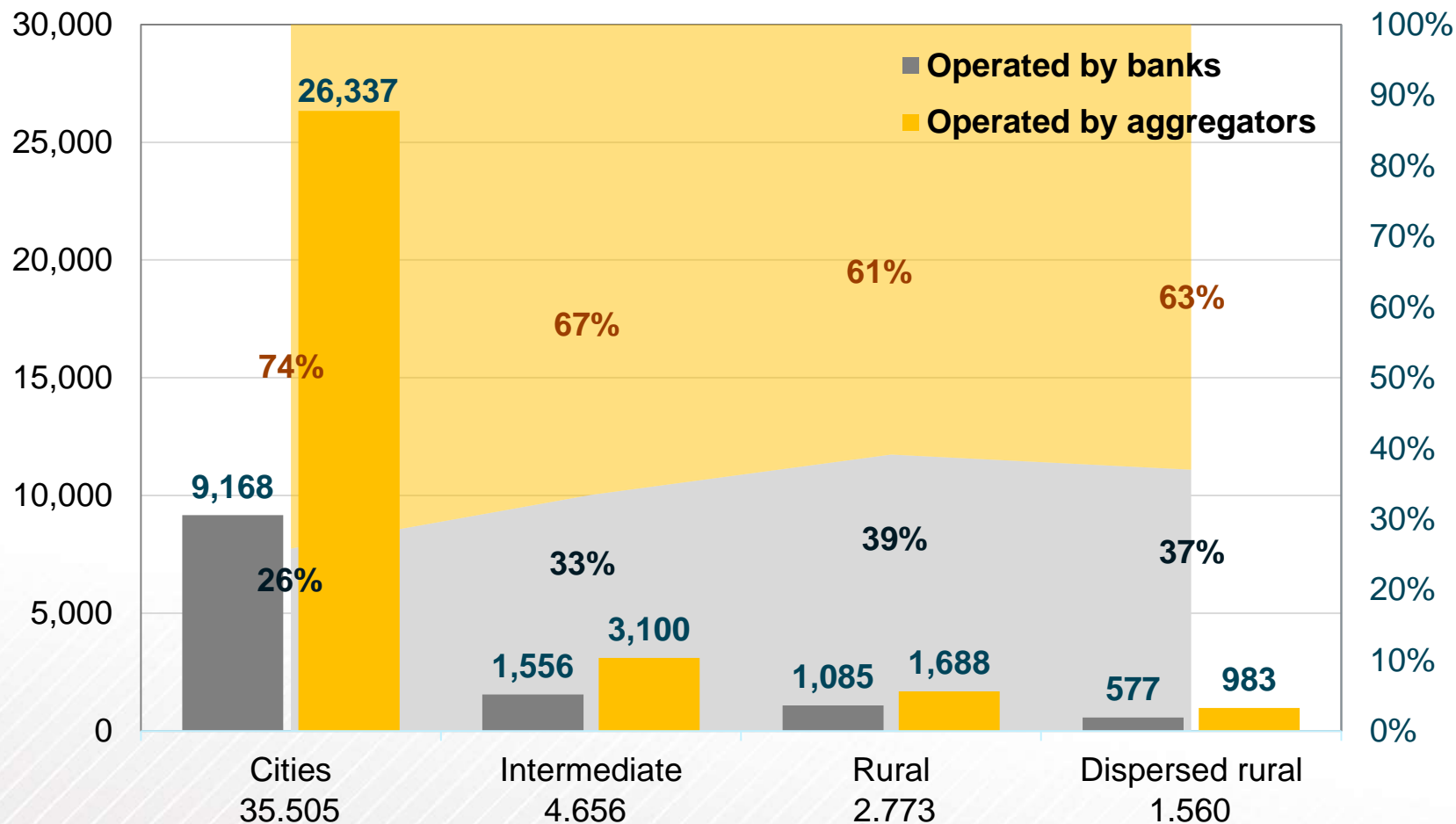
The present study focuses exclusively on the banking and bill payment portion (red)



Aggregators bolster access across the urban-rural spectrum

Their de facto sharing model enables increased coverage and density

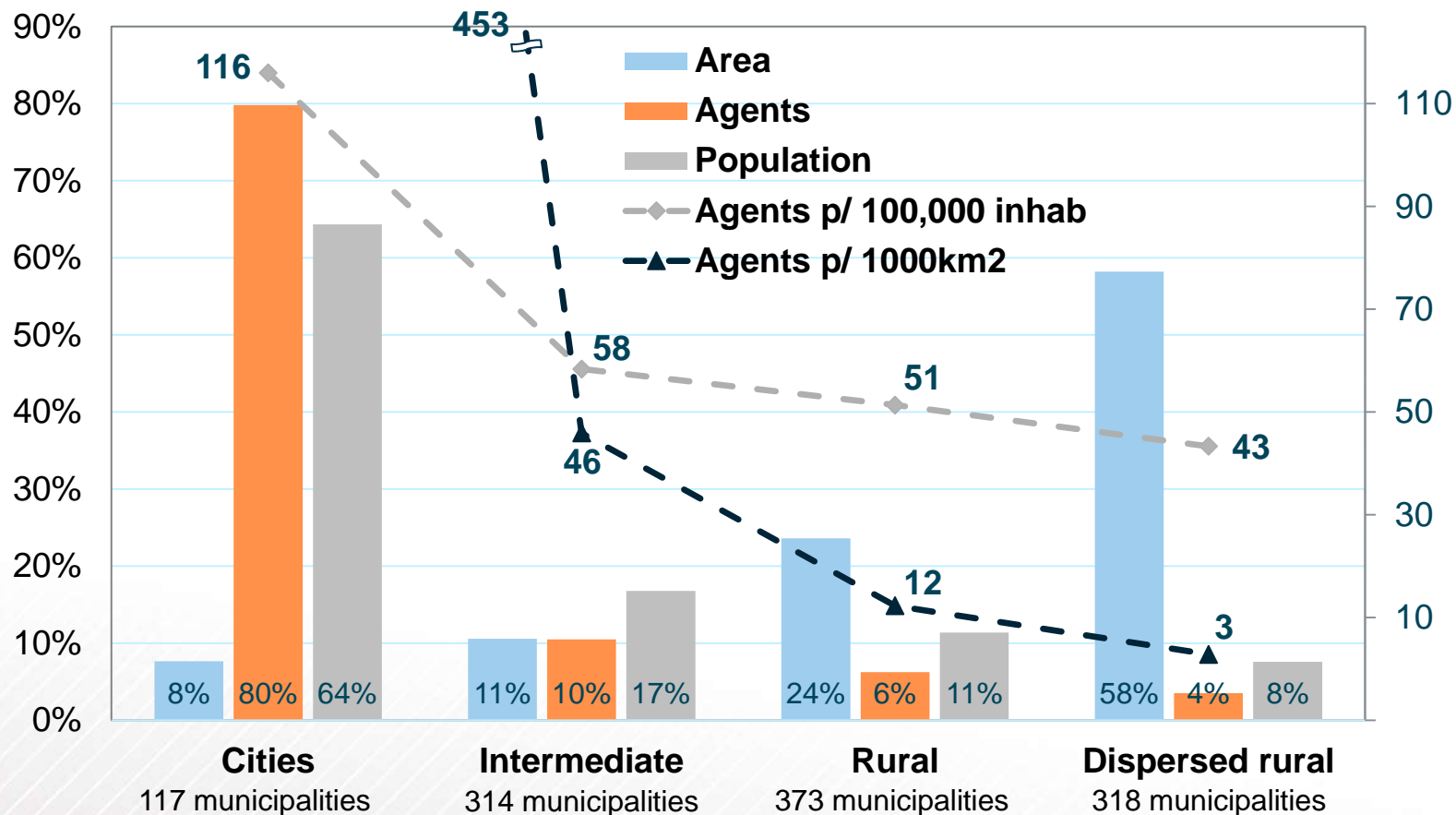
Agents by operator, quantity and share



Access point density is significantly lower in rural areas

Do the characteristics of the transactional pool tell us it could be higher?

