



FINANCIAL
INCLUSION
REPORT

2013



FOREWORD

This annual Financial Inclusion Report, as was the case with the two previous editions, has been developed jointly by the Superintendencia Financiera de Colombia: Financial Superintendence of Colombia (SFC in Spanish) and the Banca de las Oportunidades Program (BdO in Spanish). It compiles and analyzes the main financial inclusion figures and indicators in terms of access, use, consumer protection, and financial education.

The chapter on access analyzes the coverage of financial services through the different points of access (PoA) including several analysis variables such as type of PoA, type of financial intermediary, indicators for every 10,000 adults and for every 1,000 km², and by municipality by its population size and according to its urban and rural classification.

The chapter on use analyzes transactions through the various channels available in the country, remittance levels and costs, liability products (savings and checking accounts) and asset products (various credit modalities). Also, a section on insurance has been included, and the chapter closes with an analysis on the use of savings accounts at the national level and by municipality.

The third chapter presents the progress obtained in terms of consumer protection, while the fourth and last chapter presents the main challenges the promotion of financial inclusion faces in Colombia today, identified from the individual perspectives of important representatives of the public and private sectors.

The purpose of this publication is to provide the different stakeholders interested in the topic of financial inclusion such as the Government, industry, academics, and the general population, quantitative and qualitative information to enable a greater understanding of the status of financial inclusion in Colombia, to analyze its evolution since 2008 and its situation compared to the rest of the world, to identify possible market failures as well as opportunities for the development of private initiatives and public policy that will jointly help close existing gaps in the supply and demand of financial services.

Particular appreciation is due to María Mercedes Cuellar, President of ASOBANCARIA; Ketty Valbuena Yamhure, President of CIFIN (one of the bigger credit bureaus in Colombia); and Olga Lucía Londoño Herrera, Superintendent of Cooperative Economy for their participation in the discussion on the main challenges to promote Financial Inclusion in Colombia, identified from each one of their own perspectives.

To Banco de la República (the central bank) and FOGAFIN (Financial Institutions Guarantee Fund – in Spanish), for sharing their experiences in the development of Financial Education programs.

To the Ministerio de Comercio, Industria y Turismo: Ministry of Trade, Industry, and Tourism– Micro, Small, and Medium Size Enterprise Office- for providing information on microcredit NGO's.

To the Superintendencia de Economía Solidaria: Superintendence of Cooperative Economy and to CONFECOOP (Confederation of Cooperatives – in Spanish) for their permanent contributions in terms of information related to Savings and Credit Cooperatives.

To CIFIN for providing information related to the use of credit and savings products by the Colombian population.

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GLOSSARY

Low Value Payment System Administrators (Administradores de Sistemas de Bajo Valor - ASPBV in Spanish): A legal entity that manages and operates one or several low value payment systems.

A payment system is an organized set of policies, rules, agreements, payment instruments, entities and technological components such as equipment, software, and communication systems that enable the transfer of funds between users through reception, processing, transmission, offsetting and /or settlement of transfer and collection orders.

A Low value payment system administrators (ASPBV in Spanish), in addition to fulfilling the above characteristics, process transfer or collection orders, including those derived from the use of credit or debit cards. The ASPBV that exist in Colombia for automatic teller machines are Servibanca and ATH, and for Points of Sales (POS) are Redeban Multicolor, Credibanco, and Visionamos.

Mobile Consultants: persons who perform the functions of a commercial consultant, who inform and advise potential customers about the products and services offered by the financial institution they represent; the difference is that, being "mobile," they can go wherever their potential customers work or live in order to offer them the financial institution's service portfolio.

Audio-response: telephone system that provides information interactively to the users and allows the performance of some transactions.

Bank: financial institution whose main function is to obtain resources from the public through on-demand deposits and term deposits in order to place them again as loans, discounts, advance payments, or other credit asset transactions.

Mobile Banking: electronic bank channel where a mobile device is used to perform transactions and its line number is associated to the service.

ACH channel: system that enables electronic money transfers between financial institutions through a clearing house established to settle and offset transactions of this type. The abbreviation ACH stands for "Automated Clearing House."

Financing Company (Compañía de Financiamiento - CF in Spanish): institutions whose main function is to obtain term deposits with the fundamental purpose of performing asset credit transactions in order to facilitate trading of goods and services and to perform financial leasing or leasing transactions.

Financing Companies specialized in leasing: a type of financing company that focuses on leasing operations. Most of these entities have merged with the banks they were affiliated with.

Confederation of Cooperatives of Colombia (Confecoop in Spanish): groups together, represents, and guides the cooperatives of Colombia, promoting consolidation and recognition of the cooperative business model.

Cooperatives supervised by the Superintendence of Cooperative Economy (Superintendencia de Economía Solidaria – SES in Spanish): these cooperatives have a savings and credit section; the (SES in Spanish) is in charge of their supervision.

Cooperatives supervised by the Financial Superintendence of Colombia (Superintendencia Financiera de Colombia – SFC in Spanish): cooperative organizations whose main function is to develop financial activities; their juridical nature is ruled by the provisions of Act 79 of 1988, and additionally, they are supervised by the Superintendencia Financiera de Colombia (SFC).

Financial Corporation: institutions whose main function is to obtain term resources through deposits or term loan instruments in order to perform credit asset transactions and make investments. The fundamental objective of these entities is to promote the creation, reorganization, merger, transformation, and expansion of companies in sectors defined by law.

Agents (Corresponsales bancarios in Spanish): individuals or legal entities contracted to render diverse financial services on behalf of credit institutions (Title IX of Part 2 of Decree 2555 of 2010, regulated by External Circular Letter 29 of 2013.)

Checking accounts: the amount that people or entities have on demand in Banks. Usually, they do not earn interest, and they are managed by means of a check book.

Savings accounts: A type of account offered by a financial establishment whose objective is the protection of savings. These accounts allow savers to earn income on their deposits and make it easy for them to obtain loans depending on the average amount of their deposits.

Electronic Savings Accounts, (Cuentas de Ahorro Electrónicas - CAE in Spanish): these electronic savings accounts are for persons belonging to level 1 of the System for Identification of Social Programs Potential Beneficiaries (Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales - SISBEN in Spanish) and displaced persons registered in the Unified Registry for Displaced Persons (Registro Único de Población Desplazada in Spanish), whose contracts include, as a minimum, the following agreements with the customer besides the standard features of an on demand savings account:

a) The contracts shall be called electronic savings accounts and shall enjoy the prerogatives stipulated in Section 127 of the Organic Statute of the Colombian Financial System (Estatuto Orgánico del Sistema Financiero Colombiano – EOSF in Spanish).

b) It shall be possible to perform transactions through cards, cellular phones, automatic teller machines, or any other means or channel determined in the contract.

c) Deposits shall produce income.

d) Authorized credit institutions and cooperatives shall not charge the account holders for account management or for the channels established for its operation. Likewise, at least two (2) cash withdrawals and one balance enquiry performed by the customer per month shall not generate commission charges in favor of the authorized credit institution or cooperative.

The customers must be clearly informed about the scope of this benefit and, particularly, they must be precisely informed of the charges for additional transactions or enquiries.

e) No initial minimum deposit or permanent minimum balance shall be required for such accounts.

Simplified Procedure Savings Accounts (Cuentas de Ahorro de Trámite Simplificado -CATS in Spanish): savings accounts with the following characteristics: i) destined to individuals only; ii) upper limit on debit transactions of three (3) current monthly legal minimum wages per calendar month; iii) their maximum balance must never surpass eight (8) current monthly legal minimum wages; and iv) the customer is only allowed to have one savings account with these characteristics in the respective financial institution (regulated by External Circular Letter 013 of 2013.)

Inactive accounts: savings or checking accounts which, for a period of at least six months, have not performed any type of transaction such as a deposit, withdrawal, transfer, or in general any credit or debit affecting it.

Points of Sale (POS): device used in commercial establishments in order to perform payments and other transactions. The abbreviation POS stands for "Point of Sale."

Financial Ombudsman: A body every financial institution must have in place for the protection of financial consumers. Its functions include: i) assist the consumers of each financial institution in an effective and timely manner; ii) mediate between consumers and financial institutions; and iii) represent the consumer before the supervised financial institution, among others.

Electronic money deposits: deposits on demand offered by credit institutions; they are different from checking and savings accounts, and the holders are individuals or legal entities that fulfill the following conditions: i) credit transactions must not surpass three (3) current legal monthly minimum wages per calendar month; ii) the maximum balance of electronic money deposits must not surpass three (3) current legal monthly minimum wages; and iii) the financial consumer is only allowed to hold one (1) electronic money deposit in the respective financial institution (Title I of Part 2 of Decree 2555 of 2010, regulated by External Circular Letter 07 of 2013).

Credit institutions: financial institutions supervised by the SFC including banks, financing companies, financial corporations, and financial cooperatives.

Consumer Price Index (CPI): indicator measuring the price variation of a group of goods and services representing what Colombian households consume (Departamento Administrativo Nacional de Estadística Nacional - DANE in Spanish).

Financial Consumer Price Index (FCPI): indicator created by SFC allowing the measurement of price trends and the improvement of available information so that consumers can adequately choose the products and services offered by credit institutions.

Regular bank interest: interest rate that SFC certifies for two types of credit: Microcredit and Consumer and Ordinary Credit (according to section 11.2.5.1.2 of Decree 2555 of 2010). This interest rate is the basis for determining the usury rate that applies to these types of credit.

Micro-finance Non-Governmental Organization (ONG microcrediticias in spanish): non-profit organizations specialized in granting credit to microenterprises.

Banca de las Oportunidades Program (BdO in Spanish): National Government program created in 2006 with the objective of promoting financial inclusion in search of social equity. As a result of policy recommendations included in the Conpes document 3424 of 2006, Decree 3078 was issued in the same year creating the Banca de las Oportunidades Investment Program, allocating budget to it, and determining that its management would be assigned to Banco de Comercio Exterior (Bancoldex).

More Families in Action Program (Programa Más Familias en Acción in spanish): an initiative of the National Government to deliver money transfers conditioned to fulfilling nutrition and/or education requirements to poor and vulnerable families with children younger than 18 years as per a SISBEN III score; they must belong to Red Unidos (a special Government Program), be displaced persons, or be indigenous persons.

Points of Access (PoA): For the effects of this report, these are defined as the following channels the people can use to access different financial products and services: branches, agents, automatic teller machines (ATM), and Points of sale (POS).

Remittances: money transfers performed by Colombians residing and working abroad to their relatives in Colombia (International Monetary Fund).

Current Monthly Legal Minimum Wage (Salario Mínimo Mensual Legal Vigente - SMMLV in Spanish): minimum wage determined annually with the participation of businesses, workers' unions, and the Government. For 2013, the monthly legal minimum wage was COP 589,500; this amount does not include the transportation subsidy that workers are entitled to.

Consumer Care System (Sistema de Atención al Consumidor – SAC in Spanish): group of policies, procedures, and controls adopted by financial institutions to provide due protection to the financial consumer, offering the consumer a caring and respectful environment.

Personal insurance: insurance covering risks associated to a person including funeral services, personal accidents, group life and individual life.

Property and Casualty insurance: insurance covering risks associated to properties, including fire and/or earthquake, theft, unemployment, and home insurance.

Funeral services insurance: compensation through reimbursement for expenses incurred for the funeral services of insured persons.

Personal accident insurance: covers the risk of death or body injury due to accidents.

Group life insurance: protection against the risk of death and permanent total disability for a determined or determinable group of persons, under a master policy.

Individual life insurance: protects a person against the risk of death and grants payment to the beneficiaries or to third parties for valuable consideration.

Fire and/or earthquake: protection against damages to insured properties caused by hostile fire or lightning or their immediate effects such as heat, smoke, and damages caused by water. Earthquake insurance protects against damages to insured goods due to this seismic natural phenomenon.

Theft insurance: protection against loss or damages on insured goods in establishments or residences caused by theft with or without violence.

Unemployment insurance: protection against loss of employment by discharge without just cause, generating payment of an amount with specific destination (credit installment payment, contributions) for a determined period of time.

Home insurance: covering multiple risks in order to provide comprehensive protection for real estate and its contents such as furniture and household goods.

Monetary transactions: transactions related to payments, withdrawals, deposits, transfers, and international transactions.

Non-monetary transactions: transactions that don't imply the use of currency such as balance enquiries.



METHODOLOGY NOTE

The information used for formulating the indicators presented in this third edition of the Financial Inclusion Report for Colombia come from the financial system's control and surveillance bodies, from non-supervised entities and from the various associations and business groups that comprise the financial system in the Country.

Information related to population, area by municipality, and territorial administrative political divisions has been obtained from DANE.

For chapter 1, on access, information on financial coverage through branches, Points of Sale (POS), automatic teller machines (ATM), and Agents come from the Superintendencia de la Economía Solidaria SES and the Superintendencia Financiera de Colombia SFC; and the information on non-supervised entities such as microcredit NGOs come from the reports these entities submit to Banca de las Oportunidades and to the Microenterprise High Council (Consejo Superior de la Microempresa - CSM in Spanish).

This chapter presents the performance of the different PoA and their evolution over time, measured through indicators of adult population for each 10,000 adults and for each 1,000 km²; also, an analysis at the National, Departmental, and Municipal level has been carried out, as well as by type of municipality (urban and rural) and by population range.

Information on the number of PoA, branches, and automatic teller machines (ATM) for each 100,000 adults of other countries comes from the last data registered in the World Bank's database as of year-end 2012.

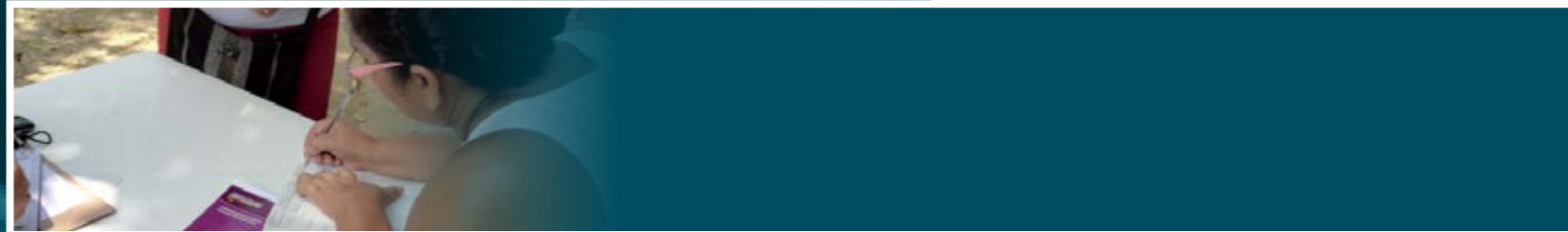
For chapter 2, on use, the figures come from the entities mentioned above including other information sources such as the Credit Bureau CIFIN, the Ministry of Communication (Ministerio de Telecomunicaciones - MINTIC in Spanish), the National Guarantee Fund (Fondo Nacional de Garantías - FNG in Spanish), Banco de la República (the central bank), and international reports and studies promoted by the World Economic Forum, the Inter-American Development Bank (IDB), the Micro-insurance Center, the Multilateral Investment Fund (FOMIN in Spanish), and the World Bank (WB).

The information presented in this section is related to the transactionality of the different channels – branches, Agents, ATMs and POS – and also describes the evolution of non-face-to-face channels such

as Internet and mobile banking products. Additionally, it includes topics such as the use of international remittances and asset and liability financial products, and it updates the survey of insurance companies on acquisitions of personal and property & casualty insurance.

In chapter 3, two specific topics are discussed: (i) financial consumer protection, which includes an update of the analysis submitted in the previous version of the Financial Inclusion Report, and a description of the international principles for financial consumer protection proposed by the Organization for Economic Cooperation and Development (OECD), and (ii) efforts related to financial education carried out by several actors who have promoted initiatives and developed relevant programs, including a diagram that synthesizes the main financial education programs as a tool for overcoming poverty and accessing financial services.

Lastly, chapter 4 discusses the challenges identified by different public and private entities to further close the gap between supply and demand in order to achieve greater financial inclusion for the population.



INTRODUCTION

As of 2014, out of 132 economies, Colombia is in the 52nd place in the Social Progress indicator, which is defined as *“a society’s capacity to satisfy the basic needs of the population and of the communities to improve and sustain their quality of life and create conditions for all individuals to achieve their potential”*; therefore, this indicator measures a country’s capacity to transform its development and economic success into social wellbeing and vice versa¹.

Considering the above statement and notwithstanding the many efforts made to achieve the objective of turning economic development into greater benefits and better opportunities for the people, it is clear that there is still a long way to go, not only from the perspective of public policies on health, housing, employment, and other matters, but also from the private perspective related to access and use of formal financial services that enable the people to improve their quality of life.

In this same line, in 2013, the World Bank published the 2014 Global Financial Development Report placing special emphasis on the progress and the status of financial inclusion at international level. Said report highlights the great potential public and private financial intervention has on financial inclusion because of their ability to jointly modify the financial system².

In terms of the public sector, it highlights the need to focus objectives on identifying and resolving market failures that are barriers for the use of formal financial services such as high costs, lack of availability, difficult access, or even cultural factors, which require development of adequate regulatory frameworks to protect financial consumers, to regulate and monitor the performance of financial institutions, to promote market competition, and to demand transparency standards and financial education.

The World Bank’s experience in its case studies has led it to conclude that governmental intervention to promote access and use of financial products and services works, and it indicates that, in terms of supply, it is advantageous to promote the creation of innovative products and information and payments systems based on the adoption of new credit and savings technologies. In terms of demand, the success of this intervention depends on the financial education initiatives and other measures that promote the responsible use of financial products and services.

1. Social Progress Imperative (2014), Social Progress Index 2014.

2. World Bank (2013), Global Financial Development Report 2014, Financial Inclusion.

Nevertheless, any initiative related to use and access is successful to the extent there is cohesion between the private sector and the public sector. Even though innovation in the development of financial products that are inclusive and satisfy consumers' needs is a job that fundamentally corresponds to the industry, their implementation and sustainability in the long term requires regulatory frameworks and consistent supervision promoting the responsible acceptance of risks in the framework of sustainable financial inclusion.

Public-private interaction is also fundamental to promote financial capacity and adequate knowledge, aptitudes, and behaviors among the population through well-designed and focused intervention. According to the World Bank, financial education has a measurable impact and enables reaching people who are in the education and learning processes, for example at schools, new work environments, or even when acquiring a new financial product.

At the international level, financial inclusion initiatives have been developed under different definitions but very similar approaches, as described below:

TABLE 1. FINANCIAL INCLUSION DEFINITIONS

ORGANIZATION/ COUNTRY	DEFINITION
Alliance for Financial Inclusion AFI ³	Through financial inclusion, we endeavor to include the non-bank using population in the formal financial systems in order to give them the opportunity to access financial services, ranging from savings, payments and transfers all the way to credit and insurance.
Consultative Group to Assist the Poor CGAP ⁴	Financial inclusion considers that households and businesses should have access to and effectively make use of appropriate financial services. These services must be provided in a responsible and sustainable manner in an adequate regulatory environment.
Organization for Economic Cooperation and Development OECD ⁵	Process of promoting easy, timely, and adequate access to a range of regulated financial products and services and to expand their use by all segments of society through the implementation of existing and adapted innovative approaches, including financial awareness-raising and education aimed at promoting financial wellbeing as well as social and economic inclusion.
World Bank ⁶	The proportion of individuals and companies using financial services. It is a multi-dimensional concept that reflects the variety of possible financial services (ranging from payments and savings accounts to credit, insurance, pensions, and securities markets.)

ORGANIZATION/ COUNTRY	DEFINITION
Mexico ⁷	<p>Access and use of formal financial services within an appropriate regulatory framework that guarantees consumer protection arrangements and promotes financial education to improve financial capacity in all segments of the population. It includes 4 dimensions:</p> <p>Access: this refers to "the financial infrastructure available to provide financial services and products such as branches, automatic teller machines, point of sales terminals, mobile banking, and Internet banking."</p> <p>Use: "related to the number of financial products available to people such as savings accounts, checking accounts and payroll accounts, term deposits, credit cards, mortgage loans, car loans, and personal loans, life insurance, car insurance, liability and medical expenses insurance, retirement savings accounts, and others."</p> <p>Financial education: "knowledge and responsible use of financial services and products."</p> <p>Consumer protection: "promotes the creation of more equitable conditions between providers and consumers of financial services."</p>

In Colombia, the financial inclusion policies implemented to date use a definition similar to that adopted in Mexico, following the recommendations of the World Bank and AFI in terms of promoting access and use of financial services and products in a sustainable manner by people and businesses. Additionally they cover implementation of financial education strategies to promote quality and a financial consumer protection plan as an appropriate approach to wellbeing.

In recent years an effort has been made for Colombians to have access to innovative and safe transactional channels, products and payment systems, reaching a level of banking penetration equivalent to 71%⁸ of the Colombian adult population, with 1,872,482 persons included during 2013. These figures have been possible thanks to the successful implementation of the agents model, which has succeeded in taking financial services to all the areas of the country, to the design of new, inclusive and high-quality financial products, to the development and implementation of a strong plan for financial consumer protection, and to the promotion of economic and financial initiatives.

During the last year in particular and with the purpose of offering consumers new financial products linked to low-cost mobile banking, the Communications Regulatory Commission (Comisión de Regulación de las Comunicaciones – CRC in Spanish) issued Resolution 4458 of 2014 establishing measures for the supply of mobile financial services benefitting consumers, setting limits on text message fees, and forcing the mobile telephone companies to reduce the prices they can charge financial institutions for the use of mobile banking services, and advocating a reduction in the cost of these services for to the financial consumer.

Likewise, Act 1676 of 2013 was issued with the objective of promoting access to credit by redefining the concept of guarantee on movable property and allowing such properties to be submitted as counterpart in credit applications. The enactment of this Act and the registration of movable guarantees are expected to promoted greater inclusion for the small- and mid-size business segment⁹.

3. AFI Global Policy Areas

4. CGAP Topics. Financial Inclusion

5. OECD (2013). Financial Literacy and Inclusion

6. World Bank (2014). Global Financial Development Report

7. Comisión Nacional Bancaria y de Valores (CNBV in Spanish)- 2013. Financial Inclusion Report 5.

8. Source: CIFIN. Percentage of adults with at least one financial product (commercial credit, mortgage credit, consumption credit, micro-credit, savings account, and checking account).

9. Semana Económica, Asobancaria - Garantías Mobiliarias: La hora de la verdad (Chattel Guantees: The moment of truth) (March 10, 2014).

More recently, through Decree 457 of 2014, the Administrative National System for Economic and Financial Education (Sistema Nacional Administrativo para la Educación Económica y Financiera in Spanish) was organized in order to coordinate initiatives related to this issue, and the Inter-sector Commission for Economic and Financial Education (Comisión Intersectorial para la Educación Económica y Financiera in Spanish) comprised by the Ministry of Finance and Public Credit, the Ministry of Education, the Financial Superintendence of Colombia, the SES, the National Planning Department (Departamento Nacional de Planeación – DNP in Spanish), the Financial Institution Guarantee Fund (FOGAFIN in Spanish), the Cooperative Entities Guarantee Fund (FOGACOO in Spanish) and the Special Administrative Unit for Legal Projection and Financial Regulatory Studies (Unidad Administrativa Especial de Proyección Normativa y Estudios de Regulación Financiera in Spanish). The Central Bank and Banca de las Oportunidades are permanent members. Thus consolidating the National Government's intention to design policy related to financial education leading, in medium and long term, to providing financial consumers greater and better capacity to make decisions regarding the acquisition and adequate use of financial products.

The access of financial services in Colombia has been improving. By the end of 2013, just three municipalities have no presence of banks. Just one municipality has no presence of any type of financial institution. The last two years (2012 and 2013) showed a great increase in the number of points of access. The most significant increases were in Agents and Points of Sale. The increase in the number of Agents is explained by some banks and financial companies, while the increase in the number of Points of Sale is explained by the addition of about 50,000 Points of Sale focused on allowing operations without debit/credit cards, using an authentication mechanism known as OTP (One Time Password).

Branches continued to be the channel that mobilizes the greatest volume of funds, and are in second place in terms of number of transactions compared to the other channels, concentrating 52% of the transacted amounts and 21% of the number of transactions; nevertheless, a downward trend has been observed both in the number of transactions and in transacted amounts between 2012 and 2013, which is the opposite of the trend displayed by the Internet channel, which has been one of the channels with greatest growth in recent years.

Continuing with last year's trend, remittances represent an important source of income in some regions; nevertheless, there is still the need to create incentives and/or products that would enable the funds channeled through the formal financial system to remain in the system, to promote savings and the use of transactional channels to make payments according to the recipient's needs, since it has been observed that the funds reach the recipient families mostly through cashier's windows (71%).

Likewise, the figures shown in the present report ratify the importance of leading the people to use the products they acquire effectively and constantly because, for example, out of 51.2 million savings accounts, close to 51% were inactive; the number increased by 3.4 million in 2012, and it originates primarily in the segment of low income customers.

Even though the figures continue to support the hypothesis of greater financial inclusion, the constant search for mechanisms to potentiate the use of financial products beyond those offered by traditional banking is one of the challenges the market actors, as well as the regulatory and supervision bodies, currently face.





CHAPTER 1: ACCESS INDICATORS

FINANCIAL INSTITUTION COVERAGE THROUGH DIFFERENT POINTS OF ACCESS

The access dimension refers to the capacity (real possibility) of the population to use the products and services offered by financial institutions.

In this dimension, the results derived from the main indicators of financial inclusion are presented so as to allow comparisons at the international level, providing a diagnosis for the status of access to financial services at the national level, and generating comparison and assessment parameters in order to develop public policy.

For this Report's purposes, the access dimension will focus on analysis and coverage indicators of financial institutions as follows:

MAIN INDICATORS TO BE DEVELOPED:

INDICATORS

Points of Access:

- In Units
- For each 10,000 adults
- For each 1,000 KM²

COVERAGE GEOCHART

- National
- Departmental
- Municipal

TYPE OF ANALYSIS

- **By type of PoA:** Branches, Agents, ATM, and POS
- **By type of financial institution:** Banks, Financing Companies, Financial Cooperatives (SFC and SES) and NGO

Below is an analysis of financial institution coverage and of the real capacity or possibility that the population has to access the financial products and services offered by said entities through the different points of access (PoA), as well as an analysis of these indicators' historical performance during the 2008-2013 period.

The supply information herein comes from the different supervisory bodies as well as from information provided by NGOs, as described below:

ANALYZED FINANCIAL INSTITUTIONS



In Colombia, there are two official bodies that supervise financial institutions:

- The Financial Superintendence of Colombia (SFC in Spanish), whose main functions are to inspect, supervise and control persons carrying out financial, stock market and insurance activities and any other activity related to the management, use or investment of resources obtained from the public in order to preserve stability, security, and trust, as well as to promote, organize, and develop the Colombian securities market and provide protection for investors, savers, and insured persons. Entities supervised by the SFC include banks, financing companies, financing cooperatives, and insurance companies.¹⁰
- The Superintendence of Cooperative Economy (SES in Spanish), which supervises the savings and credit cooperatives and performs control, inspection, and surveillance to protect the interests of cooperative economy organizations' associates, of third parties, and of the community in general.¹¹

For the purposes of the present Report, it is important to mention that one of the differences between these two control and supervision entities is the type of cooperatives they supervise:

TABLE 2. FINANCIAL COOPERATIVES AND SAVINGS AND CREDIT COOPERATIVES¹²

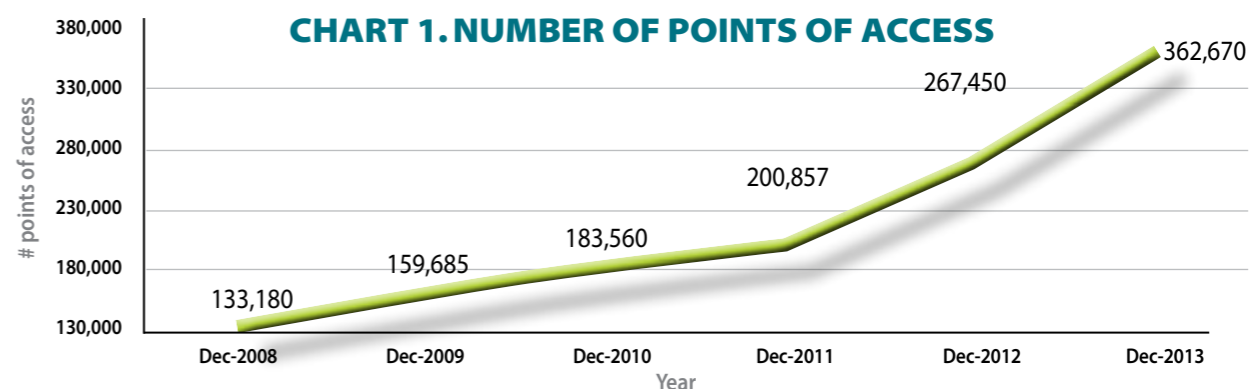
FINANCIAL COOPERATIVES	SAVINGS AND CREDIT COOPERATIVES
Supervised by the SFC.	Supervised by the SES.
Specialized cooperative organizations whose main function is to carry out financial activities and which offer their services to non-associated third parties.	Specialized cooperative organizations whose main function is to carry out financial activities exclusively for their associates.

In addition to the above financial institutions, this Report incorporates information from the microcredit NGOs whose only authorized business is to provide microcredit, either to individuals or groups, and which report information to the Ministry of Commerce, Industry and Tourism (MinCIT in Spanish) and to Banca de las Oportunidades.

The above provides a full overview of the entities that carry out financial activities as their main business, so as to better explain financial inclusion in Colombia.

1.1 POINTS OF ACCESS: TOTAL AND BY TYPE OF POA

In Colombia, people have the possibility of accessing financial products and services through the following PoA¹³: branches, agents, automatic teller machines (ATMs), and Points of Sale (POS). Between December 2008 and December 2013, the number of PoA increased 172.3% from 133,180 to 362,670; in the last two years, substantial growth has been observed, of 33.2% and 35.6% respectively (Table No. 4), with 66,593 additions in 2012 and 95,220 more in 2013, for a total of 161,813 new additions. If this figure is compared to the 159,685 that were available as of December 2009, we find that the possibilities offered to the citizens to access financial services have doubled in these last two years in Colombia.



Source: SFC (Forms 398, 322, and 444) and BdO, Including SES cooperatives and NGOs

12. Source: Superintendencia de la Economía Solidaria <http://www.supersolidaria.gov.co/es/preguntas-frecuentes>

13. "Cellphones and personal computers are not considered points of access because it is not possible to perform physical operations such as money deposits or withdrawals through them." (Source: AFI: Alliance for Financial Inclusion – Financial inclusion measurement, main group of Financial Inclusion indicators, March 2013)

10. Source: Superintendencia Financiera de Colombia <https://www.superfinanciera.gov.co/jsp/loader.jsf?lServicio=Publicaciones&lTipo=publicaciones&lFuncion=loadContenidoPublicacion&id=60607>

11. Source: Superintendencia de la Economía Solidaria <http://www.supersolidaria.gov.co/es/nuestra-entidad/objetivos>

It is important to mention that there is another mechanism besides the PoA analyzed in this Report: the mobile consultants, through whom the NGOs offer their products to the population. These financial institutions have 2,128 mobile consultants working in 26 departments and in 386 municipalities.

As of December 2013, 298,751 Points of Sale (POS), 42,638¹⁴ agents, 13,679 automatic teller machines (ATMs), and 7,602 branches had been recorded.

TABLE 3. NUMBER OF POINTS OF ACCESS IN FINANCIAL INSTITUTIONS

Type of point of access	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Branches	6,191	6,419	6,438	6,488	7,096	7,602
Agents	4,880	5,618	9,704	16,685	28,166	42,638
Automatic teller - ATM	8,577	9,274	10,127	10,889	12,281	13,679
Points of Sale- POS	113,532	138,374	157,291	166,795	219,907	298,751
TOTAL	133,180	159,685	183,560	200,857	267,450	362,670

TABLE 4. ANNUAL GROWTH IN THE NUMBER OF POINT OF ACCESS

Type of point of access	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Branches	3.7%	0.3%	0.8%	9.4%	5.1%
Agents	15.1%	72.7%	71.9%	68.8%	51.4%
Automatic teller - ATM	8.1%	9.2%	7.5%	12.8%	11.4%
Points of Sale - POS	21.9%	13.7%	6.0%	31.8%	35.9%
TOTAL	19.9%	15.0%	9.4%	33.2%	35.6%

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

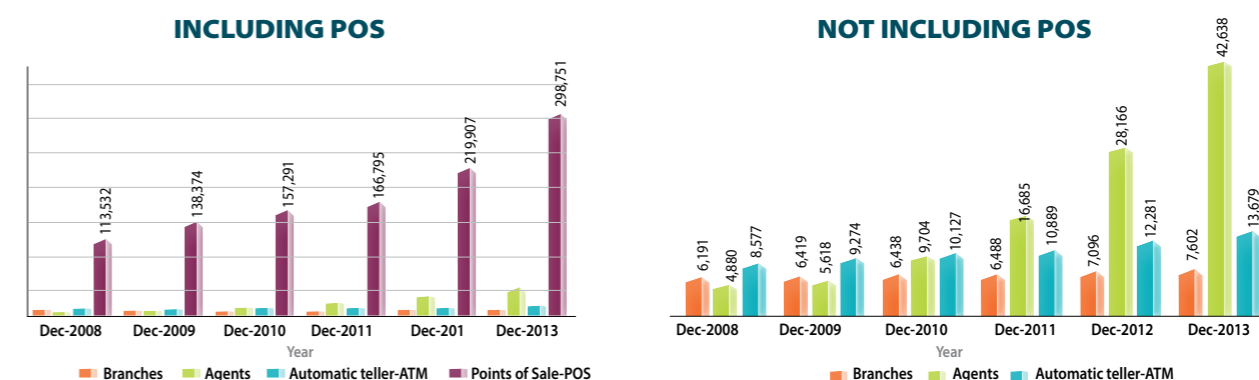
The growth displayed by agents since 2010 and by POS since 2012 has a strong weight in total performance. The branches increased their growth during the last two years while ATM annual growth has been close to 10% in the last years.

In 2013, financial institutions established 14,472 new agents, and 78,844 new POS were established, displaying growth of 51.4% and 35.9%, respectively. There were 608 new branches, equivalent to 5.1% growth.

As the information shows, both the branches and the ATMs require greater investment and infrastructure, since they have been the PoA that have displayed the least growth.

14. Agents shared by Citibank and Colpatria have been counted only once; for the analysis related to type of population and type of municipality, it is not possible to make that distinction.

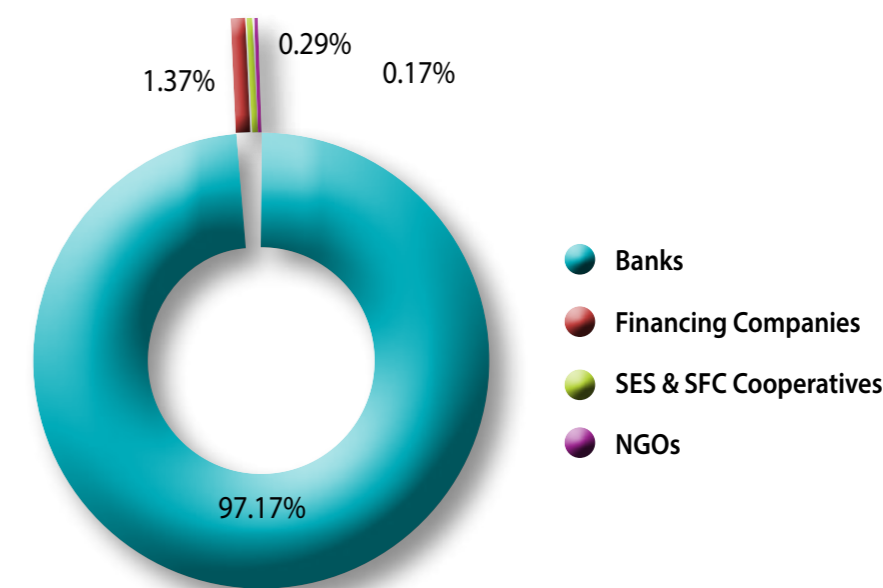
CHART 2. POINTS OF ACCESS BY TYPE



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

Banks have 356,041 PoA and the greatest market share (98%) followed by financing companies with 4,975 (1.37%) and lastly the cooperatives with 1,054 and NGOs with 600 (0.29% and 0.17% respectively).

CHART 3. POINTS OF ACCESS BY TYPE OF FINANCIAL INSTITUTION

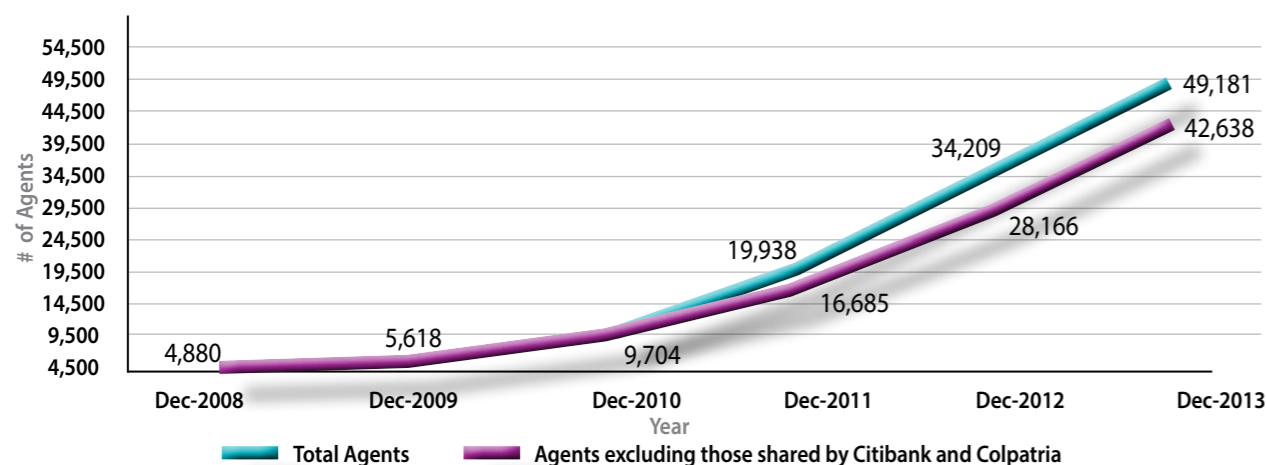


Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

1.1.1 Agents:

The agents stand out as the driver of PoA growth. These agents were authorized in 2006 as a new channel to offer financial services, with low implementation costs in terms of infrastructure and operating costs, allowing financial institutions to expand their coverage in areas of the country that in the past they did not consider venturing into.

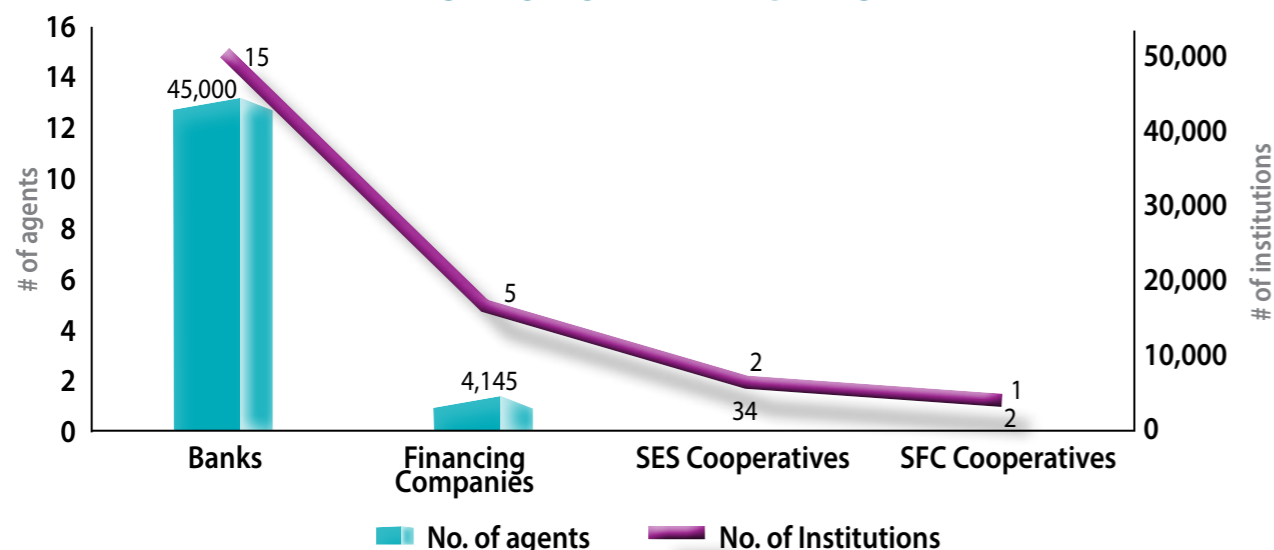
CHART 4. EVOLUTION IN THE NUMBER OF AGENTS



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

As of December 2013, 49,181¹⁵ agents were recorded, covering 1,069 municipalities of Colombia, equivalent to 97% of the national territory. As of that date, this type of PoA had been implemented by 23 financial institutions distributed as follows: 45,000 operated by 15 banks (91.5%), 4,145 by 5 financing companies (8.4%), and the cooperatives supervised by SES and SFC operated 36 Agents (0.1%).

CHART 5. NUMBER OF AGENTS AND NUMBER OF FINANCIAL INSTITUTION WITH AGENTS



Source: SFC (Form 398) and BdO. Including SES cooperatives

15. Including the agents shared by Citibank and Colpatría. Not repeating points, the number of agents is 42,638.

The transactions that can be performed through agents include: collections, payment of obligations, send or receive cash transfers in Colombian legal currency within the national territory, cash deposits and withdrawals, transfer of funds, balance enquiry, issuance and delivery of bank statements, and disbursements and payments in cash related to loan transactions¹⁶.

Each financial institution defines the transactions to be implemented in its agent's model, authorized by the SFC and decreed by the Ministry of Finance (MHCP in Spanish). These transactions are described in detail in this Report's chapter on Use.

Despite the growth in the number of agents, as of December 2013, 40% did not record any type of transaction, even though they were operational. The greatest number of agents that did not report any transactions were located in the capital cities, and in 42 municipalities that only have one agent and which did not perform any transactions as of the mentioned cut-off date.

The under-utilization of some agents should be reviewed by each financial institution, and the reasons for under-utilization might be related to diverse factors such as: i) the business model defined by each financial institution as well as limitations in the technological infrastructure required by some agents¹⁷, ii) the limited supply of transactional services offered by some agents, which compete with other nearby PoA like branches and ATMs, where a greater number of transactions can be performed, and iii) in some municipalities, the phenomenon might be associated to low population density and the population not knowing about the services and benefits this channel offers.

In relation to the limited supply of possible transactions through agents, the following data illustrate this fact: 10 out of the 23 financial institutions operating this type of channel, equivalent to 43%, offer between 1 and 2 financial services, and 5 of them offer just one service (4 of them offer payment of obligations); 70% of the financial institutions offer payment of obligations, withdrawals from savings and checking accounts, and collection of utility bills. Only three entities (13%) offer services to send and receive cash transfers and two entities (9%) allow opening savings accounts through the agents.

Agents in Colombia face a limitation related to the amount of cash they are authorized to handle by the financial institutions they represent, which set upper limits in order to mitigate the risks involved in handling cash. When the agents reach a specific amount of cash while performing transactions, it is required to deposit the cash in the nearest branch of the bank it represents before it can continue to perform any transactions¹⁸.

As of December 2013, 39,700 agents were located in cities with more than 100,000 inhabitants (81%) and 9,481 were located in cities of less than 100,000 inhabitants (19%). In terms of urban versus rural classification, 40,555 Agents are located in areas classified as urban (82%) and 8,626 in towns classified as rural (18%).

16. Decree number 2672 of December 21, 2012.

17. One of the technical requirements to operate an agent is having a robust communication system that enables connection with the represented bank through Internet in real time.

18. In Colombia, the agent model operates through credit lines offered by each financial institution to its agents. The agent uses this credit line up to the risk limit defined by the financial institution, which is equivalent to the maximum amount of cash it can have in the cash register at a given time. Whenever withdrawals or money transfers are made, the credit line opens, but once the agent reaches its limit, it cannot continue performing transactions until such money is deposited at the nearest branch of the financial institution it represents. (CGAP, February 2013, pages 5 and 6)

TABLE 5A. NUMBER OF AGENTS BY POPULATION SIZE

Population Size	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
0 - 10,000 inhabitants	234	294	380	487	794	1,690
10,001 - 50,000 inhabitants	650	835	873	1,331	2,526	5,636
50,001 - 100,000 inhabitants	202	242	254	488	1,055	2,155
More than 100,000 inhabitants	3,794	4,247	8,197	17,632	29,834	39,700
TOTAL	4,880	5,618	9,704	19,938	34,209	49,181

TABLE 5B. NUMBER OF AGENTS BY TYPE OF MUNICIPALITY

Type of Municipality	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Urban	3,877	4,343	8,294	17,845	30,307	40,555
Rural	1,003	1,275	1,410	2,093	3,902	8,626
TOTAL	4,880	5,618	9,704	19,938	34,209	49,181

Source: SFC (Form 398) and BdO. Including SES cooperatives

Nevertheless, agents' coverage in rural areas has increased significantly over the last three (3) years, with an average annual growth rate of 85%; in 2013, the growth rate was 121%, given that 4,724 agents were opened that year in rural areas. In 2008 and 2010, Banca de las Oportunidades promoted the opening of 187 agents in rural municipalities through monetary incentives offered to the entire financial sector.

TABLE 6. GROWTH OF AGENTS BY POPULATION SIZE

Population size	Growth 2012-2013
0 - 10,000 inhabitants	113%
10,001 - 50,000 inhabitants	123%
50,001 - 100,000 inhabitants	104%
More than 100,000 inhabitants	33%
TOTAL	44%

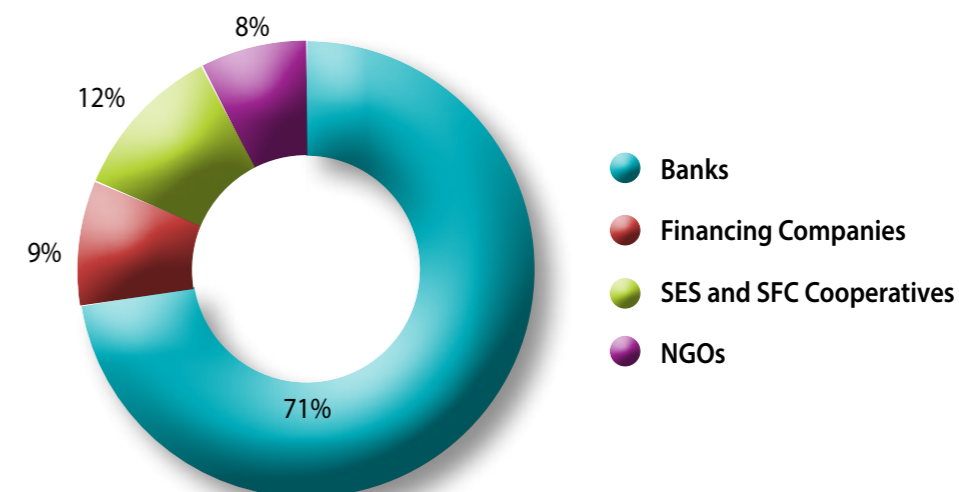
Source: SFC (Form 398) and BdO. Including SES cooperatives

Urban coverage continues to grow at a slower pace: in 2013 it grew 34% while in prior years it had recorded growth of 91%, 115%, and 70%, respectively.

1.1.2 Branches:

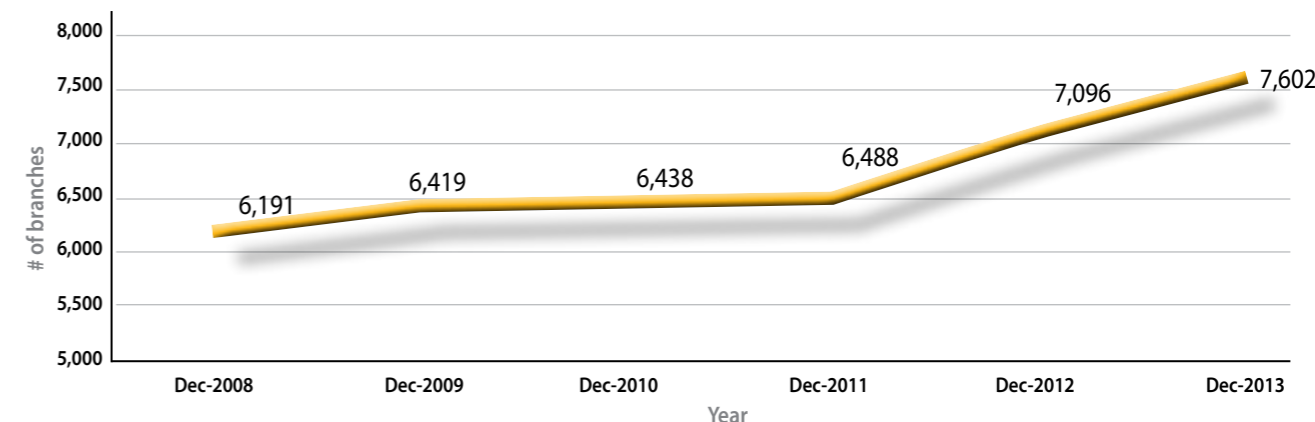
As of December 2013, the number of branches reached 7,602, located in 873 municipalities, which means that this type of PoA covers 79% of the national territory. Most of them, 5,398, are bank branches; equivalent to 71% of the total. The 164 SES cooperatives had 735 branches (10% of the total), while the 6 SFC cooperatives had 212 branches (2%). The cooperative sector accounts for 12% of the total number of branches. The 22 financing companies have 657 branches (9 % of the total), and the ONGs have 600 branches (8% of the total).

CHART 6. TOTAL BRANCHES BY TYPE OF FINANCIAL INSTITUTION



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

CHART 7. TOTAL BRANCHES BY TYPE OF FINANCIAL INSTITUTION



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

1.2 POINTS OF ACCESS BY TYPE OF INTERMEDIARY

Both banks and cooperatives have the four types of PoA, while the financing companies do not use ATMs, and the NGOs reach the population only through branches. 83% of bank PoA are POS, while agents account for 11%. In the case of Financing Companies, 83% of PoA are agents and 13% are branches. Lastly, the PoA of Cooperatives and NGOs are concentrated in branches. The NGOs are not authorized to operate through agents due to the nature of their business. Since they have specialized in placing microcredit, they require specialized consultants who are usually directly associated to the NGO because it is not easy to outsource this type of service.

The average annual growth in the number of branches is only 3.8%, which is far lower than the growth of other PoA. This is partly explained by the greater investment required to open a new branch, not only in terms of physical and technological infrastructure, but also in terms of the required human resources.

Banks were the intermediaries that most increased their branch network, by adding 296 new branches, followed by the NGOs with 145.

TABLE 7. NUMBER OF POINT OF ACCESS BY TYPE OF FINANCIAL INSTITUTION

BANKS

Type of point of access	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Branches	4,419	4,487	4,518	4,921	5,102	5,398
Agents ¹⁹	4,880	5,617	9,556	16,157	27,376	38,457
Automatic tellers - ATM	8,575	9,229	10,082	10,834	12,227	13,640
POS ²⁰	111,393	136,447	156,408	166,401	219,513	298,546
TOTAL	129,267	155,780	180,564	198,313	264,218	356,041

FINANCING COMPANIES

Type of point of access	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Branches	413	430	457	466	647	657
Agents	-	-	142	517	759	4,145
Automatic tellers - ATM	-	15	13	15	16	-
POS	1,871	1,665	415	361	362	173
TOTAL	2,284	2,110	1,027	1,359	1,784	4,975

SES AND SFC COOPERATIVES

Type of point of access	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Branches	798	856	828	822	892	947
Agents	-	1	6	11	31	36
Automatic tellers - ATM	2	30	32	40	38	39
POS	268	262	468	33	32	32
TOTAL	1,068	1,149	1,334	906	993	1,054

NGOs

Type of point of access	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Branches	561	646	635	279	455	600
Agents	-	-	-	-	-	-
Automatic tellers - ATM	-	-	-	-	-	-
POS	-	-	-	-	-	-
TOTAL	561	646	635	279	455	600

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

In the case of agents, both banks and financing companies have displayed substantial growth by establishing 3,386 new agents during the last year.

