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

- Each bank reports shared agents as their own
- 96% coverage of the 1,122 municipalities*
- 72% operated by aggregators
- 3 main banks comprise ~8,500 agents

Report F398
Actual

87,887

-49% = 44,494

32,108

12,386

* Including Corregimientos - CDs. See methodological notes.
1. **Providers** of goods and services require performing financial transactions to operate.

2. **Aggregators** contract with various providers to perform those financial transactions on their behalf through their own platform. This platform connects agents, which are then shared *de facto* by providers.

3. Through a technological platform provided by the aggregator, **Agents** perform financial transactions in physical retail locations.

4. Aggregation enables the agent to capture a larger portion of the total Transactional Pool.
Agent’s transactional pool in Colombia

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

This research

All data from Nov. 2014

Banking and bill payments

Maximum Aggregation

Airtime

Lottery

Remittances

Other pools: mass transit, G2P, etc.
Aggregators bolster access across the urban-rural spectrum

Their de facto sharing model enables increased coverage and density

Agents by operator, quantity and share

- **Cities**: 35,505
  - Operated by banks: 9,168 (26%)
  - Operated by aggregators: 26,337 (74%)
- **Intermediate**: 4,656
  - Operated by banks: 1,556 (33%)
  - Operated by aggregators: 3,100 (67%)
- **Rural**: 2,773
  - Operated by banks: 1,085 (39%)
  - Operated by aggregators: 1,688 (61%)
- **Dispersed rural**: 1,560
  - Operated by banks: 577 (37%)
  - Operated by aggregators: 983 (63%)

Definitions of rurality levels according to DNP. See methodological notes.
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

<table>
<thead>
<tr>
<th>Type</th>
<th>Area</th>
<th>Agents</th>
<th>Population</th>
<th>Agents p/ 100,000 inhab</th>
<th>Agents p/ 1000km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities</td>
<td>453</td>
<td>116</td>
<td>117 Municipalities</td>
<td>64%</td>
<td></td>
</tr>
<tr>
<td>Intermediate</td>
<td>58</td>
<td>11%</td>
<td>314 Municipalities</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>51</td>
<td>24%</td>
<td>373 Municipalities</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Dispersed Rural</td>
<td>43</td>
<td>58%</td>
<td>318 Municipalities</td>
<td>8%</td>
<td>4%</td>
</tr>
</tbody>
</table>

- Cities: 117 municipalities
- Intermediate: 314 municipalities
- Rural: 373 municipalities
- Dispersed Rural: 318 municipalities
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

<table>
<thead>
<tr>
<th>Rurality</th>
<th>Transactions p/inhabitant</th>
<th>Rurality coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities</td>
<td>2.4</td>
<td>1.00</td>
</tr>
<tr>
<td>Intermediate</td>
<td>2.1</td>
<td>0.86</td>
</tr>
<tr>
<td>Rural</td>
<td>1.8</td>
<td>0.74</td>
</tr>
<tr>
<td>Dispersed rural</td>
<td>1.3</td>
<td>0.54</td>
</tr>
<tr>
<td>National total</td>
<td>10.5</td>
<td>235</td>
</tr>
</tbody>
</table>

- **0.0** to **12.0** Millions of Trx
- **9.5** million monthly Trx operate US$ **1.224** million

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*CGAP*

*Banca de las Oportunidades*
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

Percentages might not add to 100% as neutral transactions are excluded, see methodological notes.
Higher participation of cash-out increases liquidity costs

Operational stress is compounded in addition to distance

- Share amount Cash-in
- Share amount Cash-out
- Amount Cash-in USD
- Amount Cash-out USD

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

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Cities</th>
<th>Intermediate</th>
<th>Rural</th>
<th>Dispersed rural</th>
<th>National total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bill Pay</td>
<td>106</td>
<td>88</td>
<td>90</td>
<td>83</td>
<td>90</td>
</tr>
<tr>
<td>Remittances</td>
<td>88</td>
<td>90</td>
<td>83</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>80</td>
<td>85</td>
<td>82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withdrawals</td>
<td>72</td>
<td>85</td>
<td>82</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What about delivery models: Accounts vs. counters

See Peru research for further details on this distinction

Financial services

Payments, savings, credit, insurance, etc.