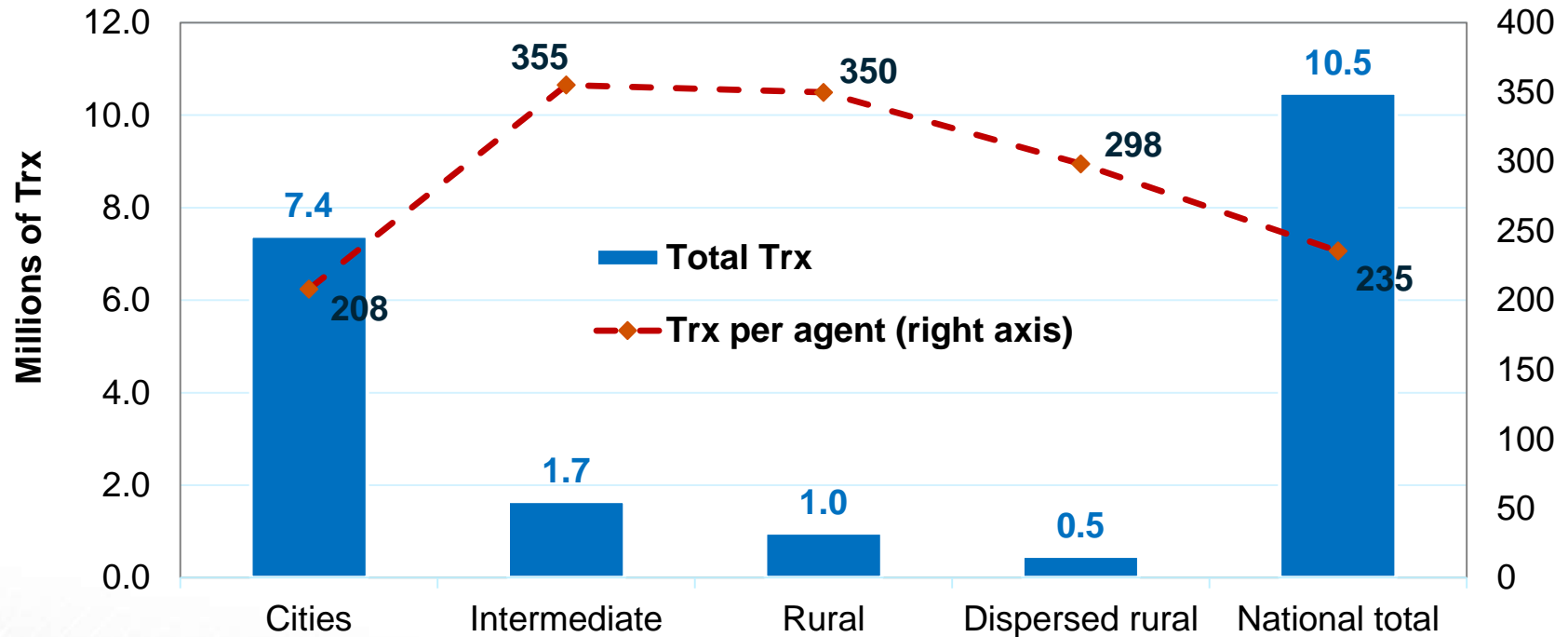
Distribution and density of agents



Busier agents reveal potential for growth in rural areas

More Trx per agent but a leaner transactional pool: less Trx per inhabitant

Monthly transactions and agent average



Transactions p/inhabitant	2.4	2.1	1.8	1.3
Rurality coefficient	1.00	0.86	0.74	0.54

10+ million monthly Trx operate US\$ 1.224 million

2. The challenges of rural coverage

Which are the specific challenges of increasing rural access points in Colombia

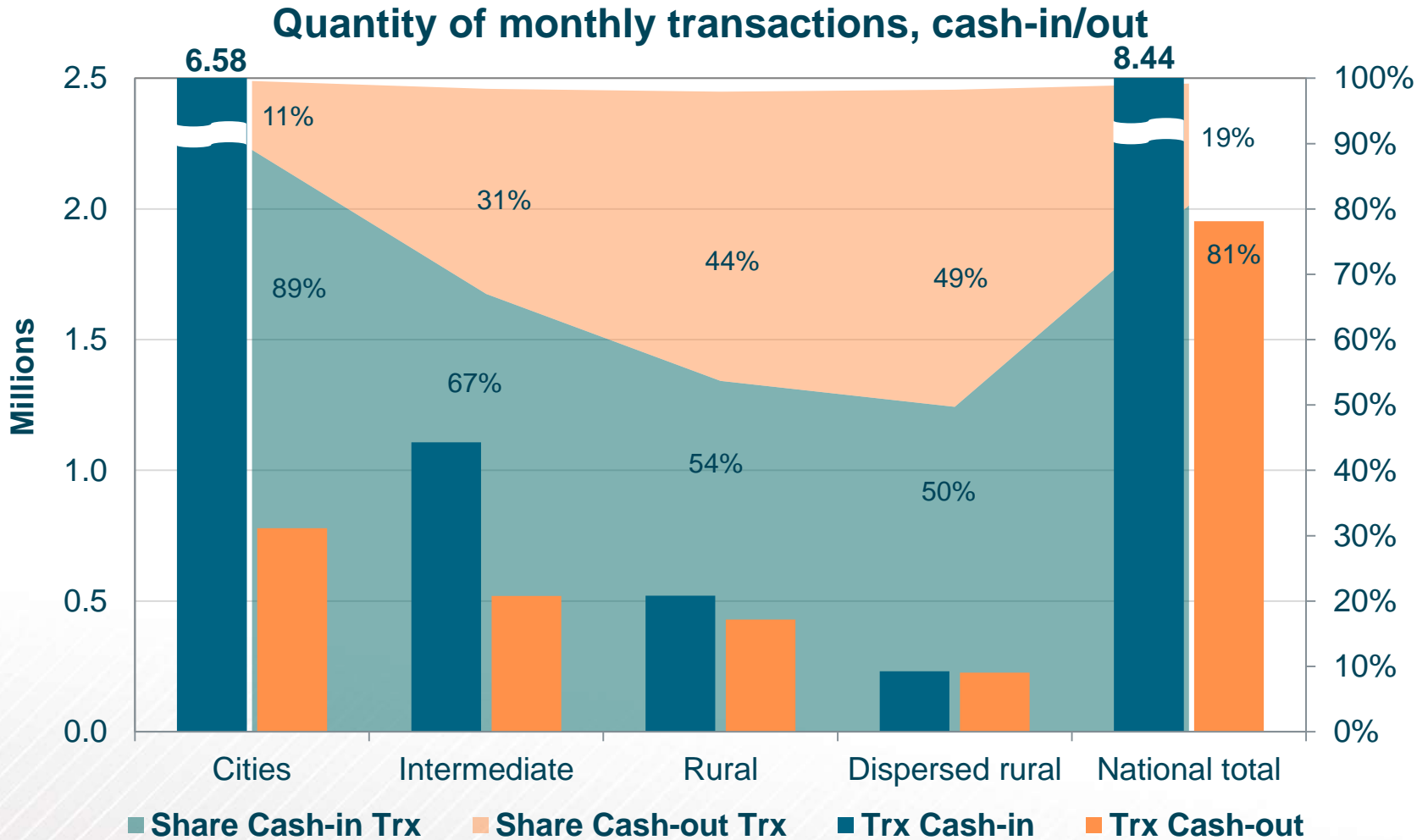
Operations need to match the rural challenge

In addition to distance, other factors compound to require greater efficiency

- The rural coverage challenge is characterized by:
 - Increased demand for cash-out
 - Less payments, leaner transactional pool
 - Higher average transaction value
 - Informal economic environment
 - Preeminence of account-based delivery of financial services

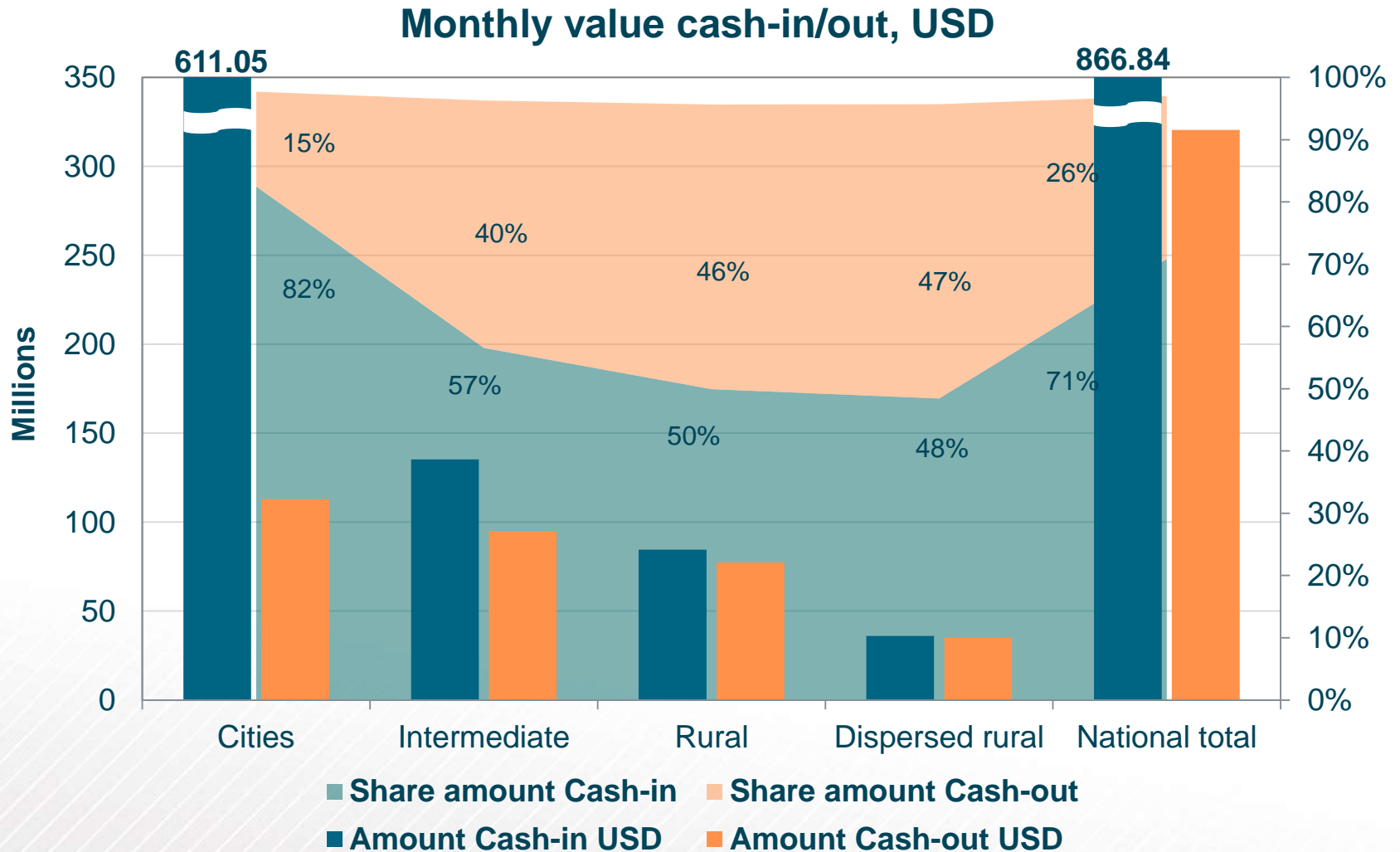
The rural transactional pool is about cash-out