Agent growth (51.4%) in the last year is explained by the fact that more financial institutions are using this channel, and those that had been using it significantly increased their number; for example, Banco Agrario increased from 302 agents in 2012 to 6,410 agents as of December 2013. The table below displays similar growth for other entities.

TABLE 8. FINANCIAL INSTITUTIONS THAT ESTABLISHED AGENTS FOR THE FIRST TIME AND INSTITUTIONS THAT MOST EXPANDED THEIR AGENT NETWORK

Financial Institution	Dec-13
OPPORTUNITY INTERNATIONAL, Financing Company	211
MI PLATA, Financing Company	96
MICROEMPRESAS DE COLOMBIA, SES Cooperative	32
COOPERATIVA FINANCIERA DE ANTIOQUIA, SFC Cooperative	2

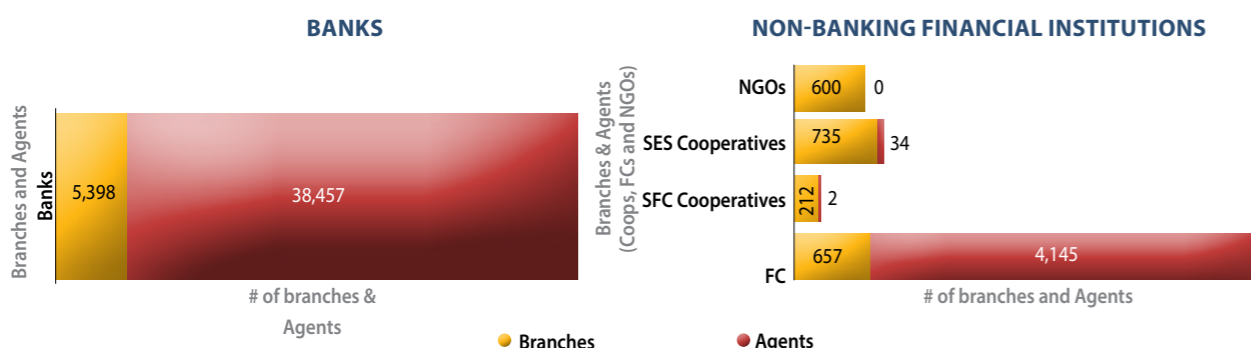
19. Adjusted data deducting 6,043 agents shared by Citibank and Banco Colpatría

20. Including ATM and POS own and managed by ASPPBV

Financial Institution	Dec-12	Dec-13
BCSC	2,738	6,626
BANAGRARIO	302	6,410
BANCO DAVIVIENDA S.A.	653	4,440
GIROS Y FINANZAS	39	3,082
BBVA	250	1,218

Source: SFC (Form 398) and BdO. Including SES cooperatives

CHART 8. BRANCHES AND AGENTS BY DECEMBER 2013



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

It is important to point out that the transformation of the cooperative Coomeva and the financing company Falabella into banks has generated abrupt changes in the trends in terms of the number of some types of PoA. These changes have been particularly observed through the decrease in number of POS of the financing companies, associated with Falabella turning into a bank, and the decrease of POS in the financing companies Finamérica and Tuya during 2013.

1.3 POINTS OF ACCESS INDICATORS BY POPULATION AND AREA

The evolution of PoA for each 10,000 adults and for each 1,000 km² is discussed below:

The indicator related to 10,000 adults is of a demographic nature and shows the number of available PoA in proportion to the number of adults; a high indicator means that there is greater coverage and that the average number of adults covered by each point is lower. The 1,000 km² indicator intends to indicate the approximate average distance between a potential customer and the nearest PoA; the higher the indicator, the shorter the distance the users have to travel to access financial services.

According to DANE population forecasts for Colombia, in 2013, there were 31,567,635 adults, distributed in 1,102 municipalities including San Andrés²¹, and the total area of the national territory is 956,266 km²²².

21. San Andrés was no longer considered a municipality as per Act 1a./72. Nevertheless, it is taken into account for statistical purposes. -

Resumen División Político-administrativa de Colombia 2012 <http://190.25.231.237/dvpbuscar/dvpbuscar.html>

22. Not including the areas of other administrative units of the country that are not municipalities.

By correlating PoA information with demographic and area data, it was found that there were 114.9 PoA for each 10,000 adults as of December 2013. This indicator displayed growth of 147% compared to 2008 and 32% compared to 2012. The greatest coverage is provided by the POS and is equivalent to 94.6 for each 10,000 adults, followed by 13.5 for agents, 4.3 for ATMs, and 2.4 for branches. It is evident that the level reached on the latest date has been driven by the growth of POS and agents.

TABLE 9. NUMBER OF POINTS OF ACCESS FOR EACH 10,000 ADULTS - TOTAL FINANCIAL INSTITUTIONS

Type of point of access	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Branches	2.2	2.2	2.2	2.1	2.3	2.4
Agents	1.7	1.9	3.3	5.5	9.1	13.5
Automatic tellers - ATM	3.0	3.2	3.4	3.6	4.0	4.3
POS	39.6	47.4	52.8	54.9	71.0	94.6
TOTAL	46.5	54.7	61.6	66.1	86.3	114.9

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

Similar performance can be observed for the PoA indicator for each 1,000 km²: it grew by 99.3 PoA, equivalent to 36%. Coverage as of December 2013 by type of PoA is displayed below:

TABLE 10. NUMBER OF POINTS OF ACCESS FOR EACH 1,000 KM² - TOTAL FINANCIAL INSTITUTIONS

Type of point of access	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Branches	6.5	6.7	6.7	6.8	7.4	7.9
Agents	5.1	5.9	10.1	17.4	29.4	44.4
Automatic tellers - ATM	8.9	9.7	10.6	11.4	12.8	14.3
POS	118.4	144.2	164.0	173.9	229.2	311.4
TOTAL	138.8	166.5	191.4	209.4	278.8	378.1

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

1.4 PRESENCE OF FINANCIAL INSTITUTIONS BY MUNICIPALITY

This section analyzes PoA coverage by type of municipality and population size for branches and agents, since ATM and POS information is only available at the national level and not by municipality.

50% of the municipalities have a population of between 10,001 and 50,000 inhabitants; combined they have 7,490,848 adults representing 67.7% of the total area. The municipalities with population greater than 100,000 inhabitants concentrate 62.4% of the adults.

TABLE 11. PARTICIPATION (%) OF THE ADULT POPULATION, AREA IN KM² AND NUMBER OF MUNICIPALITIES BY POPULATION SIZE BY DECEMBER 2013

Population size	Adult population	AREA IN KM ²	Municipalities
0 - 10,000 inhabitants	5.1%	16.2%	38.5%
10,001 - 50,000 inhabitants	23.7%	67.7%	50.2%
50,001 - 100,000 inhabitants	8.7%	8.6%	5.8%
More than 100,000 inhabitants	62.4%	7.5%	5.5%
TOTAL	100%	100%	100%

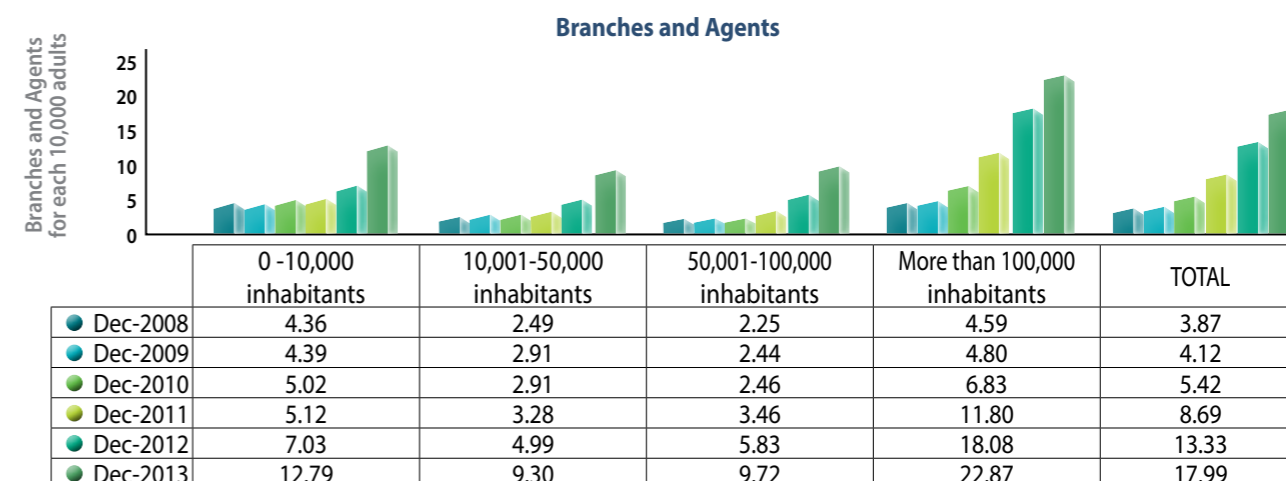
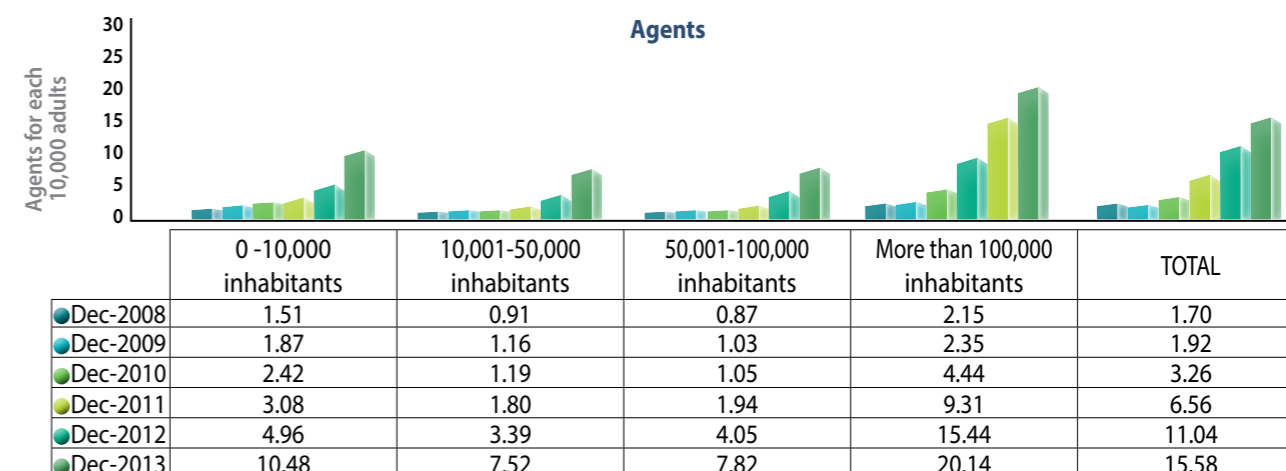
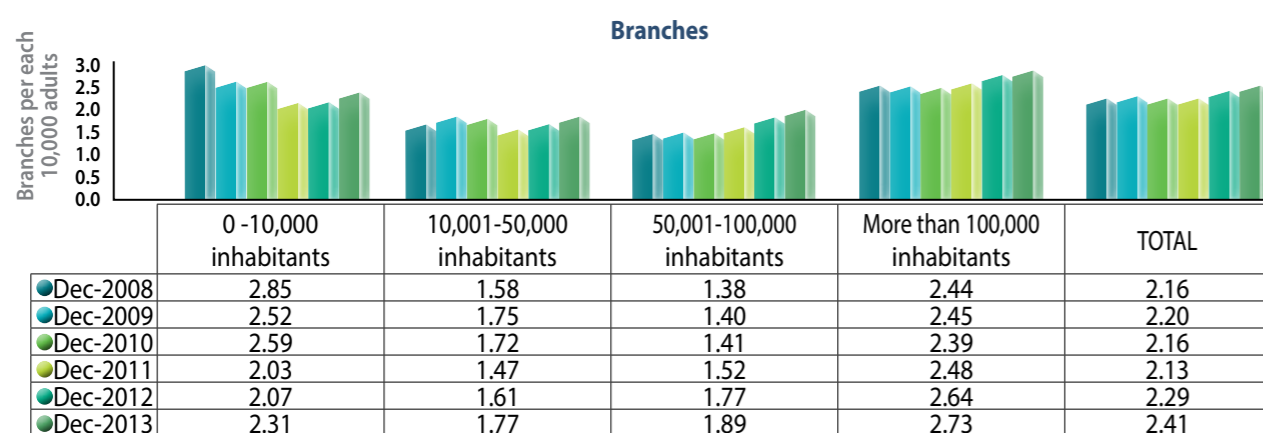
Source: DANE and BdO calculation

During the last years, average coverage through branches for each 10,000 adults has remained stable at close to 2.2 branches with slight growth during the last year. There are 2.3 branches for each 10,000 adults in the municipalities with populations of less than 10,000 inhabitants and 2.7 branches for each 10,000 adults in cities with more than 100,000 inhabitants.

In terms of number of agents for each 10,000 adults, it has increased 9-fold in the last 5 years, from 1.7 in 2008 to 15.6 in 2013; during last year, the increase was 41%. This increase was more significant in municipalities with populations of less than 100,000 inhabitants, where the indicator doubled, while the growth in cities with populations greater than 100,000 was 30%, from 15.4 to 20.1. Consequently, agents' coverage for each 10,000 adults reached 20.1 in the cities with more than 100,000 inhabitants; this level doubles the coverage in the other municipalities, where this indicator is 10.5 in towns with less than 10,000 inhabitants, 7.5 for those with populations between 10,000 and 50,000, and 7.8 for cities with 50,000 to 100,000 inhabitants.

This trend may reflect the search for a sufficient number of potential customers to achieve profitability goals. This observation contributes to explain why opening new agents in municipalities with lower population density has required the support of the public sector through subsidies and co-financing mechanisms. Despite the Government's support, in many of these initiatives the established goals have not been achieved in terms of transaction numbers.

CHART 9. COVERAGE THROUGH BRANCHES AND AGENTS FOR EACH 10,000 ADULTS BY POPULATION SIZE

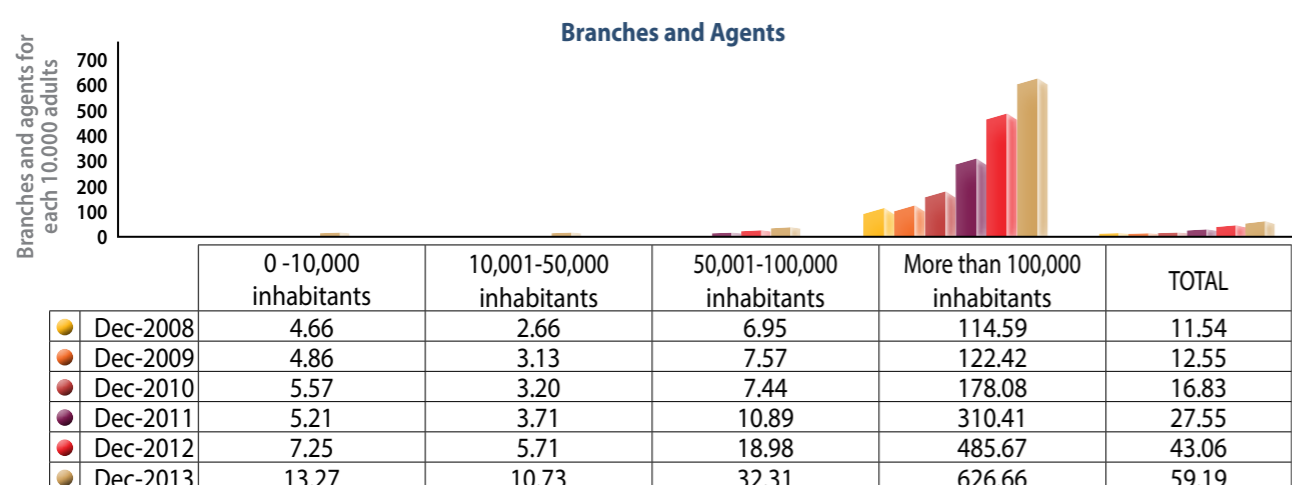
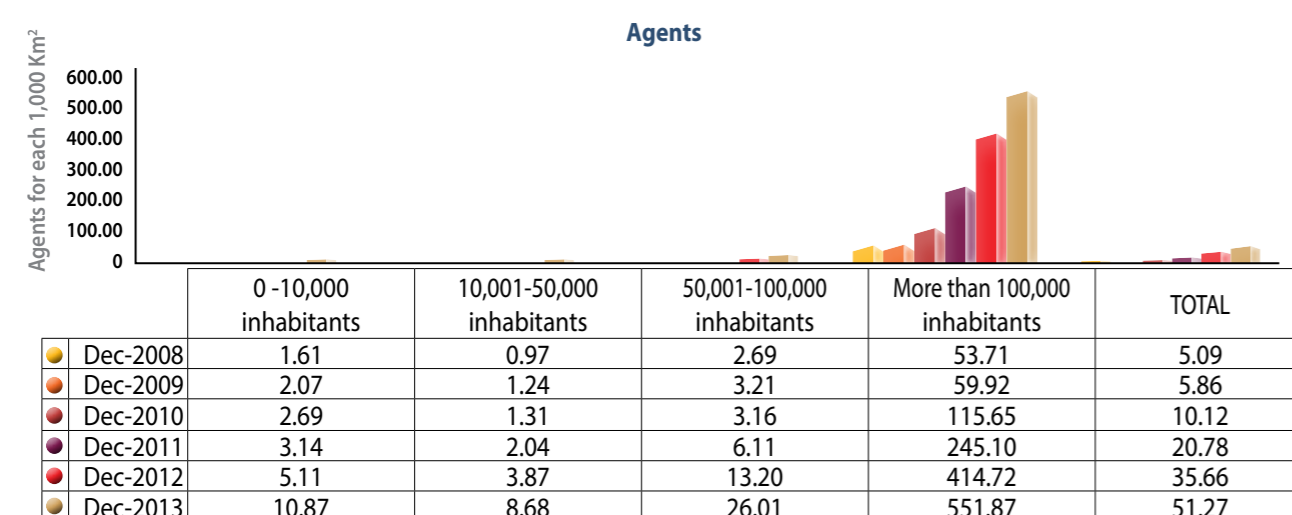
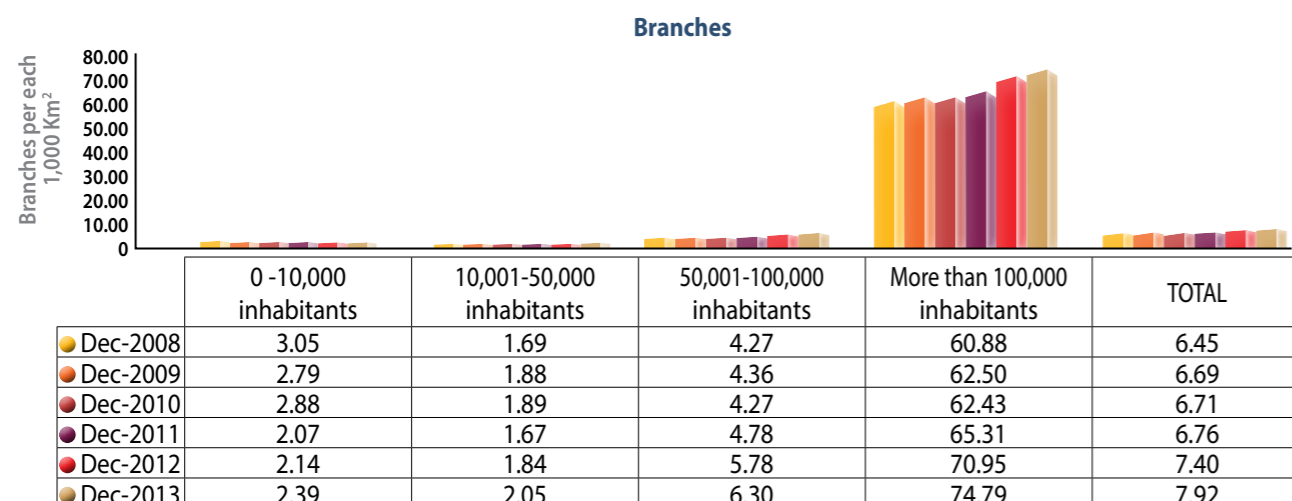


Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

The same trends described in the population indicator (PoA for each 10,000 adults) have been observed in the geographic indicator (PoA for each 1,000 KM²). As the following tables show, the municipalities with populations greater than 100,000 inhabitants have 74.8 branches and 561.9 agents for each 1,000 km²; this is much higher than the indicator observed in municipalities with smaller populations.

The effort to improve coverage levels through agents in municipalities with smaller populations is evident in the growth displayed by the geographic indicator, which doubled in the last two years (from 5.1 to 10.9, from 3.9 to 8.7, and from 13.2 to 26 in the municipalities with population densities of between 0 to 10,000, 10,001 to 50,000, and 50,001 to 100,000 inhabitants, respectively.) In contrast, the growth observed between 2012 and 2013 in the municipalities with more than 100,000 inhabitants was barely 33%, from 414.7 to 551.9.

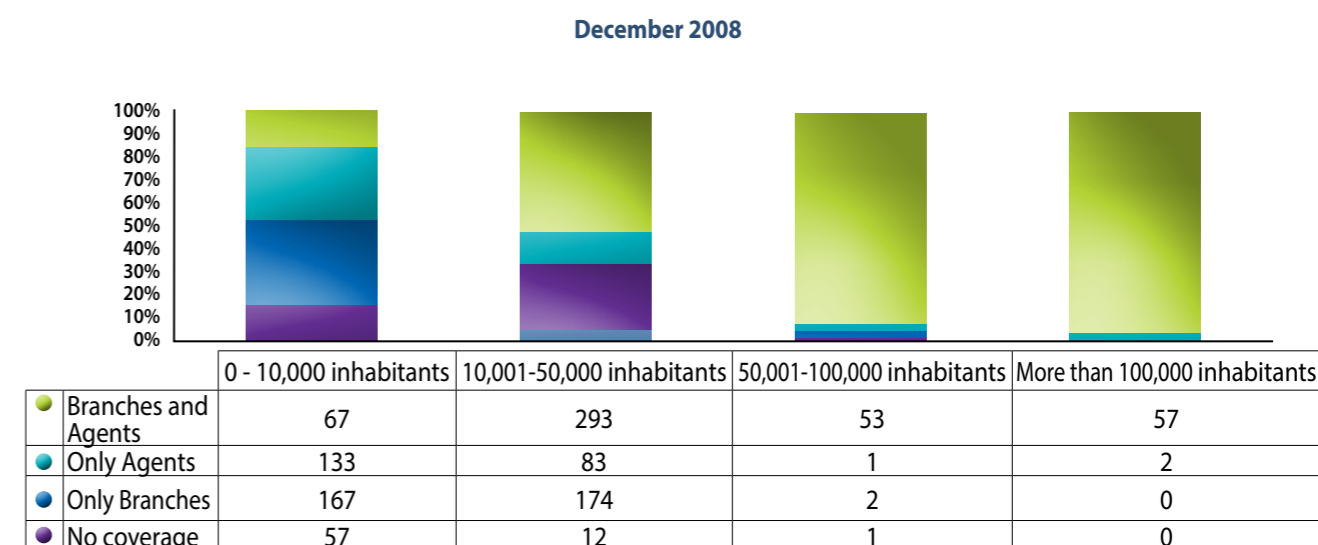
CHART 10. COVERAGE THROUGH BRANCHES AND AGENTS FOR EACH 1,000 KM² BY POPULATION SIZE



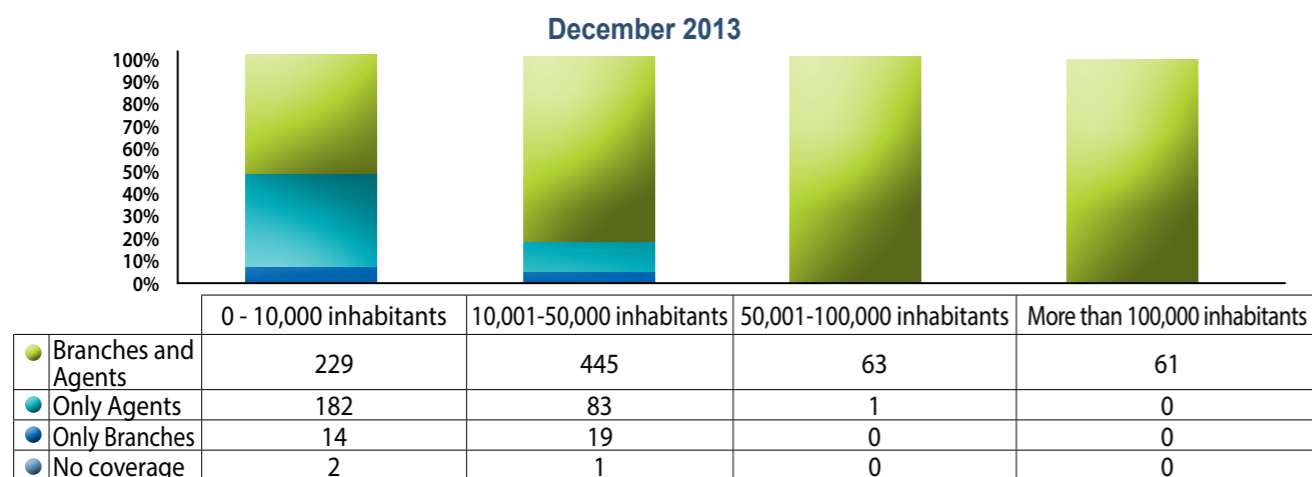
The following aspects stand out from the analysis of the evolution of coverage through branches and agents by type of municipality:

- I. Significant progress has been achieved in terms of national coverage, given that between 2008 and 2013 the number of municipalities without presence of any type of financial institution dropped from 70 to 3; and two of these non-covered municipalities have very low population density (less than 10,000 inhabitants.)
- II. Despite the larger financial effort required to open new branches, 33 municipalities served exclusively by this type of PoA were identified, 14 of which were in the lower population density range (less than 10,000 inhabitants.)
- III. A substantial number of municipalities, 265, are served exclusively by agents; of these, close to 70% (182) have less than 10,000 inhabitants. This aspect reveals the power agents have to take financial services to the smallest towns and, at the same time, points out the need to potentiate them through the development of products adjusted to these towns' needs and by diversifying the services provided.
- IV. Another interesting indicator arises when considering low population municipalities located in the two lower ranks of population density, between 0 and 10,000 inhabitants and between 10,001 and 50,000 inhabitants, and which have access to both branches and agents simultaneously. While in 2008, there were 67 and 293 of these, by the end of 2013 those numbers increased to 229 and 445. This confirms that, although initially financial institutions may not find these municipalities attractive due to their reduced potential market size, once the entities are more familiarized with them they identify business opportunities that lead them to move beyond having not only agents, but also to open a branch, resulting in the improvement of the services rendered to the inhabitants.

CHART 11. TYPE OF COVERAGE OFFERED BY BANKS



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

The number of municipalities offering the people two access alternatives, both public and private banking, has grown 129% from 428 municipalities with presence of both in 2008 to 981 PoA in 2013, thus adding 553 new PoA. Likewise, exclusive presence of public banking versus private banking has decreased by an average of 73%.

As of December 2012, there were 14 municipalities without the presence of banks. An important effort has been required to make it possible for 11 of them to have some type of financial presence; this issue was worked on by Banca de las Oportunidades as it performed enquiries in these municipalities based on the identification of commercial establishments in the area and on contacting the mayors and the entities and coordinating with both of them to achieve opening of financial services.

TABLE 12. NUMBER OF MUNICIPALITIES WITHOUT FINANCIAL PRESENCE BY POPULATION SIZE

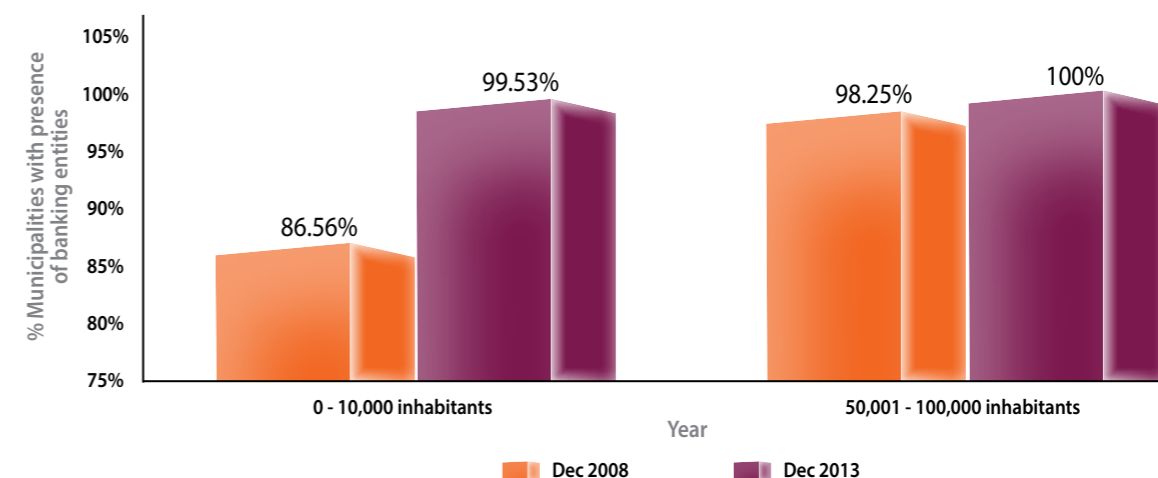
Population size	Municipalities without any type of financial coverage						Municipalities without bank coverage (branches and Agents)					
	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013	Dec-2008	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
0 – 10,000 inhabitants	48	44	3	5	4	1	57	51	3	5	6	2
10,001 - 50,000 inhabitants	9	5	3	6	6	-	12	7	3	6	8	1
50,001 - 100,000 inhabitants	-	-	-	-	-	-	1	1	-	-	-	-
More than 100,000 inhabitants	-	-	-	-	-	-	-	-	-	-	-	-
Total	57	49	6	11	10	1	70	59	6	11	14	3

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

A complete coverage analysis also requires observing the municipalities that have the presence of at least one financial institution and the people that live there. In this respect it must be highlighted that, out of the total of 1,102 municipalities in Colombia, 99.9% (1,101) have at least one financial institution, counting NGOs, as of December 2013.

Nevertheless, if only data from banks is analyzed, including branches and agents, financial coverage is lower, given that there were 3 municipalities without the presence of banks in 2013, which implies that 1,099 (99.7%) municipalities had bank services available. The growth in terms of bank coverage between 2008 and 2013 by municipality population size has been the following: 15% in municipalities with population between 50,001 and 100,000 inhabitants; 14% in municipalities with population between 0 and 10,000 inhabitants.

CHART 12. PERCENTAGE OF MUNICIPALITIES WITH BANKS BY POPULATION SIZE



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

As indicated earlier, we can say that almost the entire national territory has coverage, considering that 99.9% of the municipalities have at least one financial institution and that 99.998% (31,566,879 adults) live in a municipality where at least one bank is present. As of end-2013, 1 municipality out of 1,102 did not have presence of any financial institutions, which means that 756 adults do not have face-to-face access.

TABLE 13. POPULATION OF MUNICIPALITIES WITHOUT FINANCIAL PRESENCE (NUMBER OF ADULTS)

Population size	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
0 – 10,000 inhabitants	97,366	88,296	5,510	13,948	9,773	756
10,001 – 50,000 inhabitants	84,437	50,658	27,009	61,814	60,410	-
50,001 – 100,000 inhabitants	-	-	-	-	-	-
More than 100,000 inhabitants	-	-	-	-	-	-
Total	181,803	138,954	32,519	75,762	70,183	756

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

The municipality that does not have presence of any financial institution as of December 2013 is Jordán Sube, whose characteristics have been summarized in Table 14:

TABLE 14. MUNICIPALITY WITHOUT PRESENCE OF FINANCIAL SERVICES

Department	Municipality	Total population > 18 years old	Area in Km ²
Santander	JORDÁN SUBE	756	33

The municipalities not having financial presence of banks are:

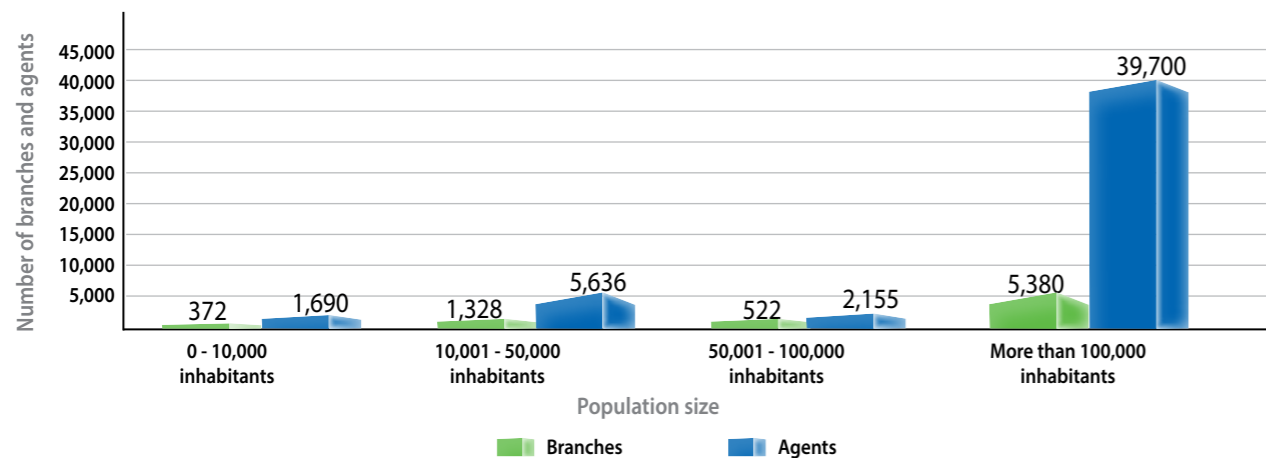
TABLE 15. MUNICIPALITIES WITHOUT PRESENCE OF BANKS (BRANCHES AND AGENTS)

Department	Municipality	Total population > 18 years old	Area in Km ²
Nariño	IMUÉS	4,402	86
Nariño	ROBERTO PAYÁN	11,795	1,342
Santander	JORDÁN SUBE	756	33

Out of the three municipalities without presence of banks, two (Imués and Roberto Payán in Nariño) only have presence of NGOs.

The distribution of credit institutions' branches and agents by population size displays a greater concentration of PoA in municipalities with more than 100,000 inhabitants, with 5,380 branches (71% of the total) and 39,700 agents (81% of the total). Nevertheless, 11% (5,636) of the agents are located in municipalities with populations of between 10,001 and 50,000 inhabitants.

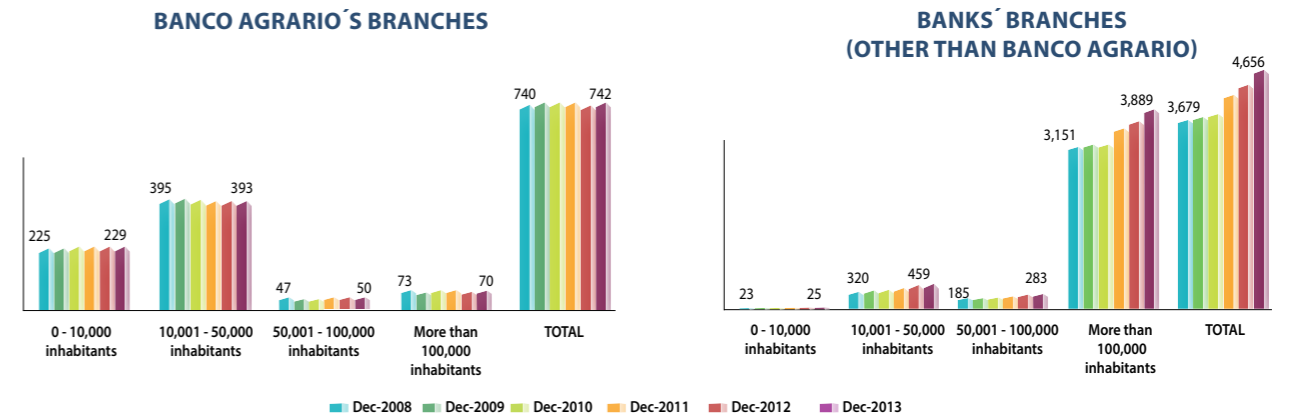
CHART 13. TOTAL NUMBER OF BRANCHES AND AGENTS BY POPULATION SIZE (DECEMBER 2013)



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

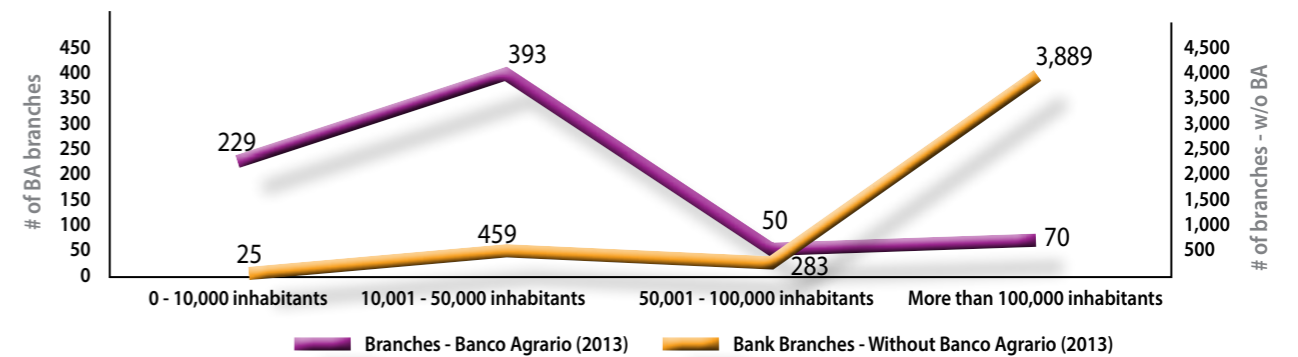
84% of Banco Agrario's branches (622) are located in municipalities with less than 50,000 inhabitants. This trend is related to the fact that one of the main mission objectives of this financial institution is to bring financial services to the rural sector to finance agriculture, livestock, fishing, forestry, and agro-industrial activities²³. Out of the private sector branches, 90% (4,172) are located in municipalities with more than 50,000 inhabitants, and it is there where the greatest increase was found in the period of the study.

CHART 14A. BANKS' BRANCHES BY POPULATION SIZE



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

CHART 14B: BANKS' BRANCHES (WITH AND WITHOUT BANCO AGRARIO) BY POPULATION SIZE (DECEMBER 2013)

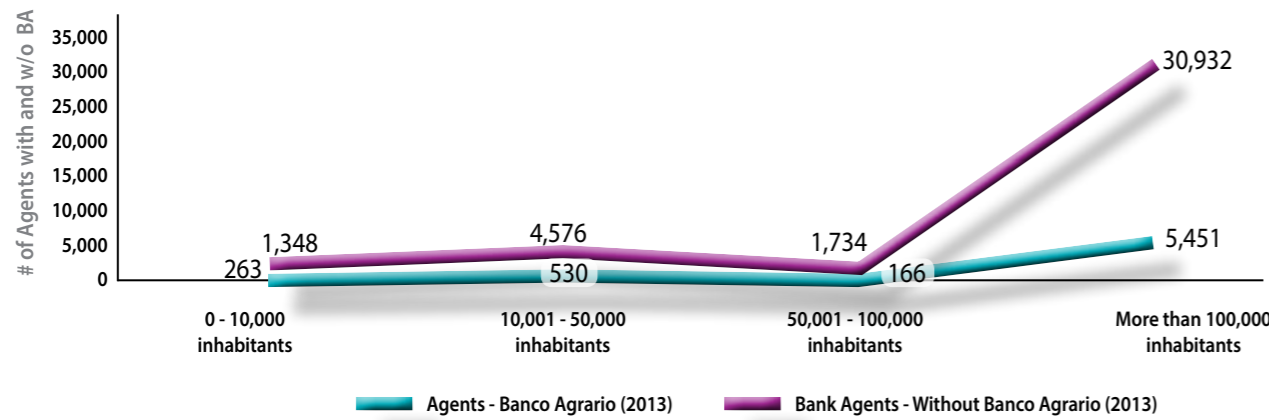


Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

On observing the agents information, we find that the trend both in private and public banking is to concentrate the largest number of agents in municipalities with more than 100,000 inhabitants.

23. <http://www.bancoagrario.gov.co/acerca/Paginas/default.aspx>

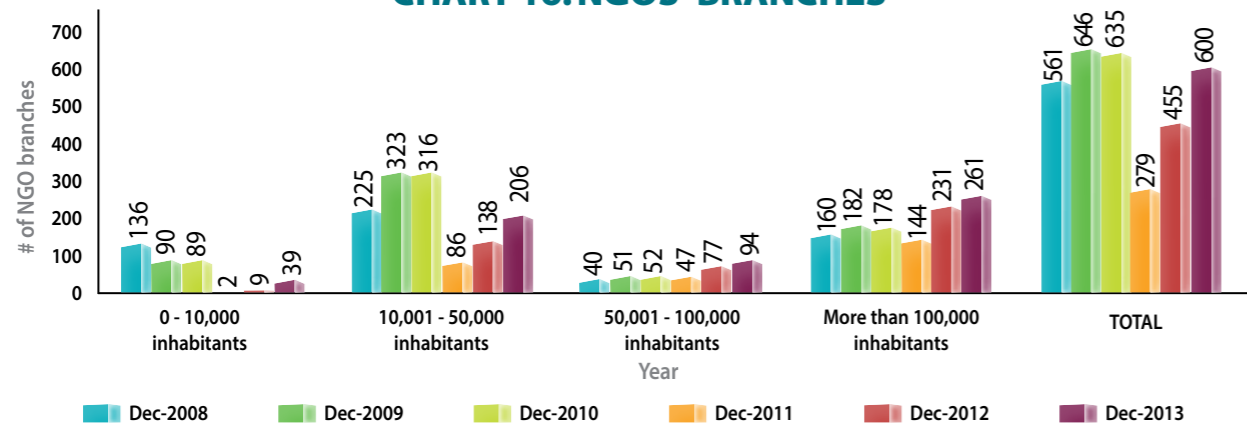
CHART 15. AGENTS (WITH AND WITHOUT BANCO AGRARIO) BY POPULATION SIZE (DECEMBER 2013)



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

Out of the 600 branches that NGOs have in place as of December 2013, 34% (206) are located in municipalities with populations between 10,000 and 50,000 inhabitants. Out of the new 145 branches opened in 2013, 30 were opened in municipalities with less than 10,000 inhabitants, a four-fold increase, and 68 were opened in municipalities with populations between 10,000 and 50,000 inhabitants, equivalent to growth of 49%. The NGOs are only able to offer microcredit and consequently do not offer deposit products.

CHART 16. NGOS' BRANCHES



As mentioned above, the service that NGOs render is complemented with 2,128 mobile consultants offering microcredit financial services in 26 departments and in 386 municipalities in such a way that while residing in a specific municipality, they can travel to other municipalities to visit potential customers; 52% of the municipalities where they perform their job have between 10,000 and 50,000 inhabitants.

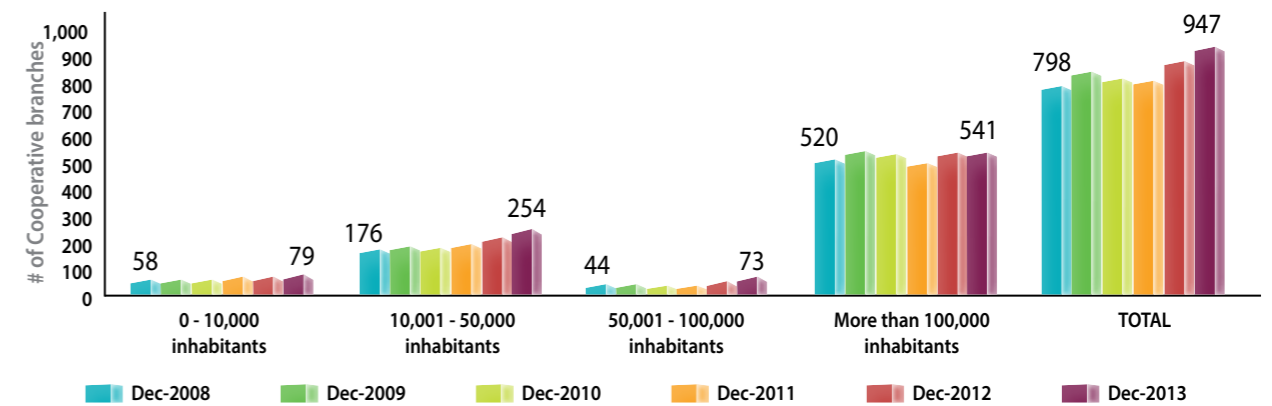
TABLE 16. PRESENCE OF MICROCREDIT NGO MOBILE CONSULTANTS

Population size	Number of mobile consultants	Number of municipalities	Porcentaje
0 - 10,000 inhabitants	99	69	18%
10,001 - 50,000 inhabitants	507	202	52%
50,001 - 100,000 inhabitants	312	56	15%
More than 100,000 inhabitants	1,210	59	15%
TOTAL	2,128	386	100%
Type of municipality			
Urban	1,315		
Rural	813		
TOTAL	2,128		

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

In terms of cooperative coverage, with 947 branches in operation as of December 2013, 541 (57%) are located in cities with populations greater than 100,000 inhabitants, and 254 (27%) are located in municipalities with populations between 10,001 and 50,000 inhabitants. The 55 new branches that opened during the last year were in municipalities with less than 100,000 inhabitants. The decrease observed in the number of branches in 2011 is due to Coomeva turning into a Bank.

CHART 17. COOPERATIVES' BRANCHES

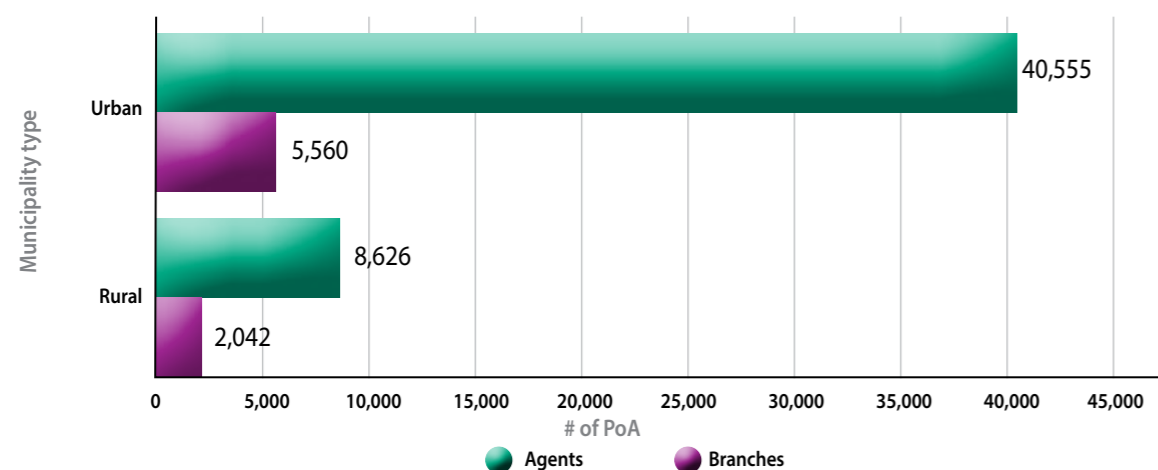


Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

In general, branches and agents continue to be concentrated in urban municipalities of the country with 40,555 agents (82% of the total) and 8,626 branches (73% of the branches in the country). Likewise, the PoA indicator for each 10,000 adults in the urban sector is 22.5 while in the rural sector it is 9.7, and the coverage for each 1,000 km² for the urban sector is 555.1 while for the rural sector it is 12.2.

The above trend is in spite of having achieved improved coverage in the rural sector, as displayed in the growth of the PoA indicator for each 10,000 adults, which grew 83% between 2012 and 2013 and 257% in the whole period from 2008 to 2013, while PoA growth per 1,000 km² was 86% during the last year and 287% in the whole period studied.

CHART 18. TOTAL BRANCHES AND AGENTS (DECEMBER 2013)



Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

The rural vocation of Banco Agrario is worth highlighting; it is a financial institution that has 89% of its branches in rural areas. On the other hand, 86% of this financial institution's agents are concentrated in urban municipalities, which supplement its lack of presence in municipalities of this type. In contrast, private banking is present mostly in urban municipalities through branches (86%) as well as agents (82%).

The NGOs have 308 of their 600 branches in rural municipalities (51%). For their part, the SES supervised cooperatives have 43% of their branches in rural municipalities and 71% of their agents in this type of municipality.

Lastly, financing companies and SFC supervised cooperatives have most of their PoA in urban areas.

TABLE 17. BRANCHES AND AGENTS COVERAGE BY TYPE OF MUNICIPALITY

Urban vs rural	Banks		Banks without Banco Agrario		Banco Agrario	
	Branches	Agents	Branches	Agents	Branches	Agents
Rural	1,328	7,868	666	6,994	662	874
Urban	4,070	37,132	3,990	31,596	80	5,536
TOTAL	5,398	45,000	4,656	38,590	742	6,410

Urban vs rural	Banks		CF		SFC Cooperatives		SES Cooperatives		NGO		TOTAL	
	Branches	Agents	Branches	Agents	Branches	Agents	Branches	Agents	Branches	Agents	Branches	Agents
Rural	1,328	7,868	29	732	62	2	315	24	308	-	2,042	8,626
Urban	4,070	37,132	628	3,413	150	-	420	10	292	-	5,560	40,555
TOTAL	5,398	45,000	657	4,145	212	2	735	34	600	-	7,602	49,181

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

The analysis of coverage indicators at the departmental level indicates that the number of departments with more than 11 PoA for each 10,000 adults increased three-fold from 5 (15%) in 2012 to 15 (47%) in 2013 (excluding Bogotá), which presented a growth of 200%. In 2012, 14 departments (43%) had an indicator lower than 5 PoA for each 10,000 adults, while in 2013, only 3 departments (9%) had an indicator lower than 5 PoA for each 10,000 adults.

TABLES 18A AND 18B. POINTS OF ACCESS FOR EACH 10,000 ADULTS (HIGHER THAN 11)

2012					
Department	Total population 2012 > 18	Area KM ²	Coverage without NGO	Coverage each 10,000 inhabitants	Each 1,000 KM ²
Atlántico	1,592,815	3,388	2,890	18.1	853
Santander	1,397,570	30,537	2,228	15.9	73
Valle del Cauca	3,134,666	22,140	4,780	15.2	215.9
Meta	587,089	85,635	853	14.5	10
Risaralda	652,505	4,140	775	11.9	187.2

2013					
Department	Total population 2013 > 18	Area KM ²	Coverage without NGO	Coverage each 10,000 inhabitants	Each 1,000 KM ²
Santander	1,415,856	30,537	3,384	23.9	110.8
Casanare	214,601	44,640	471	21.9	10.6
Risaralda	660,760	4,140	1,354	20.5	327.1
Meta	602,459	85,635	1,124	18.7	13.1
Valle del Cauca	3,190,262	22,140	5,761	18.1	260.2
Atlántico	1,622,971	3,388	2,862	17.6	844.7
Cundinamarca	1,739,719	22,605	2,992	17.2	132.4
Huila	718,532	19,890	1,110	15.4	55.8
Boyacá	845,010	23,189	1,292	15.3	55.7
Tolima	928,043	23,562	1,393	15.0	59.1
Norte de Santander	860,239	21,658	1,197	13.9	55.3
Antioquia	4,391,445	63,612	6,063	13.8	95.3
Quindío	391,985	1,845	505	12.9	273.7
Caquetá	277,549	88,965	356	12.8	4.0
Caldas	689,415	7,888	828	12.0	105.0

**TABLES 19A AND 19B. POINTS OF ACCESS FOR EACH 10,000 ADULTS
(LOWER THAN 5)**

2012

Department	Total population 2012> 18	Area KM ²	Coverage without NGO	Coverage each 10,000 inhabitants	Each 1,000 KM ²
Amazonas	26,945	7,304	13	4.8	1.8
Bolívar	1,283,752	25,978	575	4.5	22.1
Chocó	262,838	46,530	100	3.8	2.1
Sucre	521,463	10,917	186	3.6	17.0
Arauca	141,176	23,818	50	3.5	2.1
Caquetá	271,844	88,965	94	3.5	1.1
La Guajira	499,199	20,848	140	2.8	6.7
Cauca	859,869	29,308	240	2.8	8.2
Córdoba	1,014,278	25,052	282	2.8	11.3
Guainía	10,805	16,165	3	2.8	0.2
Putumayo	193,031	24,885	46	2.4	1.8
Guaviare	58,603	53,460	13	2.2	0.2
Vichada	35,144	100,242	7	2.0	0.1
Vaupés	18,811	30,055	3	1.6	0.1

2013

Department	Total population 2013> 18	Area KM ²	Coverage without ONG	Coverage each 10,000 inhabitants	Each 1,000 KM ²
La Guajira	516,862	20,848	234	4.5	11.2
Vichada	36,297	100,242	14	3.9	0.1
Guaviare	59,981	53,460	19	3.2	0.4

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

In 2013, 8 departments achieved an indicator of more than 100 PoA for each 1,000 km²; of these Cundinamarca, Santander, and Caldas are among the 5 that had already achieved this level of coverage in December 2008.