Delivery models

Account based

Cash based: Over-the-Counter

Examples

Mobile wallets

Typical banking

Money transfer

OTC bill payments
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

- **Cities**: 6.03
  - Share non-account based: 18%
  - Share account-based Trx: 82%
  - Non-account based Trx: 55%
  - Account-based Trx: 45%

- **Intermediate**:
  - Share non-account based: 47%
  - Share account-based Trx: 53%
  - Non-account based Trx: 52%
  - Account-based Trx: 48%

- **Rural**:
  - Share non-account based: 27%
  - Share account-based Trx: 73%
  - Non-account based Trx: 73%
  - Account-based Trx: 27%

- **Dispersed rural**:
  - Share non-account based: 18%
  - Share account-based Trx: 82%
  - Non-account based Trx: 55%
  - Account-based Trx: 45%

- **National total**: 7.64
  - Share non-account based: 27%
  - Share account-based Trx: 73%
  - Non-account based Trx: 73%
  - Account-based Trx: 27%
Large rural share of account operated value

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

Monthly value, account and nonaccount based

- **Cities**: 66% share non-account based amount, 34% share account-based amount, 28% amount non-account based USD, 66% amount account-based USD
- **Intermediate**: 72% share non-account based amount, 28% share account-based amount, 24% amount non-account based USD, 72% amount account-based USD
- **Rural**: 76% share non-account based amount, 24% share account-based amount, 27% amount non-account based USD, 76% amount account-based USD
- **Dispersed rural**: 73% share non-account based amount, 27% share account-based amount, 27% amount non-account based USD, 73% amount account-based USD
- **National total**: 50% share non-account based amount, 50% share account-based amount, 50% amount non-account based USD, 50% amount account-based USD
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

- Banking and bill payments
- Lottery
- Remittances
- Other pools: mass transit, G2P, etc.

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*

<table>
<thead>
<tr>
<th>Examples</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
<th>Tier 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper receipts</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>ID required</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large transactions</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash-out</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Formal agents</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Typical model at present in Colombia*
3. Busier rural municipalities have room for more agents

The existing business model can deliver increased coverage in these areas

2.736 Trx/Ag

A larger share of rural municipalities (vs. urban) make it to the busier two quintiles, 38%.

Achí, Bolivar, Caribe
22,279 inhabitants

49 municipalities without coverage
38 Dis.Rur, 7 Rural, 4 Intermediate
Location of rural municipalities with busier agents

Top two quintiles of previous chart on slide 26

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

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Median Trx p agent/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>672</td>
</tr>
<tr>
<td>2</td>
<td>386</td>
</tr>
<tr>
<td>3</td>
<td>261</td>
</tr>
<tr>
<td>4</td>
<td>166</td>
</tr>
<tr>
<td>5</td>
<td>42</td>
</tr>
</tbody>
</table>

**Distribution of municipalities: Monthly Trx per agent**

- Cities
- Intermediate
- Rural
- Dispersed rural

The graph shows the distribution of municipalities across quintiles, with a focus on the high proportion of rural disperse municipalities in quintile 5.
Agent network managers are minimizing Q5 municipalities

But this is not the case for dispersed rural municipalities

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Median Trx per agent/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quintile 1</td>
<td>672</td>
</tr>
<tr>
<td>Quintile 2</td>
<td>386</td>
</tr>
<tr>
<td>Quintile 3</td>
<td>261</td>
</tr>
<tr>
<td>Quintile 4</td>
<td>166</td>
</tr>
<tr>
<td>Quintile 5</td>
<td>42</td>
</tr>
</tbody>
</table>

* 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.

* See Peru research on transactional break-even point and agent viability.
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.
Advancing financial inclusion to improve the lives of the poor

www.cgap.org
## Transactional types

### Classification of the operations in the study

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