While in urban areas it is about cash-in through bill payments



Higher participation of cash-out increases liquidity costs

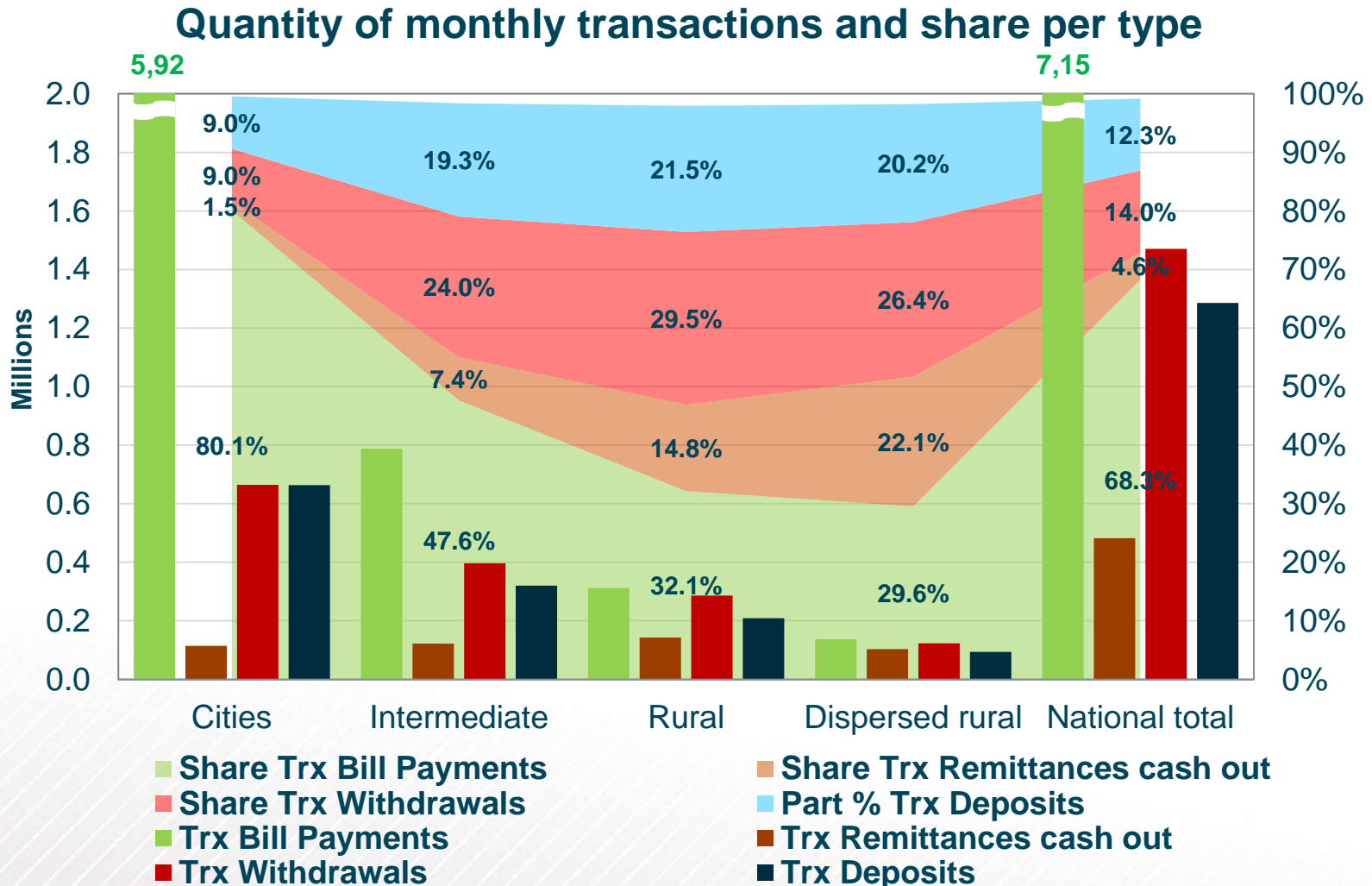
Operational stress is compounded in addition to distance



Percentages might not add to 100% as neutral transactions are excluded, see methodological notes.

Bill payments are not big business in rural areas

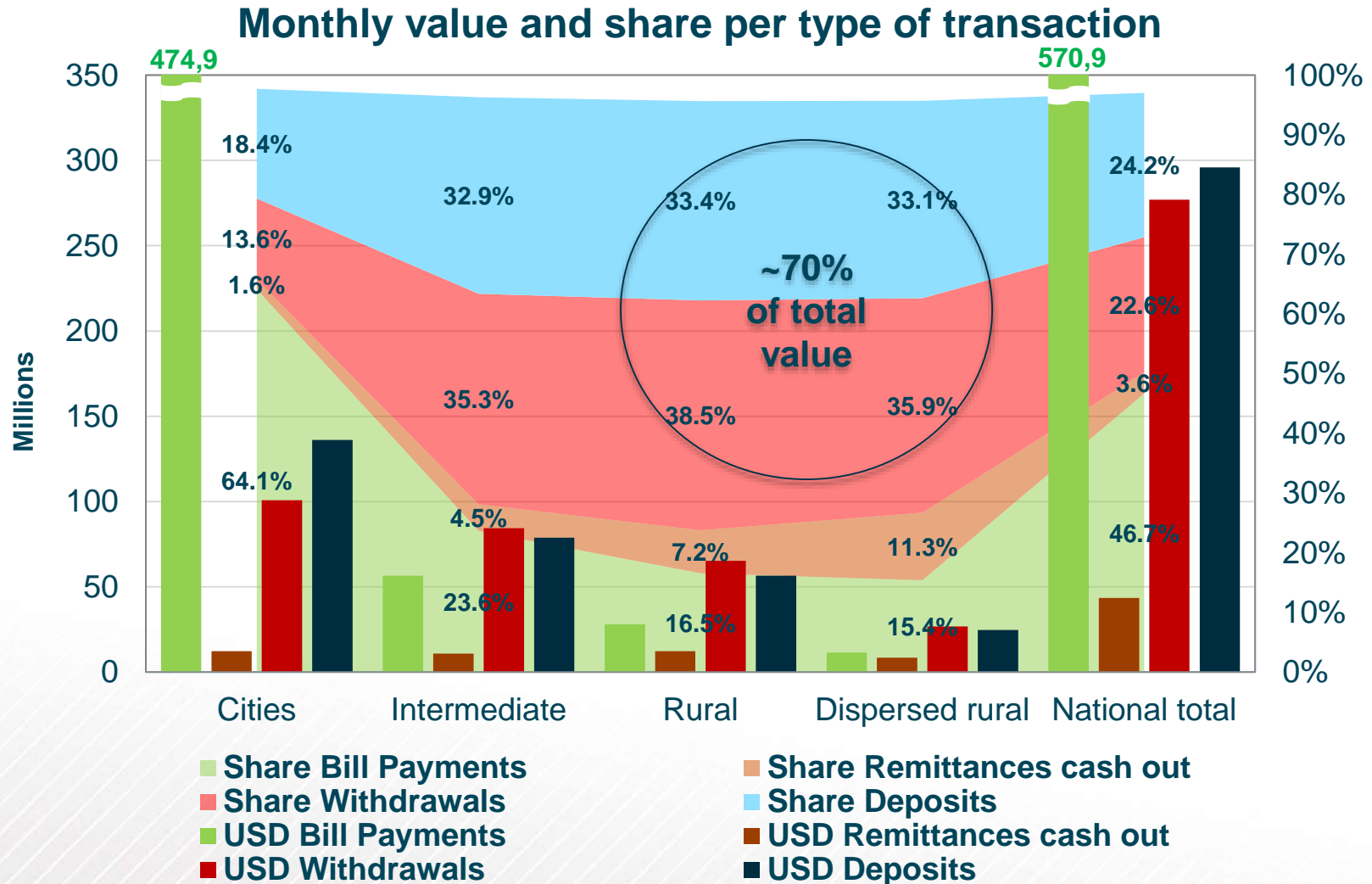
An indicator of a higher level of informality and a leaner transactional pool



Percentages might not add to 100% as transfers between accounts are excluded.