Currently there are 9 departments with indicator values below 10; this figure decreased from 12 in 2008. In this worst indicator group, 4 departments remain with coverage lower than 1 (Guainía, Vaupés, Guaviare, and Vichada).

**TABLES 20A AND 20B. POINTS OF ACCESS FOR EACH 1,000 KM²
(HIGHER THAN 100)**

2012

Department	Total population 2012> 18	Area KM ²	Coverage without NGO	Coverage each 10,000 inhabitants	Each 1,000 KM ²
Archipiélago de San Andrés, Providencia y Santa Catalina	51,135	44	39	7.6	886.4
Atlántico	1,592,815	3,388	2,890	18.1	853.0
Valle del Cauca	3,134,666	22,140	4,780	15.2	215.9
Quindío	387,203	1,845	378	9.8	204.9
Risaralda	652,505	4,140	775	11.9	187.2

2013

Department	Total population 2013> 18	Area KM ²	Coverage without NGO	Coverage each 10,000 inhabitants	Each 1,000 KM ²
Archipiélago de San Andrés, Providencia y Santa Catalina	51,932	44	42	8.1	954.5
Atlántico	1,622,971	3,388	2,862	17.6	844.7
Risaralda	660,760	4,140	1,354	20.5	327.1
Quindío	391,985	1,845	505	12.9	273.7
Valle del Cauca	3,190,262	22,140	5,761	18.1	260.2
Cundinamarca	1,739,719	22,605	2,992	17.2	132.4
Santander	1,415,856	30,537	3,384	23.9	110.8
Caldas	689,415	7,888	828	12.0	105.0

Source: SFC (Forms 398, 322, and 444) and BdO. Including SES cooperatives and NGOs

TABLES 21A AND 21B. POINTS OF ACCESS FOR EACH 1,000 KM² (LOWER THAN 10)

2012

Department	Total population 2012> 188	Area KM ²	Coverage without NGO	Coverage each 10,000 inhabitants	Each 1,000 KM ²
Cauca	859,869	29,308	240	2.8	8.2
La Guajira	499,199	20,848	140	2.8	6.7
Casanare	208,995	44,640	220	10.5	4.9
Chocó	262,838	46,530	100	3.8	2.1
Arauca	141,176	23,818	50	3.5	2.1
Putumayo	193,031	24,885	46	2.4	1.8
Amazonas	26,945	7,304	13	4.8	1.8
Caquetá	271,844	88,965	94	3.5	1.1
Guaviare	58,603	53,460	13	2.2	0.2
Guainía	10,805	16,165	3	2.8	0.2
Vaupés	18,811	30,055	3	1.6	0.1
Vichada	35,144	100,242	7	2.0	0.1

2013

Department	Total population 2013> 18	Area KM ²	Coverage without ONG	Coverage each 10,000 inhabitants	Each 1,000 KM ²
Chocó	267,954	46,530	223	8.3	4.8
Putumayo	197,310	24,885	110	5.6	4.4
Caquetá	277,549	88,965	356	12.8	4.0
Arauca	143,656	23,818	94	6.5	3.9
Amazonas	27,469	7,304	23	8.4	3.1
Guainía	11,053	16,165	12	10.9	0.7
Vaupés	19,118	30,055	12	6.3	0.4
Guaviare	59,981	53,460	19	3.2	0.4
Vichada	36,297	100,242	14	3.9	0.1

Source: SFC (Forms 398, 322, and 444) and Bdo. Including SES cooperatives and NGOs

TABLE 22. COVERAGE BY DEPARTMENT (2013)

Department	Total population 2013> 18	Area KM ²	Coverage without NGO	Coverage each 10,000 inhabitants	Each 1,000 KM ²
Amazonas	27,469	7,304	23	8.4	3.1
Antioquia	4,391,445	63,612	6,063	13.8	95.3
Arauca	143,656	23,818	94	6.5	3.9
Archipiélago de San Andrés, Providencia y Santa Catalina	51,932	44	42	8.1	954.5
Atlántico	1,622,971	3,388	2,862	17.6	844.7
Bogotá, D.C.	5,478,401	1,605	20,065	36.6	12,501.6
Bolívar	1,308,997	25,978	1,267	9.7	48.8
Boyacá	845,010	23,189	1,292	15.3	55.7
Caldas	689,415	7,888	828	12.0	105.0
Caquetá	277,549	88,965	356	12.8	4.0
Casanare	214,601	44,640	471	21.9	10.6
Cauca	875,424	29,308	489	5.6	16.7
Cesar	610,347	22,905	585	9.6	25.5
Chocó	267,954	46,530	223	8.3	4.8
Córdoba	1,038,261	25,052	517	5.0	20.6
Cundinamarca	1,739,719	22,605	2,992	17.2	132.4
Guainía	11,053	16,165	12	10.9	0.7
Guaviare	59,981	53,460	19	3.2	0.4
Huila	718,532	19,890	1,110	15.4	55.8
La Guajira	516,862	20,848	234	4.5	11.2
Magdalena	738,258	23,188	660	8.9	28.5
Meta	602,459	85,635	1,124	18.7	13.1
Nariño	1,106,081	33,268	789	7.1	23.7
Norte de Santander	860,239	21,658	1,197	13.9	55.3
Putumayo	197,310	24,885	110	5.6	4.4
Quindío	391,985	1,845	505	12.9	273.7
Risaralda	660,760	4,140	1,354	20.5	327.1
Santander	1,415,856	30,537	3,384	23.9	110.8
Sucre	531,388	10,917	336	6.3	30.8
Tolima	928,043	23,562	1,393	15.0	59.1
Valle del Cauca	3,190,262	22,140	5,761	18.1	260.2
Vaupés	19,118	30,055	12	6.3	0.4
Vichada	36,297	100,242	14	3.9	0.1
General Total	31,567,635	959,266	56,183	17.8	58.6

Source: SFC (Forms 398, 322, and 444) and Bdo. Including SES cooperatives and NGOs

Before closing this first chapter, it is important to look at Colombia's situation compared to the rest of the world in terms of coverage²⁴. In relation to the PoA total indicator for each 100,000 adults, it must be acknowledged that Colombia has a level of 50.7, which places the country within the average for Latin America and the Caribbean and above the medium income group of countries; nevertheless, our country is below the coverage levels reached by countries such as Brazil and Peru.

When the total indicator is broken down in terms of number of branches and ATMs per each 100,000 adults, it is found that Peru and Brazil shown the leading indicators in number of branches with indicators of 69.7 and 47.3, respectively. Colombia has close to 15 branches for each 100,000 adults; this level is very similar to Latin America and the Caribbean, and Mexico, and above the medium income group of countries.

In terms of ATM availability, Brazil is the leader again with 118.6, while Colombia has an indicator of 35.8; this is similar to Peru's, Latin America and the Caribbean, and again above the medium income group of countries.

CHART 19. NUMBER OF POA AND NUMBER OF BRANCHES FOR EACH 100,000 ADULTS

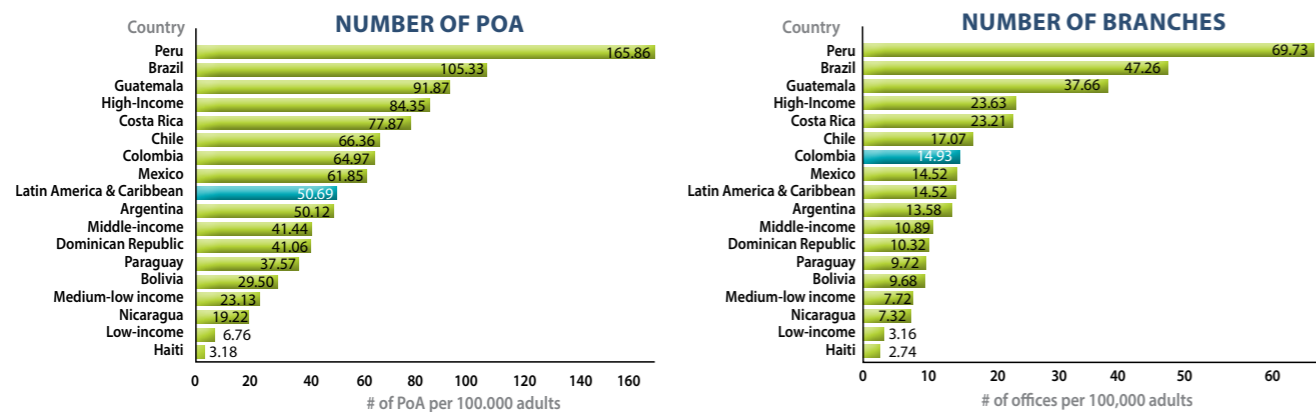
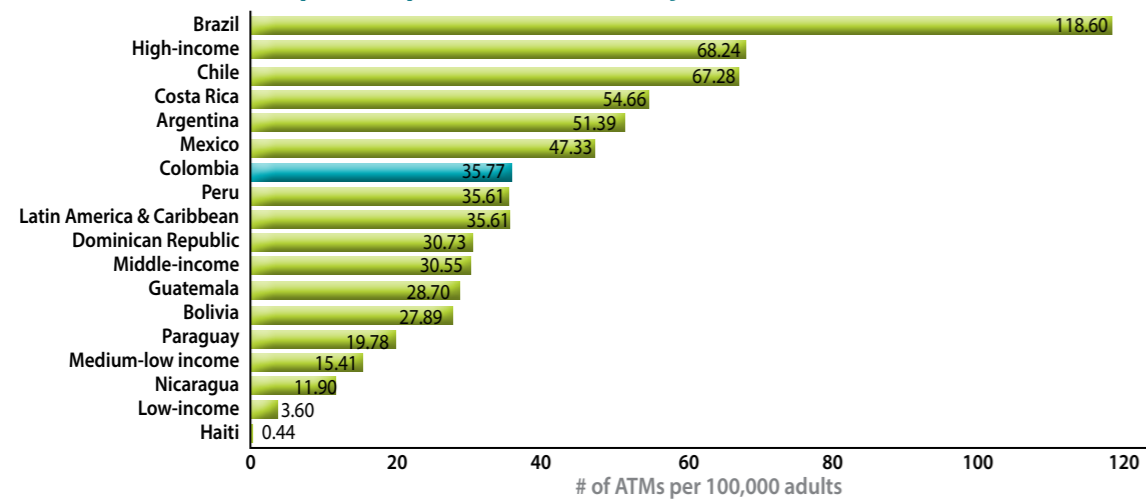


CHART 20. NUMBER OF AUTOMATIC TELLER MACHINES (ATMS) FOR EACH 100,000 ADULTS



Source: World Bank – end-2012 / <http://data.worldbank.org/topic/financial-sec>

24. It is important to make two clarifications regarding this international comparison: i) the demographic indicators used have been expressed in terms of 100,000 adults and not of 10,000 adults as in the rest of the Report, and ii) the information is for end-2012.



CHAPTER 2:



USE INDICATORS CHANNELS, PRODUCTS, AND FINANCIAL SERVICES

2.1 TRANSACTIONALITY

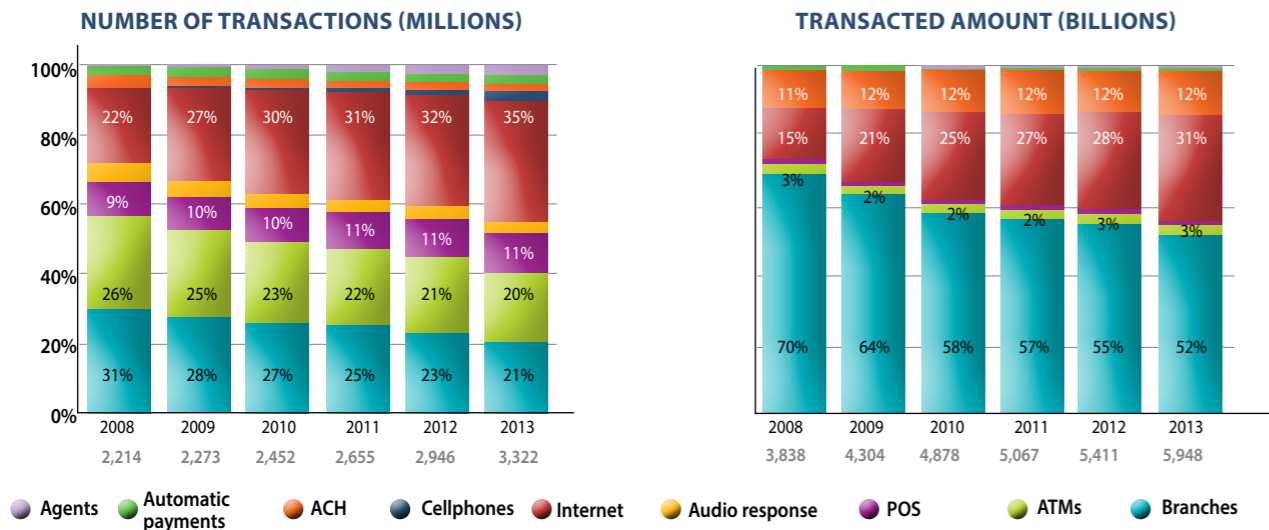
The trend shown by the use of the different transactional channels demonstrates the development of the Colombian financial system and of its efficiency in providing secure and quality financial products to the entire population, not only in the national territory, but also for Colombians abroad.

2013 displayed significant progress in the use of non face-to-face transactional products such as cellphones and Internet, which have allowed financial consumers to perform transactions remotely without having to go to agents or branches; this situation caused a reduction in the number of transactions and in the amount transacted through the latter channel during the studied year. The above proves that the implementation of new information technologies and of new, secure, and high-quality communication technologies (ICT) by banks, including high information processing standards, make it possible to offer products that satisfy the population's financial needs through non face-to-face channels and, at the same time, increase trust in the financial system.

Branches continue to be the channel that transacts the greatest volume in terms of amount and the second in number of transactions and, in comparison to the other channels, they concentrate 52% of the total amount transacted and 21% of the number of transactions. Nevertheless, the trend both in the number of transactions and in the amount transacted through this channel displayed a reduction between 2012 and 2013, since it was recorded that 55% of the amount transacted and 23% of all the transactions in the financial system in 2012 were performed through branches. Automatic teller machines show the same downward performance, while the use of points of sale (POS) remains constant.

In contrast to the performance related to the use of branches and automatic teller machines, and continuing with the trend of the last few years, 2013 was outstanding for the increase in the use of non-face-to-face transactional channels such as Internet and cellphones. In the case of cellphones, regulations issued by the Financial Superintendence of Colombia (SFC) during this period in connection with a simplified procedure for savings accounts (External Circular Letter 013 of 2013) and electronic money deposits (External Circular Letter 007 of 2013) had a very positive impact on the number of transactions and on the amount transacted through this channel.

CHART 21. SHARE OF TRANSACTIONAL CHANNELS IN ALL TRANSACTIONS



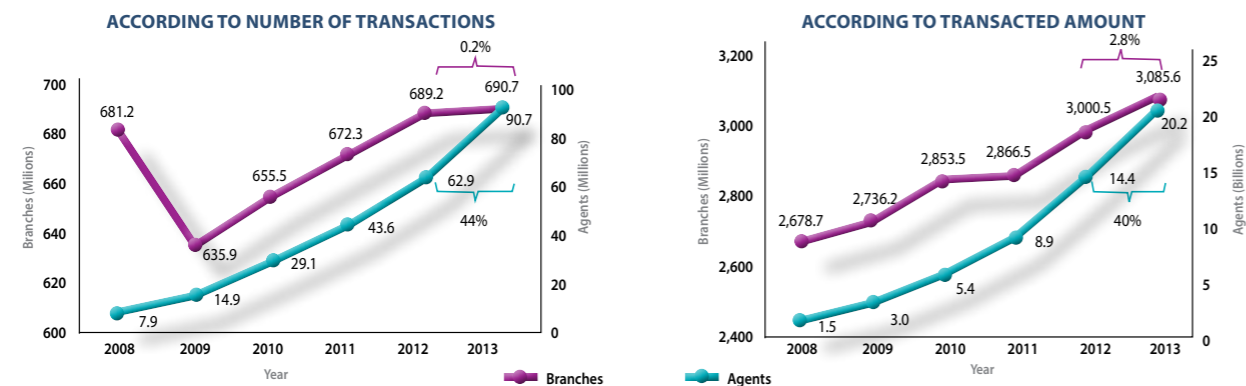
Source: SFC and BdO (Forms 444 and 368)

2.1.1 Use of face-to-face channels

Compared to 2012, the growth in the number of transactions performed through branches in 2013 was smaller, decreasing from 2.5% to 0.2%, recording 691 million transactions at the end of the year. On the contrary, the number of transactions performed through agents increased 44% in 2013, recording 91 million transactions by the end of the year; this growth was equivalent to the growth recorded for transactions during 2012.

In terms of the amount transacted through branches during 2013, this type of channel transacted COP 3,086 billion, equivalent to annual growth of 2.8%, which was less than the 4.7% growth posted in 2012. On the other hand, the amount transacted through agents during 2013 was COP 20.2 billion and, despite having increased 40% during 2013, its growth was smaller than the 62% growth recorded during 2012.

CHART 22. TRANSACTIONS THROUGH BRANCHES AND AGENTS' NETWORK



Source: SFC and BdO (Forms 444 and 398)

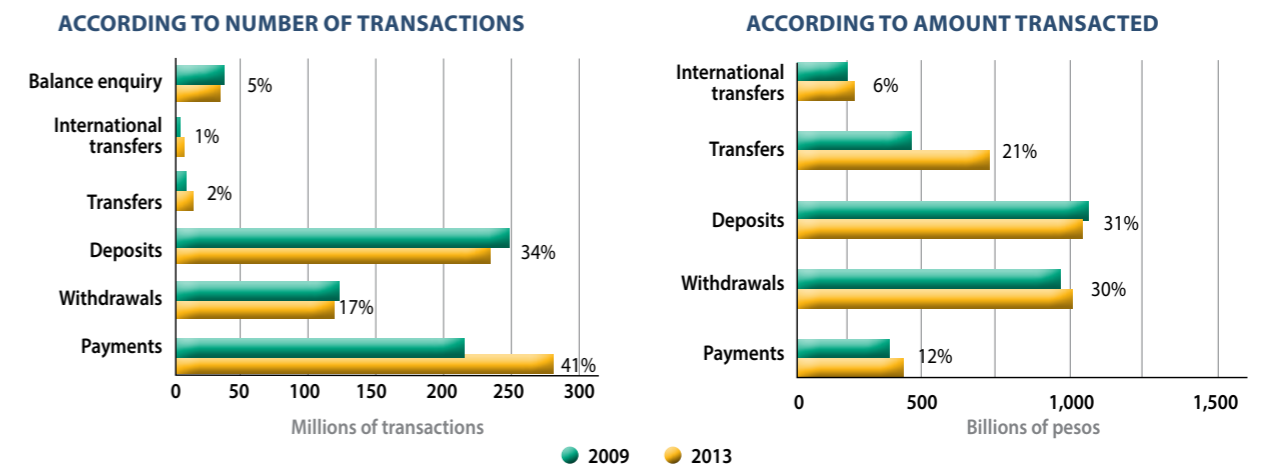
Branches

Through the branches network, financial institutions offer a broad range of services; for this reason they concentrate a large part of the total of transactions as well as of the transacted amount. In general, we could say that the use of branches has not displayed big variations (with growth of 1 8% in the number of branches between 2009 and 2013) except for the increase in the number of payment transactions; on-line payments were the most common transactions in 2013 together with the previous year, with 41% of the total transactions, followed by deposits (34%) and withdrawals (17%).

In terms of amount, deposits contributed to 31% of the total transacted, followed by withdrawals (30%) and transfers (21%).

In comparison to 2012, deposits decreased in number and amount, payments increased in number and amount, while withdrawals diminished in number but increased in amount.

CHART 23. TYPE OF TRANSACTIONS PERFORMED THROUGH BRANCHES



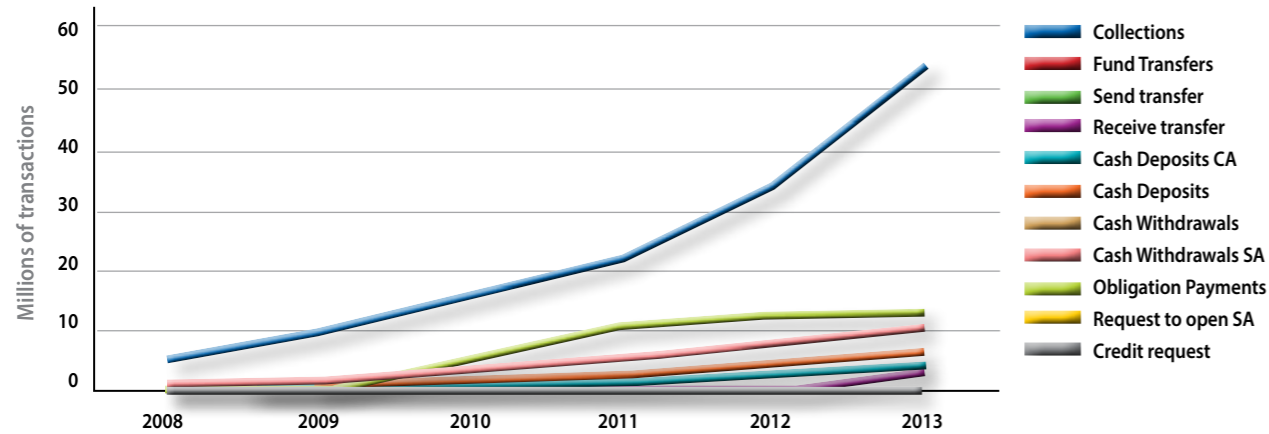
Source: SFC and BdO (Form 444)

Agents

As mentioned in the access chapter of this Report, since their implementation, the agents have been a fundamental channel for taking financial services to hard to reach areas of the country with low population density, thus achieving coverage of 97% of the national territory. The above is reflected in the constant increase both in the number of agents (which was 695% between 2009 and 2013) and in the case of collections with 5 million transactions in 2008 and 53 million in 2013.

It is important to point out that other types of transactions that account for a lower percentage of the total have displayed substantial variations since 2008: transfer of funds (1,845%), withdrawals from checking and savings accounts (1,093% and 1,394%, respectively) and payment of obligations (1,889%). National cash transfers and receipts began to be made in 2012, with increases of 205% and 1,382% in 2013, respectively.

CHART 24. NUMBER OF TRANSACTIONS PERFORMED THROUGH AGENTS BY TYPE



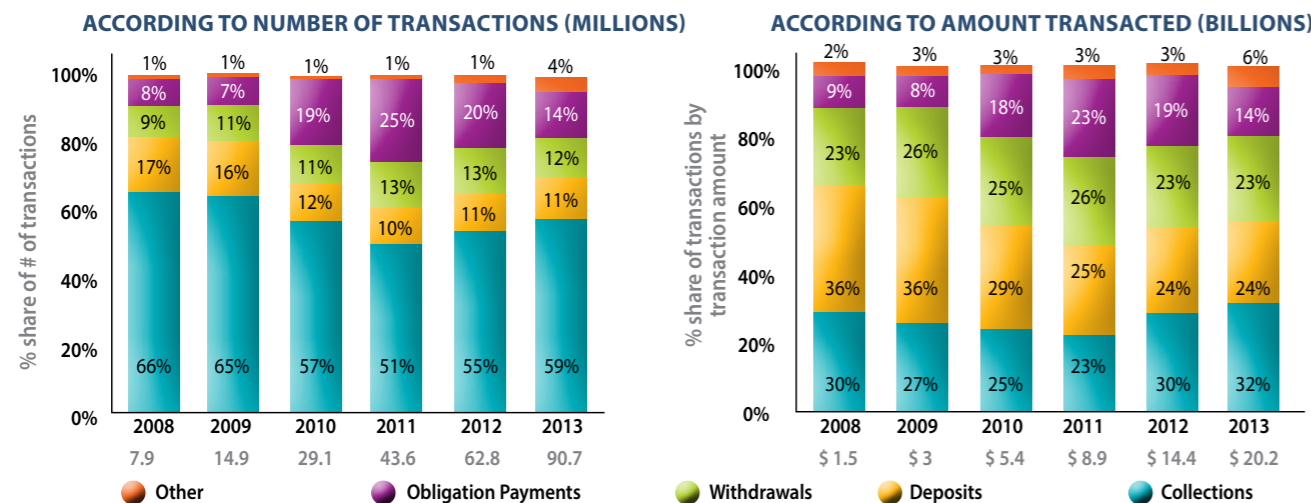
Source: SFC, SES and BdO (Form 398)

During 2013, 59% of the transactions through agents were collections transactions (including payment of utilities, social security, taxes, agreements, and others); they were used to transact 32% of the funds, placing this type of transaction as the most frequent in the agents.

Payment of obligations is another type of transaction performed through agents and corresponds to payments on account of commercial loans, consumption loans, microcredit, mortgage loans, credit cards, and others. During 2013, 14% of the transactions were of this type and transacted 14% of the funds, thus reducing their share in transactions and in amount during 2013.

For their part, deposits and withdrawals represented 11% and 12% of the total of transactions performed through agents, respectively, and transacted 24% and 23% of the transacted funds through this channel in 2013, keeping a stable performance in the analyzed period and in 2013.

CHART 25. SHARE OF TRANSACTIONS PERFORMED THROUGH AGENTS



Sources: SFC, SES and BdO (Form 398)

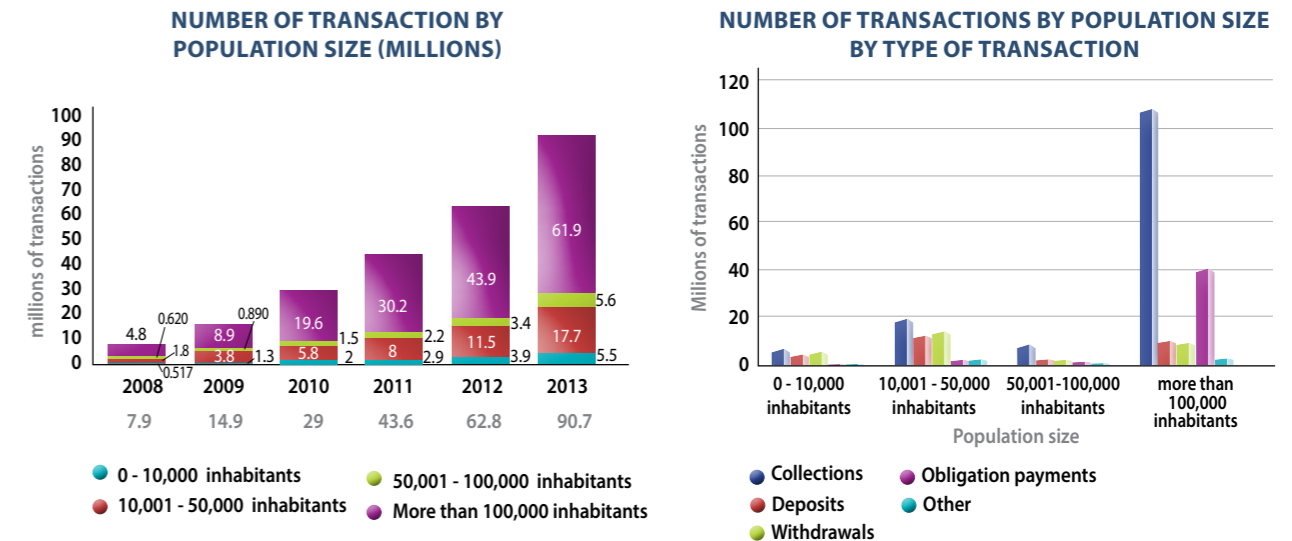
Note: "Others" includes transactions related to transfer of funds, cash transfers, reception of cash transfers, Savings Account opening applications, and loan applications.

As in previous years, analysis of transactions in the agents according to population size revealed that most of them were performed in municipalities of more than 100,000 inhabitants, with 62 million transactions in 2013 and growth of 41% compared to 2012, a slightly slower growth rate than that recorded in the 2011-2012 period (45%).

For their part, transactions performed in municipalities with populations between 0 and 10,000, 10,001 and 50,000, and 50,001 and 100,000 inhabitants grew 40%, 53%, and 63% during the last year, respectively, with amounts greater than those recorded in the 2011-2012 period (35%, 41%, and 56%, respectively), which consolidates the agents as a successful coverage mechanism in the national territory and demonstrates that, to the extent that these mechanisms mature, they are able to offer a broader range of financial services in all the regions, including those with low population density.

Collections are the transaction most used in all types of municipalities; in the municipalities with more than 100,000 inhabitants, payment of obligations come in second place, whereas withdrawals and deposits come in second and third place in low population municipalities. The most representative type of transactions in cities with high population density are payment of obligations and collections; this situation also occurs in towns of lower population density, even though deposits have a similar share there, particularly in the case of municipalities with populations of between 10,001 and 50,000 inhabitants.

CHART 26. NUMBER OF TRANSACTIONS PERFORMED THROUGH AGENTS BY POPULATION SIZE 2008-2013

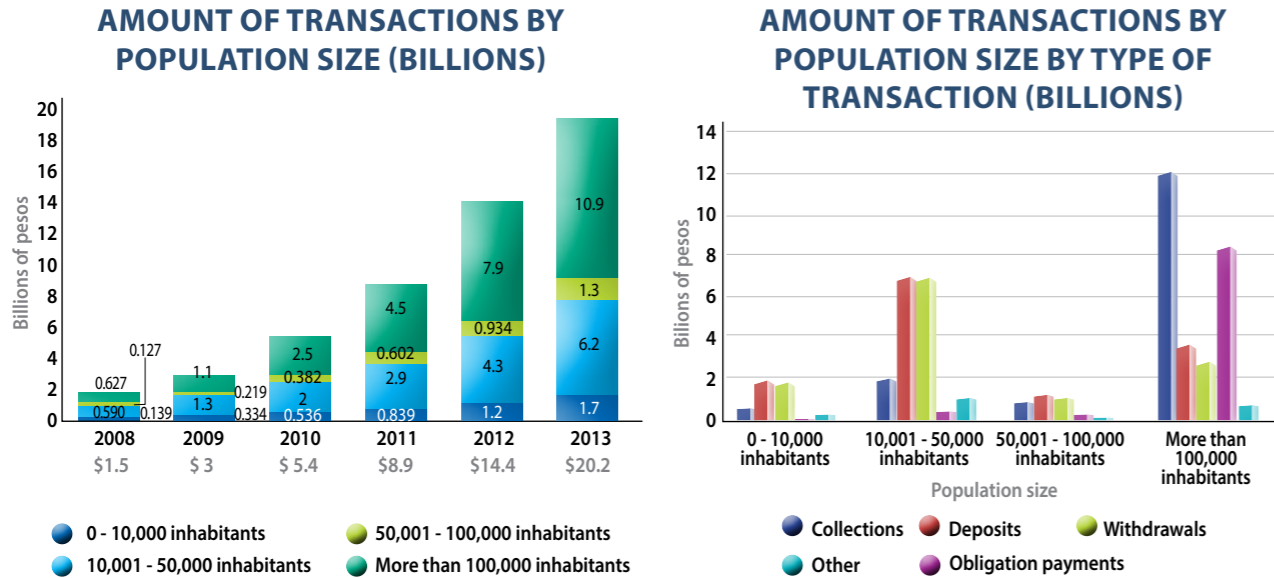


Source: SFC and BdO (Form 398)

As is also the case with the number of transactions, agents transact more than half of the funds in municipalities with populations of more than 100,000 inhabitants, with COP 11 billion transacted in 2013. Despite the fact that, in general, the absolute amount increased in 2013, the growth of the transacted amount during 2013 in all the municipalities was smaller than the growth recorded during the 2011-2012 period; the case of the municipalities with population of more than 100,000 inhabitants stands out because the growth rate fell from 76% in 2011-2012 to 38% in the 2012-2013 period.

As opposed to the number of transactions, in terms of amount, collections is the most used transaction only in municipalities with more than 100,000 inhabitants, and deposits is the most used transaction in municipalities with smaller populations, followed closely by withdrawals.

CHART 27. VALUE OF TRANSACTIONS PERFORMED THROUGH AGENTS BY POPULATION SIZE 2008-2013



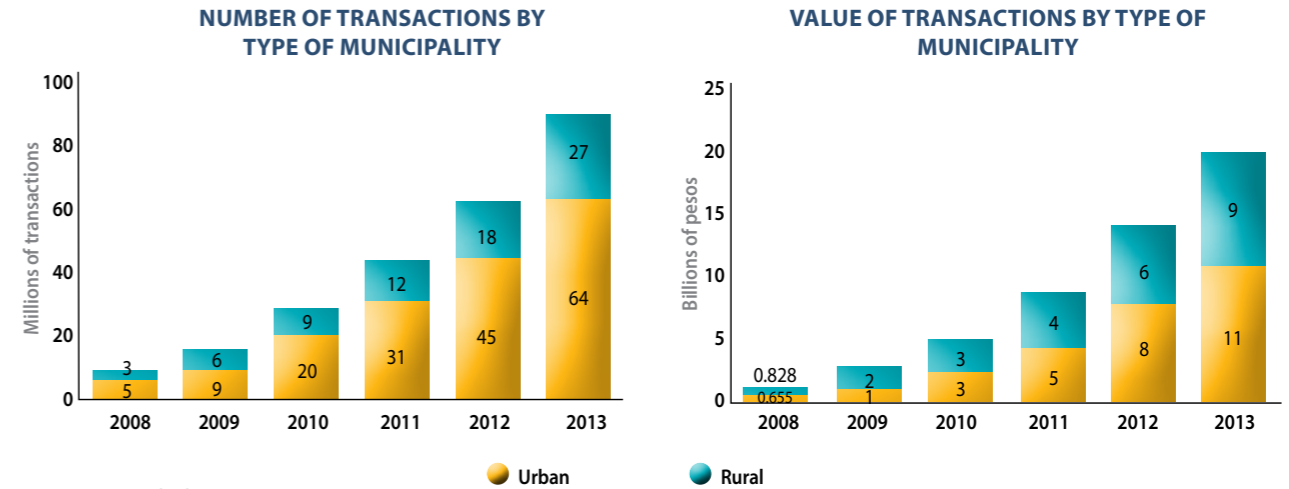
Source: SFC and BdO (Form 398)

This generalized reduction of the growth rate of transacted amounts between 2012 and 2013 in all the municipalities in comparison to previous years may be partly caused by the high level of geographic coverage that has been achieved by this point of access, that is reaching an equilibrium point and satisfies the demand of financial services in regions that did not have formal service coverage before.

Despite the fact that most of the transactions are performed in urban municipalities (70%), transactions in urban areas of the country have also been increasing in recent years and display an even greater growth rate than the transactions in rural areas. In 2013, 27 million transactions were performed in rural municipalities with growth of 53% compared to the transactions recorded in 2012; that year's growth was 42% compared to 2011. As for the transactions in urban areas, they increased 41% last year, while growth was 45% between 2011 and 2012.

As for the amount transacted, it has been distributed in a more equitable manner than the number of transactions between the two types of municipalities, given that 44% of the total amount was transacted through agents located in rural areas and 56% in agents located in urban areas. In 2013, the amount transacted in agents located in both (urban and rural areas) increased by 38% and 43%, respectively, in comparison to the amount transacted in 2012; nevertheless, the growth rates were lower than in 2011-2012, which were 76% for urban agents and 46% for rural agents.

CHART 28. TRANSACTIONS PERFORMED THROUGH AGENTS BY TYPE OF MUNICIPALITY



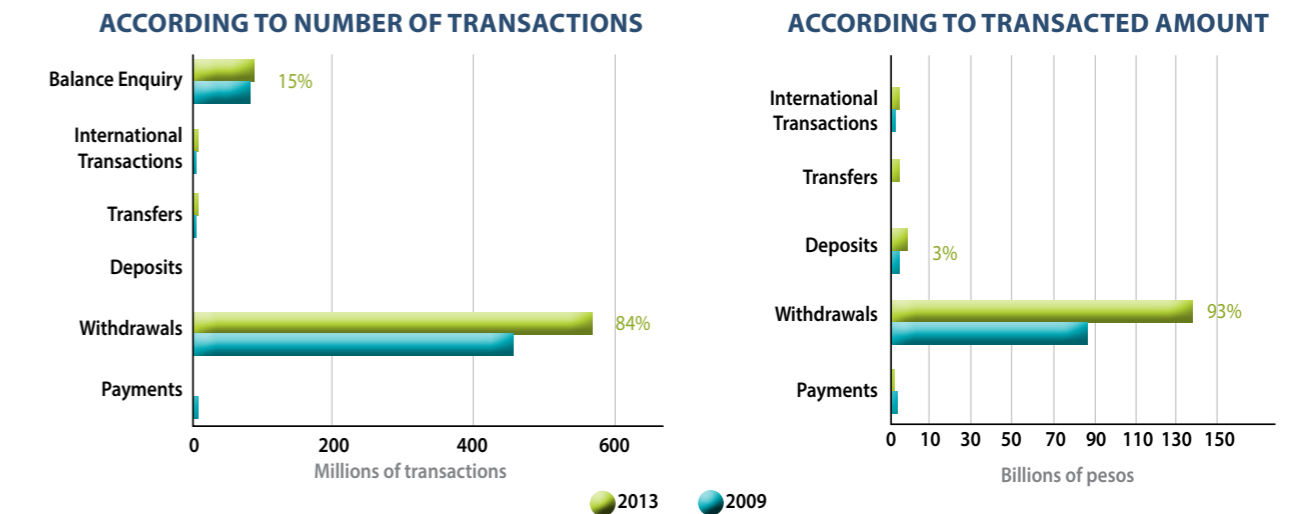
Source: SFC and BdO (Form 398)

2.1.2 Use of non-face-to-face channels

Automatic teller machines

Traditionally, automatic teller machines have been the most used channel to perform withdrawals and, to a lesser extent, to perform non-monetary transactions such as balance enquiries. Between 2009 and 2013, as the number of automatic teller machines increased as points of access (47% during the mentioned period), the number of withdrawal transactions through this channel increased 22% and the amount transacted increased by 55%. During 2013, 85% of the transactions performed were withdrawals, which accounted for 93% of the funds transacted through this channel. For its part, balance enquiry is the second most often performed (15% of the total transactions) after withdrawals.

CHART 29. TYPE OF TRANSACTIONS PERFORMED THROUGH AUTOMATIC TELLER MACHINES (ATM)

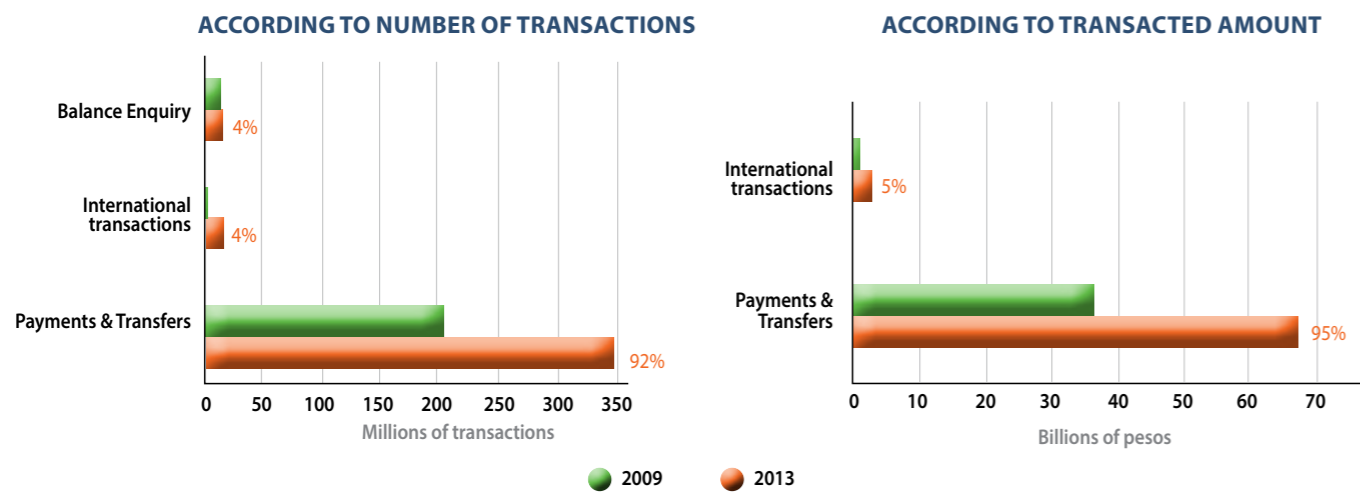


Source: SFC and BdO (Form 444)

Points of Sale (POS)

This channel recorded growth of 116% in number of points and 70% in number of transactions between 2009 and 2013 due to the generalized use of debit and credit cards as a substitute for cash payments; during 2013, this channel was mostly used for payments and transfers (92%). The total amount transacted through this channel corresponds to the amount reported for payments, transfers, and international transactions, which totaled COP 37 billion in 2009 and COP 70.4 billion in 2013.

CHART 30. TYPE OF TRANSACTIONS PERFORMED THROUGH POINTS OF SALE (POS)



Source: SFC and BdO (Form 444)

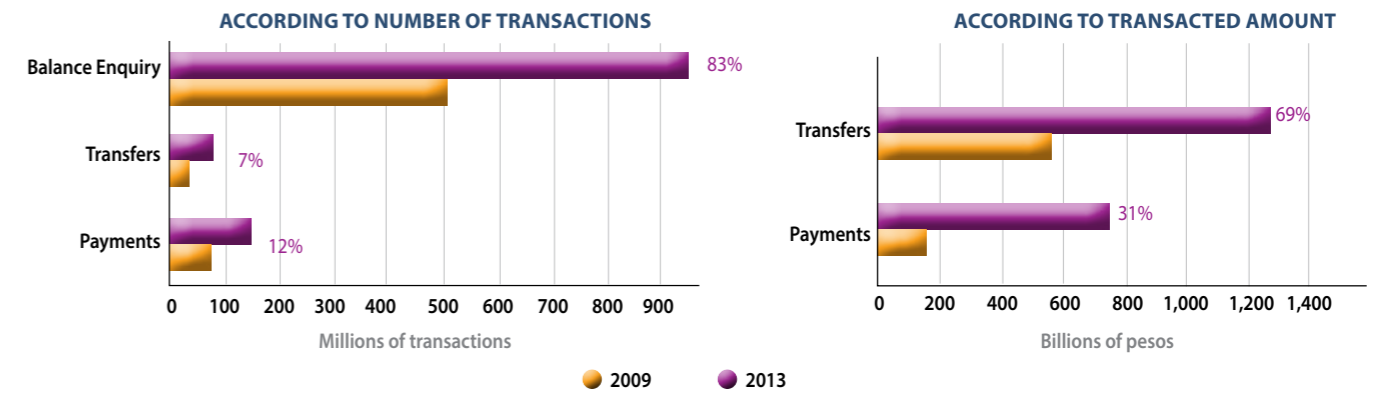
Internet

Compared to other transactional channels, the use of Internet has displayed one of the highest growth rates in recent years. This demonstrates the importance for financial services to use newly developed information and communication technologies that provide easy access channels such as Internet, and that also promote the use of financial products and services throughout the national territory.

The most performed transaction has been balance enquiry with growth of 96% between 2009 and 2013 and an 83% share of the total; it is followed, in order, by payments (12%) and transfers (7%). In terms of growth from 2012 to 2013, payments increased by 156% and transfers by 85%.

Since 2009, the amount transacted for payments has increased 276% and for transfers 69%. Despite the fact that, in 2013, the number of payment transactions was higher than that of transfer transactions, the total amount transacted for both of them is equivalent to 69% of the total amount transacted, the amount for payments being 31% which suggests that consumers prefer these channels because they are perceived as being more secure and trustworthy.

CHART 31. TYPE OF TRANSACTIONS PERFORMED THROUGH INTERNET

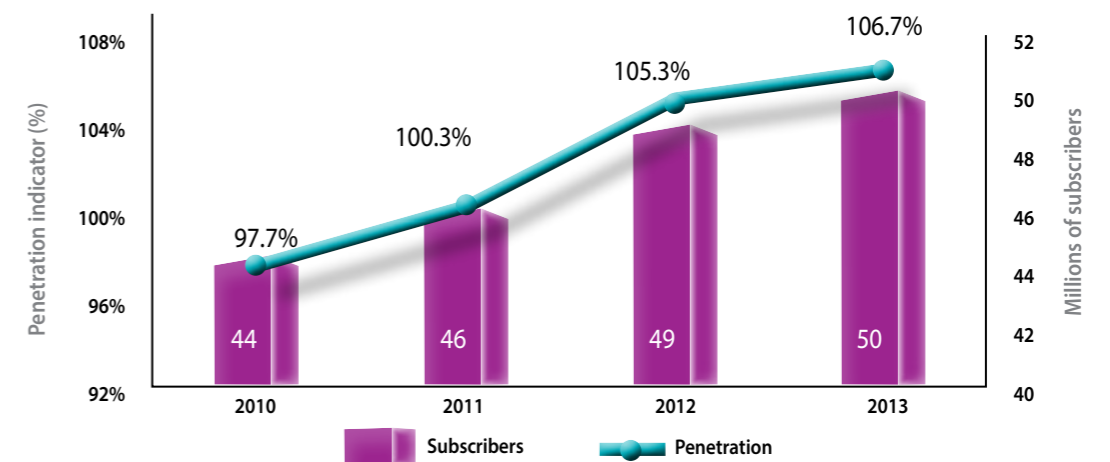


Source: SFC and BdO (Form 444)

Cellphones

Cellphones have been the fastest-growing channel in the last years. As of end-2013, this channel had a total 50,295,114 subscribers, with growth of 13% between December 2010 and 2013, and a penetration rate of 106.7% of the total population of Colombia. The number of subscribers versus the adult population as of 2013 indicates that each Colombian has 1.1 numbers subscribed²⁵.

CHART 32. NUMBER OF SUBSCRIBERS TO CELLPHONES SERVICE AND SERVICE PENETRATION

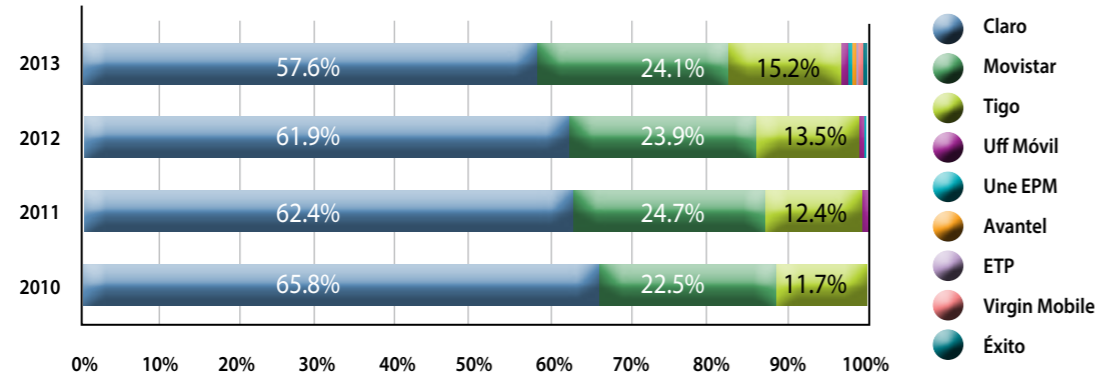


Source: Ministerio de Tecnologías de la Información y las Comunicaciones

The cellphone services providers with the greatest market share are Comcel (Claro) with an annual average of 62% in the last four years, followed by Movistar and Tigo with 24% and 13%, respectively.

25. Source: Ministerio de Tecnologías de la Información y las Comunicaciones (MinTIC)

CHART 33. SUBSCRIBERS SHARE BY CELLPHONE SERVICES PROVIDERS



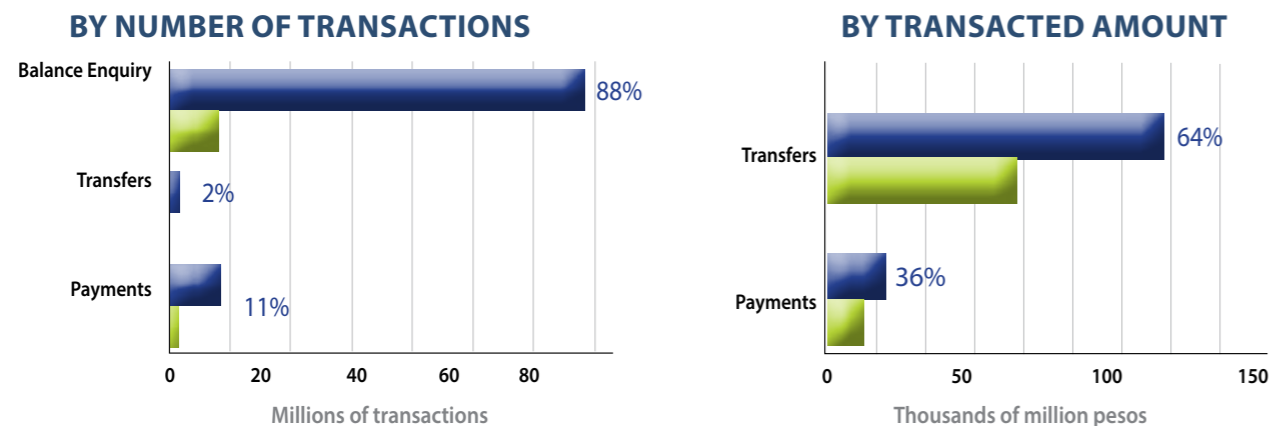
Source: Ministerio de Tecnologías de la Información y las Comunicaciones (MinTIC)

Taking advantage of the mobile services' capillarity, banks have been able to provide services related to transfers, balance enquiries, deposits, withdrawals, payment of obligations, remittance reception, cash transfers, and cellphone recharge and have promoted the use of products such as electronic money deposits and simplified procedure savings accounts that, as shown in the liability products section, have increased in a substantial manner in the last three years.

In 2013, the most frequent transactions performed through cellphones were balance enquiry with 88% of the total of transactions, followed by payment of obligations with 11%, and lastly transfers with a share of 2%. The number of transactions of these three types increased 742%, 1,893%, and 475% compared to 2009, respectively, partly due to the supply of new mobile banking services by some credit institutions.

The transaction that transacted the greatest amount of funds through this channel was transfers with 64% of the total amount transacted. In comparison to the data recorded in 2009, the amount transacted for transfers and payments increased by 473% and 414%, respectively.