Rural agents are intensively used for withdrawals and deposits

Government-to-person (G2P) payments augment withdrawal reporting

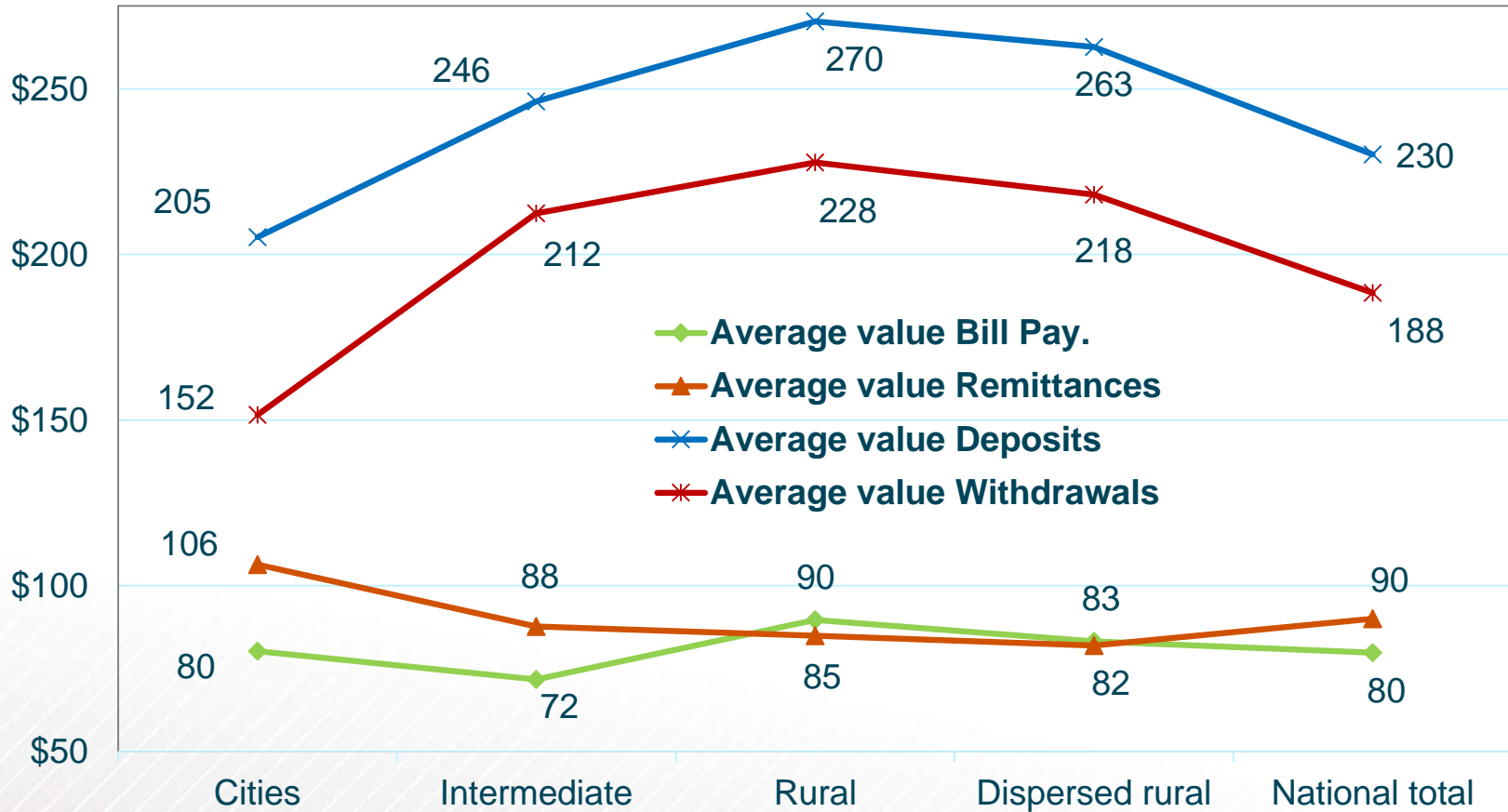


Percentages might not add to 100% as transfers between accounts are excluded.

Deposits and withdrawals are up to 50% larger in rural areas

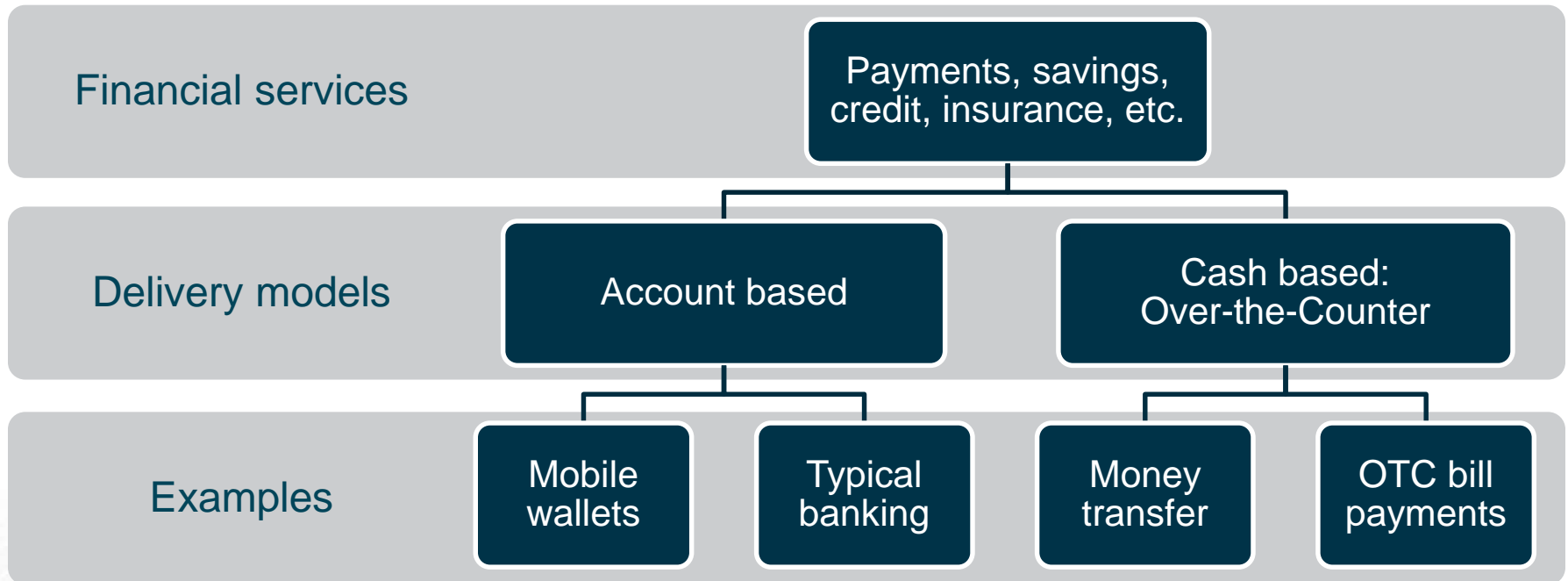
Higher urban agent density enables smaller and more recurrent transactions

Average value per transaction type, USD



What about delivery models: Accounts vs. counters

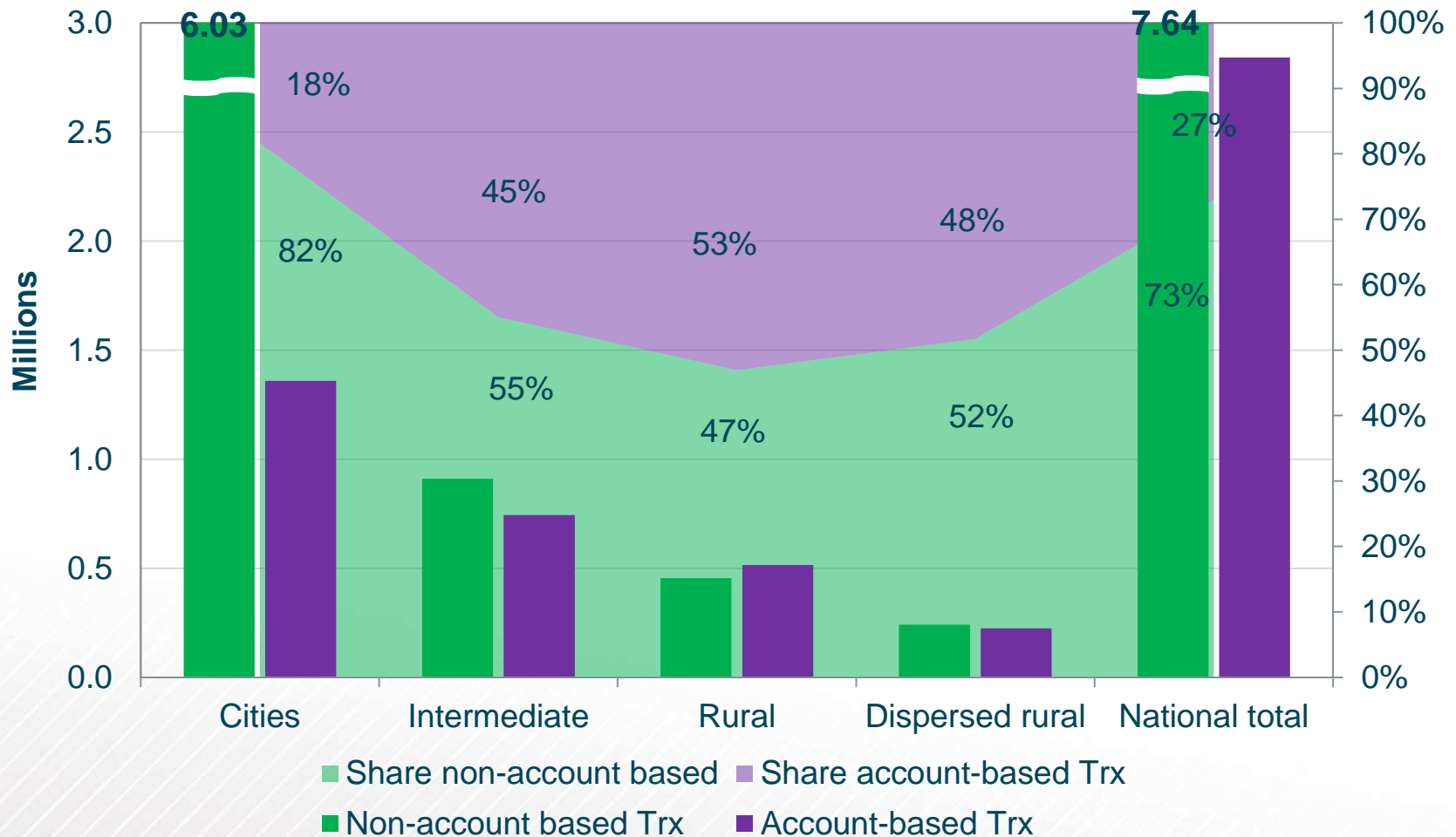
See [Peru](#) research for further details on this distinction



Accounts are more relevant for rural agents

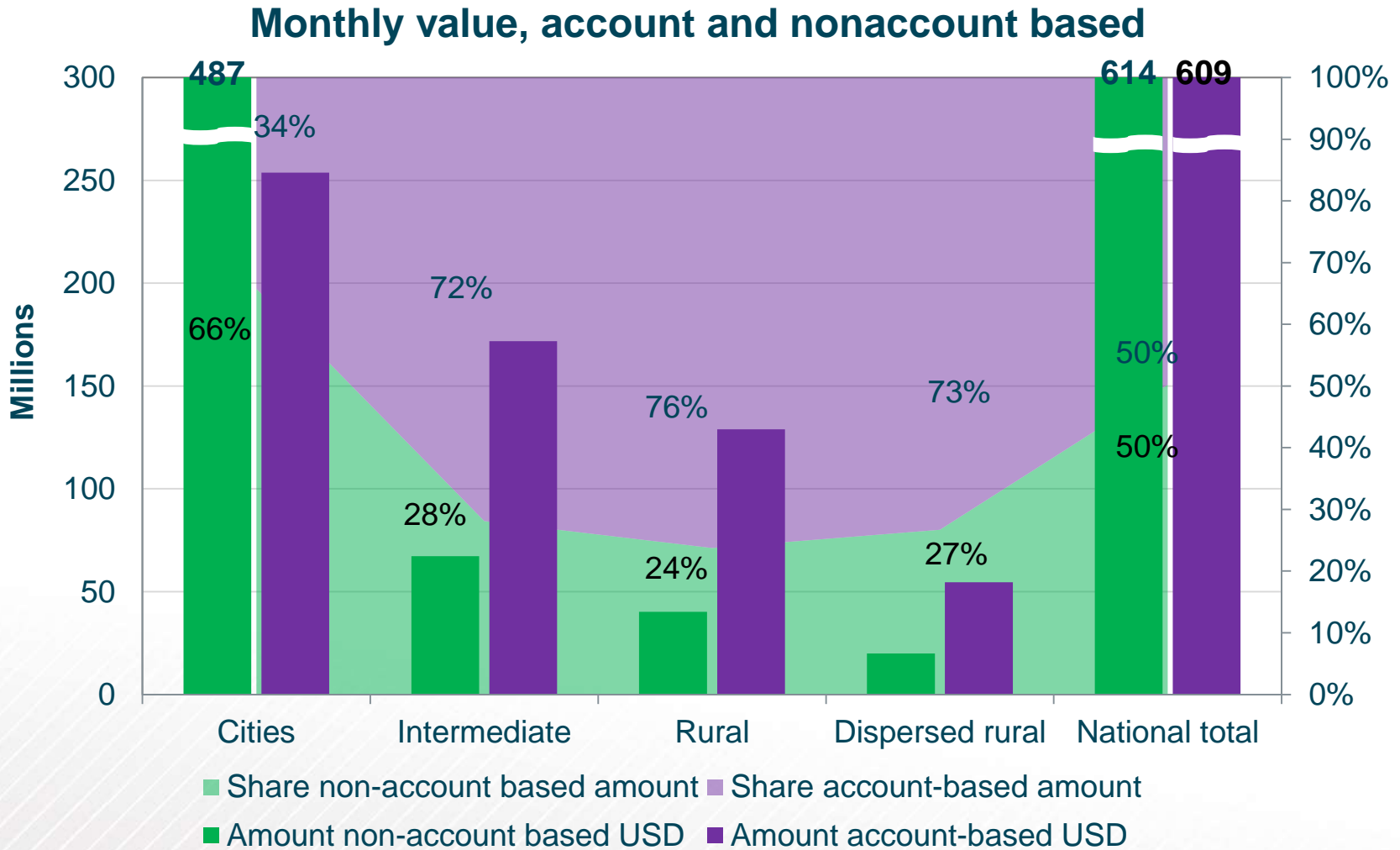
Reveals rich financial life in rural areas and a need to move cash around