CHART 34. TYPE OF TRANSACTIONS PERFORMED THROUGH MOBILE BANKING



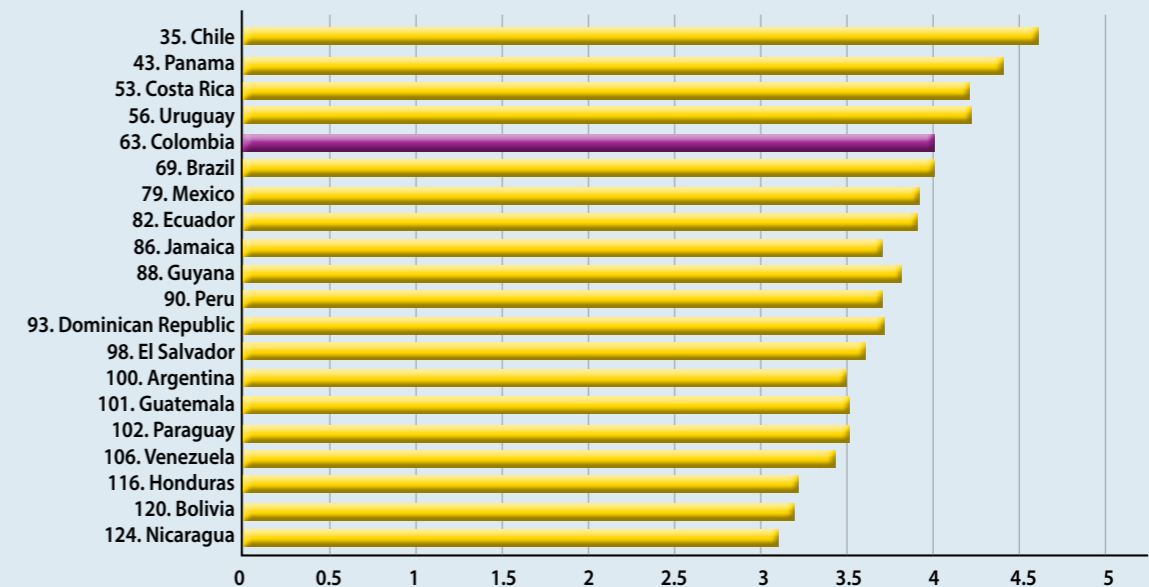
Source: SFC and BdO (Form 444)

Box 1. Readiness of Information and Communication Technologies for financial inclusion

In April 2014, the World Economic Forum published the Annual Global Report on Information Technology, where it presents, in a comparative manner for 148 economies, the Information and Communication Technologies (ICT) readiness indicator and other additional measures to get acquainted with the use and coverage situation in each of the countries included. The ICT readiness indicator (Networked Readiness Indicator-NRI) is measured within the 1-7 range, with 7 being the greatest readiness value, and includes four basic components: i) ICT environment, ii) society's readiness to use ICT, iii) use of ICT by different stakeholders, and iv) ICT's impact on the economy and on society.

The top 10 NRI countries are led by Finland (6.04), followed by Singapore (5.97), Sweden (5.93), Holland (5.79), and Norway (5.7). Latin American and Caribbean countries present NRI values lower than 5 out of 7. For example, Chile is the Latin American country with the highest indicator (4.61), and is ranked in 35th place among the 148 economies assessed. Colombia comes in 63rd place with a 4.05 indicator, surpassing countries like Brazil (place 69 and 3.98 NRI), Mexico (place 79 and 3.89 NRI) and Peru (place 90 and 3.73 NRI.)

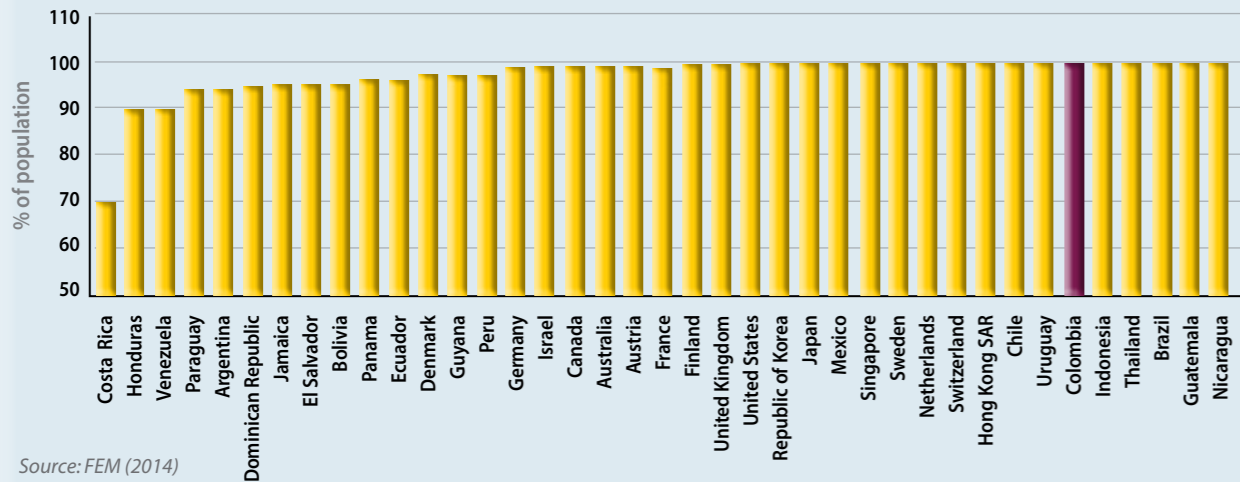
READINESS INDICATOR IN LATIN AMERICAN COUNTRIES



Source: FEM (2014)

The indicator includes availability of mobile network services and secure servers for the people. In terms of the former, Colombia is currently among the countries with mobile network coverage greater than 100% of the population. In terms of the number of secure servers for each million persons, Colombia (28.4) presents values lower than the values of developed countries like Holland (2,803.7), Switzerland (2,282.2), and Finland (1,612.6), and even lower than those of South American countries like Brazil (54.3), Uruguay (80.4), and Chile (82.2).

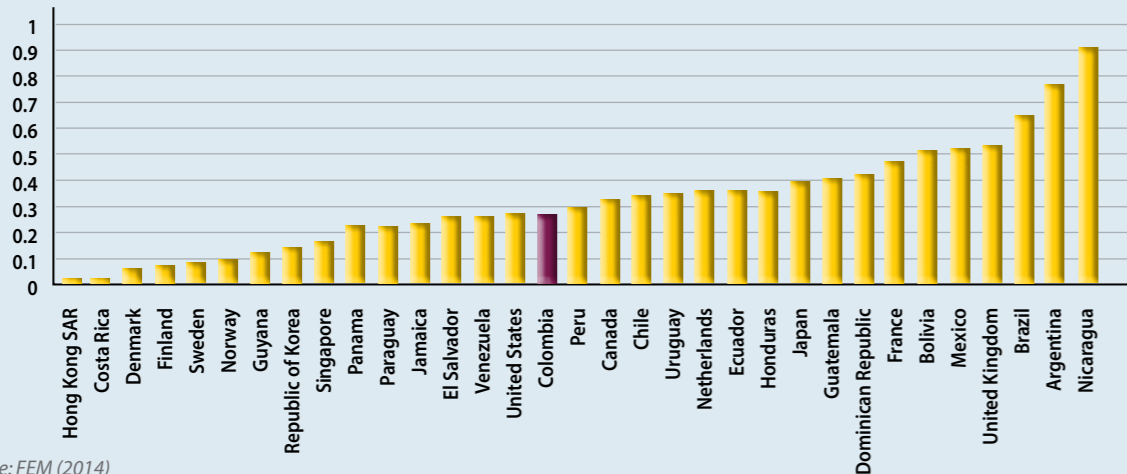
MOBILE NETWORK COVERAGE RATES



Source: FEM (2014)

Another factor considered is the rates for mobile services, which are also fundamental for people to have access to the benefits offered through such services, including inclusive financial services. The comparative analysis of rates in terms of Purchasing Power Parity (PPP) shows that Hong Kong SAR (0.02 PPP) and Costa Rica lead the group of assessed countries in terms of having the most affordable mobile service rates. For its part, Colombia shows a value of 0.27 PPP, higher than that of countries like Peru (0.3 PPP), Chile (0.34 PPP), and Brazil (0.91 PPP).

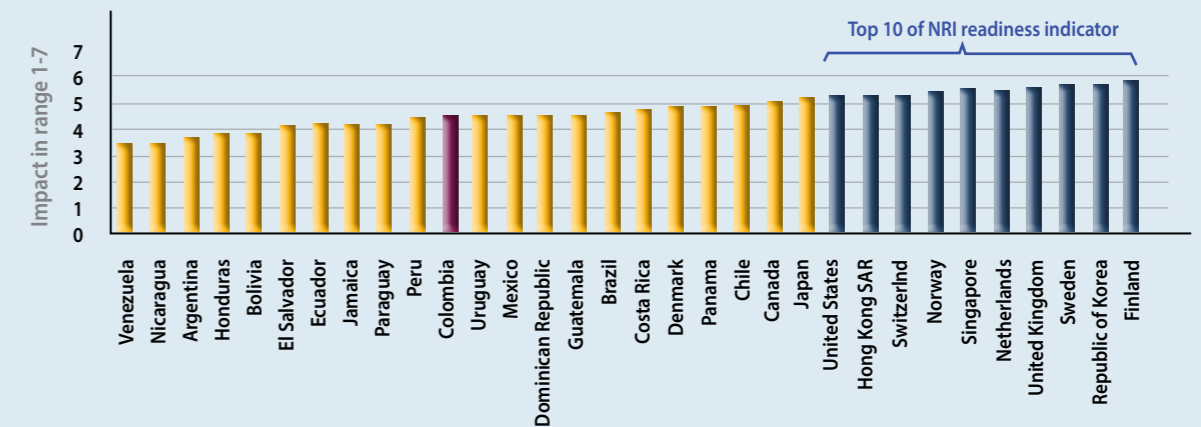
CELLPHONE SERVICES RATES (PPP-DOLLARS PER MINUTE)



Source: FEM (2014)

FEM also presents indicators of the extent the ICT influence the different countries in the creation of new products and services. Analyzing this indicator, we find that effectively the countries that are within the top 10 of the NRI readiness indicator are also the countries where the ICT have most influence on innovation. This shows the importance of generating high technology standards and their influence on the development and even access and use of qualified and inclusive financial products.

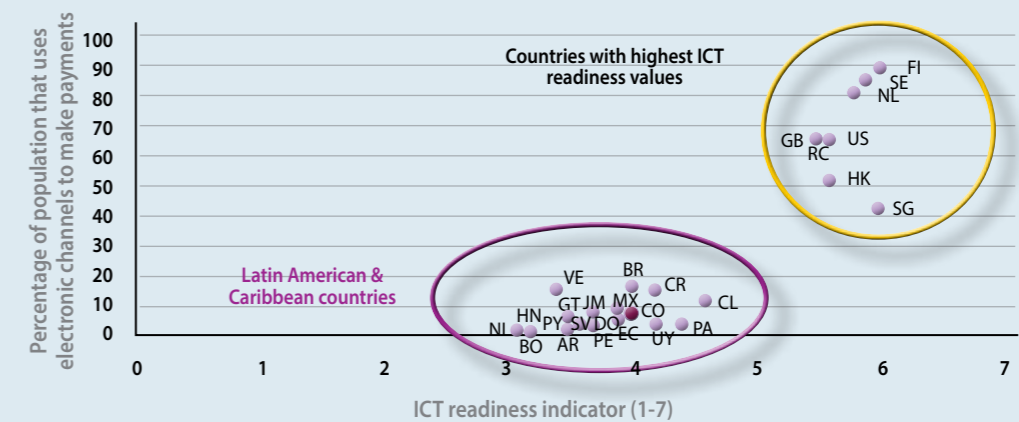
ICT IMPACT ON NEW PRODUCTS AND SERVICES



Source: FEM (2014)

In order to verify the above, we analyzed the impact that the ICT's readiness indicator NRI has on the indicator of use of electronic channels to make World Bank payments, observing that, in the countries that present greater ICT readiness (which are mostly European and Asian), people also use electronic services extensively to make payments in comparison to Latin American and Caribbean countries, which present lower ICT readiness.

ICT READINESS INDICATOR VS. USE OF ELECTRONIC CHANNELS TO MAKE PAYMENTS



Source: FEM (2014) and World Bank

2.2 TRANSFERS OF REMITTANCES

The 2012 Financial Inclusion Report described the main aspects of the remittances market at the national and international levels, demonstrating that the funds received on that account have great impact on the recipients' daily expenses and on their quality of life and are sensitive to factors such as the economic situation of the relatives in issuer countries and to the cost of cash transfers. It was also concluded that these funds have great potential as financial inclusion tools, both for Colombians abroad and for the recipients in Colombia; nevertheless, the need to design products that optimize the use of these funds and improve their permanence within the financial system has been pointed out.

In 2013, remittance flows have not completely recovered, despite having increased in comparison to 2012, particularly toward Latin American countries that receive the greatest volume of remittances from European countries like Spain and Italy. On the other hand, the costs of remittance transfers have displayed reductions in most of the studied destinations; this was a determinant factor in the use of transactional services for transfer and reception of remittances through the formal financial system.

This time, we have included aspects related to the manner in which Colombian migrants and migrants from other Latin American and Caribbean countries use financial products and services in United States and in their countries of origin. Despite the fact that the international crisis affected the transacted volume, these funds are still vital for the quality of life of the recipient families. Enabling them to use such funds according to their needs within the formal financial system represents one of the main tasks of the financial inclusion policies in Colombia.

Box 2. Economic situation of Latin America and the Caribbean migrants and remittance transfers in the post-recession period²⁶.

In April 2014, the Inter-American Development Bank submitted the report "Economic situation and remittance transfers of Latin America and Caribbean migrants in the post-recession period", compiling the results of surveys obtained from migrants from Colombia, Dominican Republic, Guatemala, Haiti, Honduras, Jamaica, Mexico, El Salvador, and native American issuers in order to analyze their current financial situation and the performance of remittance transfers during the economic crisis.

Among the main conclusions of this report, the following can be highlighted:

- a) The economic situation of migrants from Latin America and the Caribbean has not completely recovered, and they are still vulnerable in relation to income, savings, and debt levels.
- b) Remittance flows to the countries included in the report have recovered since 2009, displaying a 12% increase.
- c) Out of the surveyed migrants, 22% save in cash at home, 15% in a checking account, 26% in a savings account, 9% deliver the money to a relative for saving, 4% save by investing in other financial products, 3% acquire other types of assets, and 30% do not save. As for Colombian migrants, 42% do not save and 35% save in bank accounts.

- d) In terms of access to bank accounts, 66% of the surveyed persons report having bank accounts in the United States, and holding of these accounts is correlated with gender, education level, and time of permanence in the country. Access to bank accounts is greatest among Colombians (82% of those surveyed), Guatemalans (78%), and Jamaicans (76%).
- e) Out of the surveyed migrants, 76% report not using bank on-line services to monitor their accounts, and 13% use cellphones to access mobile banking services.
- f) The main reasons reported by migrants for not accessing bank accounts are: lack of documents, 48%; no need for one, 25%; mistrust in the financial system, 12%; insufficient funds, 7%; not knowing how to use it, 3%; credit problems or being overdrawn, 2%, and consider that the commissions or required minimum balance are too high. Colombian migrants do not access bank accounts for two main reasons: they do not have documents (53%) and they do not trust banks (18%).
- g) In terms of ownership of other financial products (whether in United States or in the country of origin), 7% of the surveyed persons report having a Deposit Certificate, 12% a personal loan, 37% medical insurance, 12% life insurance, 50% a credit card, and 6% prepaid cards.
- h) As for having products in the country of origin, 11% of the surveyed persons report having a savings account. Out of that 11%, 28% of the surveyed persons have checking accounts, 51% other savings accounts, 5% Deposit Certificates, 17% personal loans, 17% medical insurance, 9% life insurance, 17% a credit card, and 13% a debit card.

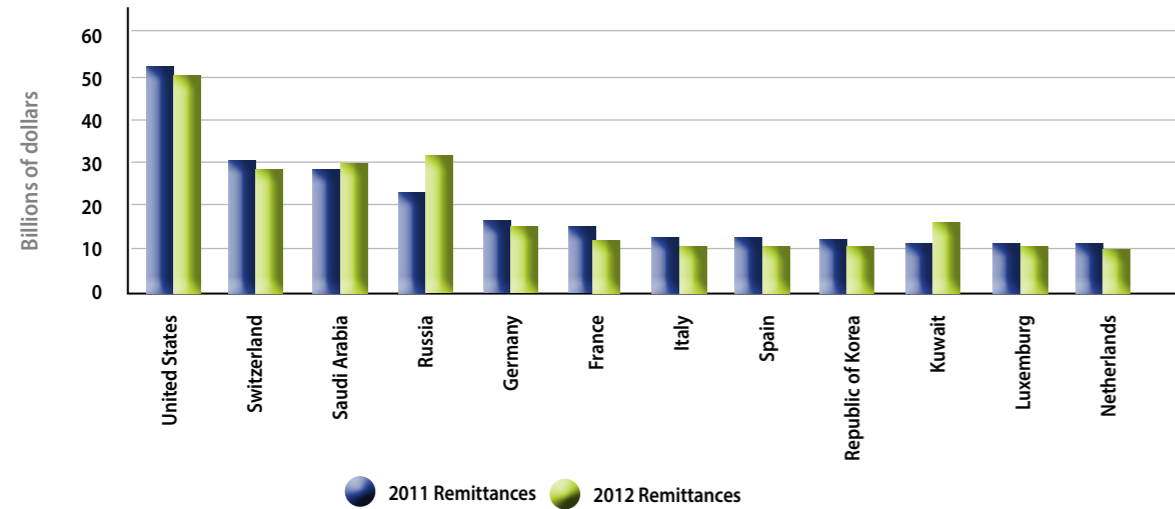
These conclusions confirm that, in the Colombian migrant population, there is a great potential of inclusion into the formal financial system with appropriate transactional products like savings accounts and even other products different from the traditional banking products (such as insurance and pensions) to improve their quality of life while away from Colombia.

2.2.1 Issuer and recipient countries

Due to its migrant experience and following the trend from previous years, United States is the country that sends the greatest amount of remittances to other countries. During 2012, the funds sent from that country decreased 1% compared to 2011. Nevertheless, this reduction was more accentuated in countries such as Spain (19%), Italy (17%), Korea (16%), and France (16%). In contrast, countries like Russia and Kuwait recorded substantial increases in the flow of remittances sent with 39% and 35%, respectively.

26. Inter-American Development Bank (2014)

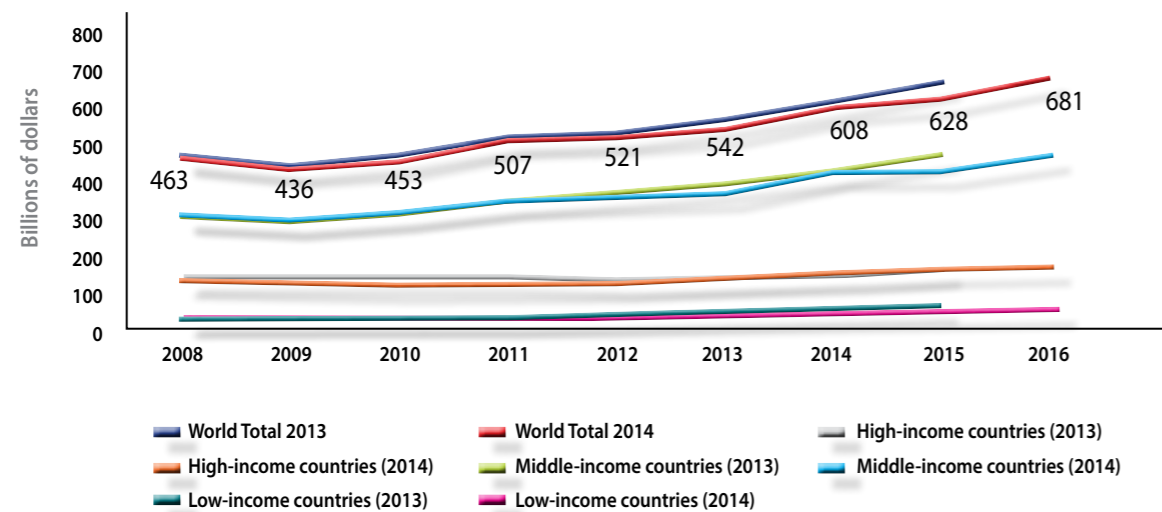
CHART 35. MAIN ISSUER COUNTRIES OF REMITTANCES - 2012



Source: World Bank

In 2013, USD 542 billion remittances were transacted worldwide, a 4% increase compared to the total of 2012. New information on the performance of world economies led to reduced optimism on the expectations international organizations –such as the World Bank– had last year regarding global remittances in the near future. While it was expected that, in 2015, this flow would be USD 665 billion, the new forecasts predict that remittances will not be more than USD 628 billion that year. This effect is particularly reflected in medium income countries, where flows of USD 469 billion have been forecast for the mentioned year, and this value has been adjusted to USD 433 billion.

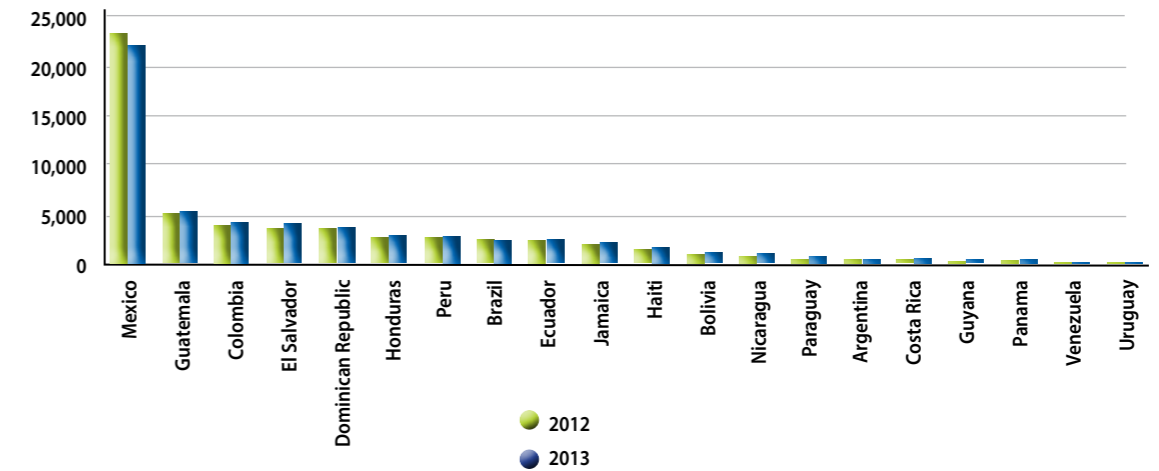
CHART 36. ESTIMATE AND FORECAST OF WORLD REMITTANCE FLOWS BY INCOME LEVEL (2008-2016)



Source: World Bank

Total remittance inflows to Latin America and the Caribbean in 2013 reached USD 61 billion, a 1.9% increase compared to 2013. Flows to Mexico decreased by 5% during 2013, and remittances to Colombia, Peru, Ecuador, Paraguay, Bolivia, and Argentina, whose main issuer country has been Spain, have not fully recovered yet despite positive results.

CHART 37. REMITTANCES TO LATIN AMERICAN AND CARIBBEAN COUNTRIES (MAY 2013)

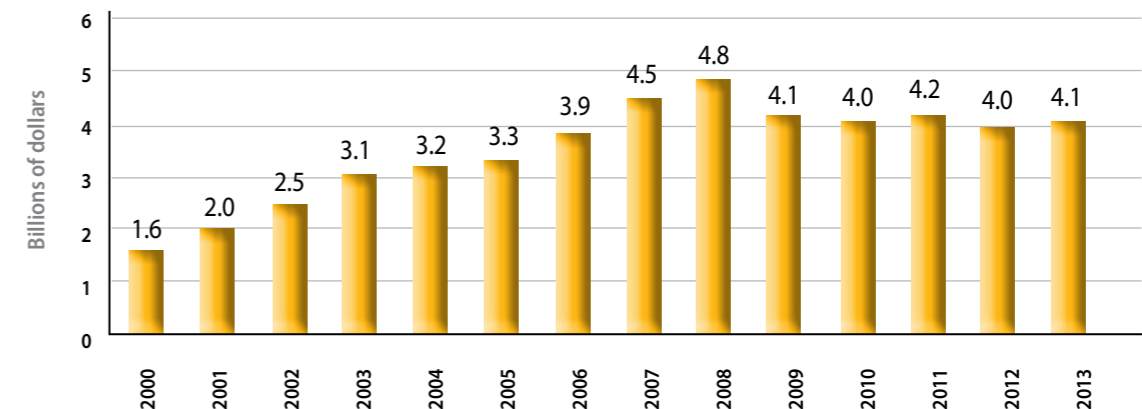


Source: World Bank

2.2.2 Remittances in Colombia

Remittances to Colombia increased during 2013, although they have not yet reached the amount recorded in 2008; this performance is consistent with the fact the Colombian population residing abroad has not yet been able to stabilize their income following the crisis of the previous years.

CHART 38. EVOLUTION OF REMITTANCE FLOWS TO COLOMBIA



Source: Banco de la República

As opposed to the last six years, when the main remittance issuer to Colombia was Spain, the main issuer country in 2013 was United States with USD 1,527 million sent during 2013, a 9% increase for the year. For the first time since 2005, cash transfers originating in Spain did not surpass 1,000 million Dollars. For their part, cash transfers originating in Chile increased 50% and, on the contrary, those from Italy decreased 7%.

CHART 39. MAIN COUNTRIES ISSUING REMITTANCES TO COLOMBIA

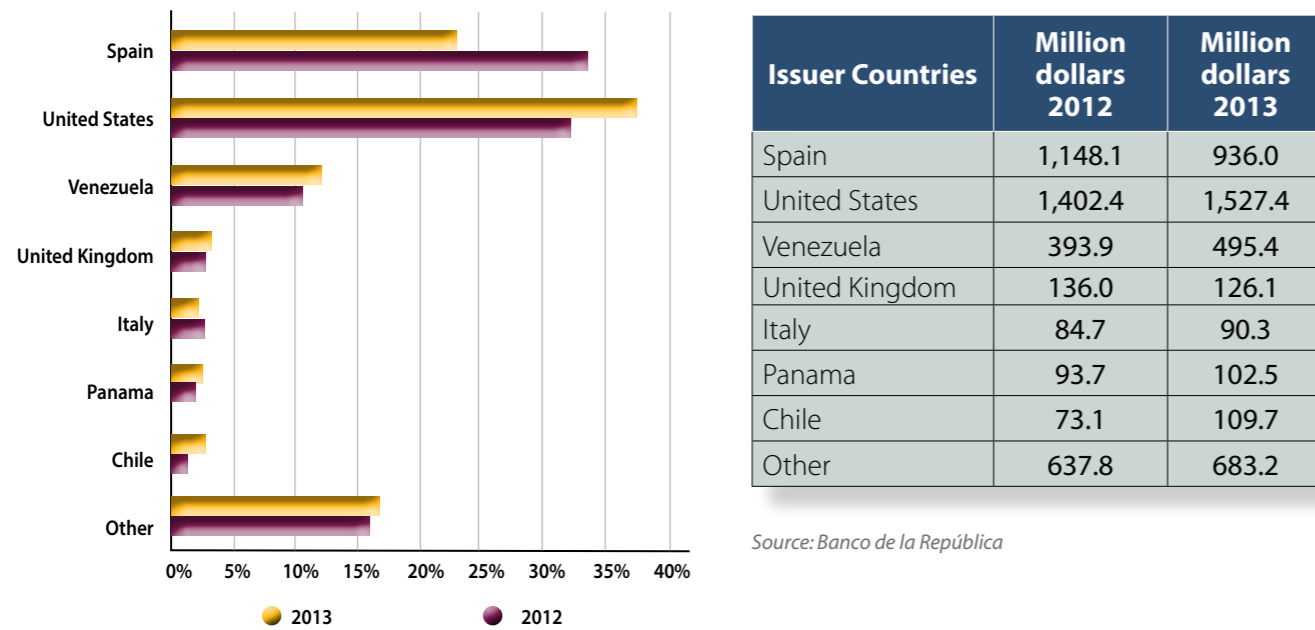
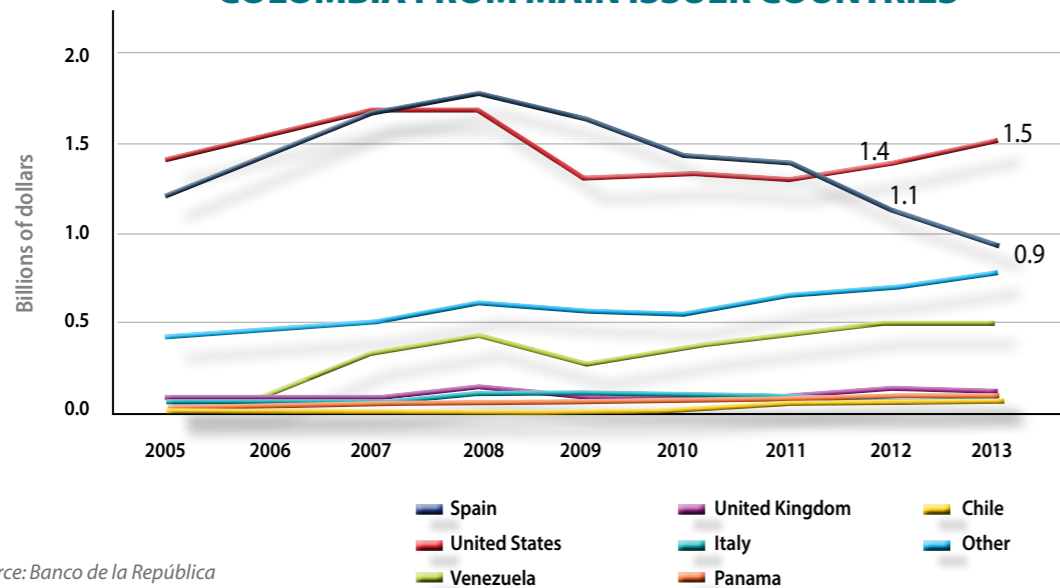
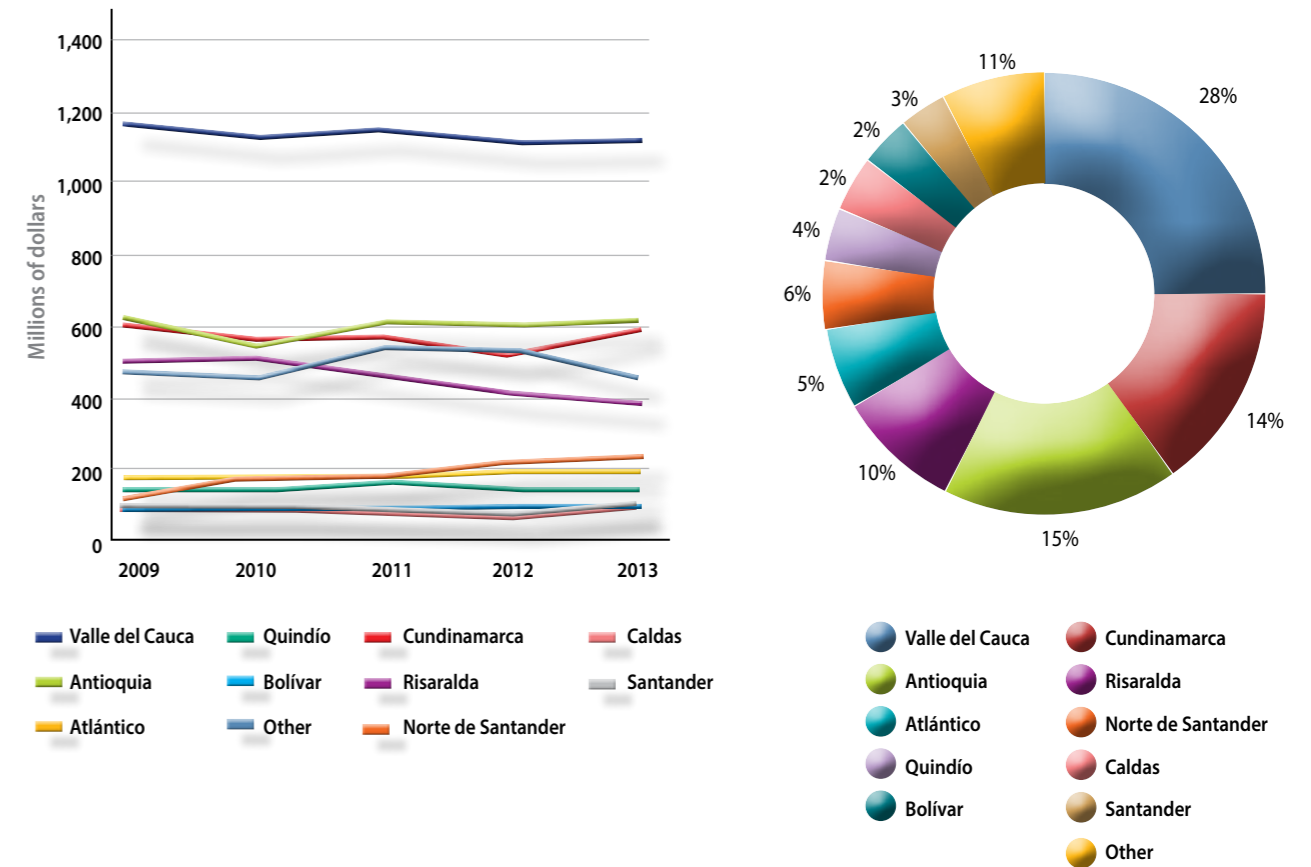


CHART 40. EVOLUTION OF REMITTANCE FLOWS TO COLOMBIA FROM MAIN ISSUER COUNTRIES



Distribution of remittance income in the regions of the country has been stable during the last years, with Valle del Cauca being the department that receives the largest proportion of remittances in Colombia (28%), followed by Antioquia (15%), Cundinamarca (14%), and Risaralda (11%).

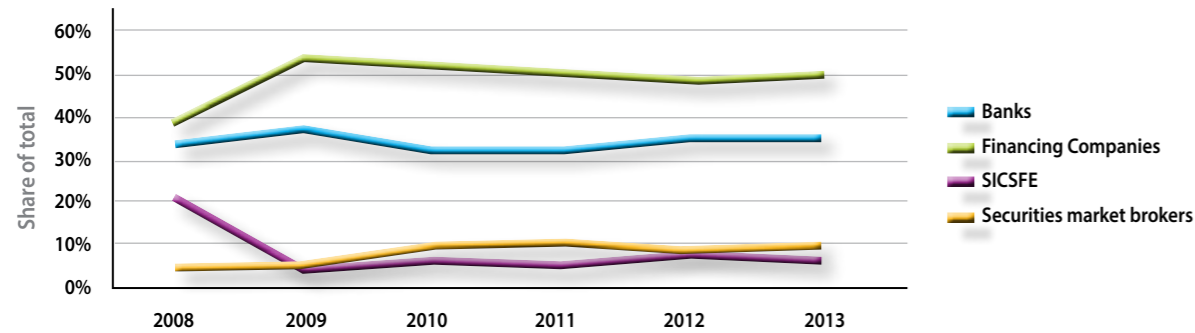
CHART 41. EVOLUTION OF REMITTANCE FLOWS BY DEPARTMENT IN COLOMBIA



2.2.3 Channels and means of payment

As was also the case in previous years, among the remittance payers existing in Colombia, Financing Companies continue having the largest share with 49% of the total amount of the transacted cash transfers. The banks' share of the total was 35% and the shares of Currency Exchange Intermediation and Special Financial Services Companies (Sociedades de Intermediación Cambiaria y de Servicios Financieros Especiales - SICSE in Spanish) and the Securities Market Brokers was 7% and 9%, respectively.

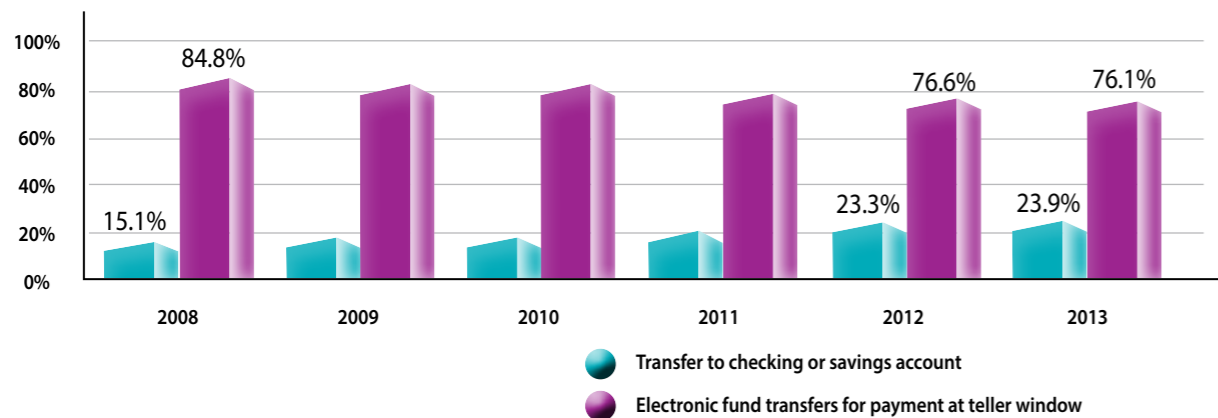
CHART 42. SHARE OF CURRENCY EXCHANGE INTERMEDIARIES IN REMITTANCE PAYMENTS



Source: Superintendencia Financiera de Colombia -SFC

Despite having increased in comparison to 2012, remittance payments to recipients in Colombia through credits to account are still much lower (with 23.9% of the total of cash transfers) than payments made directly at the cashier's window (76.1% of the total of cash transfers). This demonstrates that there is still a long way to go for the funds channeled through the formal financing system to remain in the system and promote savings and the use of transactional channels to perform payments according to the recipients' needs.

CHART 43. REMITTANCE PAYMENT CHANNELS



Source: Banco de la República

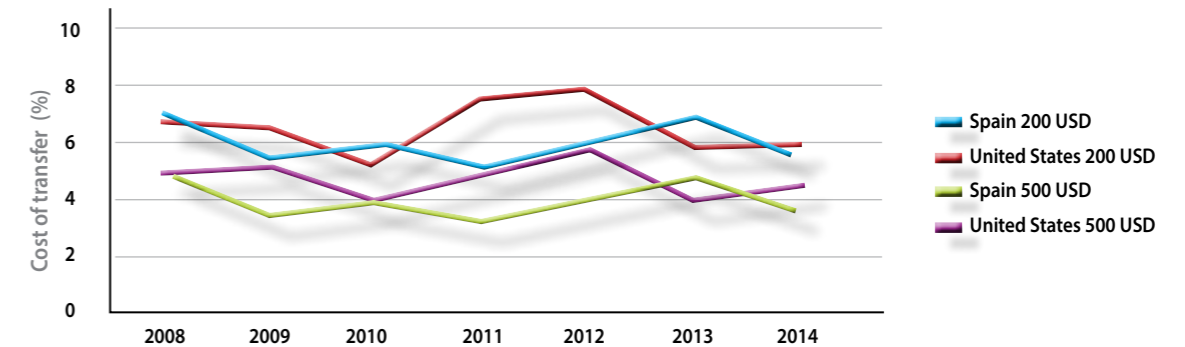
2.2.4 Costs of remittance transfers

The volume of cash transfers and the competition level in the markets, including transparency of costs and intermediary sufficiency measures, are the main determinants of the average cost of cash transfers. According to the World Bank, the arbitrary application of regulations related to Money Laundering and Financing of Terrorism (AML/CFT) are barriers for the entrance of new competitors and innovating technologies into the market and prevent transfer costs from further decreasing²⁷.

27. World Bank (2014). Migration and Development Brief 22.

Since 2014, the cost of transfers from Spain to Colombia decreased to 5.6% from 6.8% in 2013, while the cost of transfers from United States to Colombia did not have any significant variation. It is appropriate to point out that, in 2013, money transfers from United States to Colombia were more expensive than those from Spain, since they recorded a transfer cost of 5.9% of the sent amount.

CHART 44. COMPARISON OF REMITTANCE TRANSFER COSTS FROM UNITED STATES AND FROM SPAIN TO COLOMBIA



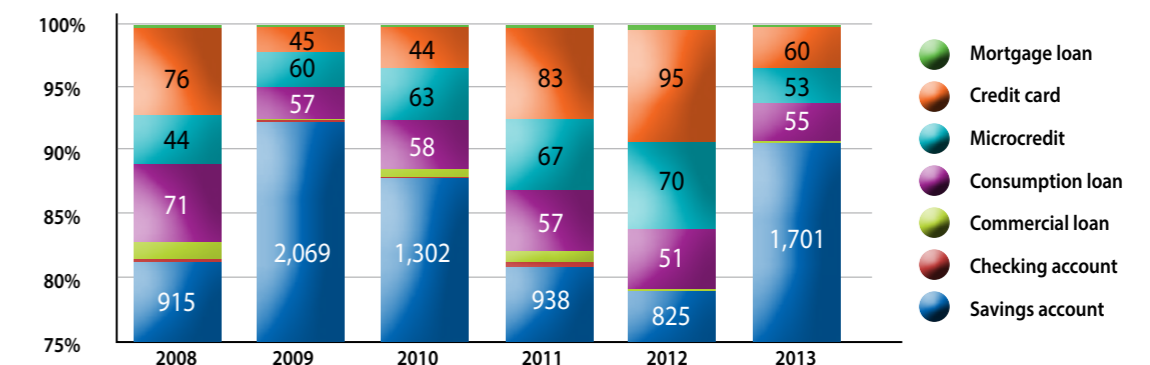
Source: World Bank

2.3 FINANCIAL INCLUSION DURING 2013: LIABILITY AND ASSET PRODUCTS

During 2013, a total of 1,872,482 Colombians joined for the first time the financial system; of these, 1,701,000 (91%) get into the system through saving accounts. This represents a 106% increase compared to the 825,000 persons that joined through savings accounts in 2012.

On the asset side, the number of persons joining the system through credit cards and microcredit decreased, from 95,000 in 2012 to 60,000 in 2013 in the first case, and from 70,000 to 53,000 in the second. This performance is consistent with the credit portfolio trend which showed much more moderate growth in 2013 in comparison to 2011 and 2012; the consumption (including credit cards) and microcredit portfolio in particular experienced substantial growth during those years.

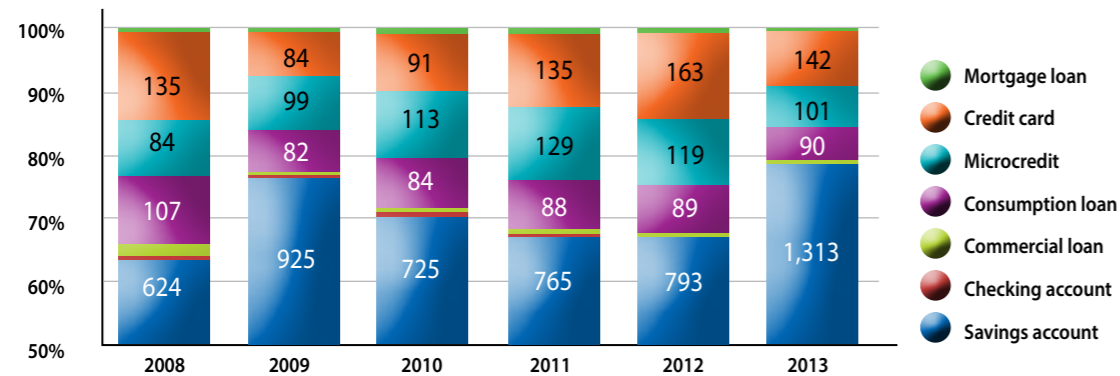
CHART 45. FINANCIAL PRODUCT OF ENTRY INTO THE FINANCIAL SYSTEM (THOUSANDS OF PERSONS)



Source: CIFIN

Once people have joined the system, the second financial product Colombians most frequently acquired in 2013 was still the savings account (79%), followed by credit cards (9%) and microcredit (6%). It is worth mentioning that the share of commercial loans as the second product has been losing ground over the years, given that in 2008 they represented 2% of the total, but 0% in 2013; this trend is consistent with the trends of the commercial portfolio.

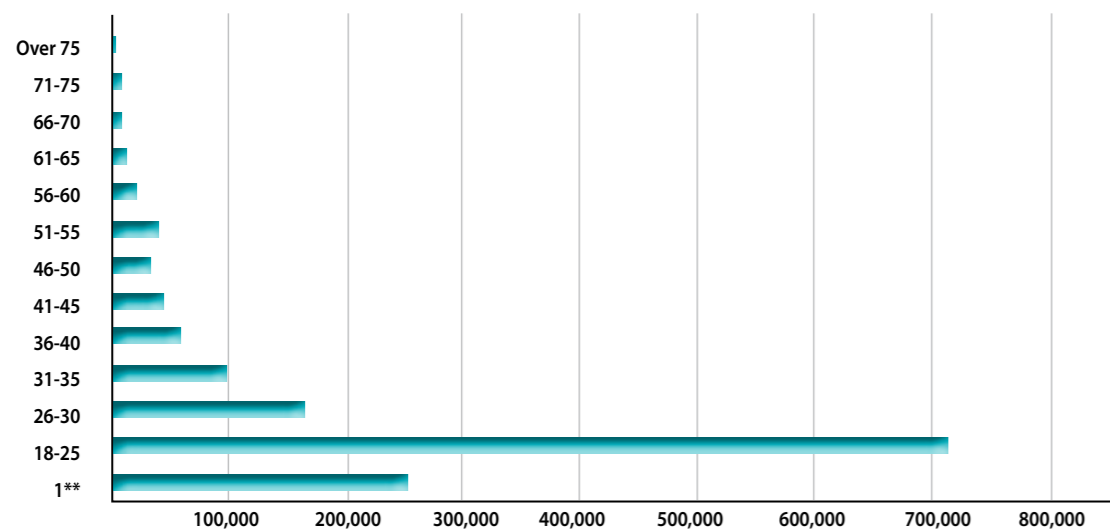
CHART 46. SECOND PRODUCT ACQUIRED (THOUSANDS OF PERSONS)



Source: CIFIN

Analyzing financial inclusion by age range in 2013, we observe that adults between the ages of 18 and 25 are the second segment of the Colombian population with the highest level of inclusion (for the first time) with close to 700,000 financial products acquired; this can be explained by the entry of this age group into their first jobs and into higher education.

CHART 47. INCLUSION 2013 BY AGE RANGE

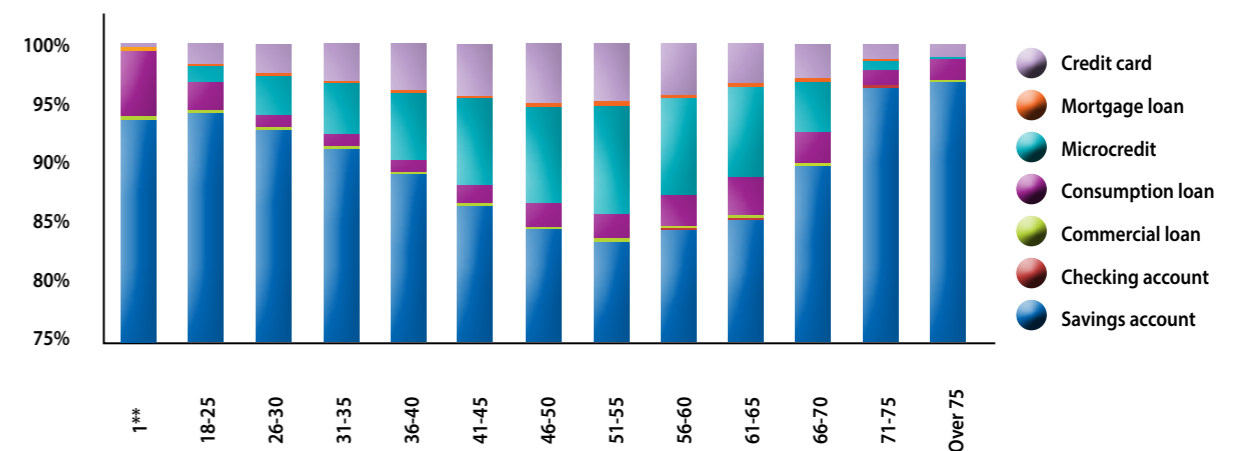


**Note: The value of range 1 corresponds to customers having a type of identification document different from the citizenship card. Source: CIFIN

The distribution of product of entry is different for individuals of different age groups. While the savings account is the most popular entry product for all ranges, its share decreases as the age increases up to the age range of 51 to 55; from this point on it increases again. The opposite occurs for microcredits and credit cards.

This distribution indicates that access to credit is correlated with age range and that in the economically active population groups, between the ages of 30 and 60, greater use or access to credit has been observed. The credit type that shows a greatest participation of the population older than 70 years old is consumption, which may be explained by the fact that payroll loans for pensioners is one of the products offered to this segment by credit institutions.

CHART 48. INCLUSION 2013 BY AGE RANGE AND TYPE OF PRODUCT



**Note: The value of range 1 corresponds to customers having a type of identification document different from the citizenship card. Source: CIFIN

2.4 USE OF LIABILITY FINANCIAL PRODUCTS

2.4.1 Savings and transactional liability products

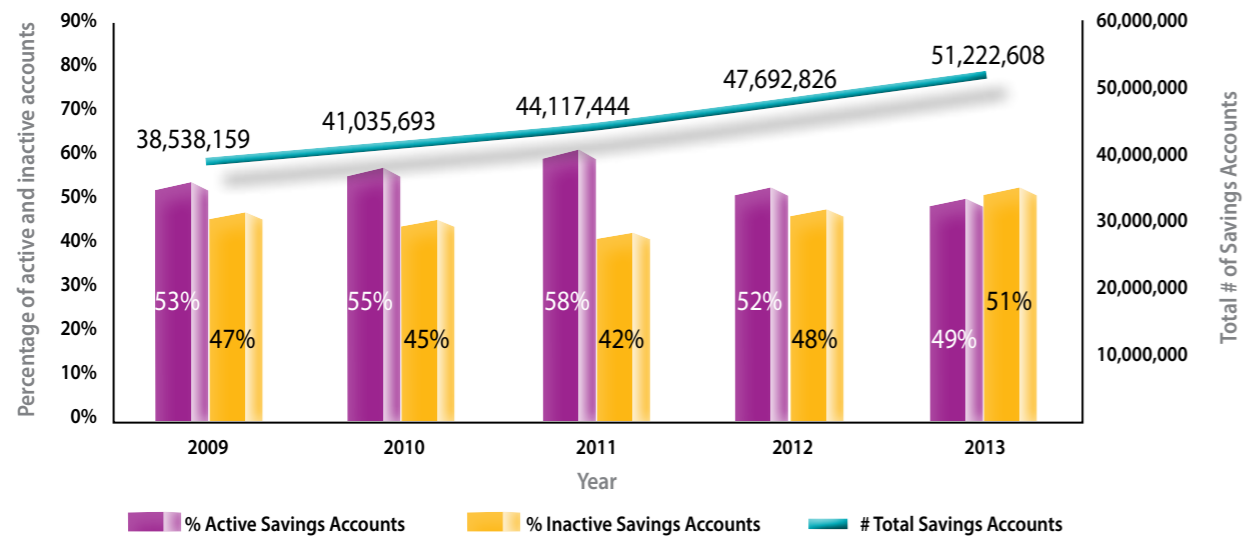
Considering that savings allow people to accumulate funds to carry out different activities and fulfill their goals, the savings account product is an especially important instrument for financial inclusion. For this reason, it is necessary to design and offer financial products that are aligned with the real needs of the people; also, these products must confirm the benefits obtained from participating in the financial system. In this sense, it is necessary to generate strategies and mechanisms to promote the inclusion of people in the financial system and the permanent use of this product.

As of year-end 2013, the number of savings accounts reached 51.2 million and, although the number increased, the growth trend has remained stable, with average annual growth of 7,4% in the last four years, equivalent to an average of 3 million new accounts per year.

Notwithstanding the above, the performance related to savings account activity indicates that as of year-end 2013, 51% of the accounts did not report any activity in the last six months (they remained inactive.) That percentage increased by 3 points compared to the data recorded in 2012.

In this sense, while in 2013 the total number of savings accounts increased to 3.5 million, the number of inactive accounts increased to 3.4 million. In the last two years, the growth of inactive accounts has surpassed the growth of the active ones, which reveals the need for the financial institutions to design innovating savings products or to generate adequate incentives for the financial consumer to optimize the use of savings accounts.