Quantity of transactions, account and nonaccount based



Large rural share of account operated value

Further research is needed to better understand the rural use cases of accounts



3. Strategies to increase rural access in practice

*How and where to act? Where is the
frontier for the existing business models?*

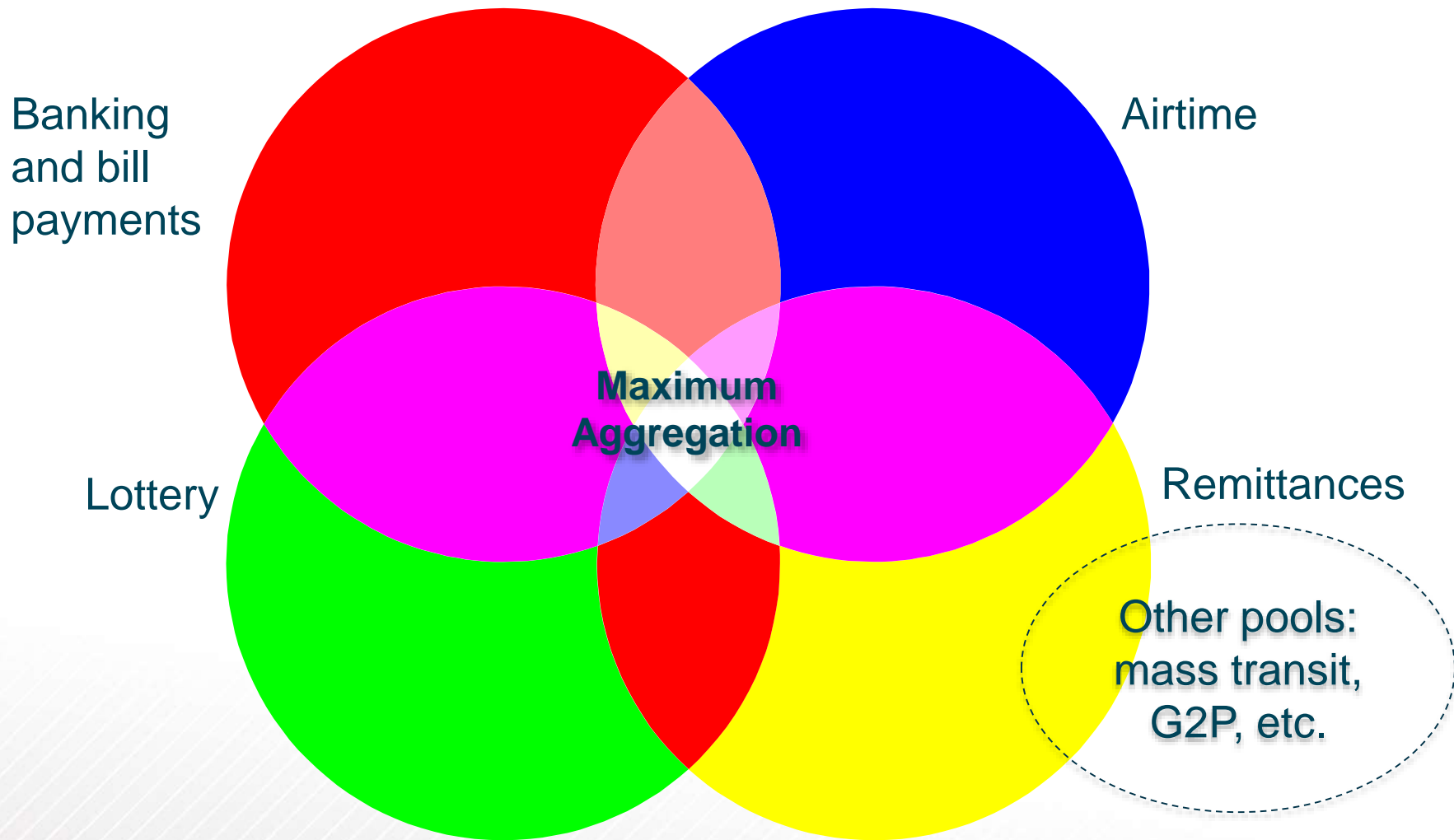
Four practical strategies to increase access in rural areas

Considering the trade-off between agent increase and sustainability

1. **Aggregation** to tap more transactions
2. Service-level **tiering** to reduce costs
3. **Busy rural agents** for easier expansion
4. Catching sight of the coverage **frontier**: innovation and public policy

1. Aggregation as an operational efficiency strategy

Leveraging the ability to tap into a larger portion of the rural transactional pool



See [Peru](#) research on trade-off between aggregation and operational costs.

2. Agent tiering or levels of service to reduce costs

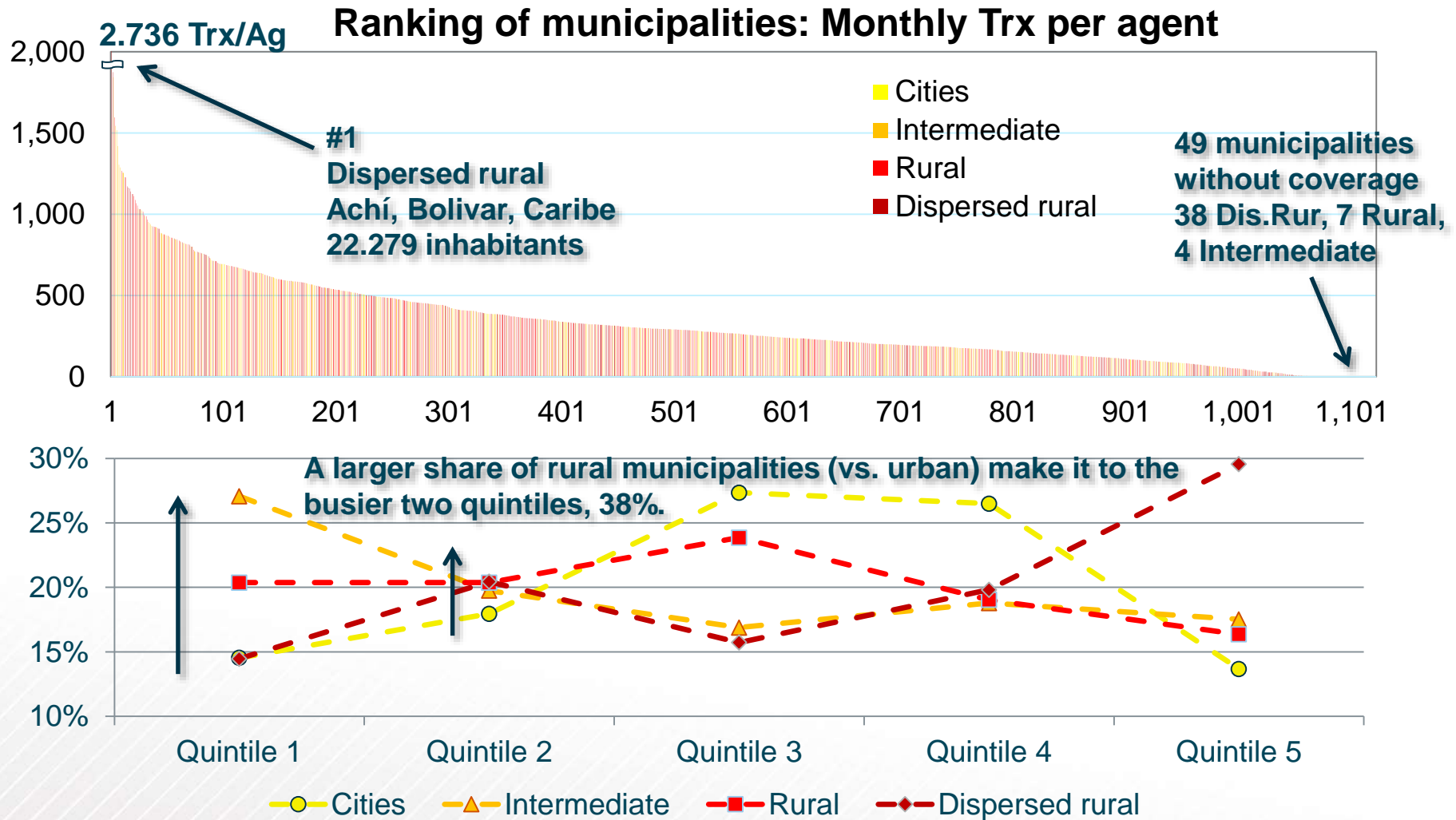
Adding lighter agents that need less transactions to be viable can increase coverage

**Typical model at present
in Colombia**

Examples	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Paper receipts	✓	✓	✓	✓	
ID required	✓	✓	✓		
Large transactions	✓	✓			
Cash-out	✓	✓	✓	✓	✓
Formal agents	✓				