CHART 49. NUMBER AND GROWTH OF SAVING ACCOUNTS



Source: SFC (Form 459) and BdO. Including electronic saving accounts (CAE, in Spanish)

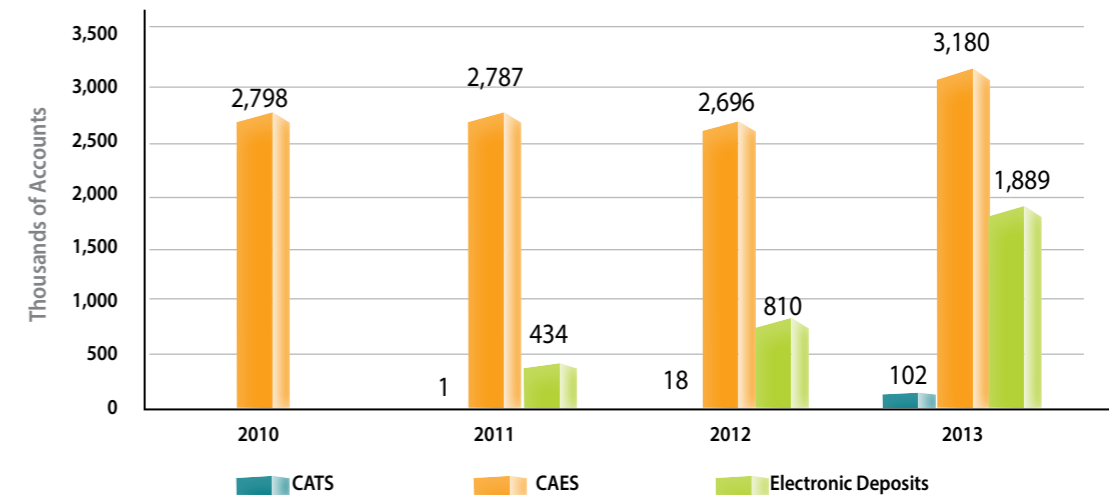
On analyzing the number of simplified procedure savings accounts (CATS, in Spanish) and electronic deposits, it was found that they had a favorable trend during the last year, partly explained by legal adjustments that have been introduced²⁸. Through the new instructions given by the SFC, in the case of the simplified procedure for opening savings accounts, among other adjustments, the limit of debit transactions per calendar month was increased to 3 legal minimum wages, and the SFC authorized having a savings account with those characteristics in each financial institution, not only one in the financial system as was the previous rule. Likewise, the simplified procedure plan was also implemented for opening electronic deposits.

The number of CATS reported by the two banks offering the product increased to 102,000, with growth of 453% compared to 2012, and for the electronic deposits, the increase was 133%, reaching 1.9 million accounts. An important part of this growth is explained by the assistance provided to the people through the Government program “Más Familias en Acción” managed by the Department for Social Prosperity (Departamento de Prosperidad Social - DPS, in Spanish).

This program also has influence on the performance of electronic savings accounts (CAE, in Spanish), which increased to 2.8 million, equivalent to an annual growth of 16%. CAEs follow the performance trend of all the savings accounts because 42% of them have been inactive since December 2012. The above result has been influenced by the fact that new persons joined the “Más Familias en Acción” program, and some of the people who had already joined left it because they had not fulfilled the established conditions. In the latter case, when the people left the “Más Familias en Acción” program, they stopped using the accounts.

28. External Circular Letters 7 and 13 of 2013.

CHART 50. SIMPLIFIED PROCEDURE SAVINGS ACCOUNTS (CATS), ELECTRONIC SAVINGS ACCOUNTS (CAES), AND ELECTRONIC DEPOSITS

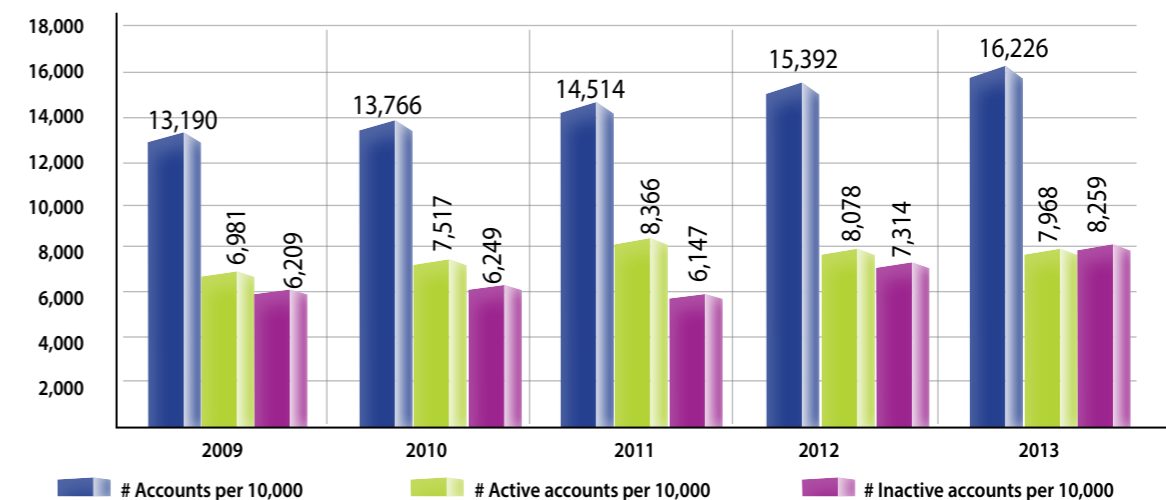


Source: CIFIN, SFC and BdO (Form 398)

In terms of savings accounts for each 10,000 adults, this ratio was 16,226, which indicates that for each adult there are an average of 1.6 savings accounts and that there was an upward trend during the analyzed period.

Nevertheless, if only the accounts that are active in the financial system are taken into account, this indicator decreases almost 50% to 7,968, thus showing a reduction compared to the last two years.

CHART 51. TOTAL AND ACTIVE SAVINGS ACCOUNTS FOR EACH 10,000 ADULTS



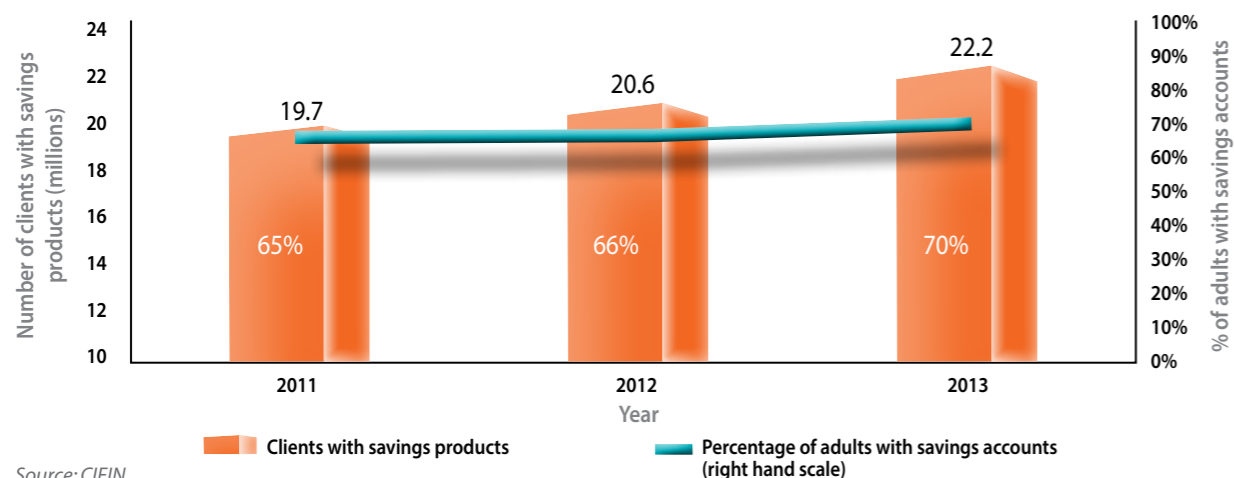
Source: SFC (Forms 398 and 459), BdO and DANE. Including CAES

Additionally, 22.2 million adults have at least one savings account in Colombia, representing coverage of 70% of the adult population and an increase of 1.6 million accounts in comparison to 2012.

Notwithstanding the above, when reviewing the activity of the adults' accounts, we find that 14.1 million have an active savings account. From this information, it can be concluded that close to 8 million persons (36% of the adults) that at some point opened a savings account have not used it in the last six months.

Consequently, the challenge is still to achieve financial inclusion by generating long term relationships; to this end, it is necessary to implement mechanisms and incentives so that people not only have access to but also use the savings products provided by credit institutions.

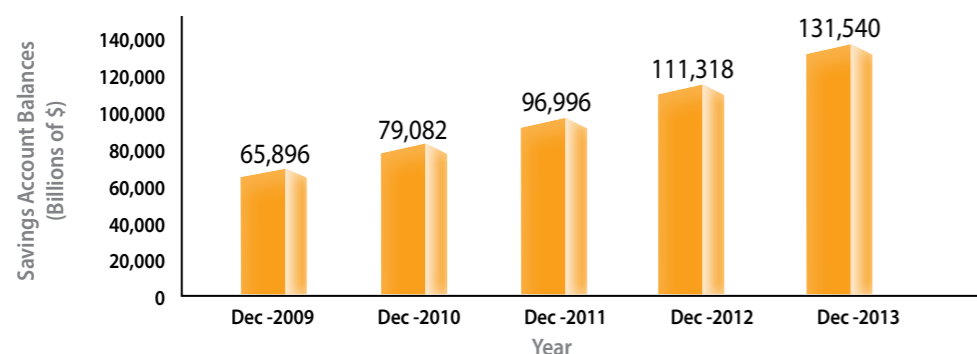
CHART 52A. EVOLUTION OF NUMBER OF CUSTOMERS WITH SAVINGS PRODUCTS



Source: CIFIN

The savings accounts balance reached COP 131.5 billion as of year-end 2013, representing a real increase of 15.9% during the last year. On analyzing the growth of the asset accounts, we find that they were also surpassed by the growth in balances, which suggests that there is greater funds movement in terms of balances in the existing accounts and that the persons that already have accounts are saving more.

CHART 52B. EVOLUTION OF ACCOUNT BALANCES



Source: SFC (Forms 398 and 459) and BdO. Including CAES

Banks are still the most important intermediaries in terms of obtaining funds from the public through savings accounts with a share of 94%, followed by SES cooperatives, which accounted for 3.8%. The greatest increase during the last year in terms of number of accounts occurred in banks, which grew by more than 3.2 million accounts, a number similar to the number recorded in 2012. In disaggregating this amount, we find that the CAES had an annual growth of 18%, which implies that they added over 484,000 new accounts.

TABLE 23. EVOLUTION IN THE NUMBER OF SAVINGS ACCOUNTS BY TYPE OF INSTITUTION

Year	Banks	CAES	Banks (Including CAES)	Financing Companies	Financial Cooperatives	SES Cooperatives	SFC Cooperatives	TOTAL
Dec-2009	36,248,621	0	36,248,621	119,221	88	1,389,478	780,751	38,538,159
Dec-2010	35,811,662	2,798,461	38,610,123	199,335	105	1,433,698	792,432	41,035,693
Dec-2011	38,741,193	2,787,252	41,528,445	263,519	148	1,636,909	688,423	44,117,444
Dec-2012	42,100,624	2,696,161	44,796,785	379,353	174	1,803,032	713,482	47,692,826
Dec-2013	44,871,098	3,180,284	48,051,382	515,654	347	1,951,527	703,698	51,222,608
Share of total 2013	87.6%	6.2%	93.8%	1.0%	0.0%	3.8%	1.4%	

Source: SFC (Forms 398 and 459) and BdO. Including CAES

The analysis of balances recorded by type of financial institution indicates that 98% were concentrated in banks and 1.2% in SES cooperatives. It is important to mention that the increase recorded in the bank account balances was close to COP 20 billion, which is equivalent to a real increase of 8% in the last year. Additionally, even though the balances of the CAES are relatively smaller, their variation in real terms was 45%.

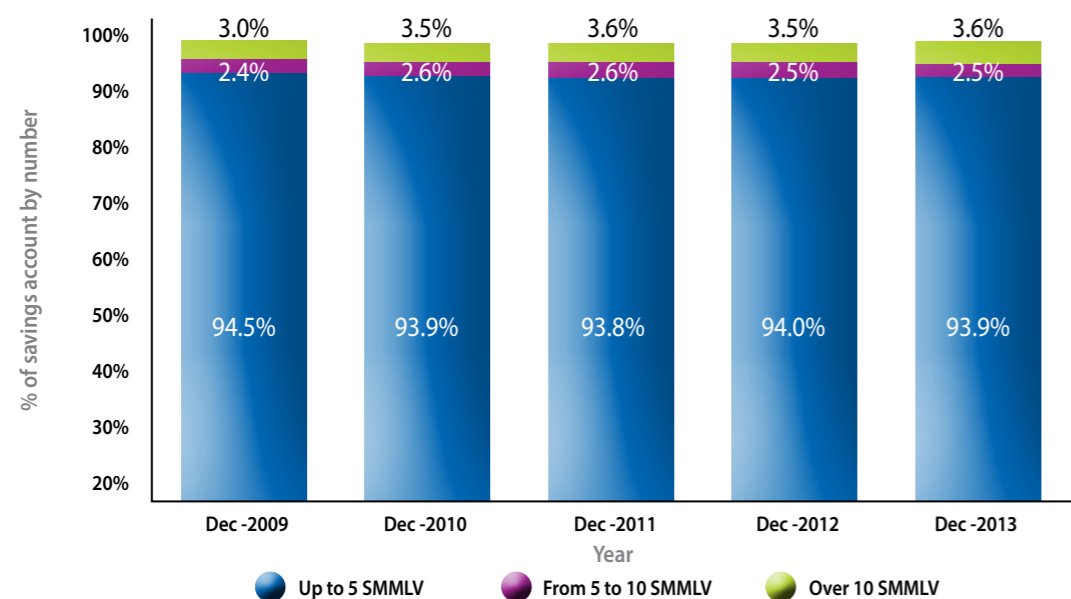
TABLE 24. EVOLUTION OF SAVINGS ACCOUNT BALANCES

Year	Banks	CAES	Banks (Including CAES)	Financing Companies	Financial Cooperatives	SES Cooperatives	SFC Cooperatives	TOTAL (millions of COP\$)
Dec-2009	64,167,636	0	64,167,636	46,652	168,711	1,001,057	511,780	65,895,836
Dec-2010	77,113,299	34,322	77,147,621	71,124	75,553	1,183,416	604,138	79,081,853
Dec-2011	94,986,267	32,206	95,018,472	105,918	97,820	1,391,837	382,437	96,996,484
Dec-2012	108,892,911	55,147	108,948,058	125,320	373,597	1,438,474	432,835	111,318,284
Dec-2013	128,858,919	81,756	128,940,674	160,802	394,197	1,596,772	447,105	131,539,550
Share of total 2013	98.0%	0.1%	98.0%	0.1%	0.3%	1.2%	0.3%	

Source: SFC (Forms 398 and 459) y BdO. Including CAES

In order to get a closer look at the savings account profiles, a segmentation was made in function of the balance at the end of every period, where it was observed that close to 94% of the savings accounts have historically had balances lower than 5 legal minimum wages (an average of COP 293,965, as displayed in Table 25 below). Those accounts accounted for close to 4.2% of all the funds obtained through this product.

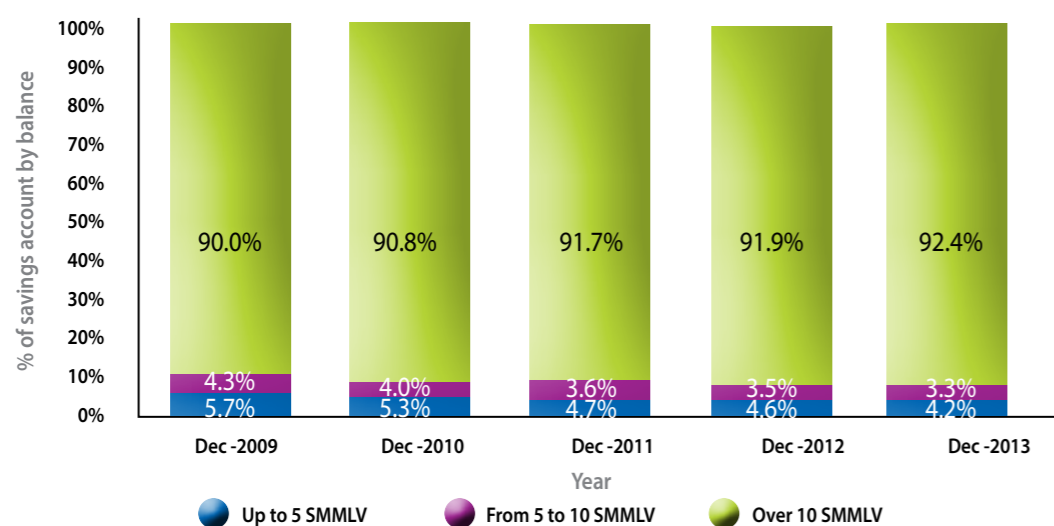
CHART 53A. DISTRIBUTION OF NUMBER OF ACCOUNTS BY BALANCES



Source: SFC (Form 459) and BdO. Not including CAES

The analysis of accounts with balances greater than 10 legal minimum wages suggests that their share increased to 3.6% of the total of savings accounts; this share has remained stable during the last 5 years. In spite of its low share, their balance increased to 92.4% of the total of recorded savings deposits, which represents an increase compared to the previous years.

CHART 53B. DISTRIBUTION OF BALANCES BY RANGE



Source: SFC (Form 459) and BdO. Not including CAES

In assessing the average balance of savings accounts by range we find that the average balance increased to COP 127,463 in accounts with balances of up to 5 legal minimum wages. Nevertheless, considering only the active accounts in this same range, the average balance reached COP 293,965. In the last four years, these average amounts have grown by COP 8,871 and COP 48,263, respectively.

TABLE 25. AVERAGE BALANCE IN SAVINGS ACCOUNTS

Ranges	Average Balance	Average balance active accounts
Up to 5 SMMLV	127,463	293,965
From 5 to 10 SMMLV	3,682,039	4,036,552
Over 10 SMMLV	72,897,311	107,616,577

Source: SFC (Form 459) and BdO. Not including CAES

By type of institution, the average balance of financing companies is COP 311,841; while the average balance in the cooperatives supervised by the SFC is COP 635,365, in the banks it is COP 2.7 million and, for their part the financial corporations have balances of more than COP 1,136 million (it must be clarified that 94% of this type of institution's accounts belong to legal entities.)

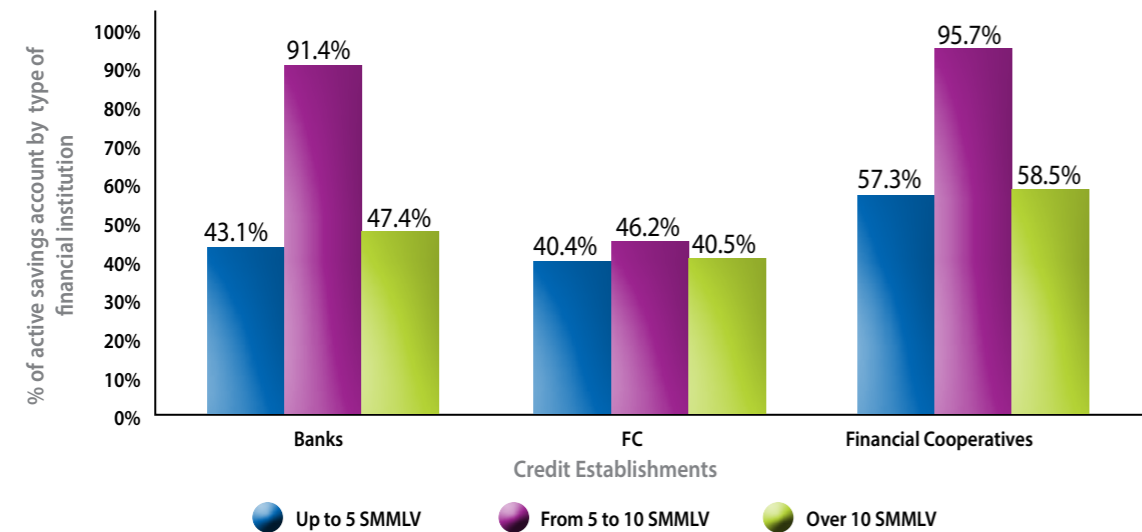
TABLE 26. AVERAGE BALANCE IN SAVINGS ACCOUNTS BY TYPE OF INSTITUTION

Type of institution	Average balance	
	2012 in COP\$	2013 in COP\$
Financing Companies	\$ 330,351	\$ 311,841
SFC Cooperatives	\$ 606,652	\$ 635,365
SES Cooperatives	\$ 797,808	\$ 818,217
Banks	\$ 2,432,051	\$ 2,683,392
Financial Corporations	\$ 2,147,107,718	\$ 1,136,014,983
Total	\$ 2,334,068	\$ 2,567,998

Source: SFC (Form 459) and BdO. Not including CAES

As of year-end 2013, the distribution of active savings accounts by type of institution and range of balance indicates that the greatest activity was concentrated in the accounts with balances between 5 and 10 legal minimum wages, especially in banks and financial cooperatives. Nevertheless, the analysis of the activity of accounts with balances lower than 5 legal minimum wages indicates that, in the banks, only 43% of the accounts are active and 57% in the case of financial cooperatives. Due to the above and considering the majority participation in the accounts of this range, it is necessary to increase the activity of those accounts in order to continue making effective progress in the process of inclusion and permanence in the financial system.

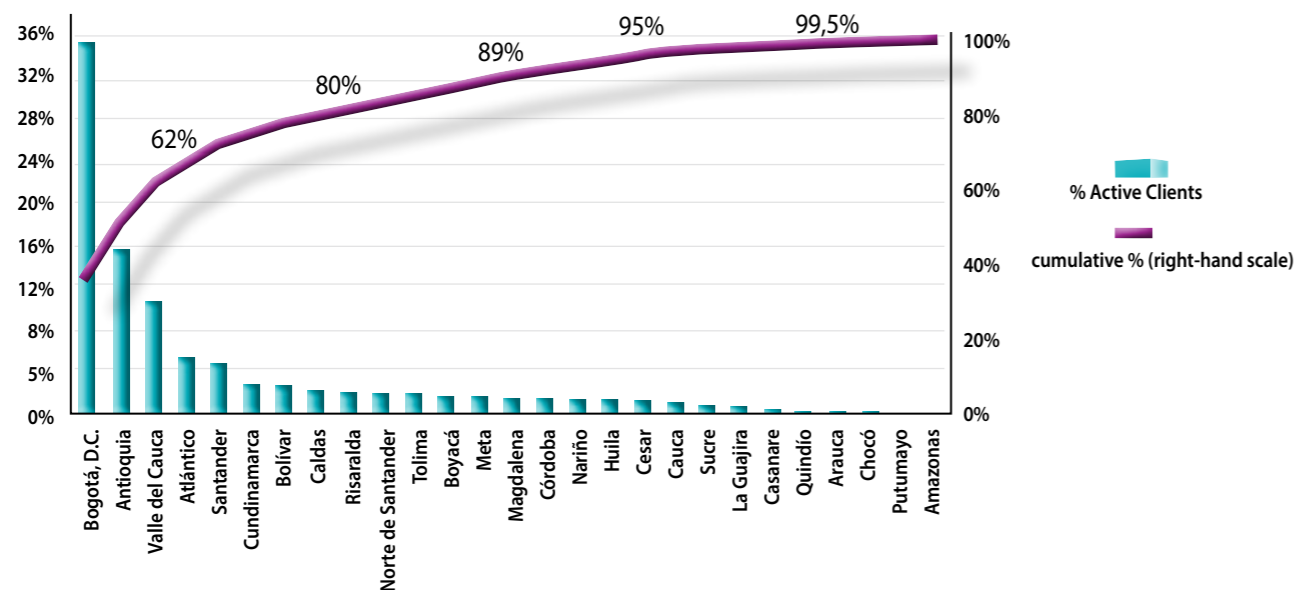
CHART 54. PERCENTAGE OF ACTIVE SAVINGS ACCOUNTS BY TYPE OF INSTITUTION BY BALANCE (DECEMBER-2013)



Source: SFC (Form 459) and BdO. Not including CAES

According to CIFIN information, 62% of the active customers and of the active accounts, which is equivalent to 5.9 million and 7.9 million, respectively, were concentrated in Bogotá, Antioquia, and Valle del Cauca during 2013. In contrast, 0.5% of the customers and active accounts (49,905 and 69,163, respectively) were in Arauca, Chocó, Putumayo, and Amazonas²⁹.

CHART 55. PERCENTAGE OF ACTIVE CUSTOMERS BY DEPARTMENT (DECEMBER-2013)



Source: CIFIN

29. CIFIN excludes customers and savings accounts that are not classified by department.

When grouped by socioeconomic level, we find that 54% have been classified as middle income, followed by 34% belonging to low income, which could explain the fact that 94.5% of those accounts have an average balance lower than 5 legal minimum wages³⁰. The above suggests that the financial system has an important challenge related to attracting the lowest income population, where there is low penetration.

According to the income profile estimated by CIFIN, out of the active customers and accounts as of year-end 2013, the largest proportion of active customers are those having income between COP 500,000 and COP 1,000,000, and actually they have the largest proportion of active accounts, 49%³¹.

It is especially interesting that customers of lower income are precisely the customers that have the lowest participation and use of savings accounts, which is consistent taking into account that the saving capacity of this segment is limited and, consequently, many of their savings accounts are used primarily to receive payments which, once credited, are immediately withdrawn in order to meet their basic needs.

That said, the need to continue studying in detail these populations and their needs is evident, as is the need to design adequate products customized to such needs.

TABLE 27. CUSTOMER AND ACTIVE ACCOUNTS PARTICIPATION BY ESTIMATED INCOME

Estimated income in COP\$	% Active clients	% Active accounts
1. Less than \$500,000	1%	0.5%
2. Between \$500,000 & 1 million	54%	49%
3. Between \$1 million & \$2.5 million	31%	32%
4. Over \$2.5 million	14%	18%
Total	100%	100%

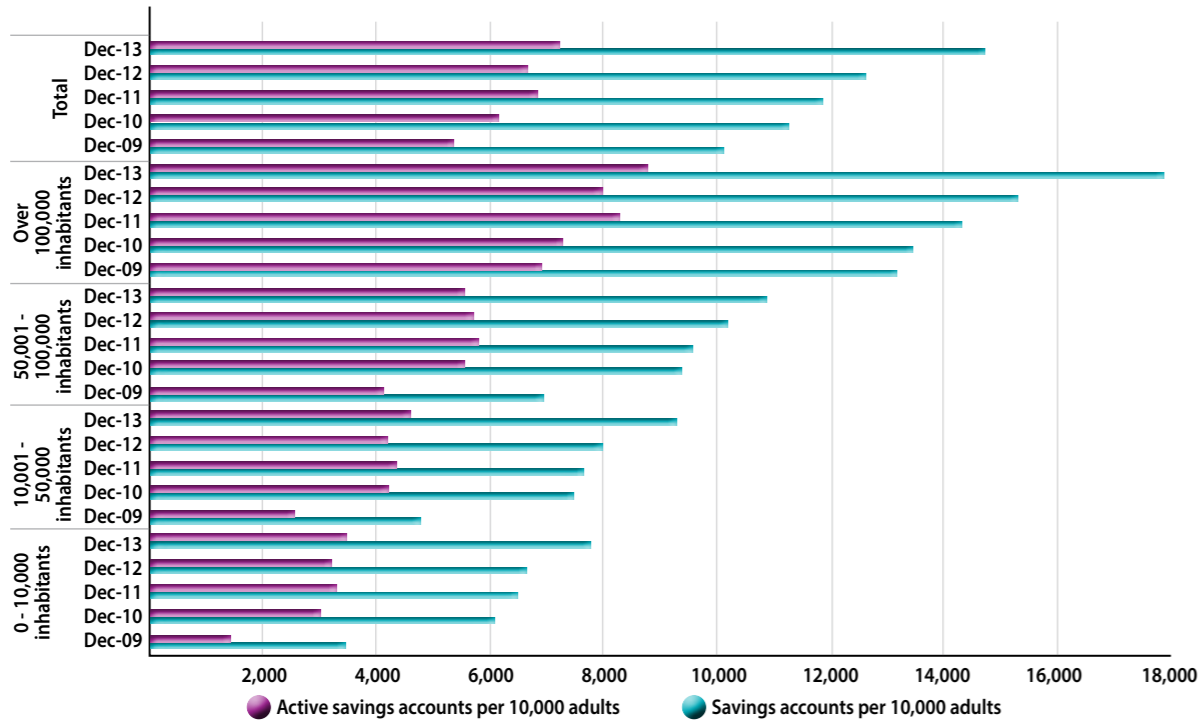
Source: CIFIN

When analyzed in terms of population density, a substantial improvement has been observed despite the fact that an important difference remains in terms of use between inhabitants of large municipalities and inhabitants of small municipalities. While the number of savings accounts for each 10,000 adults is lower than 8,000 in small municipalities (8 out of each 10 adults have an account), the indicator for municipalities with more than 100,000 inhabitants is higher than 17,000 (there are 17 accounts for every 10 adults). The difference is even more marked if only the active savings accounts are considered, in which case the indicator for the smallest municipalities is 3,468, compared to 8,756 for the big cities.

30. For this data, CIFIN excludes customers that do not have income level or department classification. According to CIFIN, income levels 1 and 2 are classified as low income levels, income levels 3 and 4 are classified as middle income levels, and the high income level includes income levels 5 and 6.

31. Source CIFIN, SFC calculations, BdO. Excluding data related to customers for whom CIFIN does not have an income estimate.

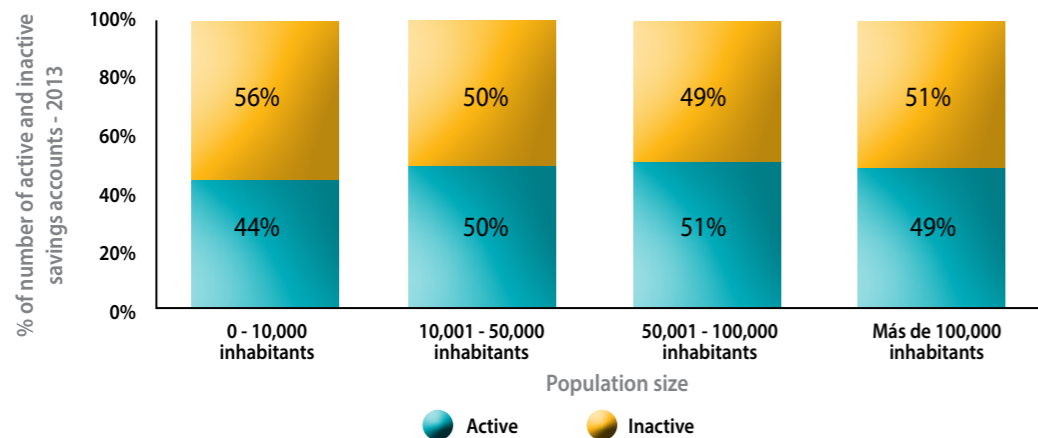
CHART 56. PERCENTAGE OF TOTAL AND ACTIVE SAVINGS ACCOUNTS FOR EACH 10,000 ADULTS BY MUNICIPALITY SIZE



Source: SFC (Form 398) and BdO. Including CAES

The inactivity of savings accounts by type of municipality during the last year did not vary substantially; remaining around 49% active in all the municipalities. Nevertheless, account inactivity in municipalities of less than 10,000 inhabitants increased to 56%, which represented an increase of 4 points compared to 2012 and of 6 points compared to 2010.

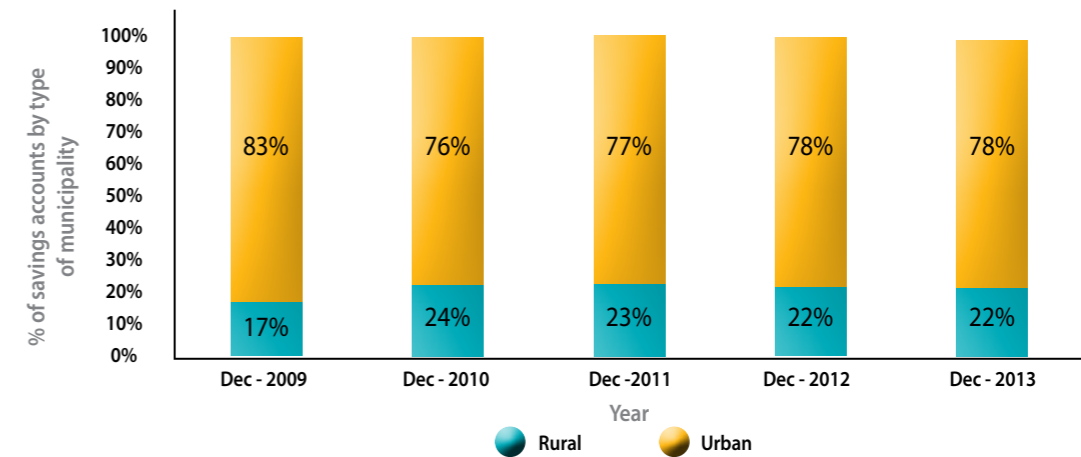
CHART 57. ACTIVITY IN SAVINGS ACCOUNTS BY POPULATION SIZE



Source: SFC (Form 398) and BdO. Including CAES

In viewing the distribution of accounts by type of municipality, it was found that 78% are in urban areas; this situation has been stable since 2010 and is consistent with the geographic distribution of the population.

CHART 58. PERCENTAGE OF SAVINGS ACCOUNTS BY TYPE OF MUNICIPALITY

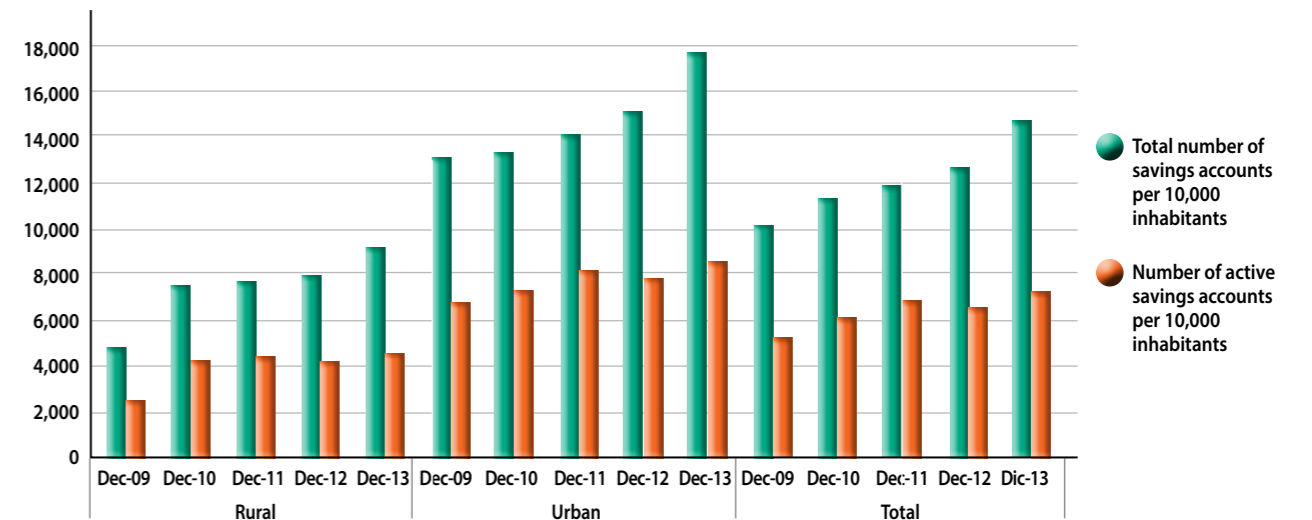


Source: SFC (Form 398) and BdO CAES

In terms of the concentration of accounts by area, there are 17,626 accounts for each 10,000 adults in urban areas and 9,299 in rural areas. Compared to 2012, there has been an increase of 16% and 15% in these values, respectively.

Notwithstanding the average growth of 9% in the number of accounts during the last year, their share decreased to an average of 49% when the figures are analyzed in terms of the total number of active accounts.

CHART 59. NUMBER OF SAVINGS ACCOUNTS FOR EACH 10,000 ADULTS BY TYPE OF MUNICIPALITY



Source: SFC (Form 398) and BdO. Including CAES

Box 3. Local Savings and Credit Groups (GACL in Spanish): Promoting construction and development of local capabilities

"...Saving is part of our daily life because, if we do not save, we can hardly obtain the things that can benefit us, whether at personal or family or group level, as the case is for us right now."

Ángela – saver from Tumaco (Nariño)

"...The best part of all this is that we have learned to save, which we did not know before, we did not know how to save; we knew that there was the possibility of saving, but we had not had the initiative, and you know that having cash at home means that, if some need arises, you immediately spend it."

María – saver from La Boquilla (Bolívar)

"...When I wear the Las Mercedes Savings and Credit Group T-shirt, I feel happy; it is not the same as wearing any other T-shirt."

Helena – saver from Tablón de Gómez (Nariño)

Since 2007, Banca de las Oportunidades (BdO) has promoted the creation and implementation of the *Local Savings and Credit Groups (Grupos de Ahorro y Crédito Local - GACL in Spanish)* in Colombia; these have been broadly developed in Africa and Asia since the 1990s in order to financially educate the population that does not have access to financial services and to promote savings and credit.

This method intends to support poor populations in vulnerability conditions that do not have an adequate supply of financial services due to their location and to socio-economic factors that limit the presence of financial institutions.

The *GACL* are constituted based on their members' self-selection and organization in groups of a maximum of 19 persons including youths, children, and/or adults, who voluntarily meet every 15 days to save money through the purchase of stock shares. The money saved becomes a fund, and thanks to it, its members have access to loans whenever necessary. Thanks to the way these groups operate, their members can obtain small loans for emergencies, purchases, and investments in micro-businesses, thus stabilizing the poorest and most vulnerable households.

If a culture of savings and payment is promoted, it is possible to mitigate vulnerability risks and conditions and to stimulate business initiatives and development of local capabilities for self-management of financial resources.

The implementation of this method in Colombia is a successful experience, recognized worldwide, because it is the only country where the initiative has been developed by the Government and because it is generally used at the national level. The implementation process has been developed in the following phases:

Phase 1 – Method adaptation and transfer:

In 2008, Banca de las Oportunidades (BdO) hired the firm VSL Associates, which adapted the method to the characteristics and needs of the Colombian population. Once this step was completed, the process of method transfer was performed through a technical assistant in charge of Corporation for Microenterprise Development (Corporación para el Desarrollo de las Microempresas - CDM in Spanish), whose job consisted in supporting activities related to promotion, training, coordination, supervision, and technical and operational follow-up of Partner Programs selected by BdO for the development of a pilot project in 7 departments of the country.

Implementation was performed through three partner programs:

1. Fundación Plan Internacional, with financial support from con Red Unidos (United Network) through the Departamento para Prosperidad Social – DPS
2. CIREC with its Semillas de Esperanza (Seeds of Hope), and
3. Programa de Promoción de Derechos y Redes Constructoras de Paz, Office of the President of the Republic

Additionally, the Corporación para el Desarrollo de Microempresas (CDM) acted as direct implementation agent of the method in the Pasto East Corridor (Nariño), in the municipalities of Caldas and Barbosa (Antioquia), in Quibdó (Chocó), and in Clemencia, Cartagena, and La Boquilla (Cartagena).

The pilot project that ended in 2010 reported, as a result, the establishment 434 GACL with close to 7,000 participants in 7 departments of the country.

Phase 2 - Expansion:

Since 2011, BdO has aimed its efforts at the generalization of the method through 4 requests for proposals, thus promoting alliances and obtaining funds from public entities such as Red Unidos, the Ministry of Commerce, Industry and Tourism, and the Mayor of Bogota's Office. In 2012, Business Initiatives for Development (Iniciativas Empresariales de Desarrollo – IED in Spanish) was contracted to transfer the method to at least 12 operators at the national level, establish at least 1,500 groups, and leave installed technical capabilities in place for the establishment of 3,125 groups in 4 years.

As of December 2013, presence in 149 municipalities has been obtained through the creation of 5,336 groups and the participation of 72,432 persons. The average savings amount is COP 100,000 per person, the average value of the stock share is COP 2,500, and the 5,000 groups have saved close to a thousand million Colombian Pesos.

Phase 3 – Graduation to the Financial System:

In 2013, BdO hired Temporary Union of Total Marketing Group – CEI International Business Consultants (Unión Temporal Total Marketing Group - CEI Consultores Empresariales Internacionales) who have made a general diagnosis of the groups and have implemented a pilot program with different measurement instruments including surveys and detailed interviews.

By the end of 2014, the results of this study are expected to enable the identification of needs, capabilities, and financial preferences of the participants in the Groups, their situation in relation to access to financial services, as well as perceptions on the existing formal financial products. The objective of this phase is not only to create bank users, but also to create the conditions for these persons to find adequate products for their needs in the financial system.

This method has contributed to the elimination of dependence from informal financial mechanisms, which are costly and dangerous, like profiteers, pawnshops, pyramids, daily payments, and other systems that generate poverty and fear among the population.

2.4.2 Insurance

Financial inclusion has become one of the main public policy projects for the economic and social development of the low-income population. In the insurance industry, it is of vital importance, on one hand, to deliver financial education to generate insurance awareness among the population and, on the other hand, to introduce innovative products that meet the needs of the entire population, both in terms of economic accessibility and in distribution channels that enable easy access to the insurance market and increase the penetration of the industry in the country.

In this regard and with the objective of performing a diagnosis of the evolution and current situation of insurance financial inclusion, particularly its use, location, and insured amount dimensions, the SFC performed a survey during April of 2014 aimed at all the Insurance Companies, which shall be discussed below, with the objective of providing a characterization in terms of market share and growth.

Through this survey, the SFC obtained information on how individuals in Colombia have used products related to personal insurance and property & casualty insurance during the last two years (2012 and 2013) through the following channels: Credit institutions supervised by the SFC, Microfinance Institutions, Compensation Fund Entities, Cooperatives and funds, Utilities Companies, Internet, Large Retailers, and remittances. This last channel was not included in the 2013 survey. For the effects of this study, personal insurance includes funeral services³², personal accidents³³, voluntary group life³⁴ and debtor group life, and individual life³⁵ insurance, while property & casualty insurance includes fire and earthquake³⁶, theft³⁷, unemployment³⁸, and home³⁹ insurance.

A total of 34 entities participated, 76% of all the insurance industry; 16 of them are general insurance companies and 18 are life insurance companies (62% and 94.74%, respectively, out of their group total).

On the other hand, the Government has been making efforts in two areas: (i) In the legal area through an agreement executed in 2013, that ends in 2015, between GIZ (German Federal Government Agency specialized in technical cooperation for sustainable development in the world), the Superintendencia Financiera and Banca de las Oportunidades, aimed at promoting an appropriate regulatory framework for the private sector and to have an efficient supply of micro-insurance products, and (ii) In closing the gap between supply and demand through insurance projects for vulnerable populations performed by the Departamento de la Prosperidad Social (DPS) and Banca de las Oportunidades.

32. Reimburses expenses incurred for the funeral services of insured persons.
 33. Covers the risk of death or bodily injury due to accidents.
 34. Protects against the risk of death or permanent total disability for a determined or determinable group of persons, under a master policy.
 35. Protects a person against the risk of death and grants payment to the beneficiaries or to third parties for valuable consideration.
 36. Protects against damages to insured properties caused by hostile fire or lightning or their immediate effects, such as heat, smoke, and damages caused by water. Earthquake insurance protects against damages to insured goods caused by this seismic natural phenomenon.
 37. Protects against loss or damages to insured goods in establishments or residences caused by theft with or without violence.
 38. Protects against loss of employment by discharge without just cause, generating payment of an amount with specific destination (credit installment payment, contributions) for a determined period of time.
 39. Covers multiple risks in order to provide comprehensive protection for real estate and its contents, such as furniture and household goods.

I. GENERAL INFORMATION

According to the figures reported, between 2012 and 2013, the numbers of currently insured risks⁴⁰ decreased from 26 million risks to 21 million, equivalent to a reduction of 18.5%, mainly for the currently insured risks in urban areas, which decreased 23.4% in the year of the analysis. Even though the risks insured in rural areas increased by 63%, their influence on overall performance is limited, given that the urban areas concentrate 91.12% of the total.

In a disaggregated manner, the current personal insurance risks account for 81.89% of the market in 2013, with 17.15 million currently insured risks in comparison to 3.79 million in property & casualty. The former recorded a decrease of 21.72% (4.7 million risks); this variation was caused mainly by the personal accident and debtor group life insurance, which decreased 33.12% and 27.53%, respectively, while the property & casualty segment recorded an increase of 0.15% (5,814 risks.)

CHART 60. PERSONAL INSURANCE

PERCENT CHANGE PERSONAL INSURANCE (2012-2013)

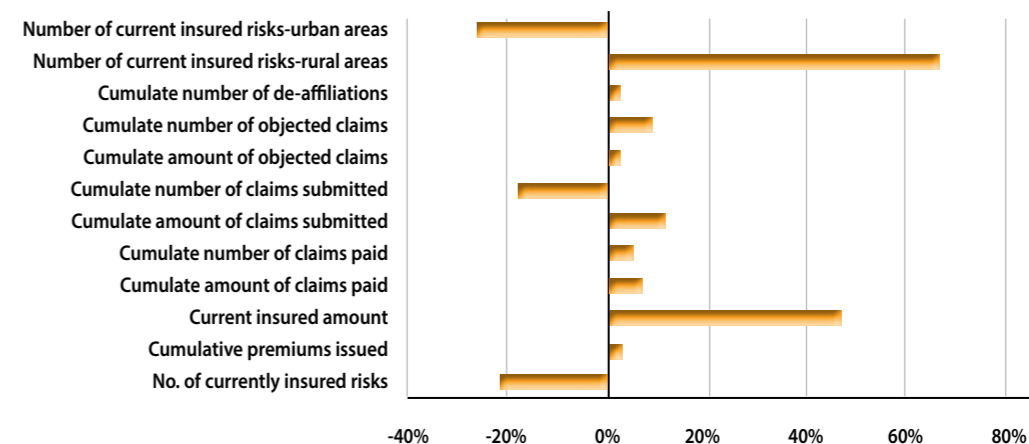
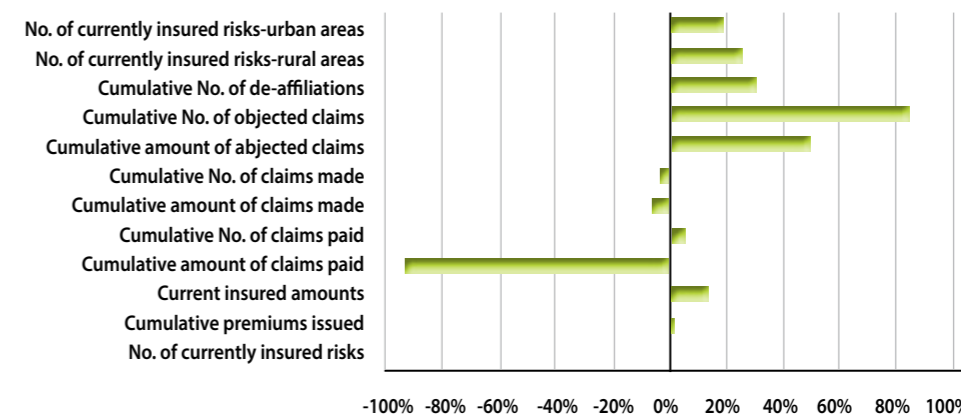


CHART 61. PROPERTY & CASUALTY INSURANCE

PERCENT CHANGE IN PROPERTY & CASUALTY (2012-2013)



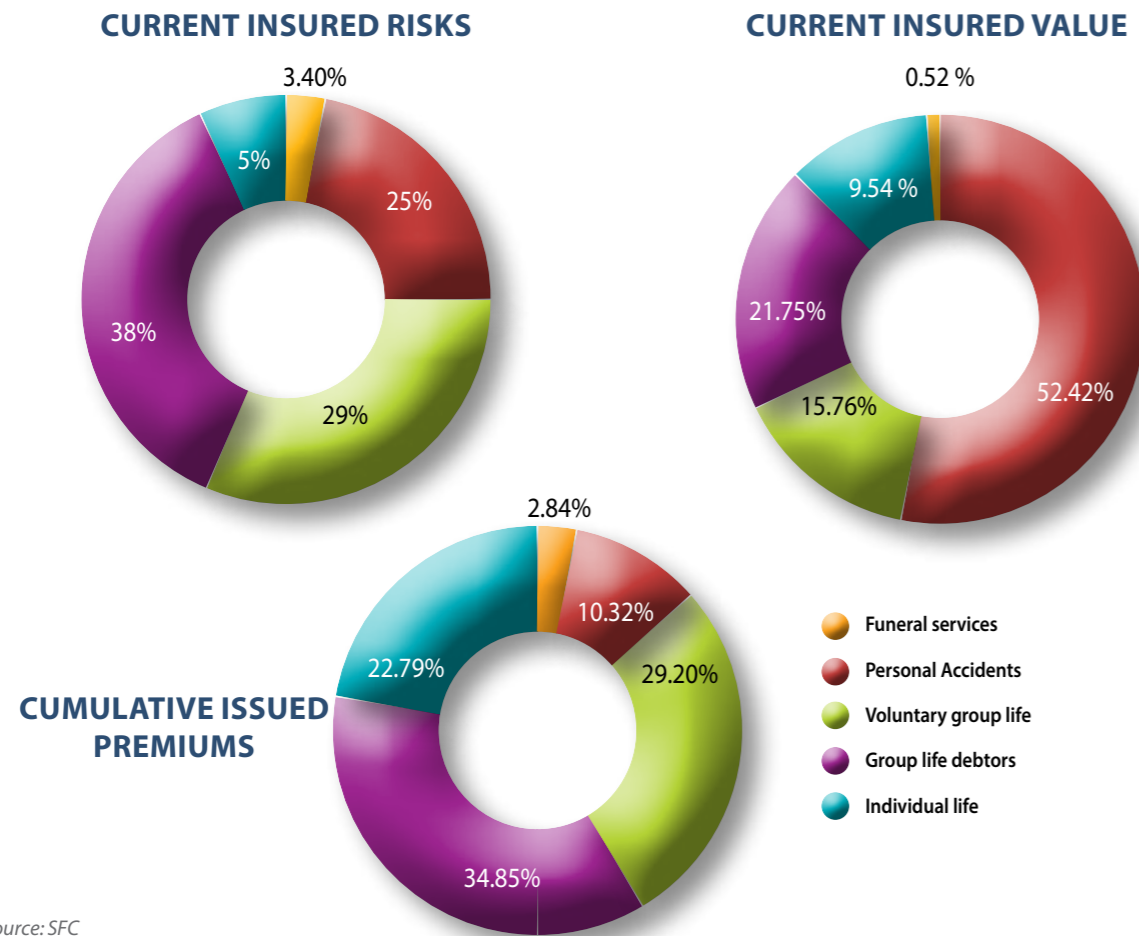
Source: SFC

40. The current insured risks refer to the number of risks (life or properties) insured by financial institution.

As for distribution, within personal insurance, the group life products⁴¹ concentrated an average of 67% of the currently insured risks, followed by personal accidents (25%). In terms of the average cumulative premiums issued in 2012 and 2013, again group life concentrated 64.05%, but a lower market share of the personal accident insurance has been observed, which explains the lower cost of the premiums in this line compared to life insurance, whether group or individual.

For its part, the currently insured amounts indicate that the personal accident products are the line with greatest concentration (52%) in the last two years in comparison to the other types of insurance for persons.