3. Busier rural municipalities have room for more agents

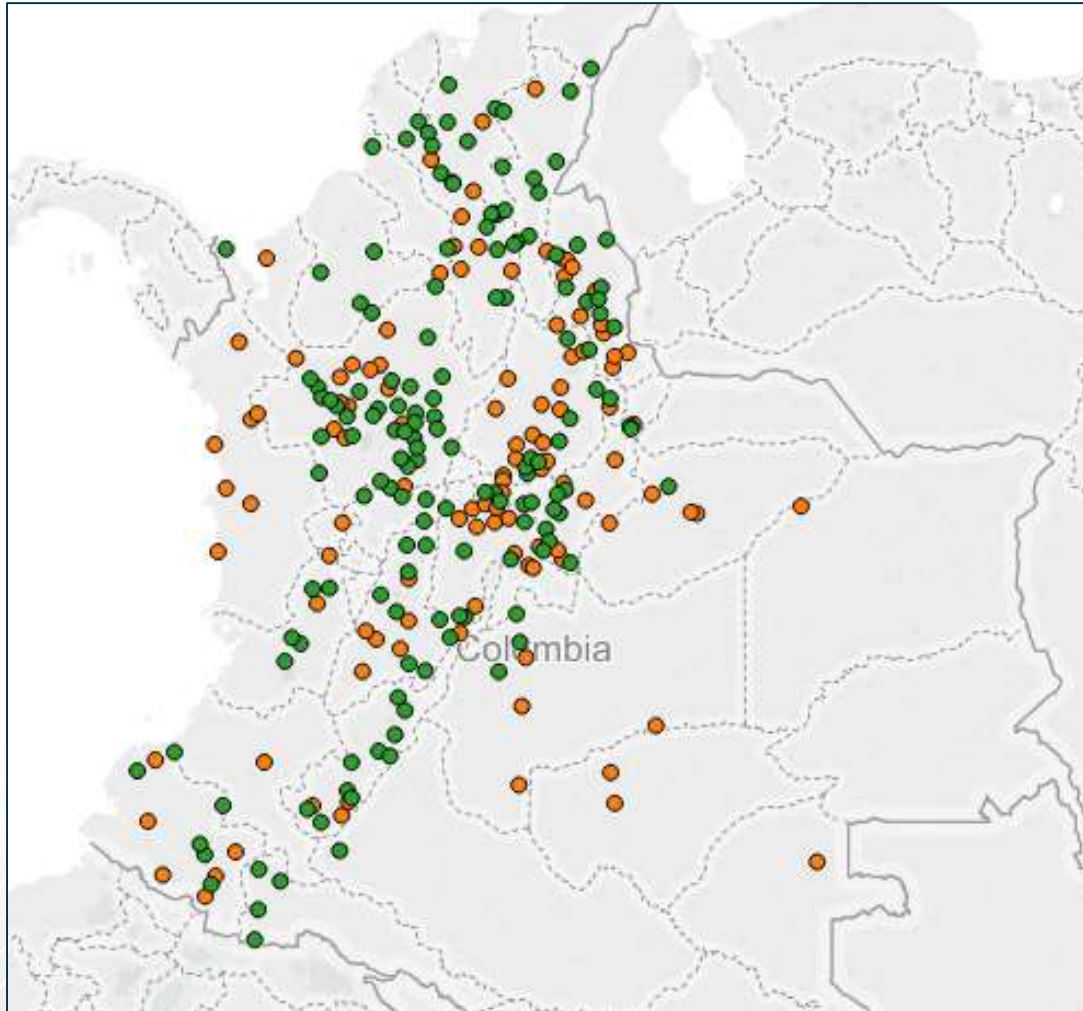
The existing business model can deliver increased coverage in these areas



Location of rural municipalities with busier agents

Top two quintiles of previous chart on slide 26

■ Rural
■ Rural disperso



38% of all 691 rural agents fall in this category.

Positive trade-off between increased access and viability:

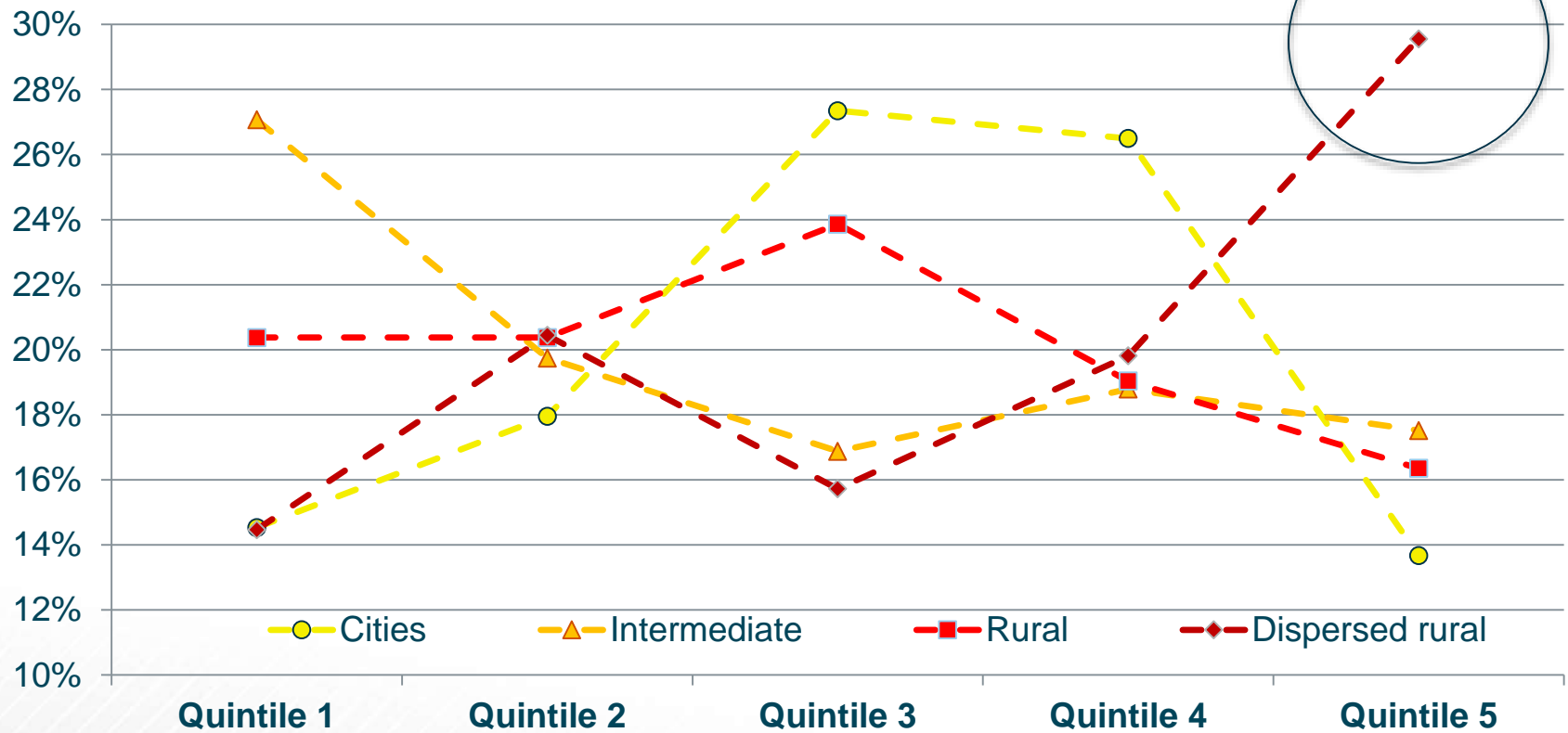
Additional agents would not erode average transaction levels per agent below sustainability.

There is still room to divide the local transactional pool by more agents.

4. Where next: Descrying the coverage frontier

High proportion of rural disperse municipalities in quintile 5

Distribution of municipalities: Monthly Trx per agent

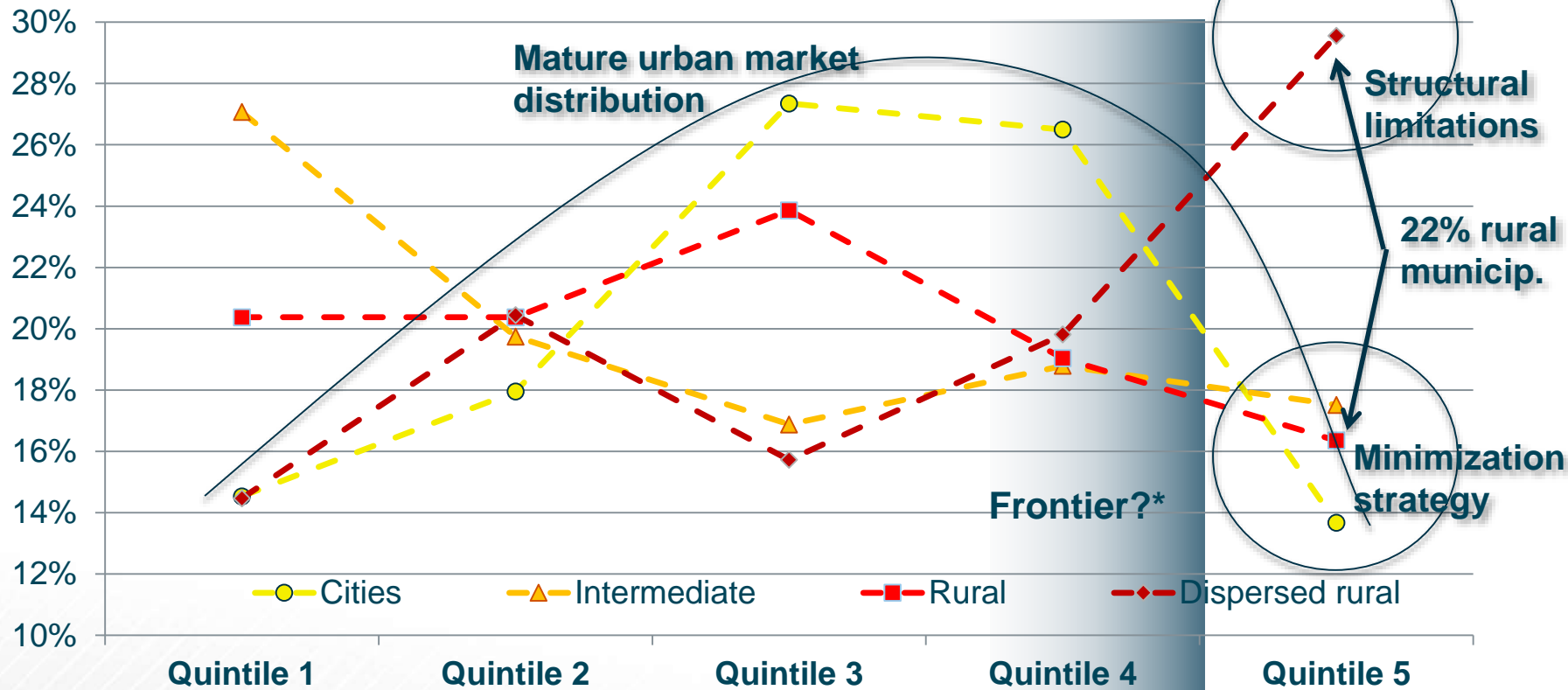


Median Trx p agent/month	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
	672	386	261	166	42

Agent network managers are minimizing Q5 municipalities

But this is not the case for dispersed rural municipalities

Distribution of municipalities: Monthly Trx per agent

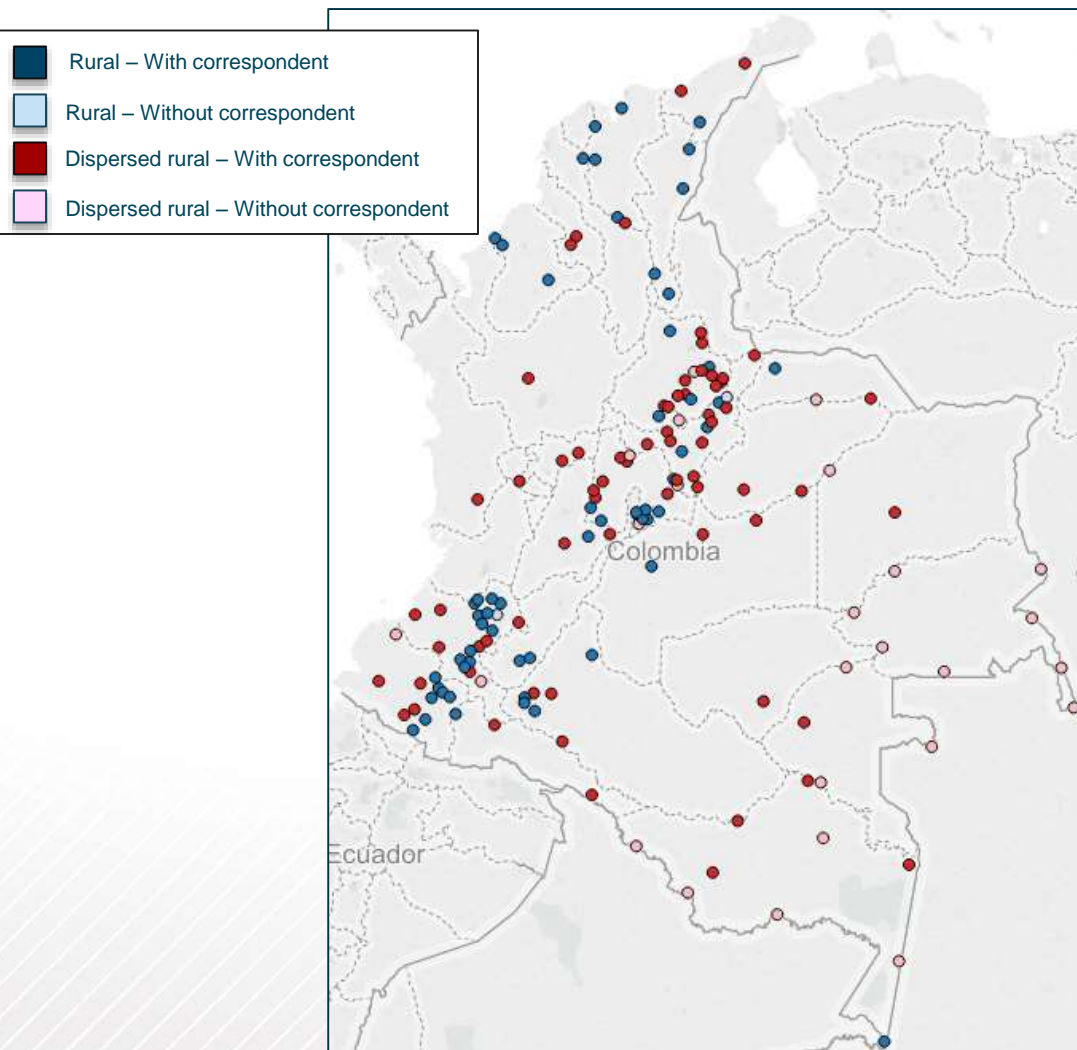


Median Trx p agent/month	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
	672	386	261	166	42

* The frontier is defined as the group of municipalities in which access points are most likely not viable or sustainable within the existing business models of agent network operation.

Location of frontier rural municipalities

Fifth quintile of previous chart



22% of rural agents fall into this category.

How is this frontier defined?

Agents are viable and desirable at least when they break even. Network managers are constantly seeking to minimize the proportion of unviable agents. *

Taking the more mature urban market as a reference in the previous slide, the minimization strategy is evident beyond quintile 4, thus the frontier. The proportion of agents in quintile 5 drops significantly.

The higher proportion of rural agents beyond this sustainability frontier, reveals the struggles of operating in these locations, as described in the previous sections.

Further research is needed to be able to assess individual agents rather than municipalities.

The road ahead

Areas where action can yield benefits in the short term

- **Data collection and reporting:**
 - Improvement of gathering tools and procedures for the banking agent channel.
- **Public policy action:**
 - Design of policies to address the challenges that impede the existing the business models to cater to the rural disperse areas.
- **Data insight and innovation:**
 - Data analytics can provide insight and boost operational efficiency, e.g., as a predictor of cash withdrawals in each access point of the network.
- **Further research:**
 - A study encompassing agents as a unit of analysis (rather than municipalities) over a longer period of time will provide more clear insights about how to increase operational efficiency and where the coverage frontier lies, for example, finding the transactinal break-even point for each business model and location.
 - Research into understanding the role agents could have in reducing the gender gap in access to financial services, for example, female agents.

CGAP

Advancing financial inclusion to improve the lives of the poor



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Methodological notes 1

Transactional types

Classification of the operations in the study	Type of operation according to report F398	Definition	Segmentation cash-in/cash-out			Segmentation according to delivery model	
			Cash-in	Cash-out	Neutral	Account based	Not account based
Bill payments	Collections	Payment of public and private services, social security, taxation and agreements	X				X
	Payment of financial obligations	Cash payments of financial obligations of any kind of credit, including credit card payments.	X				X
Remittances cash out	Money orders (giros bancarios) received and third-party payments	Receipt of money orders within the national territory.		X			X
Deposits	Deposits	Cash deposits in checking accounts and savings accounts.	X			X	
Withdrawals	Withdrawals	Cash withdrawals from checking accounts and savings accounts.		X		X	
Transfers	Transfers	Transfers of funds between accounts, either checking or savings accounts.			X	X	
Operations that have not been included as they represent less than 0.01% of the total.	Money orders (giros bancarios) sent	Money orders sent within the national territory.	X				X
	Administrative transactions	Includes the opening of checking and savings accounts; the opening of CDs and loan applications for any kind of portfolio.			X	n/a	n/a

Methodological notes 2

Rurality classification

- Classification of the municipalities and townships in Colombia, according to how rural they are, elaborated by the DNP – 2014. For more details, visit DNP [here](#).
 - **Four categories:**
 - i. Cities and agglomerations
 - ii. Intermediate
 - iii. Rural
 - iv. Dispersed rural
 - **Consider the following criteria:**
 - a. Demographic characteristics of the population
 - b. Level of connectivity between the municipalities
 - c. Most relevant economic activities
 - d. Vocation and land use
 - e. Different ownership structures (indigenous reserves, collectively held lands, and others)
- **Municipality.** Basic unit of political and administrative division in Colombia: The municipalities have political, fiscal and administrative autonomy within the limits set by the constitution and national laws. As of November 2014, there were 1,102 municipalities.
- **Corregimiento departamental (CD).** A township, an alternative administrative unit used by areas of very low population density; these areas have limited autonomy. As of November 2014 there were 20 CDs.
- For additional details, visit DANE [here](#).

Methodological notes 3

Conservative approach

- A conservative definition of municipalities with agents/correspondents was used. The following were considered without access:
 - Municipalities that did not have correspondents at this date.
 - Municipalities with correspondents that did not carry out transactions during the month of analysis, November 2014.
- The exercise of the agents/correspondents was also conservative, as it did not consider the possibility that some agents could operate with more than one financial entity or aggregator.