**CHART 62. SHARE OF PERSONAL INSURANCE BY PRODUCT⁴²
(AVERAGE 2012 – 2013)**



Source: SFC

In the lines related to property & casualty insurance, unemployment insurance accounted for 55.09% of currently insured risks (3.79 million), followed by theft and fire and/or earthquake, with market shares of 19.55% and 19.17%, respectively. In the case of cumulative issued premiums and currently insured

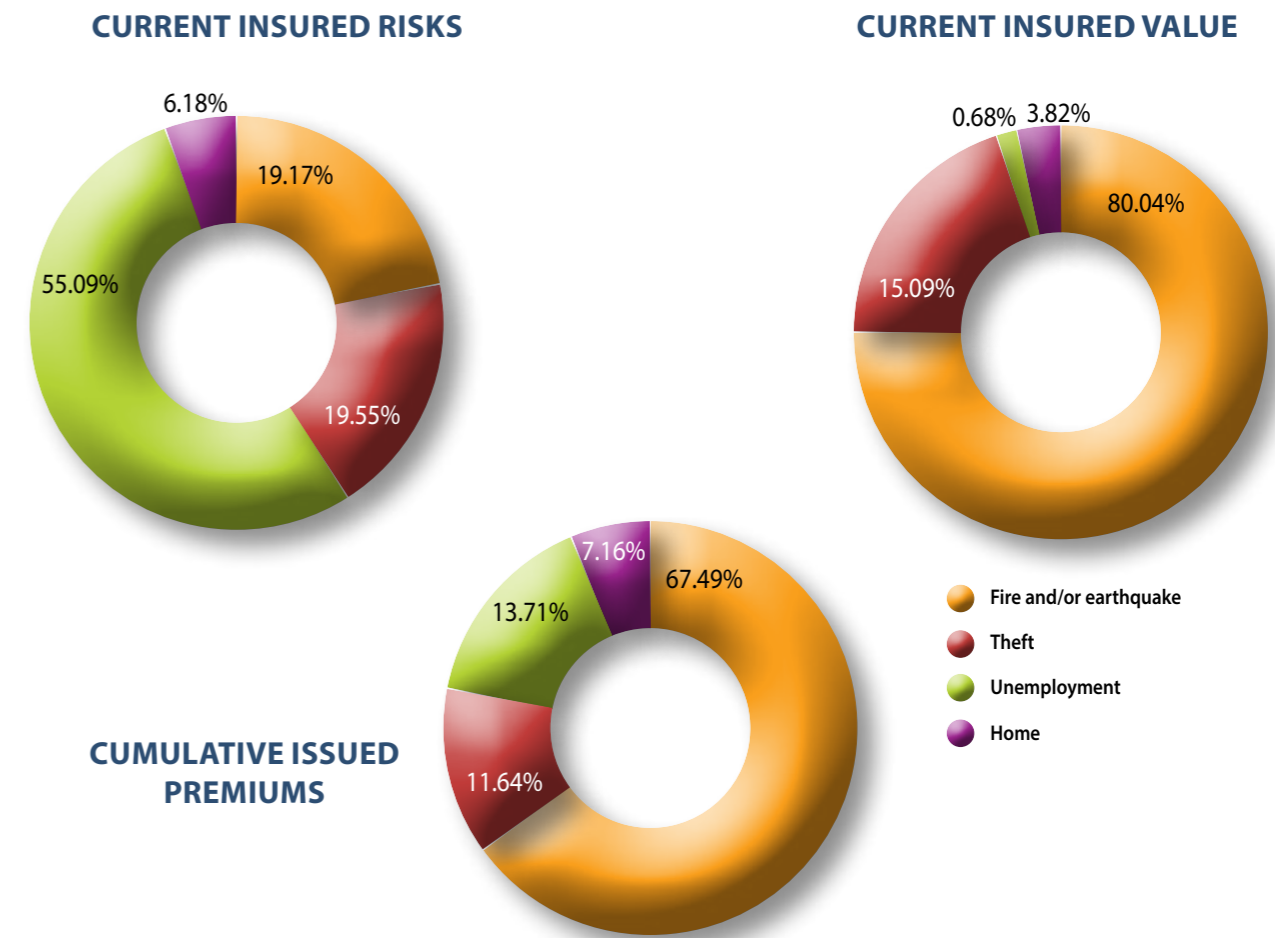
41. Voluntary group life and debtor group life

42. The average refers to the sum of risks, premiums, and insured amounts of 2012 and 2013 divided by the number of years.

amount, the line of fire and/or earthquake accounts for 67.49% and 80.40%, respectively. This performance is linked to the standard features of insured risks, which, since they are of low frequency and high severity, have high premium values proportional to the insured risk amounts, as opposed to the case of the unemployment risk.

Additionally, while the theft line market share remains above 10%, the market share of the unemployment insurance line in terms of cumulative issued premiums and insured amounts was 13.71% in the last two years, but only 0.68% of the currently insured amount. Thus, one may conclude that unemployment insurance is an important line in terms of inclusion from the perspective of the amount of covered risks, which is favored by the fact that it is an accessible product, in economic terms, because it is linked to different types of credit⁴³ where the policy, in the event the risks occurs, will cover a certain amount of credit installments.

**HART 63. SHARE OF PROPERTY & CASUALTY INSURANCE
BY PRODUCT (AVERAGE 2012 – 2013)**



Source: SFC

43 Consumption credit, credit cards, and mortgage

II. DISTRIBUTION CHANNELS

Although it is important to have accessible products that meet the needs of the population in order to facilitate and promote financial inclusion through insurance, it is necessary to have the appropriate channels to market such products so as to ensure that the services portfolio will reach the different target populations in an easy and straightforward manner. For this reason, distribution channels are of vital importance for the development of financial inclusion policies.

For the effects of the survey, credit institutions were included as insurance trade channels because of their ease of access and widespread consumer business, microfinance institutions and compensation funds for their broad and complete data bases; the major retailers for their ease of access; the utilities companies for focusing on the population, especially the most vulnerable; direct sale as a personalized channel, and remittances as a channel that eventually could have considerable potential for promoting inclusion.

Based on the analysis of the reported information on sales of the different insurance products, we can say that the channels with greatest sales of all the lines included in the survey are: credit institutions supervised by the SFC, own-account sales (door-to-door), and utilities companies. On the other hand, the channels least used were electronic channels such as mobile devices and Internet, compensation fund entities, and microfinance institutions.

Personal accident and voluntary group life insurance were, in 2012 and 2013, the most sold through these channels, given that they are sold through all the channels included in the survey. For their part, individual life and unemployment insurance use the fewest channels for their sales, concentrating fundamentally in credit institutions supervised by the SFC, own-account sales, large retailers, and other agents' branches.

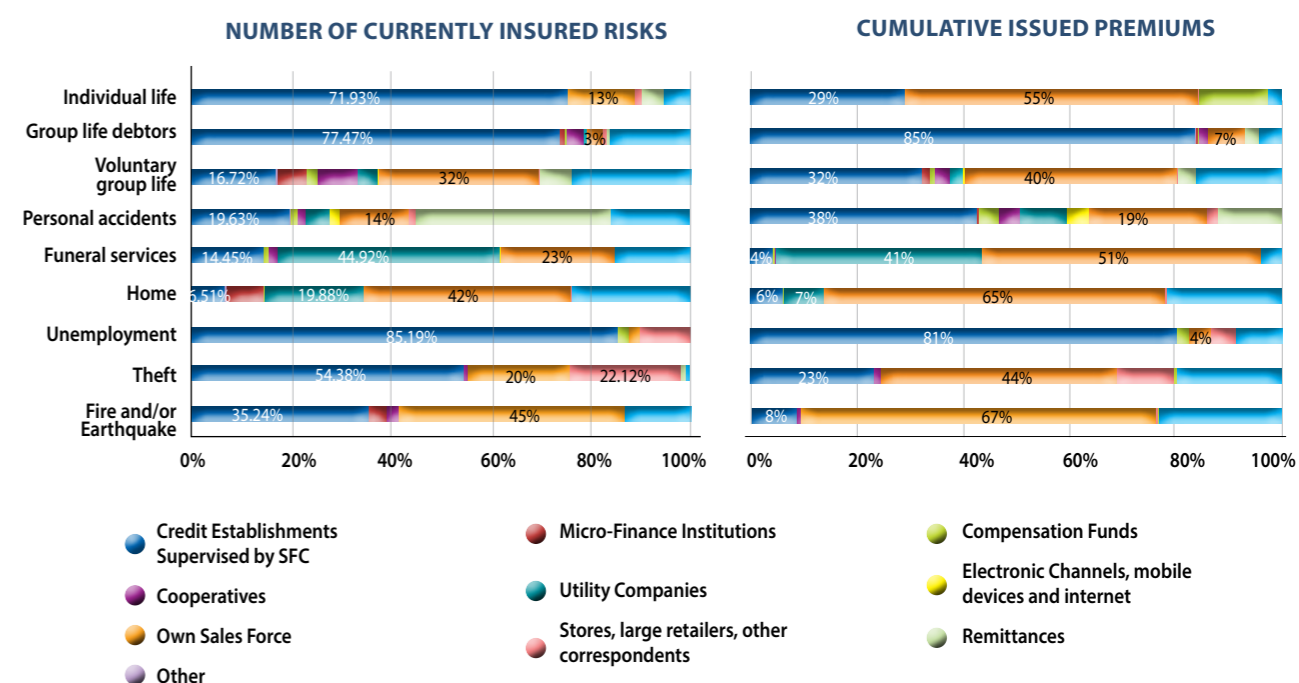
The average proportions of the number of currently insured risks and cumulative issued premiums for the two years of the study have been summarized in Chart 64. It shows that channels like credit institutions supervised by the SFC, own-account sales, and the utilities companies are the most predominant in general terms for the promotion and sale of the different types of insurance. Compared to the number of current risks, the credit institution channel was particularly representative in the unemployment and group life insurance with market shares of 85.19% and 77.47%, respectively.

For their part, both in the number of currently insured risks and in the cumulative issued premiums, the utilities channel is an important channel for selling funeral services and home insurance. Out of the total currently insured risks of these last two products, an average of 32.40% was sold through utilities companies, and out of the total cumulative issued premiums related to these two types of insurance, an average of 48.10% was sold through that same channel.

Likewise, the own-account channel was the channel of choice for selling, mainly, fire and/or earthquake and home insurance. In comparison to the first line, out of the total of currently insured risks of the product, 45.11% was sold by the own-account channel, accounting for 67.16% of the cumulative issued premiums and 68.66% of the currently insured amount. In terms of home insurance, 41.54% of the subscribed risks were sold door-to-door, with a proportion of cumulative premiums of 64.70% sold through this channel.

Also, it should be pointed out that the implementation of alternative channels for selling insurance certainly will lead to greater financial inclusion to the extent that these endeavor to offer greater access by the population. In this sense, personal insurance such as personal accidents, individual life and group life displayed a substantial number of insured risks, cumulative issued premiums, and insured amounts in 2013.

CHART 64. INSURANCE SALES BY CHANNEL, CURRENTLY INSURED RISKS, AND CUMULATIVE PREMIUMS ISSUED



Source: SFC

Based on the analysis of currently insured amounts for 2012 and 2013, we may conclude that the channel that displayed greatest insured amounts was the own-account channel, which is predominantly related to the sale of earthquake and home insurance, followed by individual life insurance. Credit institutions supervised by the SFC come in second place, with the greatest market share of currently insured amounts for unemployment, funeral services, and debtor group life insurance.

CHART 65. INSURANCE SALES BY CHANNEL AND CURRENTLY INSURED AMOUNTS

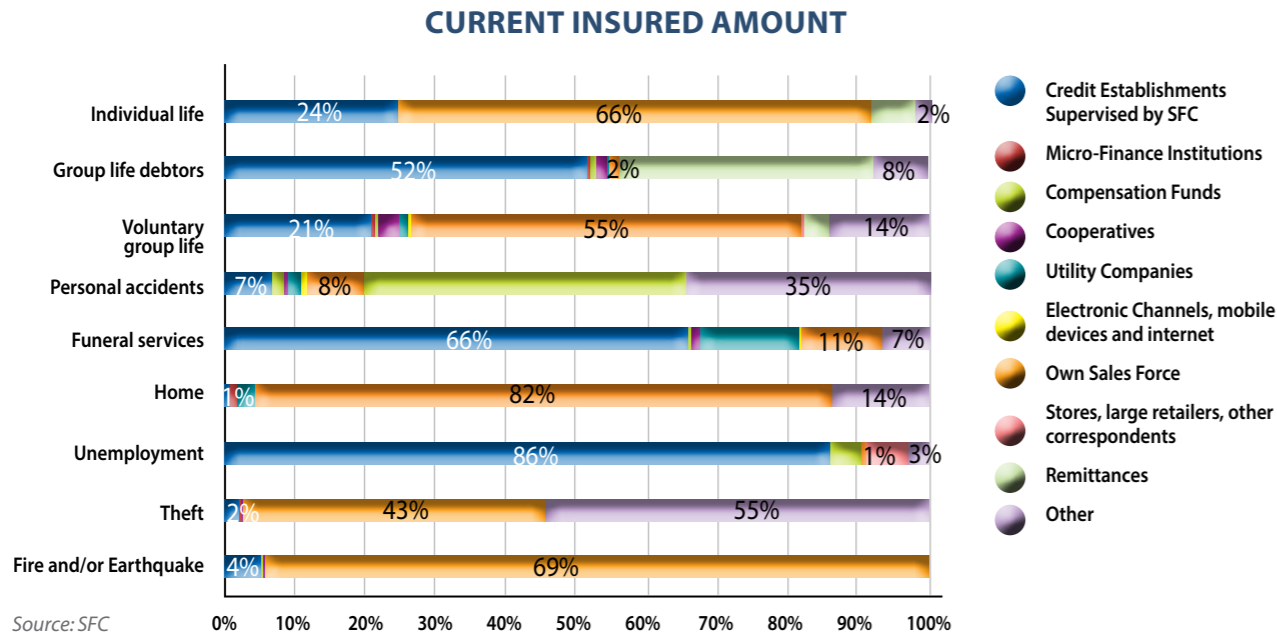
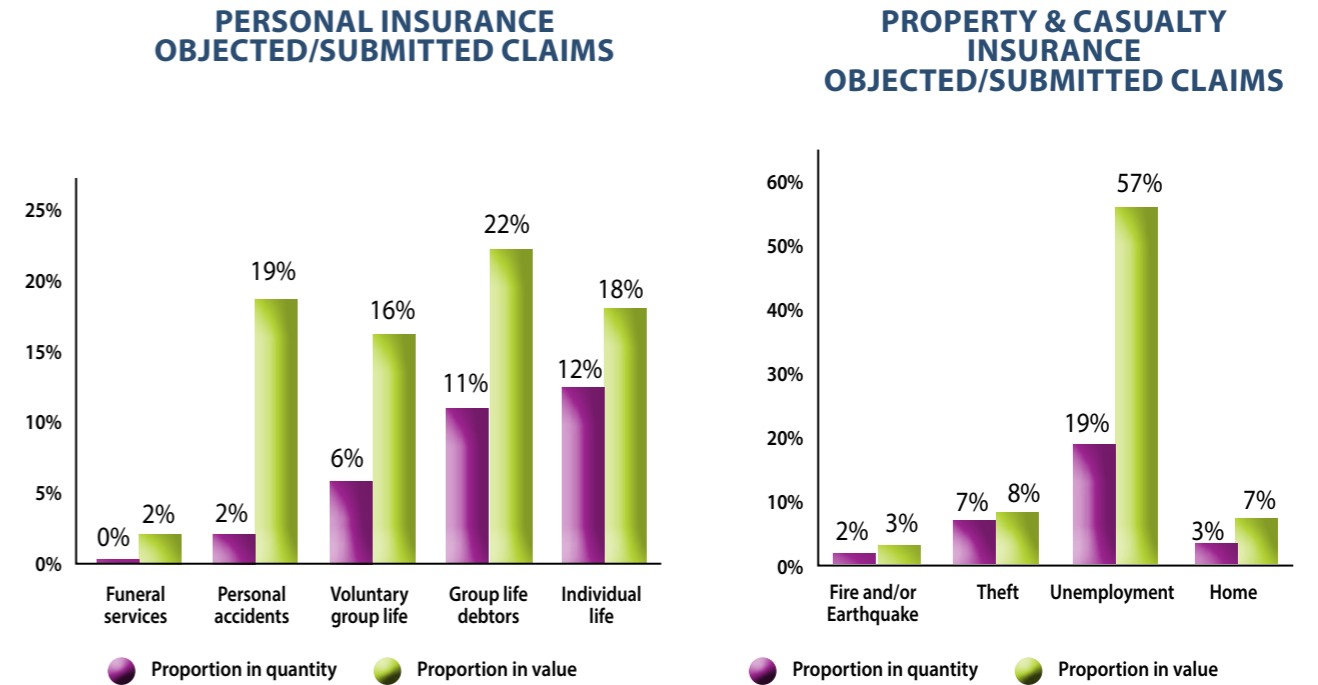


CHART 66. PERSONAL INSURANCE AND PROPERTY & CASUALTY INSURANCE OBJECTED CLAIMS BY LINE 2013



III. OBJECTIONS AND CLAIMS PAID

Consumers’ trust in entities that provide financial services significantly influences the development of financial inclusion. In this context, trust in the insurance market translates into the security it offers the consumer at the time of paying for the claims when they occur.

Based on the information provided by the entities, all the types of insurance included in the present chapter presented an objections rate⁴⁴ of 5.30% in the two years of the study. On the one hand, the personal insurance lines recorded a rate of objection of 4.56% (in terms of quantity) among which funeral services reported the lowest objections rate (0.30%). On the other hand, for the property & casualty insurance category, the average rate of objection in the two years of the study was 6.57%, among which fire and/or earthquake insurance reported the lowest objections rate (1.44%).

Also, if the data are analyzed in monetary terms⁴⁵, it can be concluded that in general the objected claims both for property & casualty and for the personal insurance recorded similar levels, equivalent to 17.49% and 17.84%, respectively. If unemployment insurance⁴⁶ is excluded from the property & casualty lines, these products jointly recorded an indicator of 5.95%, displaying a better performance compared to personal insurance.

44. The objection rate is the proportion between the sum of cumulative objected claims in 2012 and 2013 and the sum of cumulative incurred claims in the same years.
 45. In monetary terms, the indicator was constructed as the proportion between the value of the cumulative objected claims and the value of the cumulative incurred claims.
 46. The unemployment type presented a rate of objection of 52.14%.

From the point of view of cumulative paid claims, in 2013, we observed a reduction of 77.39% of the amount of paid in claims and an increase of 5.49% in the number of paid claims compared to 2012, indicating that a higher frequency of claims with less severity occurred during the last year. This performance was basically determined by the property & casualty lines where there was a reduction of 93.01% in the amount paid in claims as a result of the performance of home insurance during the last year. For its part and contrary to the performance of the other property & casualty insurance lines, the unemployment line recorded an annual increase of 84.85% for paid claims, along with a 20.10% increase in the number of paid claims, indicating a greater level of severity in this case.

In terms of the performance of the personal insurance lines, increases of 6.49% in the amount of accumulated paid claims and of 5.45% in the number of paid claims were found. In personal insurance, it was found that the greatest share in terms of amount and number was obtained by the individual life and funeral services insurance types with an increase of 9.94% and 8.45% in the total amount paid in claims during 2013.

IV. INCLUSION IN THE INSURANCE MARKET BY WAGE RANGE

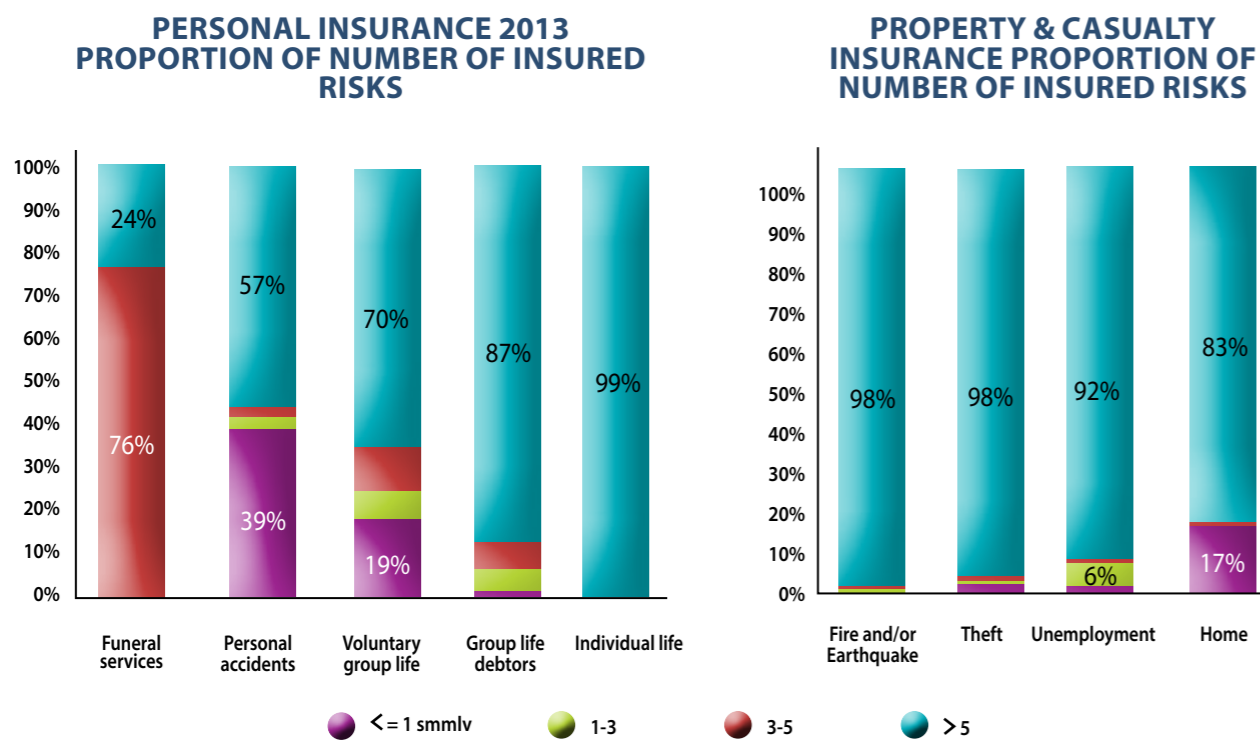
Given that financial inclusion is linked, on one hand, to the promotion of access to the different financial products and services and, on the other hand, to the wellbeing of the population, particularly the disadvantaged population, the insurance companies were requested to share their performance in the different types of insurance by providing disaggregation of insured amounts within established wage ranges and the location of the currently insured risks by area.

In this manner, the following analysis corresponds to defined ranges based on the insured amount expressed in terms of minimum wages. The disaggregated information was reported in four ranges (low or equal to 1 legal minimum wage, between 1 and 3 legal minimum wages, between 3 and 5 legal minimum wages, and higher than 5 legal minimum wages). In personal insurance, for 2013, the greatest proportion of insured risks for personal accidents was concentrated within the low insured amount range (39.23%), whereas the insured risks for individual life and group life products, mainly debtors, were concentrated in insured amounts of more than 5 minimum wages range, with 99% and 87%, respectively.

In terms of property & casualty insurance, the insured risks were concentrated mainly within the wage range of insured amounts of more than 5 legal minimum wages. For example, 98.46% and 97.70% of the insured risks for fire and/or earthquake and theft are in the higher than 5 legal minimum wages range. In contrast, insured risks for home insurance were concentrated in the insured amount of less than 1 legal minimum wage range, with 16.75%.

It is consistent for the property & casualty insurance category to be characterized by high concentration of insured risks in the higher than 5 legal minimum wages range, taking into account that the premiums associated with the type of insurance products included in this category are usually higher than those associated with personal insurance.

CHART 67. NUMBER OF CURRENTLY INSURED RISKS BY INSURED AMOUNT RANGE 2013

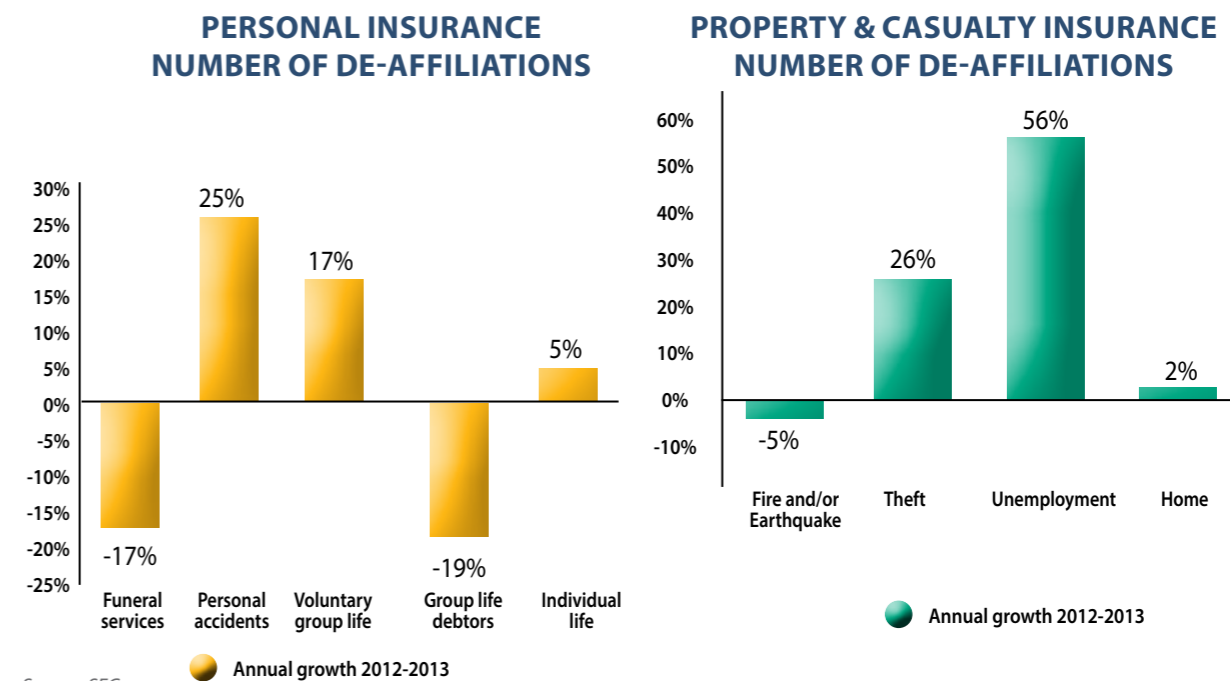


Source: SFC

Separately, based on the analysis of the behavior of the de-affiliation of insured persons⁴⁷, in 2013 we find an increase of 6.26%, from 2,437,136 to 2,589,760 de-affiliated persons between 2012 and 2013. Within personal insurance, where total de-affiliations increased by 2.40%, the line with greatest growth was personal accidents, with an increase of 25.36%; this desertion was concentrated mainly in the insured amounts greater than 5 legal minimum wages range, with a market share of 95.41%.

The de-affiliation trend observed in casualty insurance during 2013 was driven by unemployment insurance. Casualty insurance recorded an annual increase of 30.54%, mainly explained by the de-affiliation in unemployment insurance, where desertion of more than 50% in comparison to the desertion recorded in 2012 was observed.

CHART 68. GROWTH OF DE-AFFILIATION BY LINE (CUMULATIVE 2013)



Source: SFC

Box 4. Micro-insurance market needs in Latin America and the Caribbean

The Micro-insurance Center, together with the Multilateral Investment Fund (Fondo Multilateral de Inversiones - FOMIN in Spanish) of the Inter-American Development Bank, carried out a study to jointly analyze the status of knowledge and access to Micro-insurance and to identify gaps in this financial service and opportunities for expansion in nineteen countries of Latin America and the Caribbean (LAC)⁴⁸.

47. De-affiliation of insured persons refers to the number of de-affiliations or cumulative desertions in the year.

48. Micro-insurance Centre and IDB-MIF (2013). The landscape of Micro-insurance in Latin America and the Caribbean

For the study, we have defined micro-insurance consistently with the definition that the analyzed countries have for this financial product; micro-insurance involves low-cost insurance coverage and premiums and fulfill the following conditions:

1. The target population has low income. Micro-insurance is not acquired also by low income persons, but it has been designed to be accessed by low income persons.
2. Governments do not take on the risks. Social security programs are not included in the definition, even if they are focused on low income populations.
3. The objective of the product is profitability or at least sustainability.
4. The product must not require or must only require a minimum amount of direct subsidies.

Lastly, the document presents some conclusions of the study in a general manner; some of them are:

1. **Legal framework:** despite the fact that micro-insurance has evolved in LAC, the need to generate appropriate regulatory frameworks to promote the use of the product and generate clarity about its standard features is evident. The only countries that reported having a specific regulatory framework for micro-insurance were Peru, Brazil, and Mexico.
2. **Market education:** it is necessary to help the market understand the benefits and use of micro-insurance with strategies adjusted to the needs of the population of each country.
3. **Cost and price structures:** some countries are setting high commissions to attract the different sales channels. It is necessary to have a better understanding of costs and to reduce the rates for premiums.
4. **Actuarial capability:** the quantification of micro-insurance risk in LAC is based on institutional experience more than on actuarial data covering the low income market. Therefore, it is necessary to develop risk tables that take this population into consideration.
5. **Technology improvement:** It is essential to implement appropriate technologies to administer micro-insurance and to facilitate its use by the population, while at the same time reducing transactional costs.

2.5 USE CREDIT PRODUCTS

The acquisition of loans (asset products) is the second most important mechanism through which Colombians are accessing the financial system after savings accounts. This is consistent with the fact that, through financing, individuals obtain the necessary funds for the development of productive projects and the acquisition of goods and/or services.

This section presents the evolution of the credit portfolio, including information related to financial institutions supervised by the Superintendencia Financiera de Colombia, the Superintendencia de la Economía Solidaria, and microcredit NGOs.

2.5.1 National analysis

In 2013, the credit portfolio maintained⁴⁹ growth of close to 15%, similar to the growth recorded in 2012. This performance was observed in combination with slower growth of loans in arrears and a permanent increase in provisions. As of end-2013, the portfolio balance increased by COP 38 billion, thus reaching COP 297.4 billion.

This trend was driven primarily by the commercial portfolio (which accounts for 58% of the total portfolio), with substantial disbursements destined to the construction and transportation sectors. As of end-2013, this line posted growth of 12.6%, similar to 2012, but lower than the growth recorded in 2011 (19.1%); this performance was a result of the deceleration recorded by some sectors of the national economy such as the industrial, mining, and commercial sectors.

For its part, growth of the consumption portfolio (in second place with a 30% share of the total portfolio) slowed down compared to 2010 and 2012, from 18% at end-2010 to 15% at the end of 2013. This performance was mainly explained by the deceleration recorded in household consumption and by the measures implemented by the SFC to improve portfolio quality, such as establishing additional provisions linked to growth of non-performing debt⁵⁰.

The mortgage portfolio⁵¹ (in third place with a 9% share of the total) recorded an annual growth of 31%, mainly explained by the downward trend in interest rates, especially during the first semester of the year, and by the Government interest subsidy plan implemented since April 2009 and that, in April 2010, applied to new houses with an approximate amount of between COP 80 million and COP 200 million (135 and 335 legal minimum wages, respectively).

Microcredit (in fourth place with a 4% share of the total) displayed an increase in the non-performing loans during 2013, mainly in the first half of the year, which caused tightening of the conditions used by the financial institutions for providing these credits and, also, improvements in the collection process for non-performing loans. Given this performance, in 2013 this line experienced a slow-down in the growth rate, from 22% in 2012 to 18% at the end of 2013.

In terms of portfolio distribution, commercial loans and consumption loans represent almost 90% of the total balance (amount of the obligations). Nevertheless, in terms of the number of debtors, the consumption and the micro-credit portfolios account for the largest number of loans.

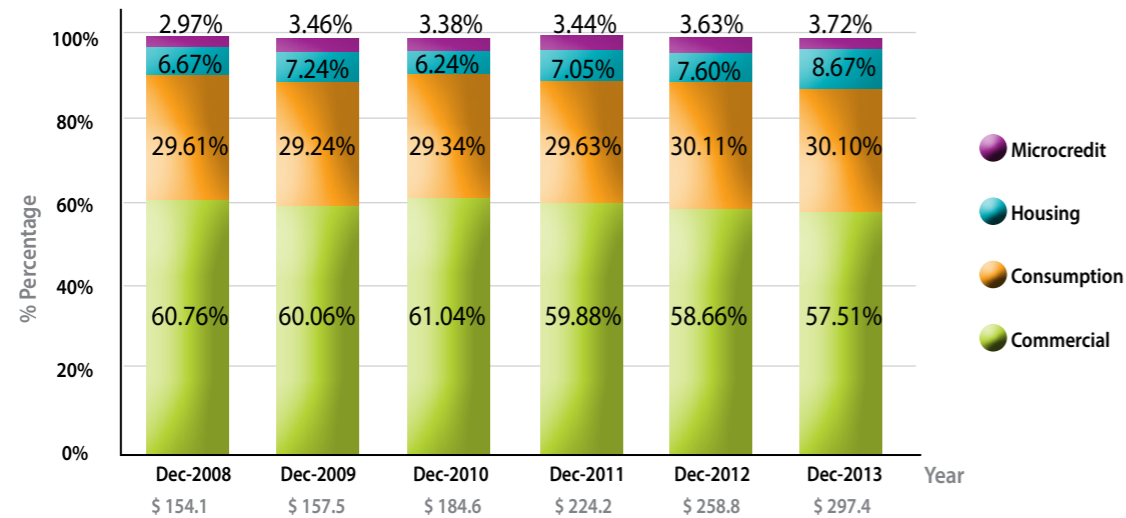
When the portfolio is disaggregated by the type of intermediaries that granted the loans, we find that banks account for 88% of total loan balances, followed by financing companies with 5.5%, SES cooperatives with 4.6%, SFC cooperatives with 0.80%, and lastly microcredit NGOs with 0.62% of the total portfolio balance. In recent years, the banks' market share has increased due to the entrance of new financial institutions into the sector, in addition to other credit institutions being transformed into banks. It is worth mentioning that in 2013, the share of the total balances held by SES cooperatives increased from 3.09% to 4.65%.

49. Including SES Cooperatives and microcredit NGOs / Not including Securitization

50. External Circular Letter 026 de 2012

51. Not including securitization portfolio

CHART 69. PORTFOLIO BALANCE BY TYPE (BILLIONS OF COP)

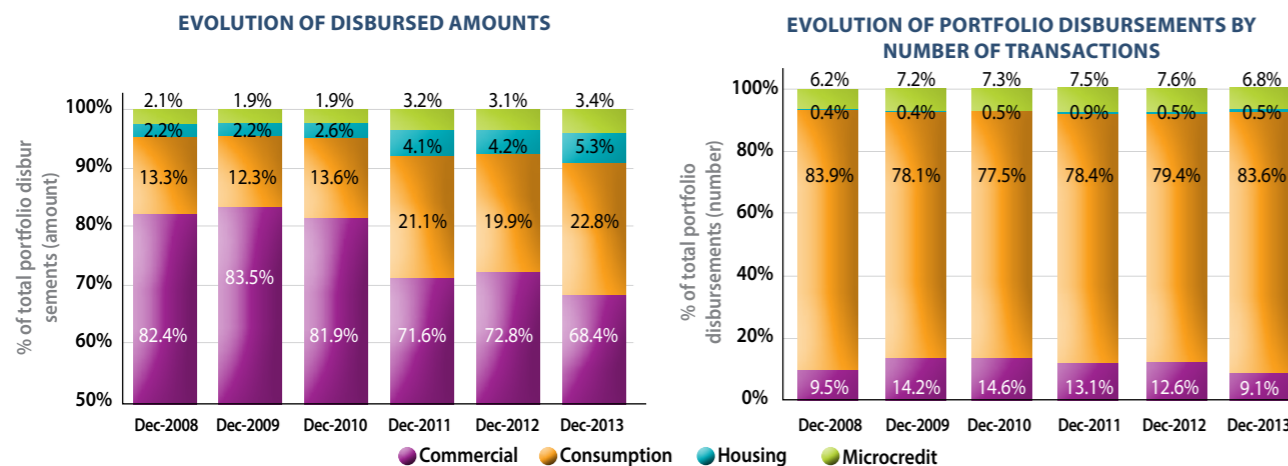


Source: SFC and Bdo (financial statements). Including SES cooperatives and NGOs

In terms of disbursements, in comparison to 2012, the consumption and mortgage portfolios posted increases, which led them to account for 22.8% and 5.3% of the total amounts placed in 2013, respectively. This performance contrasted with the decrease from 73% to 68% in the share of the amounts disbursed for commercial loans between December 2012 and December 2013, which explains the change in the distribution mentioned above.

Regarding the number of disbursement transactions, and in line with the number of debtors by type, the consumption portfolio concentrated 84% of the total (around 30 million transactions), followed by the number of commercial loans placed (3.3 million, 9.1%), microcredit (2.4 million), and mortgage (168,000.) During 2013, an increase of 5.3 million in disbursements was recorded, which is the largest growth recorded in terms of number of disbursements in the last 5 years.

CHART 70. DISBURSEMENTS BY PORTFOLIO TYPE



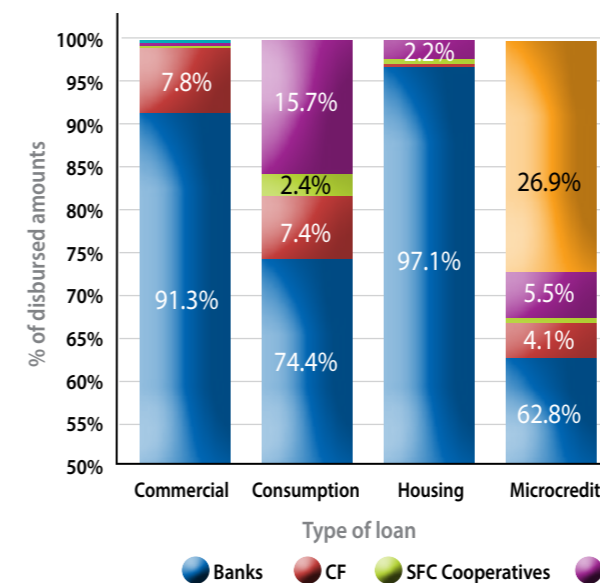
Source: SFC (Form 398) and Bdo (SES Cooperatives and NGOs). Not including FNA

The share of the amounts disbursed by type of intermediary show that banks are especially strong in commercial and mortgage loans, accounting for over 90% of disbursements in these two lines. As for the consumption portfolio, banks have the greatest market share (74%), followed by SES cooperatives and financing companies (16% and 7%, respectively). In the microcredit portfolio, NGOs have a market share of 27%, while the banks concentrate 63%, SES cooperatives 5.5%, and financing companies 4.1%.

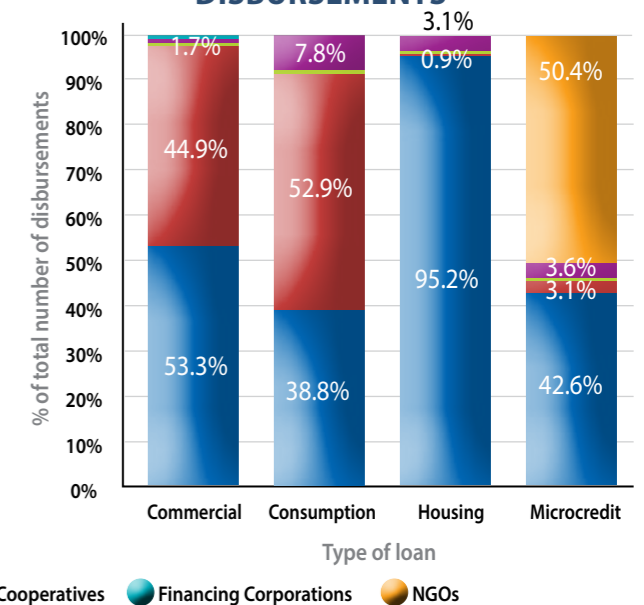
This distribution of disbursements by intermediary is different when viewed in terms of number of loans. In the consumption portfolio, financing companies are the entities with highest number of disbursements (53%), which is explained by the mass distribution channels used by these financial institutions through large retailers. These institutions also have a substantial share in the number of disbursements for commercial loans (45%). As for microcredit, the NGOs are the intermediaries with the largest number of recorded disbursements. Also, the number of disbursements for mortgage loans is primarily concentrated in banks.

CHART 71. DISBURSEMENTS BY PORTFOLIO TYPE AND BY TYPE OF INSTITUTION 2013

ACCORDING TO DISBURSED AMOUNTS



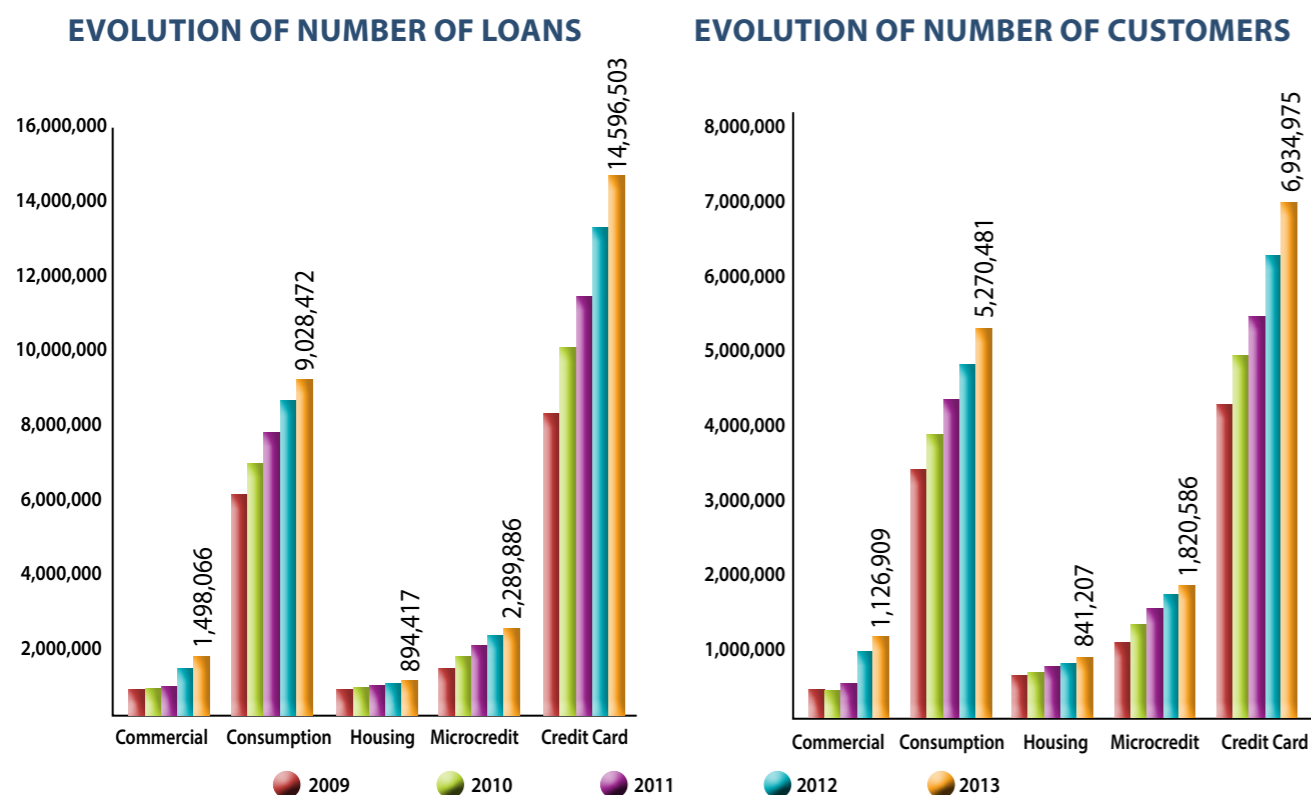
ACCORDING TO NUMBER OF DISBURSEMENTS



Source: SFC (Form 398) and Bdo (SES cooperatives and NGOs)

In terms of the number of customers and the number of loans by portfolio type, an upward trend has been recorded in recent years, in line with the upward trend of disbursements. Particularly, consumption and microcredit transactions concentrate more than 90% of the total of debtors in the system. In the consumption portfolio, it must be pointed out that each debtor has an average of two loans, which is more than the average recorded in the other lines. For their part, credit cards, a generalized product offered by large retailers, account for 57% of the total number of customers and 62% of the total number of transactions in the consumption portfolio.

CHART 72. NUMBER OF CUSTOMERS AND LOANS BY PORTFOLIO TYPE⁵²



Source: CIFIN

Box 5. The role of the guarantees of the National Guarantee Fund (Fondo Nacional de Garantías - FNG in Spanish)

Access to financing is a determinant factor for sustainable economic growth and for the business development of small and mid-sized businesses, and has become one of the most significant barriers for small company development in our country. Another factor that prevents these companies, as well as persons in vulnerable conditions, from having access to financing is having the necessary guarantees.

In this context, the National Guarantee Fund’s mission is to facilitate access to credit for small and mid-sized Colombian businesses by providing guarantees. To this end, the FNG develops products depending on the business needs of the small and mid-sized companies to finance their businesses.

Through the Business Guarantee Line “Línea de Garantía Empresarial” the FNG provides support for financing needs such as acquisition of fixed assets through credit or leasing, working capital, equipment upgrading and productive development, business initiatives, and support for microcredit, as well as support for vulnerable populations, victims of violence, or persons affected by natural disasters, among others.

52. CIFIN disaggregates the consumer loan and credit card information.

The FNG also executes agreements with different entities in order to offer special guarantee programs. These programs offer products with a higher percentage of coverage on the amount of the obligation compared to traditional products. All these programs intend to mitigate market failures that arise in the regions, stimulate banking in some special populations, promote formalization in access to financial funds, and support business competitiveness, among others. As part of these partnerships, there are agreements in place with the Banca de las Oportunidades Program, and the following products have been developed:

PRODUCT	STANDARD FEATURES AND SCOPE
<p>Banca de las Oportunidades:</p> <p>Promotes placement of microcredit funds and the expansion of access to credit for vulnerable populations. In June 2007, BdO signed an agreement with the FNG to contribute COP 10,000 million to guarantee placement of credits in the financial system for up to COP 164,791 million.</p>	<ul style="list-style-type: none"> Loans between 1 and 3 legal minimum wages Coverage of 70% of the principal balance Terms of up to 36 months For investment in working capital and fixed assets. 2.65% commission plus tax (annual, in advance) For individuals in 0, 1, and 2 income levels, Familias en Acción, women-heads of household, vulnerable populations, displaced and re-integrated persons, micro-business people, small businesses, and Red Unidos families. <p>As of December 2013, 13 financial intermediaries have joined, cumulative placements of nearly COP 155,000 million have been transacted, and 95,045 persons/businesses have benefitted.</p>
<p>Natural Disaster Program:</p> <p>Focused on populations affected by natural disasters. An allocation of COP 3,020 million was made to guarantee placement of credits in the financial system for up to COP 15,000 million.</p>	<ul style="list-style-type: none"> Loans between 1 and 25 legal minimum wages Coverage of 80% of the principal balance Terms of up to 36 months, including a grace period of up to 1 year To be used for working capital and fixed assets. The beneficiary does not pay commission because it is covered by the Banca de las Oportunidades agreement. <p>To date, no credits have been disbursed.</p>
<p>Bogota Gets Strong Program in agreement with the District:</p> <p>Its objective is to facilitate access to financing with microcredit methods, in particular, and is aimed at low income persons in the District. Businesspeople and micro-businesspeople domiciled in Bogota C.D. can have access to credits supported by the FNG.</p> <p>Through this program, they expect to support the placement of microcredit of up COP 31,000 million and almost 20,500 in microcredit.</p>	<ul style="list-style-type: none"> Loans between ½ and 25 legal minimum wages Coverage of 50% of the principal balance Terms of up to 36 months with a grace period of up to 1 year The beneficiary does not pay commission because it is covered by Banca de las Oportunidades. <p>Under this guarantee program, the FNG has guaranteed 6,434 credit transactions for 6,388 micro-businesspeople in the District for an amount of COP 25,824 million.</p>

Together the three programs mentioned above have involved 17 financial intermediaries, 99,668 beneficiaries, and a cumulative placement of funds of COP 174,000 million.

Commercial Portfolio

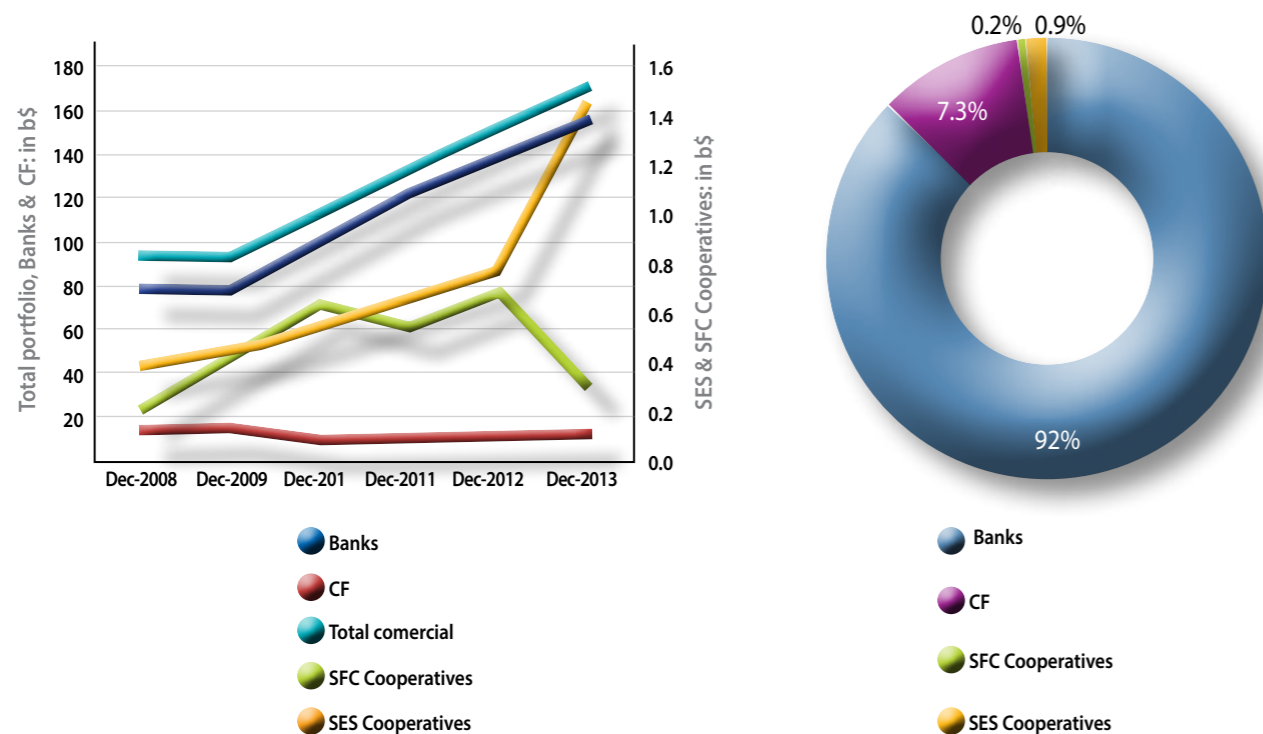
In 2013, the commercial portfolio displayed annual nominal growth of 12.6%, reaching COP 171 billion, an amount similar to 2012, but lower than the amounts recorded between 2010 and 2011 (19.1%). This lower performance was partly due to the slow-down of some sectors of the national economy such as the industrial, mining, commercial, and services sectors.

The growth recorded during 2013 was mainly influenced by the demand for credit by the construction and transportation sectors. In particular, banks accounted for 92% of the growth recorded during the year, followed by financing companies, which contributed with an increase of 6%. It is important to highlight that SES Cooperatives, with a market share of 0.85% in the commercial portfolio, displayed annual growth of 89% in the total balance associated with this line.

It should be mentioned that the banks concentrate 92% of the total balance of trade credits because these entities have a high credit limit based on the size of their equity, which enables them to make disbursements of greater amounts aimed at corporate debtors.

CHART 73. COMMERCIAL PORTFOLIO BY TYPE OF INSTITUTION (BILLIONS OF PESOS)

EVOLUTION OF COMMERCIAL PORTFOLIO BY TYPE OF INSTITUTION



Source: SFC and Bdo (financial statements)

Consumption portfolio

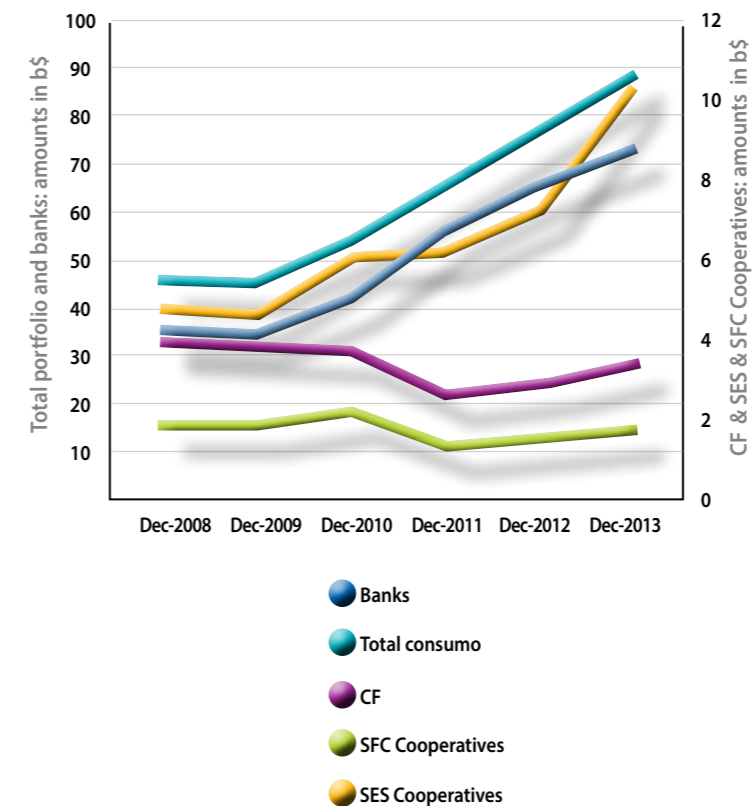
The consumption portfolio posted a nominal increase of 14.8% as of end-2013, reaching COP 90 billion. This growth is smaller than the growth recorded on the same cut-off date of the previous year (17.3%); this performance is partly explained by slower growth in household consumption and also by the measures established by the SFC to sustain quality in this portfolio, requiring additional provisions due to the increase recorded by the non-performing loans.

During 2013, financial institutions continue to be active in portfolio purchasing. That year they performed 103 portfolio purchasing transactions for an amount of almost COP 1 billion, an amount similar to the amount recorded the previous year.

In terms of consumption portfolio balances by type of intermediary, during 2013 SES Cooperatives achieved substantial growth in market share, from 9% to 12%, driven by the increase in payroll loans. This performance contrasted with the decrease in banks' market share.

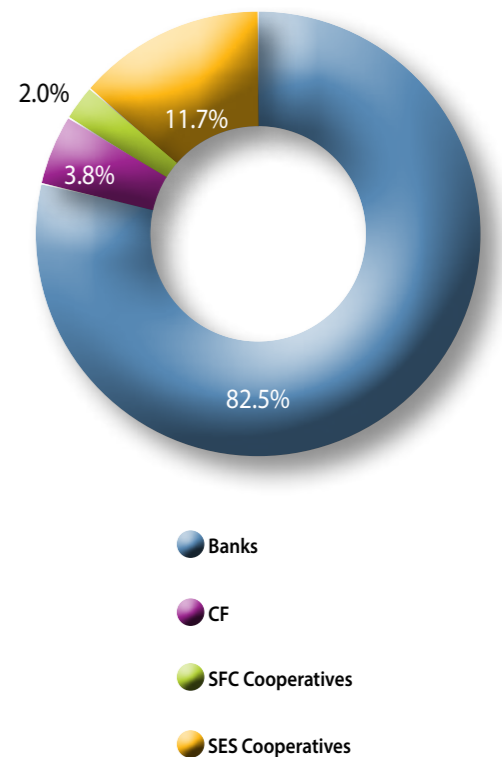
CHART 74. CONSUMPTION PORTFOLIO BY TYPE OF INSTITUTION (BILLIONS OF PESOS)

EVOLUTION OF THE CONSUMPTION PORTFOLIO BY TYPE OF INSTITUTION (BILLIONS OF PESOS)



Source: SFC and Bdo (financial statements)

DISTRIBUTION OF CONSUMPTION PORTFOLIO BALANCES BY TYPE OF INSTITUTION (DEC-2013)



Credit cards

Credit cards are the most representative product of the consumption portfolio in terms of number of customers and credits, concentrating 57% of the customers and 62% of the credits in 2013. In recent years, this product has recorded an upward trend, driven by the financing mechanisms provided by the large retailers, and by the use of efficient processes for information verification, thus facilitating the acquisition of these products in short periods of time. As of end-2013, nearly 11.8 million plastic cards were issued, with a used balance of COP 18.6 billion and approved credit limits of COP 30 billion.

Thus the percentage of use of this product, defined as the credit used out of the total approved, reached 38% in 2013, increasing in comparison to the record of 2012 (36%). This indicates that 62% of the credit limits approved have not been used by the debtors, which can be explained by the use of other sources of financing that offer lower interest rates than this product.

CHART 75. NUMBER AND BALANCE OF CREDIT CARDS

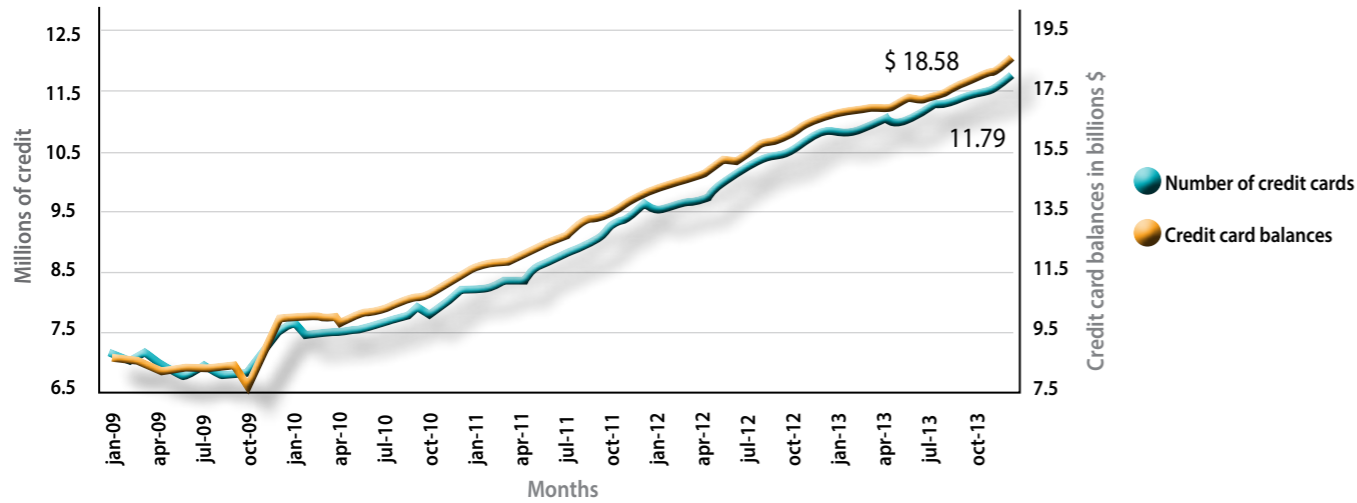
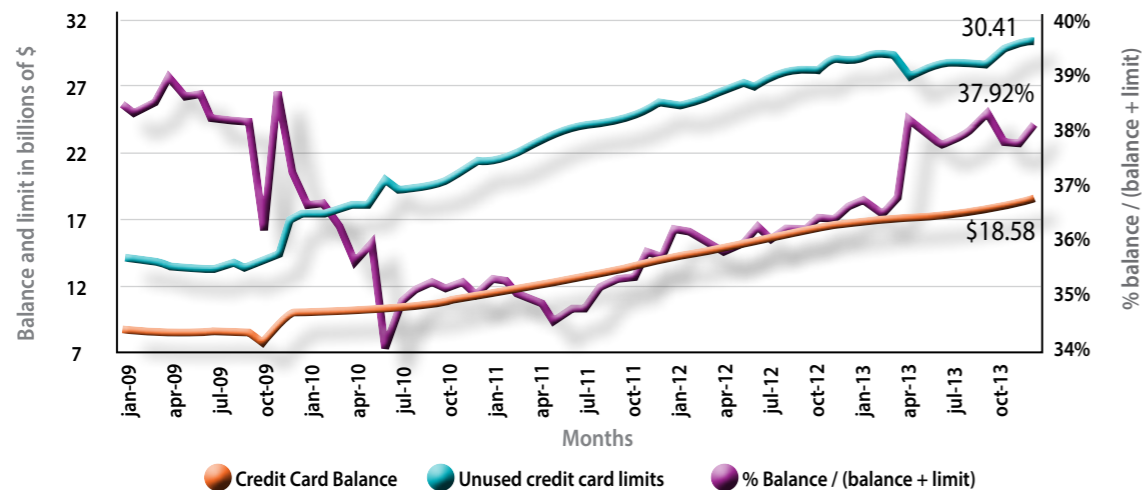


CHART 76. CREDIT CARD BALANCE, CREDIT LIMIT, AND INDICATOR OF CREDIT LIMIT USE



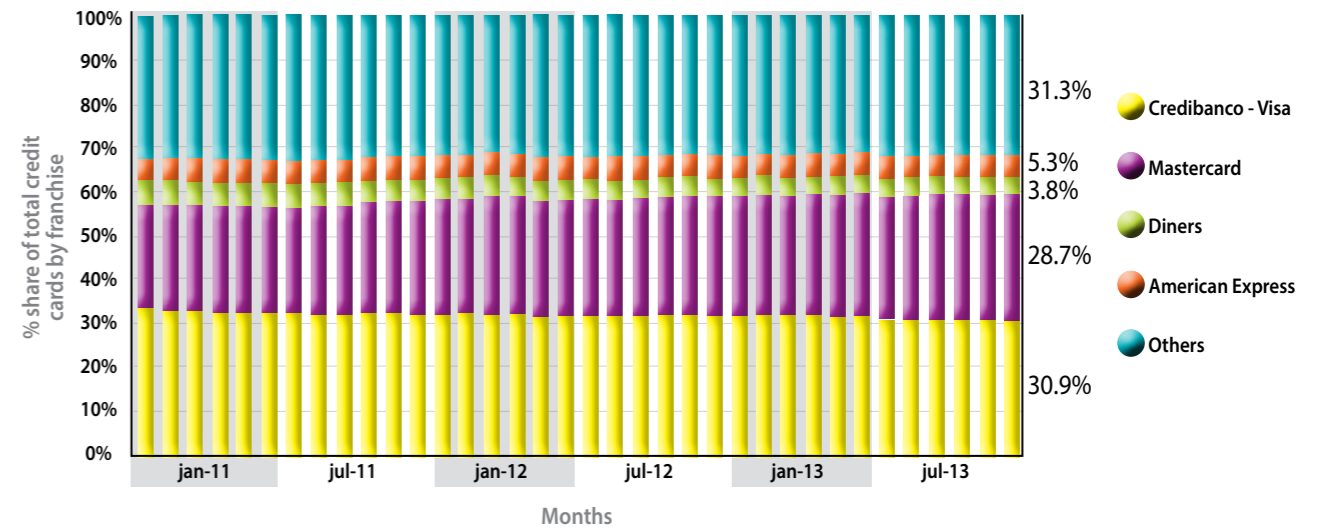
Source: SFC (Form 466). Including only entities supervised by the SFC.

It should be pointed out that own-brand credit cards, usually issued by large retailers, have substantially driven this product, reaching a market share similar, in terms of number of plastic cards, to those recorded for international franchises such as Visa (31%) and MasterCard (28.7%).

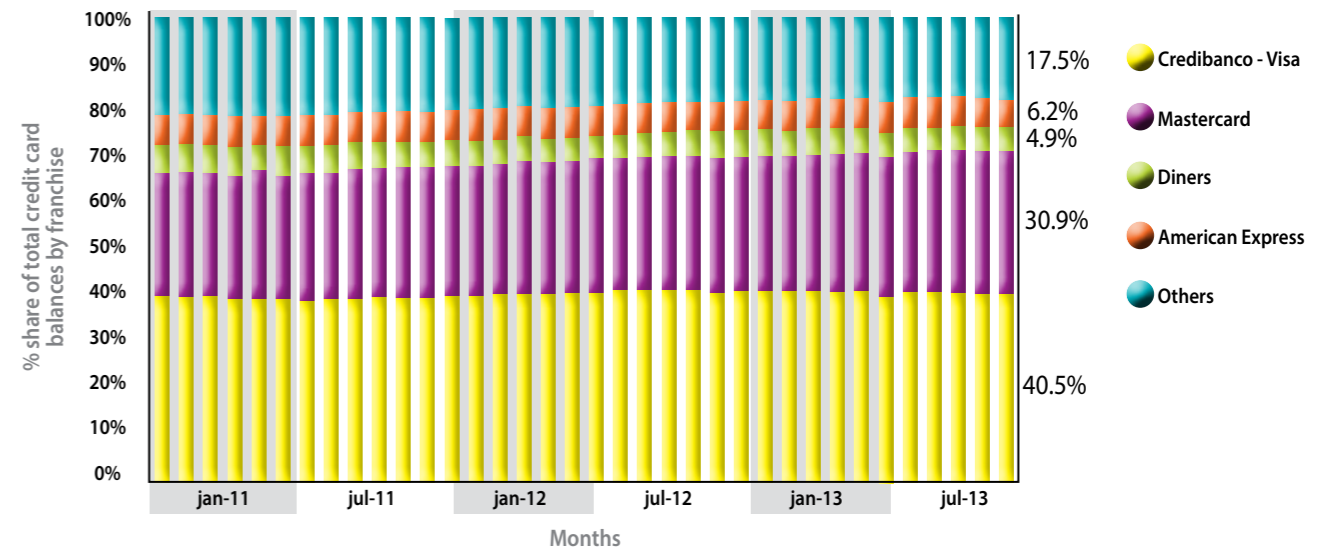
If we observe market share by franchise from the perspective of total credit card balances, the greatest representation is Visa's (40.5%), followed by MasterCard (31%) and own-brand credit cards (18%). This performance is due to the fact that, for the former two franchises, the credit limits approved are higher than those offered by own-brand credit cards.

CHART 77. CREDIT CARDS BY FRANCHISE

ACCORDING TO THE NUMBER OF PLASTIC CARDS



ACCORDING TO BALANCE



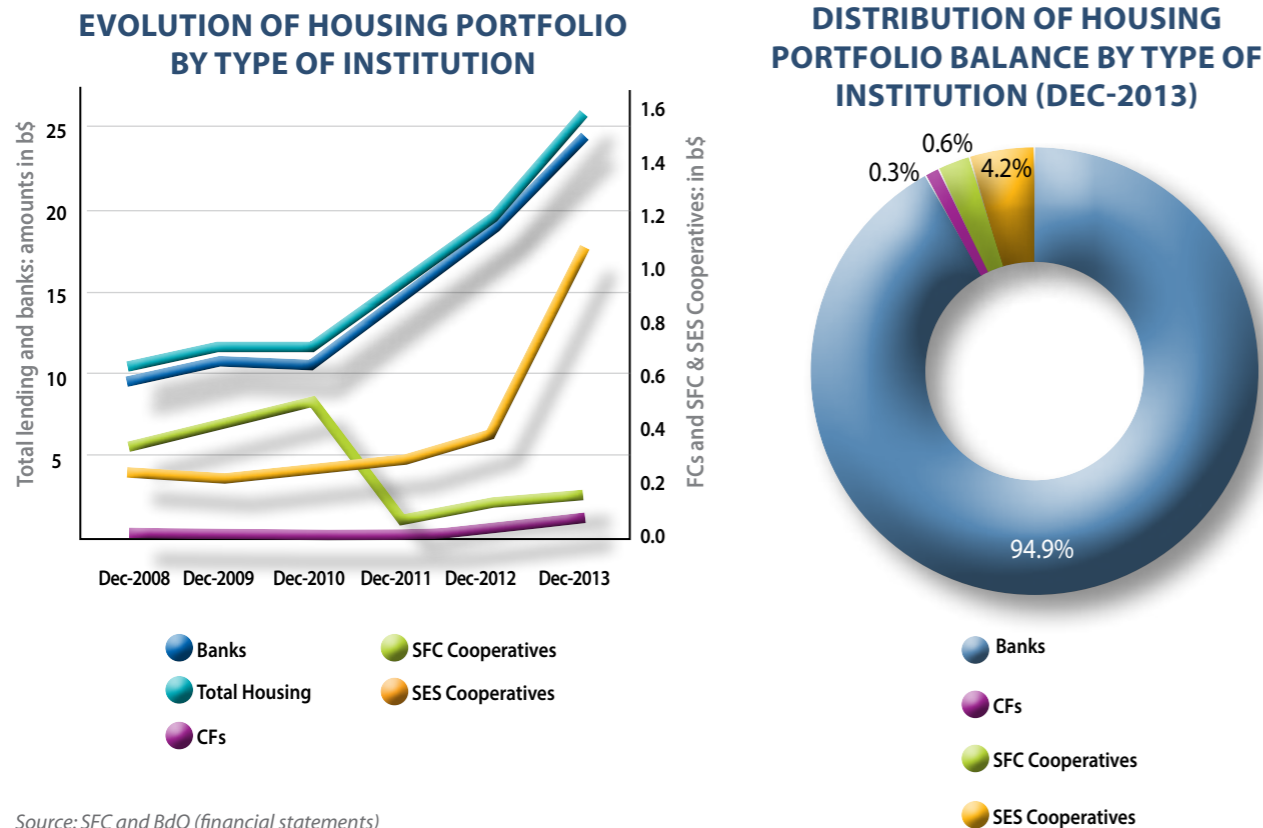
Source: SFC (Form 466). Including only entities supervised by the SFC.

Mortgage

The mortgage portfolio was the line with greatest growth recorded during 2013, reaching COP 26 billion at the end of the year. In this period, the portfolio displayed an annual nominal increase of 31.1%, where the banks accounted for 88%, followed by SES Cooperatives with 11.2%. In this regard, it should be noted that SES Cooperatives posted annual nominal growth of 169% in their mortgage portfolio; for this reason, their contribution to the increase of this line during the last year grew from 2.7% in 2012 to 11.2% in 2013.

The expansion recorded by this portfolio in recent years was promoted, to a great extent, by the creation of the Reserve Fund for the Stabilization of Mortgage Portfolio (Fondo de Reserva para la Estabilización de la Cartera Hipotecaria - FRECH in Spanish) in 2009 by the Government in order to facilitate the conditions for mortgage financing⁵³. The effect of the implementation of these measures has been an increase in the real estate market, reflected in the disbursements and in the resulting increase of the total balances of the mortgage portfolio

CHART 78. HOUSING PORTFOLIO BY TYPE OF INSTITUTION (BILLIONS OF PESOS)



Source: SFC and BdO (financial statements)

53. The Ministry of Finance is responsible for defining the amount of funds to be committed by the Government to providing coverage, and it defines the number of loans that will receive this benefit depending on market conditions. This fund is managed by Banco de la República (the central bank). The coverage applies to the agreed interest rate for new credits provided by credit establishments to individual debtors for mortgage loans or mortgage leasing contracts that fulfill the conditions established in decrees 1143 of 2009, 1190 of 2012, and 701 of 2013. In this section, it should be noted that, although the coverage period will be the first seven years of the mortgage credit, factors associated to competition among credit institutions have led these institutions to decide to expand the benefit to the remaining years of the credit (if this period is longer than 7 years.)

Microcredit

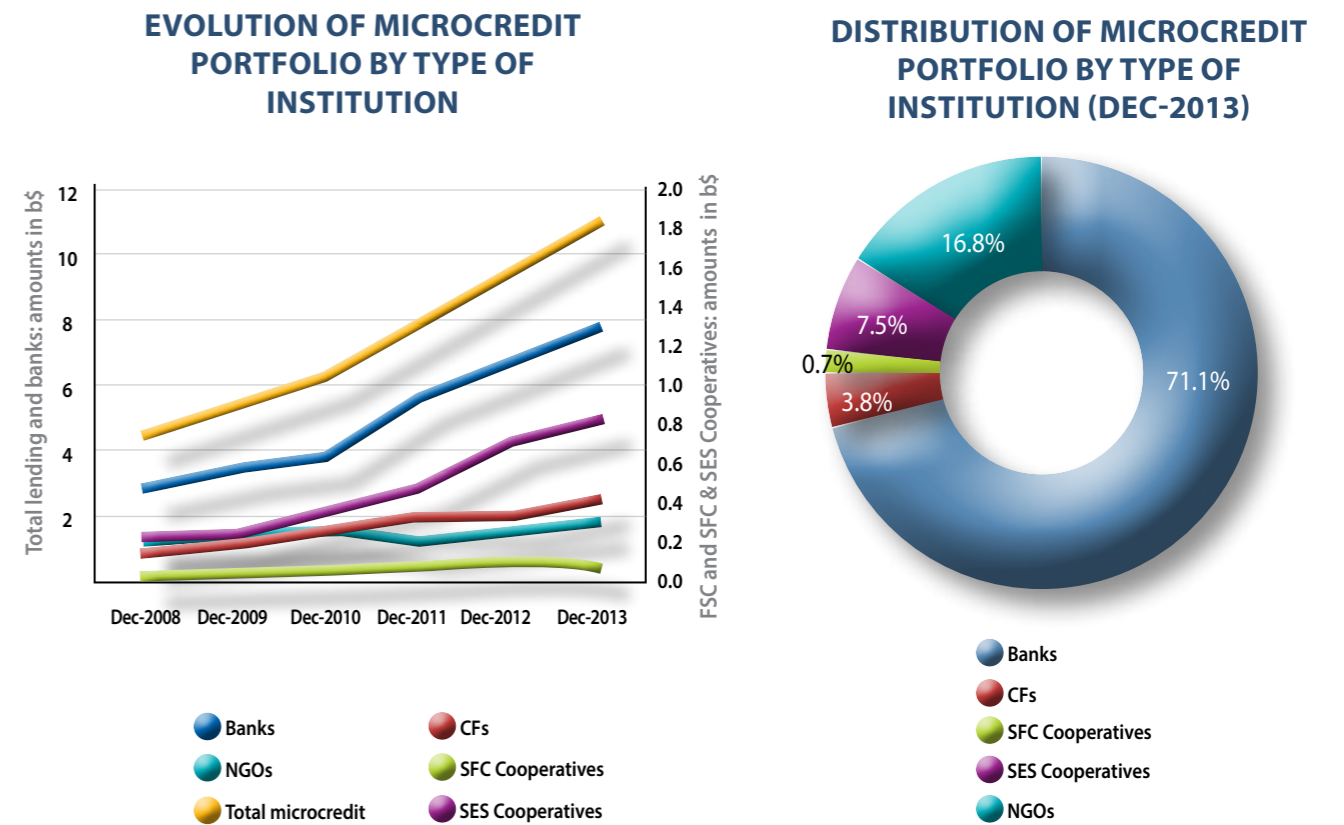
The microcredit portfolio, with COP 11 billion at the end of 2013, posted slower growth during 2013 compared to the previous twelve months, due to an increase in non-performing loans. This led the entities to tighten conditions to provide credit, and to improve their non-performing loans collections processes.

This line recorded annual nominal growth of 17.6% in 2013; Banco Agrario accounted for 55% of it. The substantial market share of this financial institution in the microcredit portfolio is driven by the financing policies for small farmers promoted by the Government.

In this manner, 71% of the growth recorded by microcredit in 2013 was originated by banks, followed by NGOs with 17.4%, and the SES Cooperatives with 7.5%.

Assessing the distribution of this portfolio without taking into account Banco Agrario, we observe that the market share of the banks decreases to 48%, while the shares of NGOs and SES Cooperatives increase to 30% and 13%, respectively.

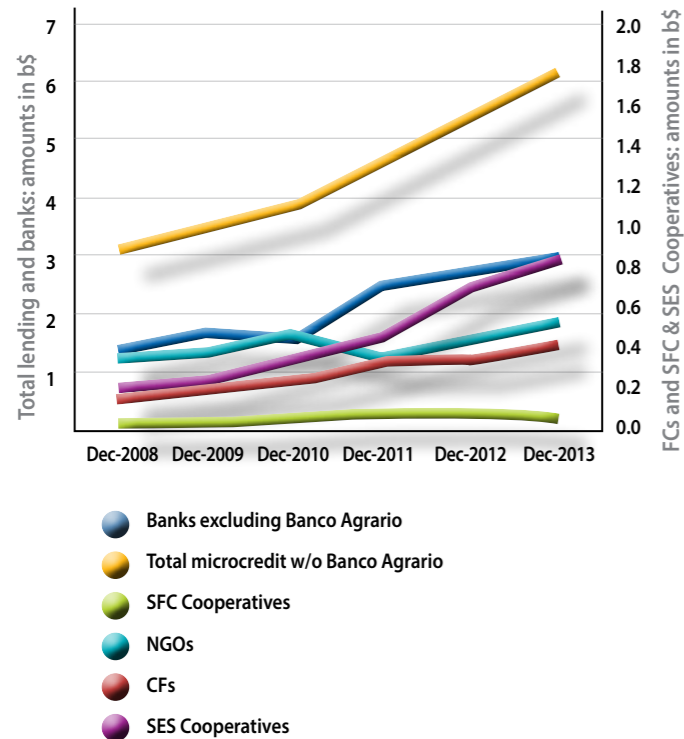
CHART 79. MICROCREDIT PORTFOLIO BY TYPE OF INSTITUTION (BILLIONS OF PESOS)



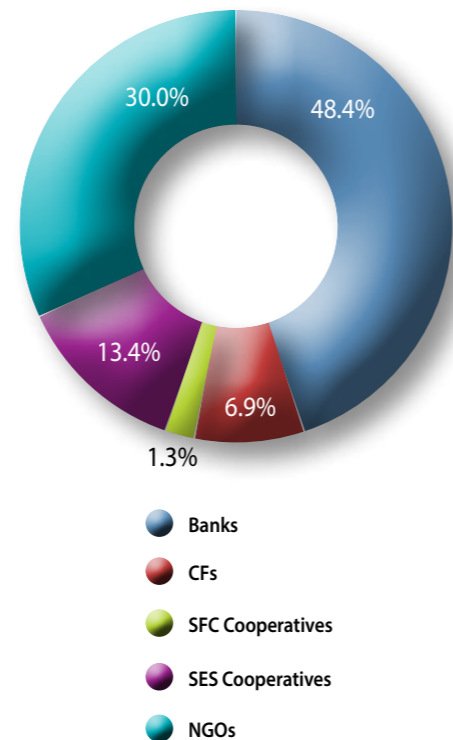
Source: SFC (financial statements) and BdO

CHART 80. MICROCREDIT PORTFOLIO BY TYPE OF INSTITUTION EXCLUDING BANCO AGRARIO

EVOLUTION OF THE MICROCREDIT PORTFOLIO BY TYPE OF INSTITUTION



DISTRIBUTION OF MICROCREDIT PORTFOLIO BY TYPE OF INSTITUTION (DEC-2013)



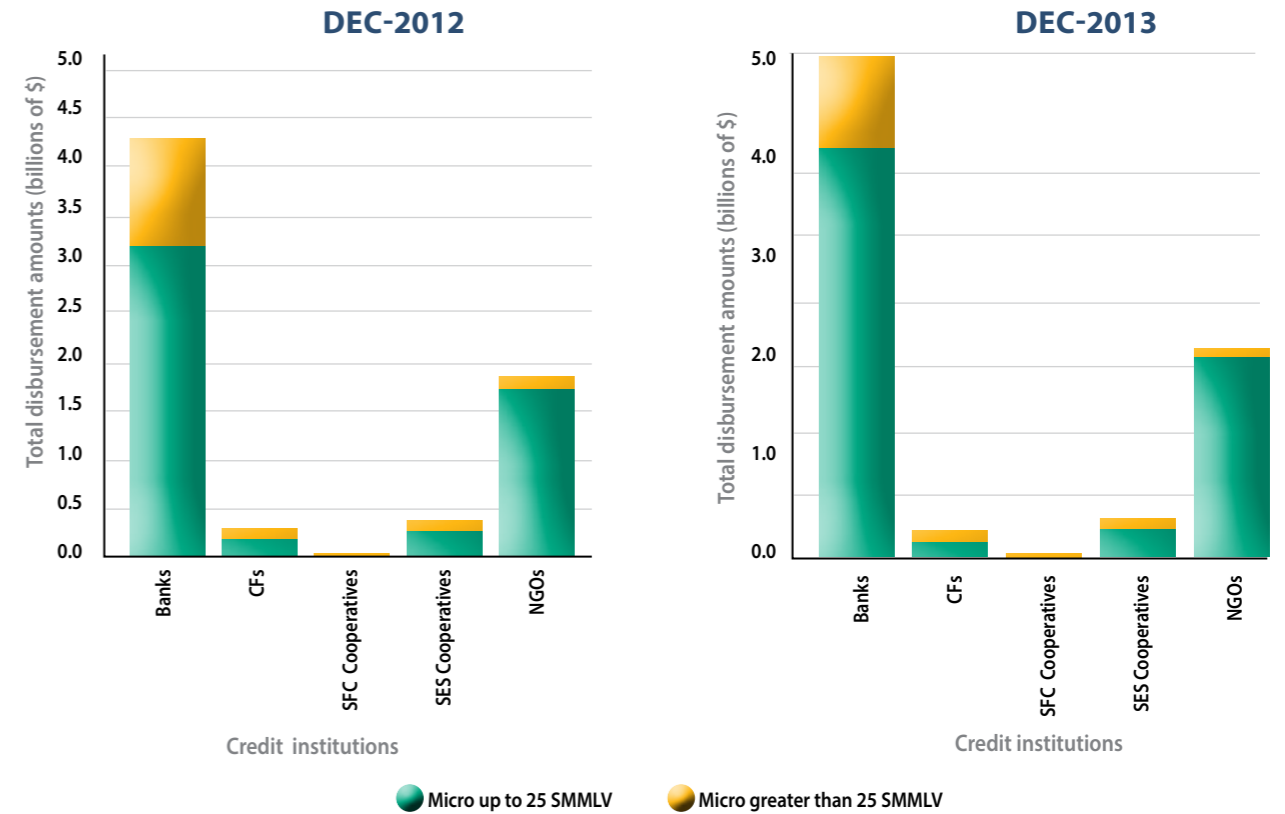
Source: SFC (financial statements) and BdO

Of the disbursements made in 2013, 97% were loans of less than 25 legal minimum wages, in line with the target market for this line, which focuses on micro-businesspeople who require financing for small and mid-sized productive projects⁵⁴.

In terms of the distribution of the total amount disbursed in 2013, banks carried out 63% of the total of microcredit placements, disbursing a total of COP 5.0 billion, compared to 4.3 billion in 2012. NGOs came in second place, and their disbursements in 2013 increased to COP 2.1 billion.

54. In relation to this type of credit, Section 39 of Act 590 of 2000 authorizes financial intermediaries to charge commissions or fees, provided the financial institution carries out the following activities: i) specialized technical assistance to the micro-businessperson in relation to the economic activity this person carries out; ii) visits that must be performed to verify the status of the business activity; and iii) remuneration for the study of the credit transaction, among others.

CHART 81. DISTRIBUTION OF TOTAL MICROCREDIT DISBURSEMENT BY TYPE OF INSTITUTION



Source: SFC (Form 398) and BdO (SES Cooperatives and NGOs)

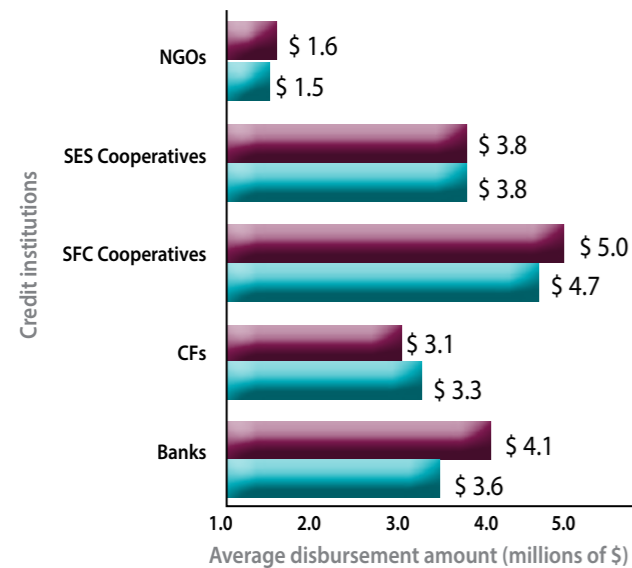
In terms of number of disbursements, banks carried out 74% of the placements of loans for more than 25 legal minimum wages. Out of the 2.4 million loans for less than 25 legal minimum wages placed in 2013, 52% were disbursed by the NGOs.

In terms of the average amount per transaction, we find that, in the segment of microcredit of more than 25 legal minimum wages, SES and SFC Cooperatives and financing companies recorded greater placements with disbursements between 24 and 26 million, while banks and NGOs show an average of 19 million and 20 million, respectively.

On the other hand, in the segment of less than 25 legal minimum wages, the highest amount was by SFC Cooperatives (5.0 million), while the other types of intermediaries show average amounts of almost 3.7 million, with the exception of NGOs, with average disbursements of 1.6 million.

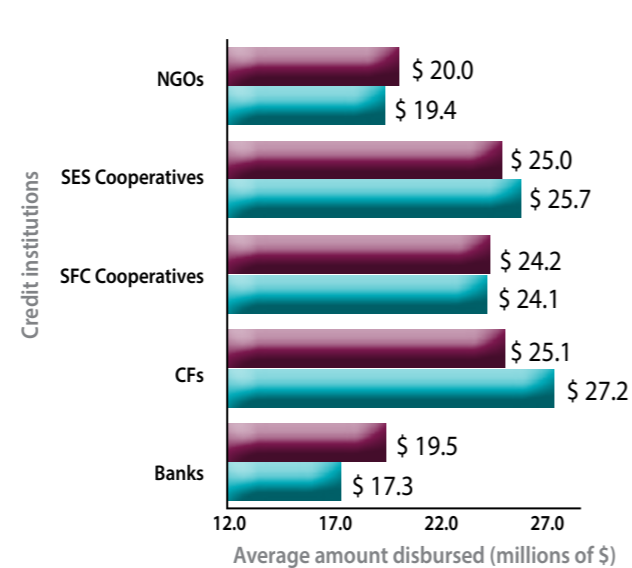
CHART 82. AVERAGE MICROCREDIT TRANSACTION VALUE BY TYPE OF INSTITUTION

AVERAGE AMOUNT DISBURSED IN MICROCREDIT UP TO 25 LEGAL MINIMUM WAGES BY TYPE OF INSTITUTION



● 2013 ● 2012

AVERAGE AMOUNT DISBURSED IN MICROCREDIT HIGHER THAN 25 LEGAL MINIMUM WAGES BY TYPE OF INSTITUTION



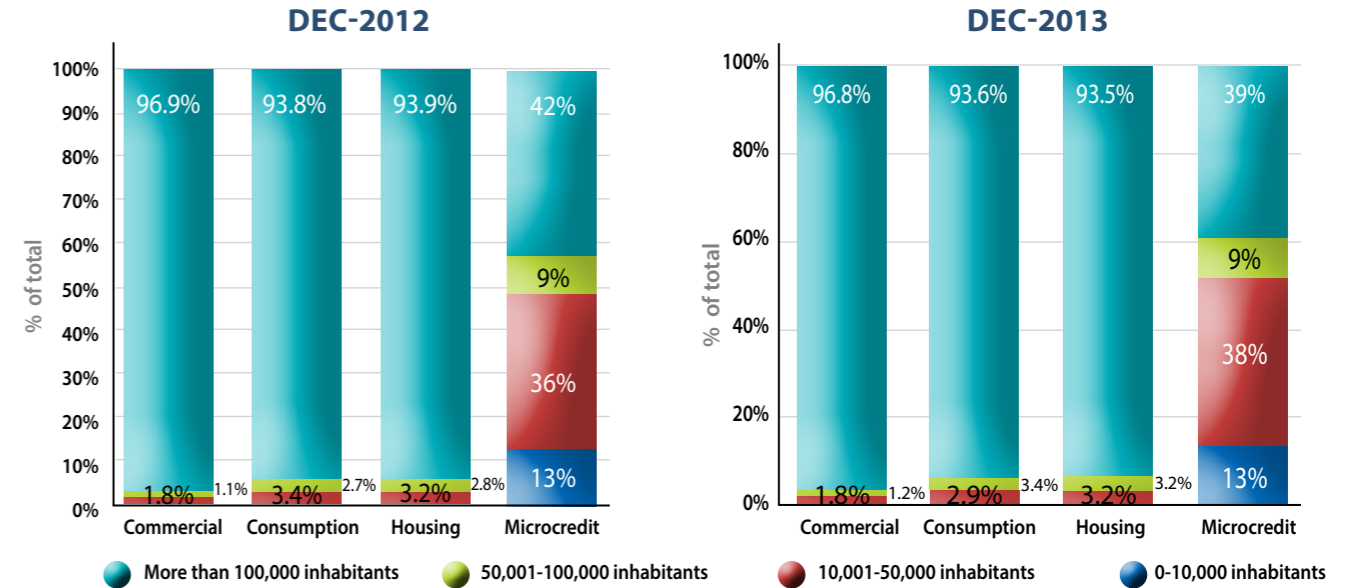
Source: SFC (Form 398) and BdO (SES Cooperatives and NGOs)

2.5.2 Municipal analysis

In assessing the different portfolio lines according to municipality population size, we find that 94% of the commercial, consumption, and mortgage portfolios are concentrated in municipalities with more than 100 thousand inhabitants. This is primarily due to the fact that most medium and large companies are located in these areas and also in urban areas.

The microcredit portfolio is more diversified among municipalities, recording a substantial market share of 13% in areas with populations of less than 10,000 inhabitants, 38% in cities of up to 50,000 inhabitants, and only 39% in cities with more than 100,000 inhabitants, a distribution similar to that of 2012. This performance is explained mainly by the presence of Banco Agrario. Particularly during the last year, we observe an increase in the market share of the balances of microcredit aimed at municipalities of between 10,000 and 50,000 inhabitants, offset mainly by the reduction recorded in the share of balances in cities with more than 100,000 inhabitants.

CHART 83. DISTRIBUTION OF PORTFOLIO BALANCE BY POPULATION SIZE

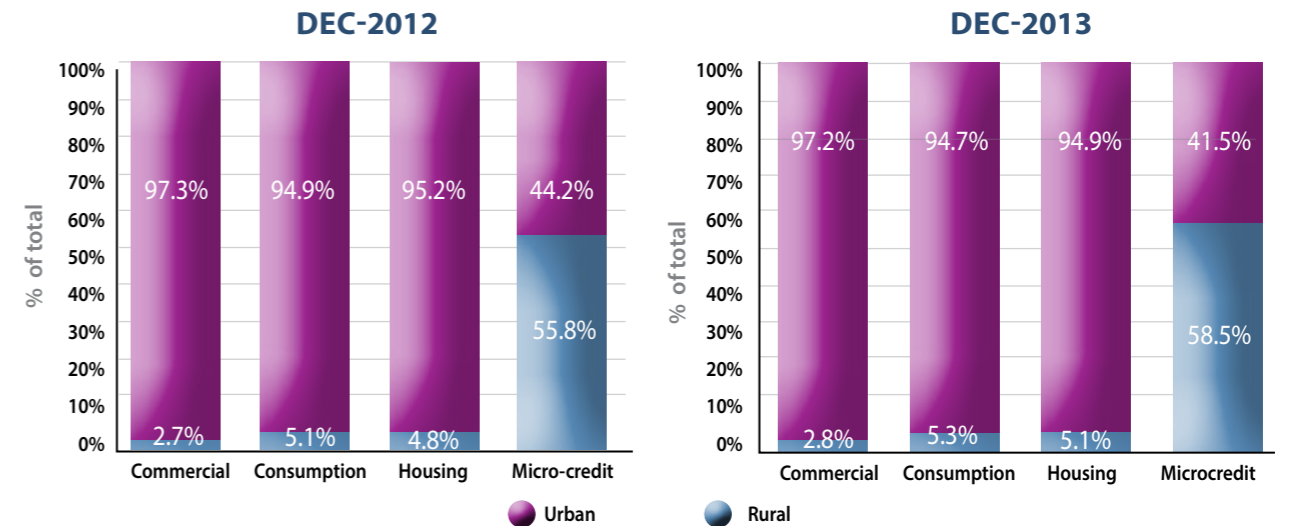


Source: SFC (Form 322). Including only financial institutions supervised by SFC

In analyzing data by type of municipality, either rural or urban, we find that, similarly to the case of the population size, the commercial, consumption and mortgage portfolios mainly focus on the urban areas; this is a trend that remained constant in relation to the records of 2012.

More than 50% of the total balance of the microcredit portfolio is established in rural areas; this market share has increased permanently in recent years. This trend is the result of Banco Agrario's high participation and its focus on rural areas, mainly on the agriculture sector.

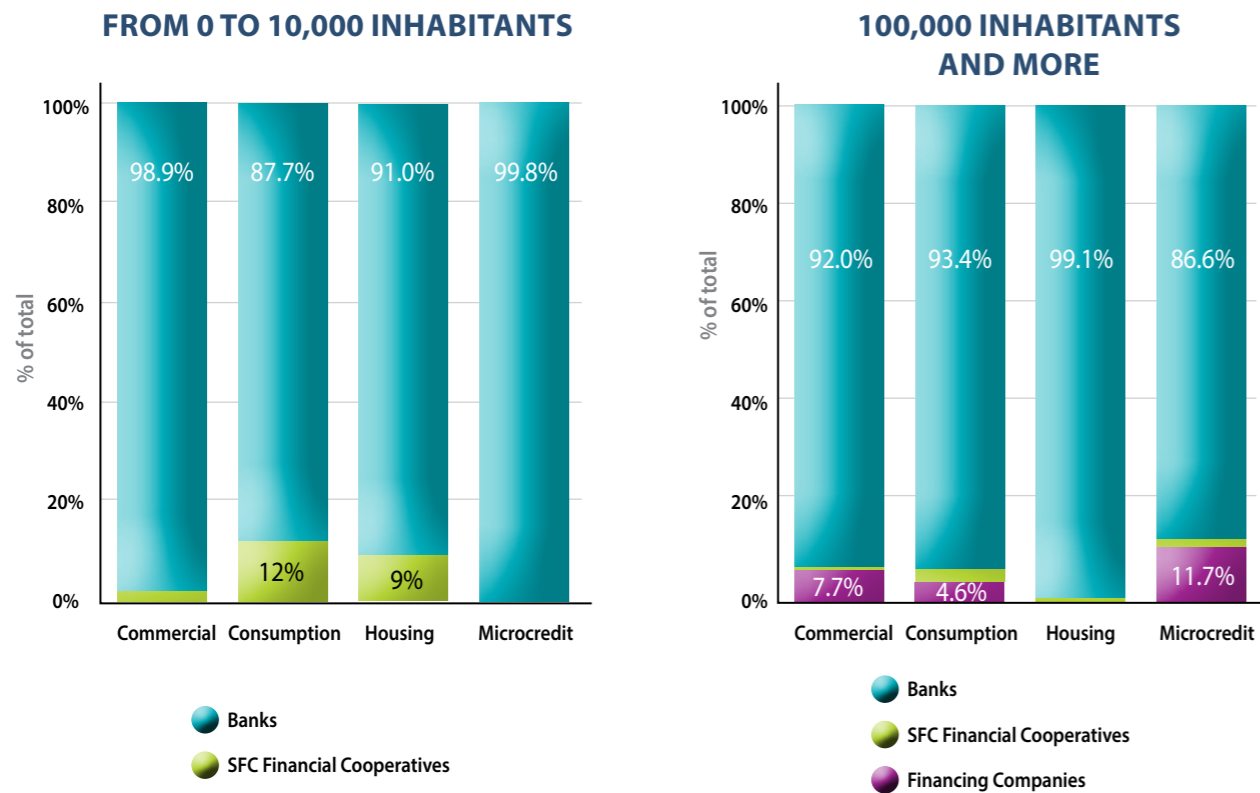
CHART 84. DISTRIBUTION OF PORTFOLIO BALANCE BY TYPE OF MUNICIPALITY



Source: SFC (Form 322) Including only financial institutions supervised by SFC

Analyzing the market share by type of intermediary in the distribution of portfolio by line according to population size, we find that, in all the segments, the banks have a greater market share, while SFC Cooperatives have a marginal share in the consumption and mortgage portfolios in towns with less than 10,000 inhabitants. Financing companies focus their market share on urban areas, mainly cities with more than 100,000 inhabitants.

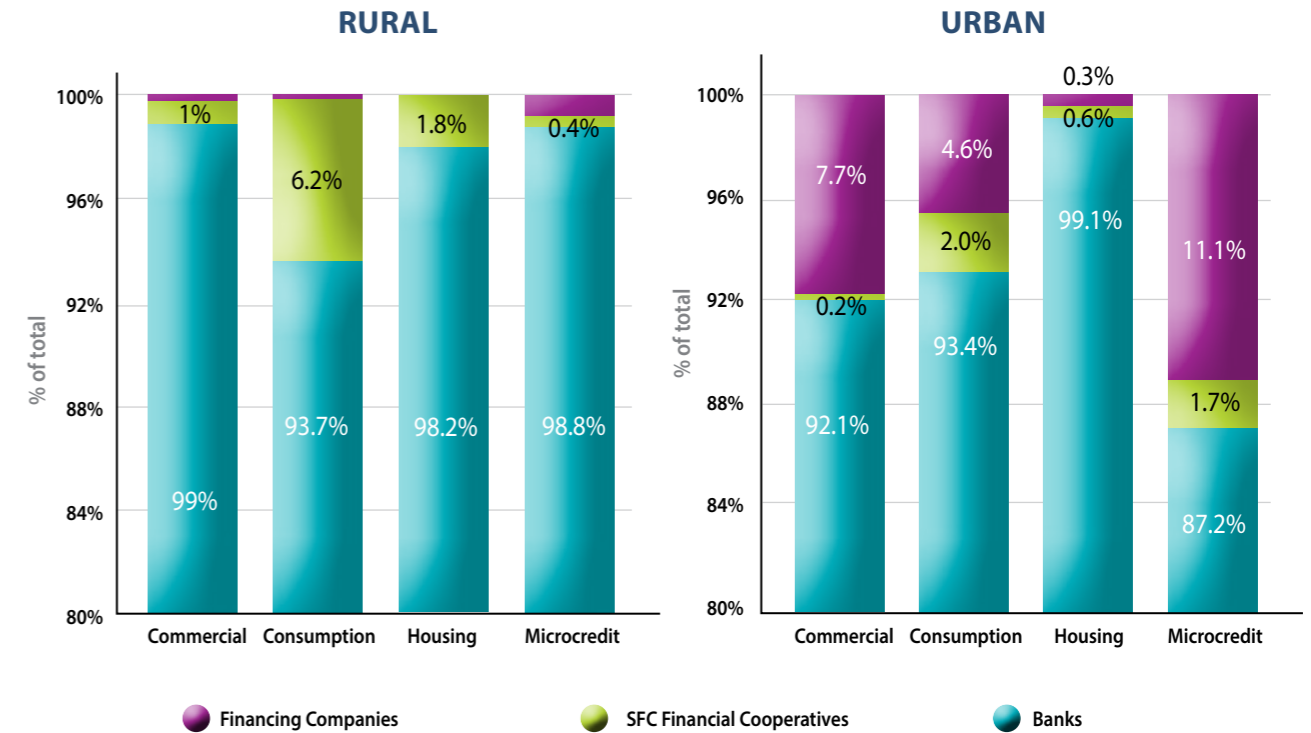
CHART 85. MARKET SHARE OF CREDIT INSTITUTIONS BY TYPE OF PORTFOLIO AND BY POPULATION SIZE



Source: SFC (Form 322). Including only entities supervised by SFC.

In analyzing the distribution of the portfolio in urban and rural municipalities, we consistently find the banks keep the greatest market share. Excluding the bank information, we find that SFC Cooperatives have a high market share in rural municipalities, while in urban areas financing companies are the most active intermediaries in the placement of credits after banks.

CHART 86. MARKET SHARE OF CREDIT INSTITUTIONS BY PORTFOLIO TYPE AND BY TYPE OF MUNICIPALITY



Source: SFC (Form 322). Including only financial institutions supervised by SFC.

CHAPTER 3:



QUALITY AND WELLBEING

CONSUMER PROTECTION AND FINANCIAL EDUCATION

3.1 FINANCIAL CONSUMER PROTECTION

Financial consumer protection has gained relevance both in academic discussion and in the practices adopted by various jurisdictions, particularly in terms of new institutional arrangements and regulatory reforms aimed at achieving a more efficient and competitive financial market that guarantees the collective and individual rights of financial consumers.

The concern for carrying out reforms to protect the consumer can be tracked in modern history back to milestones that internationalized the discussion such as United States President John F. Kennedy's message to the US Congress on March 15, 1962. In his speech, Kennedy proposed a series of consumer rights including the right to be offered safe products, to be informed, to choose, and to be listened to. His speech announcing a series of consumer protection measures started with his famous sentence "by definition, we are all consumers."

In this sense, consumer protection policies recognize that consumers are at a disadvantage in relation to the providers of goods and services as for their economic capability, education level, and negotiation power, which is often practically non-existent before the financial sector. These policies are intended to minimize the inequality in information, especially regarding financial service costs and contractual conditions in such a way that the consumers are able to make adequate decisions when using or acquiring such services according to their interests, and to create mechanisms to effectively protect their rights.

Consequently, we could agree that the rights of the consumers are breached when: i) they buy goods or services that otherwise they would have not purchased due to bad sales practices, ii) they pay more than they would have paid if they had been better informed, iii) they are subject to abusive clauses and/or practices or iv) the acquired goods or services do not fulfill their expectations both in terms of delivery time and quality⁵⁵.

55. OECD (2014) Recommendation on Consumer Policy Decision- Making.

The problems faced by consumers remain largely unchanged; the difference lies in the goods and services market, which has evolved due to technological progress in information and communication, regulatory reforms, free trade, and globalization⁵⁶. This has led to the vertiginous development of new products, some of them complex, and although they have the potential of benefitting consumers, they can also worsen existing inequalities.

Therefore, an adequate protection system for the financial consumer should involve the protection and education of citizens so that they take on adequate levels of risks according to their own profile when acquiring a financial product and, from this perspective, protect the markets from systemic risk. In this sense, the education policies complement these initiatives since they intend to allow consumers to understand the structure and the systems of a given market so that they can effectively participate in it.

Frequently, the consumers are adrift and their consumption habits are not in accordance with their personal needs, and often they do not rely on careful consideration of the way their behaviors affect the economy, the environment, and their society in general. Consumer education should provide the necessary knowledge to turn the citizens into responsible consumers who, in addition to satisfying their needs, also contribute to the sustainability of their environment through the generation of new cultural patterns of consumption.

The current reality of the market displays the need for new approaches to provide solutions for these recurrent problems and new challenges that demand efficient legislation and institutional arrangements, and the articulation of consistent policies related to protection and education for the financial consumer.

Box 6. High Level Principles on Financial Consumer Protection of the Organization for Economic Cooperation and Development (OECD)

In response to the request from the finance ministers and the chairmen of the Central Banks of the G20 countries, in 2011 the OECD issued a series of principles to be implemented to promote best practices in terms of financial consumer protection in this group of countries and in other economies. These principles are based on three main pivotal points: information disclosure and transparency, responsible conduct of business by financial product and service providers, and complaint resolution and compensation. These pivotal points must be integrated with inclusion and financial education policies and must be framed by financial regulation and supervision⁵⁷.

The following are the mentioned principles:

Principle	Aspects
Legal, regulatory, and supervision framework	<ul style="list-style-type: none"> Financial consumer protection should be an integral part of the legal, regulatory and supervisory framework. Regulation should reflect and be proportionate to the characteristics, type and variety of financial services and consumers. Providers of financial services should be appropriately regulated and supervised, taking into account specific sector approaches. Other stakeholders, such as industry organizations and research communities should be consulted when policies are developed.
Role of the oversight bodies	<ul style="list-style-type: none"> There should be oversight bodies (dedicated or not) explicitly responsible for financial consumer protection, with clear responsibilities and tasks, operational independence, with sufficient power, resources and capabilities. Cooperation with other national and international supervision bodies should be promoted, taking into account international transactions.
Equitable and fair treatment of financial consumers	<ul style="list-style-type: none"> All financial consumers should be treated equitably and fairly in all stages of their relationship with financial service providers. Fair treatment should be an integral part of the corporate culture of financial service providers.
Information disclosure and transparency	<ul style="list-style-type: none"> Providers of financial services should provide consumers key information about the benefits, risks, and terms of the products in all the stages of the relationship with the customer. Promotional materials should be accurate, honest, understandable and not misleading. It is appropriate to implement standardized pre-contractual practices, such as forms, that facilitate comparisons between different financial products. Advice provided should be objective and be according to the financial consumer's profile and the complexity of the financial product, its associated risks, the consumers' objectives and needs, and their experience, knowledge, and capabilities.
Financial education and awareness	<ul style="list-style-type: none"> All the key participants must promote financial education programs (regulators, supervisors, central banks, industry organizations, and others), and there must be mechanisms that allow the consumers to access clear information about the market, the products offered, and about their rights and duties in order to improve their knowledge, with an emphasis on vulnerable populations.
Responsible business conduct of financial services providers and authorized agents	<ul style="list-style-type: none"> Financial services providers and authorized agents should have, as their main objective, to work in the best interest of the financial consumers. They must take into account the consumers' capabilities, situation, and needs before accepting to provide them any financial product. Remuneration of the staff of financial service providers should be designed to encourage responsible conduct, fair treatment for consumers, and avoid conflicts of interest. The service providers should be responsible for their representatives' actions.
Consumer protection against fraud and inappropriate use	<ul style="list-style-type: none"> Enough information must be provided and security mechanisms implemented to protect the consumers' savings and to avoid fraud.
Protection of consumer data and privacy	<ul style="list-style-type: none"> Personal and financial data should be adequately stored and processed and the mechanism should clearly define the purpose for collecting, processing, storing, and disclosing information. The consumer must be informed of the terms for sharing information.
Complaints handling and redress	<ul style="list-style-type: none"> The countries should ensure that financial consumers have access to adequate complaints handling and redress mechanisms that are accessible, independent, fair, accountable, timely, and efficient.⁵⁸
Competition	<ul style="list-style-type: none"> Competition must be promoted in the markets to offer a greater diversity of competitive, accessible, and high-quality financial products.

56. OECD (2010), Consumer Policy Toolkit.

57. OCDE (2011), G20 High-Level Principles on Financial Consumer Protection

58. OECD (2013), Update Report on the work to support the implementation of the G20 High-Level Principles on Financial Consumer Protection.

3.1.1 Progress and current status of the financial consumer protection in Colombia

Colombia has a solid regulatory framework for financial consumer protection in place, applied for the first time by virtue of section 78⁵⁹ of the National Constitution, and has been developed in different ways, where the consumer is the protagonist, such as the Decree-Act 663 of 1993 or the Financial System Organic Statute (Estatuto Orgánico del Sistema Financiero – EOSF in Spanish), Act 795 of 2003, which establishes the mechanism of the financial ombudsman, Act 964 of 2005 which regulates the securities market, and Act 1266 of 2008, which regulates the management of information contained in the personal databases, particularly financial, credit, commercial, and services data.

Accordingly, Act 1328 of 2009 effectively became a statute for the protection of the financial consumer by establishing precise obligations for the industry, articulating solid principles, and stipulating clear rights for the consumers. The regulatory framework that the country had developed in terms of financial consumer protection in 2011 with the enactment of the general statute for consumer protection through Act 1480 of 2009 is still in place today. It is worth highlighting that further institutional development has been achieved thanks to the jurisdictional powers granted to the SFC in the mentioned Act 1480 of 2011, which reflects maturity in the legal structure and in general in the consumer protection system.

One of the four elements established by the Association of Bank Supervisors of the Americas (Asociación de Supervisores Bancarios de las Américas - ASBA in Spanish)⁶⁰ for the development of an adequate system for consumer protection is based on the expectation that the institutional arrangements adopted by the country should be efficient in their endeavors, in other words, on making consumer rights real and effective. An example of institutional efficiency has been the evolution of the jurisdictional power of the SFC to issue final rulings with the power of a judge at the consumers' request.

These rulings are related to contractual conflicts arising between financial consumers and the supervised entities, where the SFC decides based exclusively on the law and on the proof obtained during the process.

3.1.1.1 Jurisdictional powers of the SFC

Since the Jurisdictional Functions came into effect, the SFC has made substantial efforts to equip the area with adequate infrastructure, tools, and technology to guarantee, for all the consumers in the national territory, access to the mechanism created by the law to defend their rights, especially in the case of small-amount consumer protection processes established through Act 1480 of 2011; these tools and mechanisms guarantee real access to the administration of justice in equal conditions and observing the due process.

For that reason and based on the legal dispositions that regulate the activity, this area has started to disseminate didactic and informative materials about the functions performed in terms of consumer protection, as well as to adopt various mechanisms to publish the decisions made in the processes and to use new information technologies in order to cover the entire national territory.

Training was provided for the Contact-Center personnel in order to give the first hand minimum information required to all financial consumers in the national territory. With the same purpose, the Office for Consumer Protection ascribed to the point of access of the SFC, received information, training, and relevant materials to give the consumer support in relation to the guidelines and conditions for the use of the rights to access administration of justice through the delegated office for jurisdictional functions.

59. The act regulates the quality control of goods and services offered and provided to the community, as well as the information to be provided to the public for such sales.

60. ASBA (2012), "Mejores prácticas y recomendaciones en materia de Protección al Consumidor Financiero" (Best practices and recommendations in matters of Financial Consumer Protection)

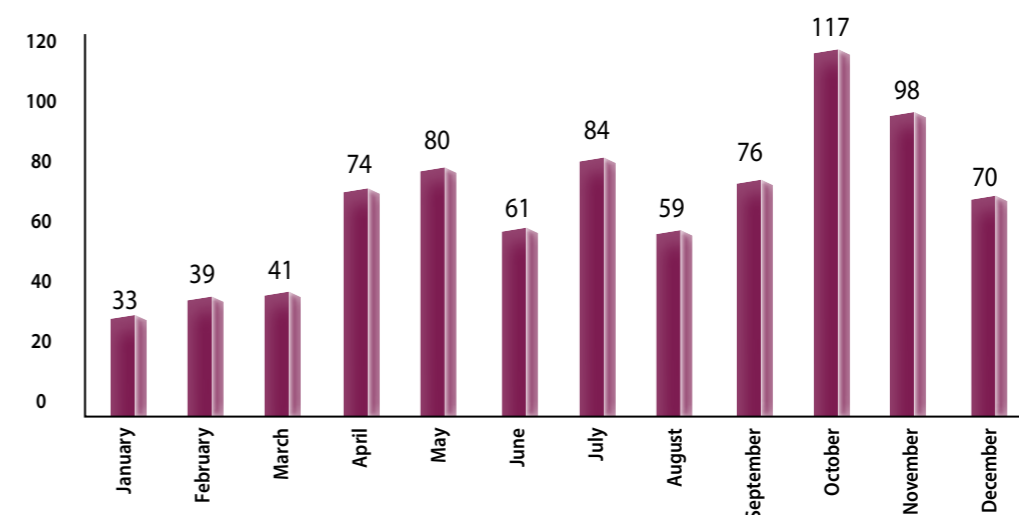
In order to obtain general awareness, the article called ABC of the jurisdictional functions (ABC de las funciones jurisdiccionales) has been placed on the web page www.superfinanciera.gov.co. The article explains the basic elements that a legal claim for consumer protection must have and the process that the claim follows within the Delegated Office for Jurisdictional Functions (Delegatura para Funciones Jurisdiccionales) and also explains in a clear manner, step by step, the legal actions that can be requested from the Superintendence in order to have the consumers' rights fulfilled.

With the same purpose, the SFC published in its web page a legal claim model, which contains clear and practical guidelines to enable consumers to approach the Delegated Office for Jurisdictional Functions on their own account without the assistance of a lawyer. It must be pointed out that the information given to the public has been up-dated permanently, including the publication of the jurisprudence developed in this Office in an orderly and classified manner.

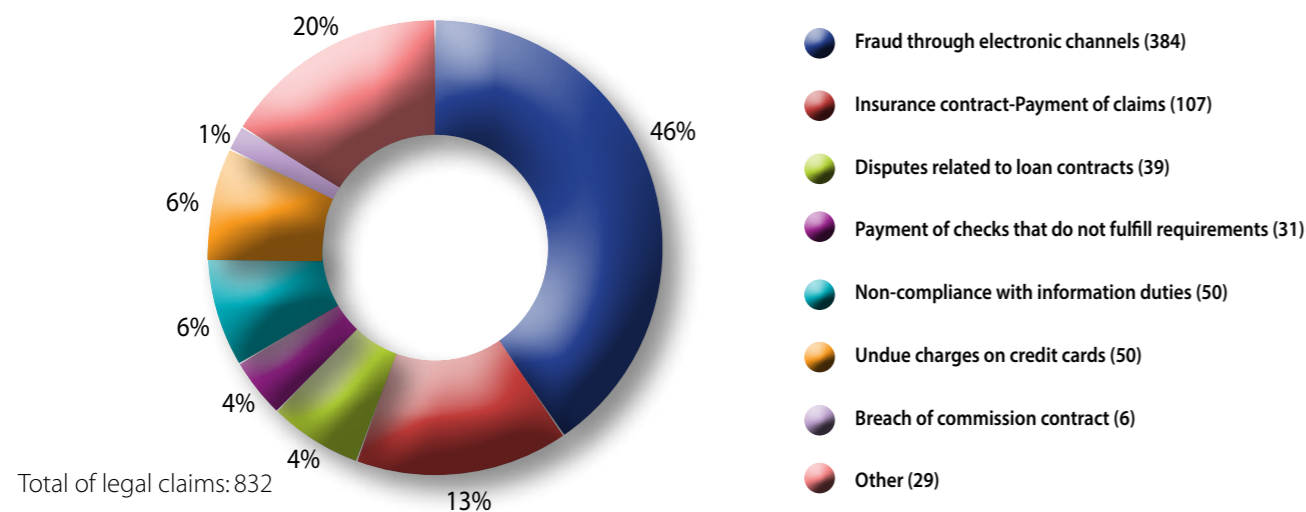
Once the claim has been admitted and in order to perform the hearings of the judicial process that requests action for consumer protection and considering the duty to attend the hearings, use of technology has been implemented to perform this type of procedure with the virtual presence of the consumer and, at the same time, develop special mechanisms for that effect, such as the program called "Scopia," where, with minimal technical requirements and at a low cost, the users can attend and interact as a Part. A record of this is kept in the financial institution's servers, guaranteeing integrity and confidentiality of the information gathered in the hearings.

In terms of figures, 1,020 legal claims were submitted from April 2012 to December 2013. Only in 2013, 852 legal claims were submitted; out of those, 266 were in process and 566 had already been decided upon as of December 31. 688 of these legal claims were for small amounts (less than 40 legal minimum wages), which means that financial consumers had a fast and effective resolution process for small claims.

CHART 87. EVOLUTION OF LEGAL CLAIMS IN 2013 AND MAIN TOPICS



Source: SFC Forms 378 and 379



Source: SFC Forms 378 and 379

84.6% of the total of legal claims submitted in 2013 were aimed at credit institutions, insurance companies, and insurance intermediaries. In terms of the legal claims topics, the main were fraud through electronic channels and insurance claims payments, which accounted for 59%.

The majority of legal claims are for fraud in transactions performed by electronic channels (automatic teller machines, Internet, points of sale, audio-response), and in 2013, they accounted for 46.15% of the legal claims submitted. In order to resolve them, the SFC has set important rulings guidelines for the establishment of the responsibility of the parts in the sentences, which offers significant feedback for the industry when, for example, they do not act on certain transactions that are not aligned with the transactional profiles of their customers or when relevant evidence related to fraud and which they should have available is not submitted.

The effect of these rulings surpasses the decision itself, although this is the primary objective of the parts in the dispute. It is not less important to obtain a final, fast, and supported decision by a body with the required technical knowledge, in other words, to provide adequate administration of justice.

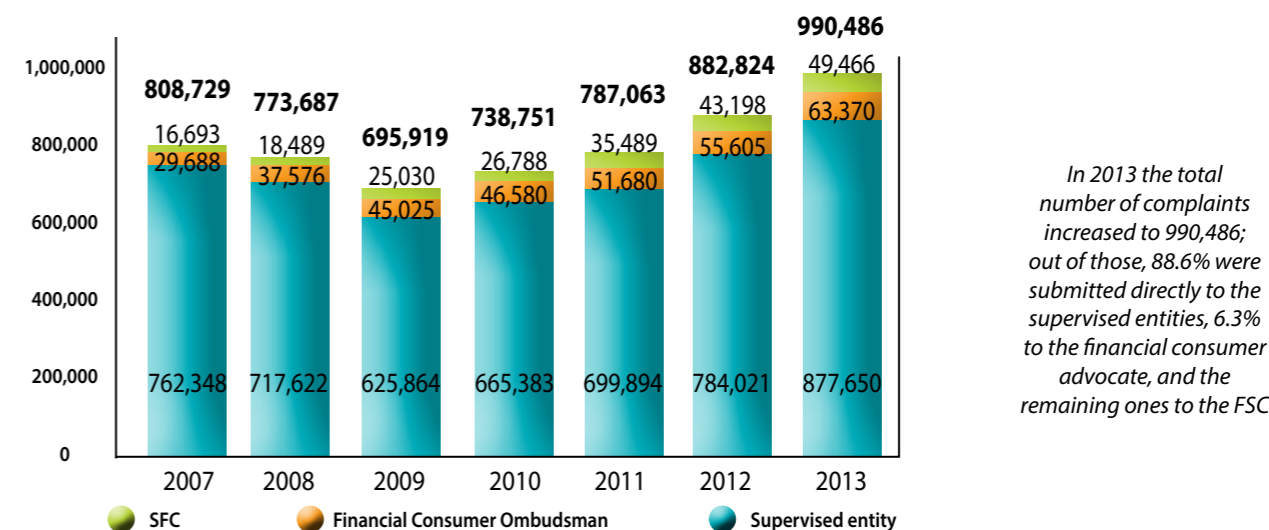
3.1.1.2 Response to complaints and claims

The mechanisms established for financial consumers to be able to address their requests, complaints, or claims in relation to the products or services provided by a supervised financial institution include the customer service for financial institutions area, the financial ombudsman, the SFC, and the self-regulating entities⁶¹. The financial consumers continue approaching the supervised entities consistently.

In fact, even though the financial consumers are able to submit their complaints simultaneously before the financial institution and the SFC, (88.6%) of the total complaints are submitted to the supervised entities themselves, which is explained by the fact that, being linked legally and contractually to their consumers, the financial institutions are the natural first step to effectively resolve their customers' complaints. The above occurs not only because they have the necessary background to give an appropriate response but also because the complaints become an important indicator to determine improvement opportunities.

61. It must be pointed out that the financial consumer has the possibility of submitting the same complaint to the mentioned entities simultaneously.

CHART 88. EVOLUTION OF THE TOTAL NUMBER OF COMPLAINTS



In 2013 the total number of complaints increased to 990,486; out of those, 88.6% were submitted directly to the supervised entities, 6.3% to the financial consumer advocate, and the remaining ones to the SFC

Source: SFC Forms 378 and 379

The Financial Consumer Ombudsman is still the second instance most used by consumers to submit claims. In the SFC website, the consumers have access to a booklet⁶² where they find the functions, the competence, and the procedure established by law for resolution of complaints by the ombudsman and also up-dated information about all the ombudsman⁶³, indicating the financial institution where they act and their contact information so that the consumers are able to submit their complaints and claims, or requests to voice their case.

Consumers can also approach the "Point of Contact" established by the SFC where they will find a personalized service office managed by the Consumer Protection Office of the SFC. They offer the user technical and legal assistance by specialized professionals in relation to concerns and questions about the financial system. At this office, the consumer can submit complaints to the entities supervised by the SFC⁶⁴ and, in some cases, if the nature of the matter permits, the office addresses particularly urgent matters that can possibly be resolved by direct contact with the service areas of the entities. In the same manner, the public can obtain information about the status of their request, data related to the ombudsman, and can receive a diversity of informative material.

Other ways of submitting complaints to the SFC are by fax, by e-mail atsuper@superfinanciera.gov.co or through the SFC Internet page, through the link "Formule su queja" (Express your complaint) option located in the Complaints link: (<https://www.superfinanciera.gov.co/jsp/loader.js?lServicio=Publicaciones&lTipo=publicaciones&lFuncion=loadContenidoPublicacion&id=60830>).

The increase of complaints between 2009 and 2013, and the 12% increase of last year occurred simultaneously with the improvement of mechanisms for reception and response to complaints, in particular substantial dissemination and access to information. It is valid to conclude that this trend can be explained by the legal framework established in Act 1328 of 2009 mentioned above and in other regulations such as External

62. The booklet can be downloaded at <https://www.superfinanciera.gov.co/descargas?com=institucional&name=pubFile1005970&downloadname=cartilladcf.pps>

63. This information is available at <http://bi.superfinanciera.gov.co/poSCeiones/reporte/ListadoDefensores.jsp>

64. Different Institutional Delegaturas and Risk Offices of the SFC are responsible for the assessment of complaints, depending on the topic.

Circular Letter 038 of 2011, which facilitated an improvement in the quality of information that the financial institutions must provide to future customers or users.

The legal framework has strengthened standard features such as comparison, sufficiency, and opportunity by improving tools to enable the consumers to make informed decisions and to have their rights enforced. In this sense, the increase in the information available to the financial consumers, better prevention and security elements, and the control measures have led to changes in the most common reasons for complaint between 2007 and 2013.

While in 2008, the main cause for complaint from the users was non-delivery of information, in 2013, poor service given to the financial consumer and problems with the calculation of review of interest charges and credits made to loans were the most frequent causes for complaint. It must be mentioned that the SFC consolidates the information by disaggregating it in 95 different reasons for complaint such as possible mistakes in the reports from the credit bureau branches, fraudulent links, errors in deposits, impersonation, contractual breach, and misleading advertising, among others.

Non-delivery of information to the customer decreased from accounting for 17.61% of the total amount of complaints in 2007 to 5% in 2013. Greater knowledge of the rights and duties of the financial consumers might explain the growth observed in complaints related to poor service, which in 2013 was the item with the largest number of complaints (15% of the total). In the same manner, the progressive reduction of complaints related to problems in the ATMs from 12.92% to a historical 6% suggests a relation with the measures adopted for security and quality in the performance of transactions; the SFC has established several instructions in this regard, such as those adopted in External Circular Letter 022 of 2010.

TABLE 28. THE 5 MAIN REASONS FOR COMPLAINT AND THEIR SHARE IN THE TOTAL NUMBER OF COMPLAINTS PER YEAR

2007	2008	2009	2010	2011	2012	2013
Information is not sent to the client (17.61%)	Information is not sent to the client (15.16%)	Review and/or Recalculation (11.89%)	Review and/or Recalculation (12.55%)	Review and/or Recalculation (12.60%)	Review and/or Recalculation (13.03%)	Inadequate assistance to financial consumer (15%)
Error in Automatic Teller Machine (12.92%)	Error in Automatic Teller Machine (11.70%)	Charges for services and/or commissions (11.18%)	Charges for services and/or commissions (12.23%)	Inadequate assistance/service to financial consumer (12.28%)	Inadequate assistance/service to financial consumer (12.54%)	Review and/or Recalculation (12%)
Review and/or Recalculation (11.90%)	Review and/or Recalculation (11.42%)	Error in Automatic Teller Machine (10.88%)	Error in Automatic Teller Machine (9.44%)	Charges for services and/or commissions (10.99%)	Charges for services and/or commissions (10.49%)	Charges for services and/or commissions (10%)
Charges for services and/or commissions (10.15%)	Charges for services and/or commissions (10.75%)	Information is not sent to the client (9.60%)	Inadequate assistance/service to financial consumer (8.61%)	Error in Automatic Teller Machine (8.58%)	Error in Automatic Teller Machine (8.21%)	Contractual aspects (7%)
Inadequate assistance/service to financial consumer (8%)	Inadequate assistance/service to financial consumer (7.41%)	Inadequate assistance/service to financial consumer (8.20%)	Information is not sent to the client (7.71%)	Information is not sent to the client (8.33%)	Non-justified deductions (7.59%)	Non-justified deductions (7%)

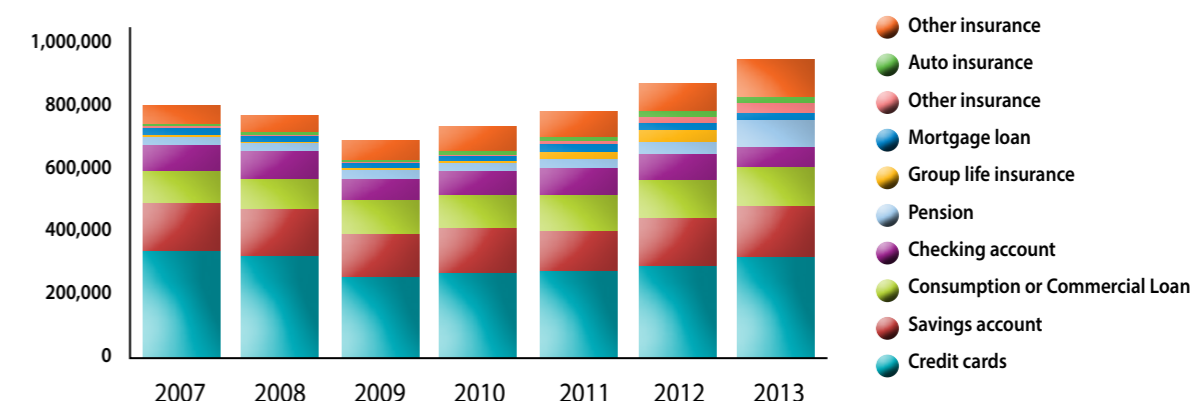
Source: SFC Forms 378 and 379

In terms of the complaints by product, out of a total 990,486 consolidated in 2013, the greatest proportion was related to credit cards (32.82%), followed by savings accounts (16.61%), and consumption and commercial loans (12.5%). The complaints received in this period were classified in 61 different types of products additionally to the types mentioned before including: checking accounts, retirement pensions, life, automobile and health insurance, shares, Term Deposit Certificates (TDC), and trusts, among others.

Out of the complaints related to credit cards, which in 2013 increased to 325,165, 16.7% were related to commission charges, 15.61% to problems related to review or calculation of interest or installment payments, 9.8% to non-delivery of information to the customers, and 9.6% to contractual aspects (breach and/or modification of contract). It must be mentioned that, between 2009 and 2013, the number of complaints for this product increased by 20.89%, and, during the same period, the number of credit cards in the market increased by 64.2%, from 7.58 million to 11.79 million.

In the case of savings accounts, most of the complaints were associated to problems in the ATMs (25.01%) and in unjustified discounts (19.01%). As for consumption and/or commercial credits and mortgage credits, the main cause of complaint was related to the review or calculation processes for payment of interests and installments on those credits.

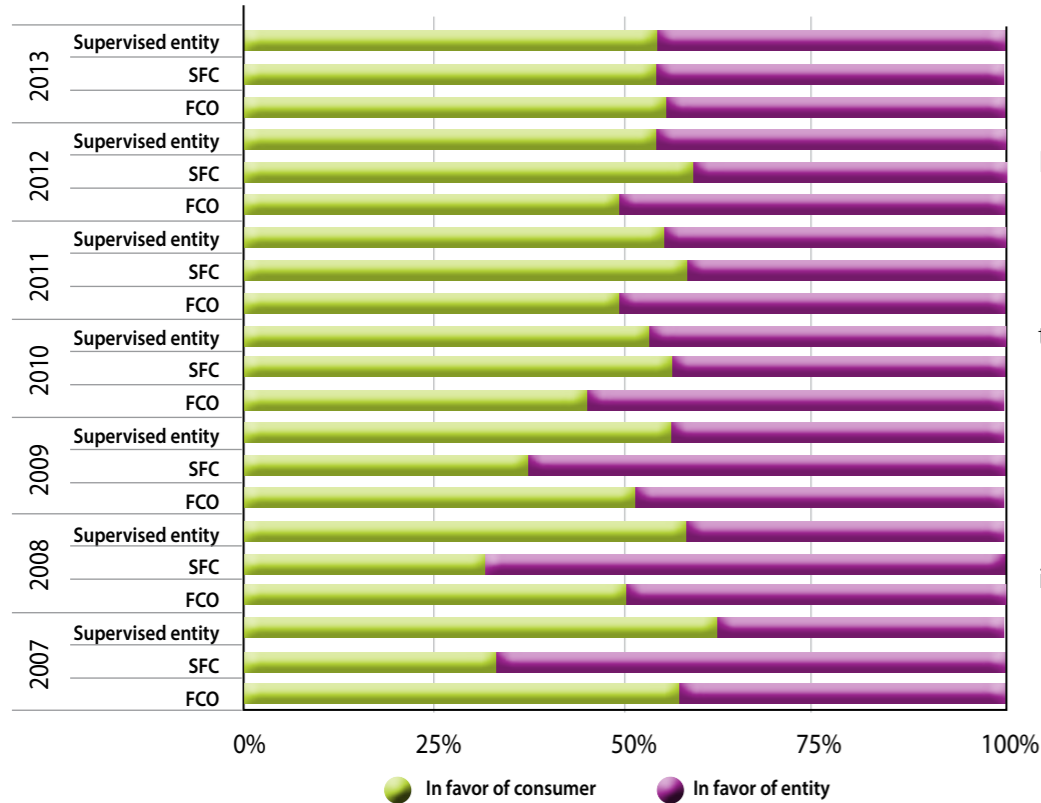
CHART 89. TOTAL NUMBER OF COMPLAINTS BY PRODUCT



Source: SFC Forms 378 and 379

Analyzing the decisions about the complaints (in favor of the consumer or of the supervised financial institution) in each one of the instances of submission of complaints and claims, we observed that, through the years, the shares of the decisions in favor of the consumer and in favor of the supervised financial institution have evened out, since they have obtained a similar share in the last two years. In comparison to 2012, in 2013 financial consumers had a larger proportion of favorable responses from the Financial Consumer Ombudsman and a smaller proportion from the SFC, maintaining the trend that is slightly above 50% in favor of the consumer.

CHART 90. FINAL COMPLAINT RESOLUTION



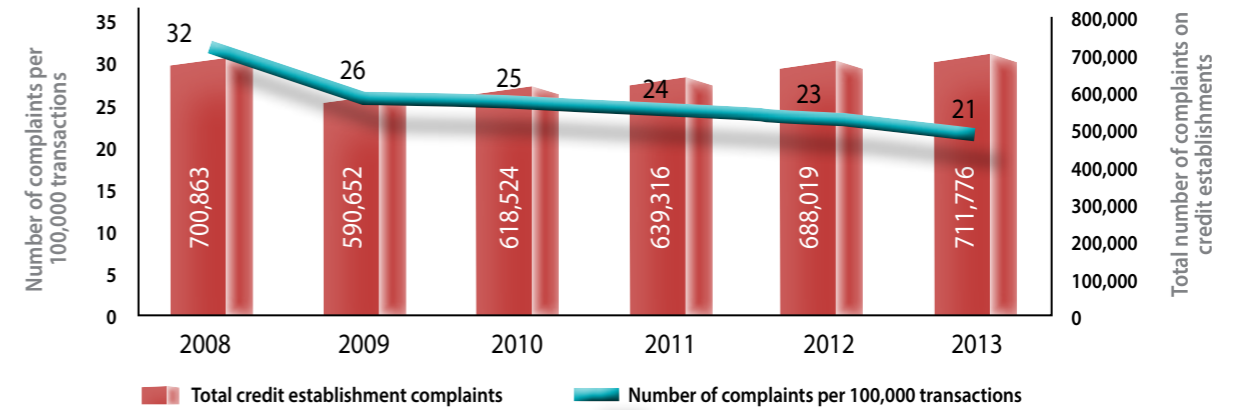
In recent years, there has been an increase in the proportion of complaints resolved in favor of the financial consumers through the different mechanisms through which they have submitted them (consumer ombudsmen, supervised financial institutions, and FSC).

Source: SFC Forms 378 and 379

Comparing the total of complaints to the total number of transactions performed by financial consumers through the different channels⁶⁵ offered by credit institutions, we find that, between 2008 and 2013, the rate of complaints for each 100,000 transactions decreased. In 2013, 21 complaints for every 100,000 transactions performed in credit institutions were reported, which implies a decrease in comparison to the record of 2008 when 32 complaints for each 100,000 transactions were reported. During this period, the number of complaints against credit institutions increased from 700,863 in 2008 to 711,766 in 2013, while the total number of transactions performed through branches, automatic tellers, payment points, Internet, among other channels, increased by 66.56%, from 2,214 million to 3,322 million between 2008 and 2013.

65. Internet, branches, automatic teller machines, points of sale, audio response, ACH, automatic payments, agents, and cellphones

CHART 91. NUMBER OF COMPLAINTS FOR EVERY 100,000 ADULTS AND NUMBER OF TRANSACTIONS



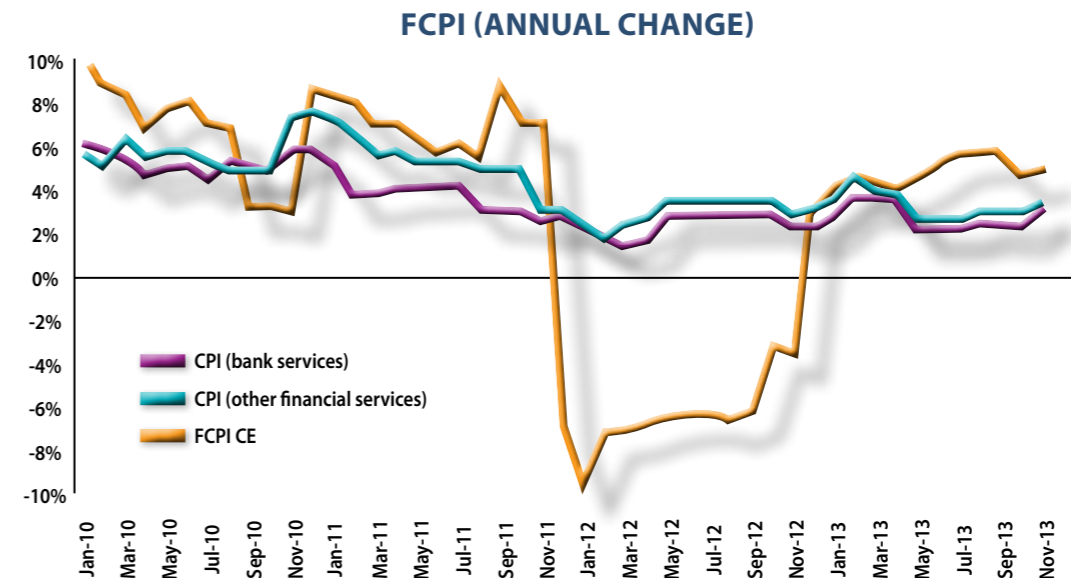
In 2013, customers of credit institutions performed 3,322 million transactions, during the same period the total number of complaints recorded was 711,776.

Source: SFC Forms 378 and 379

Financial services rates

Despite having decreased during the second half of 2012, in 2013 the Financial Consumer Price Index - FCPI started to show positive growth again, oscillating between 4% and 6%, and stood higher than growth of the Consumer Price Index (CPI) for bank services and other financial services.

CHART 92. FINANCIAL CONSUMER PRICE INDEX



After a marked downward trend at the end of 2011, the FCPI trend for credit institutions has been upward, responding to market factors.

Source: SFC Forms 378 and 379

3.2 FINANCIAL EDUCATION: EXPERIENCE OF PUBLIC ENTITIES

The following table summarizes the efforts that several entities of the public sector have made in terms of financial education. Nevertheless, we point out that the private sector has also led substantial efforts in this matter. Thus private sector institutions (banks, cooperatives, and NGOs) and business groups such as Asobancaria and Fasecolda have developed activities and programs aimed at improving the financial knowledge of the population, including potential and actual users of the financial system.

BANCA DE LAS OPORTUNIDADES (BDO)

ROLE PERFORMED	PROGRAMS DEVELOPED
<ul style="list-style-type: none"> Implementing agent for the financial inclusion policy of the Government. Has trained approximately 350,000 persons face-to-face, promoting knowledge, skills, attitudes, and behaviors among the lower income population. One of the objectives is for the financial capabilities to create a financial culture among the lower income population. This can transform the future of the trainees, their families, and their communities. This task began in 2007 through Microfinance Opportunities to provide technical assistance and introduce the hands-on method in Colombia in order to learn by doing. This has made it possible to transfer methods with specialized contents to vulnerable adult populations, lead a pilot program for the promotion of the culture of savings and its corresponding impact assessment, create "El Camino a la Prosperidad" (The Path to Prosperity) program, and implement a territorial financial education strategy and explore non face-to-face methods. 	<ol style="list-style-type: none"> Transfer of method with specialized contents to vulnerable adult populations: <ul style="list-style-type: none"> Training for trainers, leaving an installed capability of approximately 100 strategic partners in all the regions, including the main stakeholders of the microfinance industry. The multiplication effect has made it possible to strengthen the financial education programs of these financial institutions, retrain their educators and their commercial consultants and almost 170,000 low income Colombians. Pilot program for the promotion of a culture of savings: <ul style="list-style-type: none"> 30,000 trainees, most of them women heads of household, beneficiaries of the "Más Mujeres en Acción" (<i>More Women in Action</i>) program The pilot program was implemented in 12 municipalities of 10 departments. Creation of partnerships with various entities: Departamento para la Prosperidad (DPS), National Agency for Overcoming Extreme (Agencia Nacional para la Superación de la Pobreza Extrema Poverty - ANSPE in Spanish), SENA, Fasecolda, and ASOBANCARIA. El Camino a la Prosperidad: The Path to Prosperity <ul style="list-style-type: none"> Had a team of national and foreign experts. Through four (4) module workshops: i) budget (organize your accounts), ii) savings (prepare for the future), iii) debt (manage your debt), and iv) insurance (how to face crisis situations), plus a cross-section component promoting redefinition of life projects of the participants. Design of a handbook for each one of the trainees, with the four mentioned modules plus a basic module on financial consumer protection. Organizes two types of workshops. One aimed at BdO target population, with duration of four hours in a single session. The second is focused on training for trainers aimed at training leaders with a teaching vocation; with duration of eighteen hours in two consecutive days. This program is supervised and monitored by BdO. Territorial financial education strategy: <ul style="list-style-type: none"> Through the "El Camino a la Prosperidad" program As of April 2014, almost 5,000 persons have been trained in 14 municipalities. The multiplication effect is the territorial financial education strategy that will make it possible to reach over 10,000 additional persons in 2014 alone. Non-face-to-face methods: <ul style="list-style-type: none"> <i>Financial education through generalized and alternative communication channels:</i> To be initiated in the 2nd semester of 2014 to benefit almost 800,000 persons from 70 municipalities of Colombia. We will use mass communications channels such as radio, television, and alternative channels like the theater and meetings with the target population. <i>E-Learning virtual course – "El Desafío a la Prosperidad" (Challenge to Prosperity):</i> As of April 2014, a pilot program is under way in Bogota for 500 high school students of income level 1, 2, and 3. It is an 8-hour virtual course comprised by five modules: budget, savings, debt, insurance, and financial consumer protection. <i>Mobile classrooms:</i> BdO transferred its method and content to SENA in order to benefit the vulnerable population that attends the mobile classroom (Joint project with SENA and Banco de Bogota). In 2013, almost 2,000 persons of Red Unidos received training, and in 2014 we expect to train 4,000 more in 90 municipalities.

FOGAFIN

ROLE PERFORMED	PROGRAMS DEVELOPED
<p>In February 2013, developed the website www.pesospensados.com, which provides users access to interactive tools and clear information related to the efficient use of money and the advantages of savings.</p>	<p>Pesos pensados (Reflected-on pesos): In www.pesospensados.com citizens find recommendations to initiate their savings plan based on the creation of a personal budget and the establishment of financial goals. The web page has four sections: i) "Savings," where people can find advice to start saving, and the program describes formal saving mechanisms offered by the financial system; ii) "Deposit Insurance" which contains information related to the characteristics and benefits of this policy administered by Fogafin; iii) "Children," a section dedicated to this audience where, in a pedagogical manner, the benefits of saving are explained; and iv) "Tools," where the users find applications like the budget planner, a Form for defining financial goals, a calculator indicating the return of the savings deposited in a financial product, and an attitude test in relation to saving. According to the tool <i>Google Analytics</i>, the web page has had 13,741 visits since it was launched.</p>

THE CENTRAL BANK - BANCO DE LA REPÚBLICA

ROLE PERFORMED	PROGRAMS DEVELOPED
<p>"Banrep Educa" is the name of the economic and financial education program of the Central Bank whose objective is to strengthen and disseminate the bank's functions, as well as to educate the population in topics related to economics and basic finance for various audiences.</p>	<ol style="list-style-type: none"> Exhibición Monetaria Interactiva: Interactive Monetary Exhibit (EMI – In Spanish): EMI is a pedagogical room which allows its visitors to learn, through games, about topics related to money, inflation, the economic system, monetary policy as well as the history, functions and attributions of the Bank. Concurso de la Banca Escolar a la Banca Central (From The School Bench To Central Banking Contest): It is a short essay national contest aimed at Colombian adolescents of grades 10, 11 and 12. This contest, currently in its eighth edition, calls up students to analyze a specific economic topic proposed by the bank from their personal and daily perspective. Savings workshop for children: Since 2012, the Bank offers a savings workshop called "Una alcancía para alcanzar mis sueños" (A piggy bank to reach my dreams) aimed at children between six and twelve years old. The objective of the activity is to provide theoretical and practical tools for the children to explore different forms of saving and to reflect about the importance of carrying out a savings plan to reach one's goals. Support to other institutions' projects : <ol style="list-style-type: none"> Finance for Exchange: Since 2008, the Central Bank has been supporting the development of the "Finanzas para el cambio" (<i>Finance for Exchange</i> program) of the Fundación "Dividendos por Colombia" (Dividend for Colombia Foundation) and financed by City Bank Foundation. This program is aimed at high school teachers in public schools of Bogotá, Medellín, Cartagena, Cali, Barranquilla, and Bucaramanga. In these sessions, the trainers explain basic concepts of economics, personal finance and economic tools. "Jesús Antonio Bejarano" dissertation national contest of FENADECO: SINCE 2008, the Bank has been supporting the "Federación Nacional de Estudiantes de Economía" (National Federation of Economics Students - FENADECO in Spanish) by carrying out the dissertation national contest "Jesús Antonio Bejarano", with the participation of the schools of economics of the country. Concurso Académico Nacional de Economía – (Economics National Academic Contest - CANE in Spanish) of the Universidad del Rosario: CANE is an initiative of the Student Council of the School of Economics of Universidad del Rosario, which invites a team of students from each economics school of the country to participate in a contest of questions about macroeconomics, microeconomics, history of economic thought, and econometrics. Since 209, the Bank has supported this initiative by rewarding the three finalist teams.

SUPERINTENDENCIA FINANCIERA DE COLOMBIA (SFC)

ROLE PERFORMED	PROGRAMS DEVELOPED
<p>Education and Information Program: “Canales de difusión, sembrando cultura para la prevención” (Dissemination channels, planting culture for prevention). This program’s purpose is to reach the Colombian population through the media and strategic partnerships between entities to provide information and education for financial consumers.</p>	<p>1. Programs developed in partnership with other institutions:</p> <p>a. Through the Consumer Protection Office, the SFC participates in education settings jointly with other entities to generate and deliver, to financial consumers, tools to promote learning through education talks, workshops, virtual courses in Alliance with the National Training Service (Servicio Nacional de Aprendizaje - SENA in Spanish), virtual forums, and distribution of educational materials like posters, cards, booklets, and handouts and even didactic games.</p> <p>b. Currently, SENA offers a virtual course whose contents have been developed jointly under the Superintendencia’s leadership with the title “Suministro de información y asesoría para el consumidor financiero” (Providing Information and Advice to Financial Consumers). The course offers information about the basic products of the financial sector, financial consumer rights and how to use them, how to acquire a financial product, how to develop a budget, and the basic structure of the securities market. All the content is presented in a friendly and pedagogical form.</p> <p>c. Working jointly with the Center for Financial Services of SENA, the SFC initiated a program for financial education aimed at 108 public and private schools of Bogota, using SFC’s print materials. The objective is to promote financial education from early education as recommended by the Organization for Cooperation and Economic Development (OECD).</p> <p>d. The SFC permanently publishes, in its website, relevant information for consumers and makes available updated tools that include comparisons between different financial products such as the comparative rate portal, information about interest rates, concepts, recommendations to prevent being misled by illegal agents, rights and duties of financial consumers and mechanisms financial consumers have available to submit complains or claims.</p> <p>e. Lastly, supported by Banco de Desarrollo de América Latina – CAF, the SFC hired a consulting service that will make a diagnosis of the experience of the financial institutions supervised by the SFC in the implementation of financial education programs for adults, youths, and children according to the products and/or services they offer. As a result, the intention is to design a supervision method for the financial education programs and information related to such programs, and to propose standard guidelines of best practices for the development of financial education initiatives implemented by the industry.</p> <p>f. SUPERFINANZAS refers to pedagogical, entertaining, very understandable materials developed by the SFC to provide financial education to children and adults. It contains definitions, standard features, and topics related to the financial sector and the securities public market. It offers planning, savings and investment tools and includes information about rights and obligations of the financial consumer, duties of the supervised entities, rates, protection mechanisms and recommendations to avoid impersonations and deceits. It is available in physical or digital form at the SFC website: www.superfinanciera.gov.co.</p>



CHAPTER 4:



THE MAIN CHALLENGES OF FINANCIAL INCLUSION IN COLOMBIA

OPINION OF PUBLIC AND PRIVATE ENTITIES

Financial Superintendence of Colombia - SFC
 Gerardo Hernandez Correa
 Financial Superintendent of Colombia

- For economic growth to translate into social wellbeing for the population.
- Generate balance between innovation and supply of financial products and services in the market that do not involve taking on risks that could destabilized the financial system and, at the same time, satisfy the interests and needs of consumers.
- Understand the true needs of the population through the first "Demand Survey" that the SFC is implementing jointly with Banca de las Oportunidades.
- Support innovation resolving problems in the market that new products might generate: From the supply side i) issue regulations providing for the implementation of new technologies and stimulate competition in the market, and ii) be certain that there is more and better information about them in the market. From the demand side: i) protect financial consumers in the resolution of disputes, ii) enable them (including the population not using banks) with enough knowledge to make decisions when they contact or enter the system.
- Preserve consumers' trust in the financial system through effective protection mechanisms.
- Promote articulation of all the stakeholders to participate in a coordinated manner in the comprehensive design and implementation of the financial inclusion policy defined by the State.
- Promote sustainable inclusion through insurance (micro-insurance). For that purpose, we are working jointly with the Inter-American Development Bank, the Initiative of Access to Insurance (A2ii), and Banca de las Oportunidades to identify regulatory and supervision needs.

Banca de las Oportunidades
Juliana Álvarez Gallego
 Director

- Greater knowledge of the characteristics and needs of the financial products consumer in order to promote new mechanisms to promote their use and quality.
- Promote: i) use of electronic transactions, mobile banking, bank correspondents, and decrease in the use of cash; ii) design of new incentives to legalize businesses and guarantee the conditions to promote electronic sales.
- Improve levels of financial education: i) Knowledge about the management and use of money, ii) knowledge about the supply of products and services and their standard features, and iii) knowledge about consumer protection measures.
- Recover consumer trust in the sector through good customer service, better rates and services, and easy access and security.
- Identify the market potential for insurance companies and other companies that facilitate the access and use of micro-insurance.
- Development of technological and methodological innovations and business models that allow the reduction of costs.
- Savings promotion: i) provide tools for the population to plan, stimulate discipline, and awareness of the importance of savings, ii) include savings promotions within incentives provided in the entities' commercial drives.
- Rural focus: i) understand and know the needs of the rural population and promote the development of new products, ii) promote rural microcredit.

ASOBANCARIA
María Mercedes Cuellar
 President

- Elimination of structural distortions that inhibit optimal development of the system: i) upper limit of interest rates, ii) forced investment to channel funds to the agriculture sector, and iii) tax on financial transactions.
- In terms of access to transactional accounts and services, the challenge is to bring the system much closer to persons in remote areas, rural and urban, taking advantage of the potential offered by the Agents and mobile banking.
- In the case of the Agents, it is fundamental to reach villages that are not municipalized, make them able to directly obtain customers for asset products, liability products, and micro-insurance, and promote agreements between Banco Agrario and the private Banks to reduce the costs of cash transportation to the remote areas.
- In the case of mobile banking, it is important to point out that recent rulings of the Commission for Telecommunication Regulation: generate clear and sustainable rules for the development of these services. Nevertheless, it is still necessary to make progress in the inter-operational capability of the platforms, agree on service levels among the mobile servers, payment networks of low value, and the banks. It is also necessary to explore conditions to facilitate the reverse payment of data that would allow the banks to pay the TELCO for the data consumed by their customers in the transactions when they do not have data plans.
- Promote electronic payment channels. The Banks: by expediting processes to include new establishments and effectively manage security risks. The Government: by designing incentives for the legalization of businesses and guaranteeing conditions for reverse payment so as to promote electronic sales.
- Credit for individuals: i) guarantee that all the credit entities (supervised or not) report to the credit bureaus; ii) simplify the procedure to provide loans for low amounts and certify the rate to remunerate that risk; y iii) take advantage of the available information about people's transactional and consumer habits through an authorization to access the social security data base, purchases in retail channels, payment of utilities, among others.
- Credit for small and mid-sized businesses: i) support the regulation of the Ley de Garantías Mobiliarias (Law of Chattel Guarantees), Act 1676 of 2013, and of factoring; ii) strengthen the information on small and mid-sized companies: regulation on the volume of annual gross sales and follow-up on the evolution of credit through the Superintendencia Financiera generating procurement of specific information on this segment.
- Financing in the agriculture sector: i) overcome the distortions caused by the forced investments (TDA), ii) the upper limit of interest rates, iii) the permanent programs for condoning or restructuring debts, and iv) create and generalize insurance and coverage instruments to efficiently manage the complex risks associated to the sector. Financial education: i) implement the economic and financial education program in all schools at the national level and ii) promote the design and dissemination of tools that contribute to the generalization of the financial consumer capabilities.

Superintendencia de la Economía Solidaria - SES
Olga Lucía Londoño Herrera
Superintendent of Cooperative Economy

- Increase the presence of the cooperative sector in rural municipalities usually not-covered by the traditional financial sector by implementing appropriate microcredit methods for agricultural and industrial projects and micro-savings.
- Institutionally strengthen the cooperatives for savings and credit located in remote regions of the country in order to diversify the range of services offered to their associates through strengthening of their accounting systems, management information systems, and commercial and governance strategies with the support of Banca de las Oportunidades.
- Promote the model that encourages some cooperatives to reach low income populations with high poverty levels by implementing collection and consulting personalized attention, favorable rates on savings and, many times, exemption from the 4x1,000 tax, eliminating costs generated on account of bank statements, balance enquiry, deposits, and withdrawals, among others.

CIFIN S.A.
Ketty Valbuena Yamhure
President

- Financial Education, essential for promoting social mobility and reducing poverty through better management of personal finance. To date, its impact on the generalized use of financial services, on social mobility and the population wellbeing has not been observed.
- Inclusion channels that refer to the mechanisms required to generate effective inclusion of the target population (in conditions of poverty, marginality, or vulnerability); among those channels, the following have been noticeable: electronic payment channels, mobile devices, agents not associated to banks, and some processes based on social networks.
- Environment, understood as the infrastructure (that integrates the institutions to the products and channels), regulation (to allow the creation of a market) and incentives (involving their consolidation).
- The products, channels, and environment that have been designed to date to promote inclusion seem to be of a temporary nature with a marginal impact on the savings, consumption, and investment habits of the target population. The sustainability component (from the demand perspective) represents one of the challenges of financial inclusion that must be included in public policy.





CONCLUSIONS

The recent evolution of financial services coverage in geographic terms has been conclusive. In six years it has increased from 57 municipalities without the presence of any financial institution (2008) to just one municipality in these conditions (2013), a municipality with a population of less than 1,000 adults. This means that 99.9% of the national territory (measured in number of municipalities and number of adults) has at least one type of financial institution available.

In the last two years, the number of PoA almost doubled, growing at average rates of 33% and 35%, respectively, thus improving the possibilities of the Colombian population of having access to a variety of financial products and services.

Out of the analyzed PoA, branches and ATMs, which are the ones that require the greatest capital investments for implementation, recorded the slowest growth rates. Nevertheless, the number of branches increased substantially in the last year (1,114), while in 2008 – 2011 the increase was only branches.

As of December 2013, there are 362,670 points of access, mainly POS and Agents. Due to their higher number or their strong growth trends, these two channels have the greatest impact in the evolution of the total number of PoA.

The recent trends in POS is partly due to the fact that, in 2013, some networks partnered up with the Red Credibanco network, which involved 50,000 additional POS coming on stream in the bank service. Nevertheless, these new POS are not set up to receive transactions with cards, but are geared to provide transactions such as withdrawals without cards through an OTP (One Time Password), which is an authentication mechanism that works with a token.

The trend of the Agents has been influenced by their notorious increase in Banco Agrario, Davivienda⁶⁶, BCSC, and BBVA, as well as in some financing companies. Of the latter, Giros y Finanzas has played a leading role in terms of strengthening its money transfer business through agents. In the specific case of the financing companies, such increase implied a change in the traditional form of approaching customers, which used to be through branches.

⁶⁶ The performance of Agents in these banks has been influenced by the expansion of the Government program for conditioned transfers "Más Familias en Acción," as well as by the economic incentives offered by the Government through BdO to promote new Agents.

Most of the PoA, including branches, belong to banks (97%) and are located in municipalities with more than 100,000 inhabitants (62% of the population) and in urban areas. Nevertheless, the greatest increase of agents in private banks occurred in municipalities with less than 10,000 inhabitants, which partly makes up for their lesser presence in this type of municipalities.

In contrast, public sector branches (Banco Agrario) concentrate in municipalities with less than 100,000 inhabitants, due to their nature as promoters of financing for the agricultural sector. Therefore, the indicators by 10,000 inhabitants and by 1,000 km² have improved in the period and have maintained the trend described above.

The analysis by municipality indicates that those with populations between 10,001 and 50,000 inhabitants (50% of the territory), which account for 23% of the population, have the lowest indicators for every 10,000 adults and for every 1,000 km²; this is even lower than the level observed in smallest municipalities in terms of population and about half the level observed in municipalities with more 100,000 inhabitants.

On the other hand, 42% of the municipalities with exclusive presence of branches have less than 10,000 inhabitants, while 70% of the municipalities with exclusive presence of agents are in this population segment.

Despite the trend displayed by the agents to facilitate access, in December 2013, almost 40% of the total did not record transactions. This situation would justify revising the business strategies of each financial institution and is explained by various factors such as: i) The limited supply of services offered by some agents, which compete with other close-by PoA like branches and ATMs, where a greater diversity of transactions can be performed; ii) the business model and the target market of each financial institution, and iii) the low demand for financial services in some municipalities due to their low population density and to the lack of knowledge of the people about the services and benefits this channel offers.

Each financial institution defines its own correspondent model and, consequently, the type of transactions allowed through their agents. Nevertheless, in some cases, the low flexibility of the agents is conditioned by limitations in the technological infrastructure required for their operation, as well as by the correspondent model defined in Colombia. Agents operate through credit lines given to the representatives that operate as agents, which imply that they cannot surpass the limits defined by the financial institutions in order to provide their services. Occasionally, these credit lines are very small and force the agents to deposit the money (once the limit has been reached) in the nearest branch of the financial institution they represent. This last factor adds a limitation related to the transportation of cash and associated risks, which are taken on by the agents.

All these limitations justify a careful review by the key participants in order to adopt the corresponding adjustments and be able to potentiate the use of the low-cost channels implemented in Colombia, and thus to continue strengthening the financial inclusion process.

The use of branches is being replaced by other types of non-face-to-face channels such as Internet and mobile banking. In 2013, the branches continued to be the channel that transacted the greatest volume in terms of amount and the second in number of transactions compared to the other channels.

The use of Internet has been one of the channels with greatest growth in recent years, thus showing the importance for the financial services to use newly developed information and communication technologies (ICT), with easy access channels such as Internet and mobile banking, which also promote the use of financial products and services by the population throughout the country.

Remittances inflows continue to be lower than the amounts recorded before the 2009 crisis, and the transfer costs have decreased. Remittances have not completely recovered, although they have increased compared to 2012, particularly toward Latin American countries that receive the greatest volume of remittances from European countries like Spain and Italy. On the other hand, the costs of transfers showed reduction in the majority of the destination countries studied, a determinant factor in the use of transactional services for the transfer and reception of remittances through the formal financial system.

The funds derived from remittances do not yet sufficiently remain in the financial system. The payment of remittances to recipients in Colombia by crediting an account is still substantially lower (23.9% of the total transfers) than payments made directly through a cashier's window (76.1% of the total transfers). This demonstrates that there is still a long way to go for money transfers channeled through the formal financial system to remain in the system, promoting savings, and using transactional channels to perform payments according to the recipients' needs.

There is great potential of inclusion into the formal financial system in the Colombian migrant population. Surveys report that 22% of them save in cash at home, 15% in a checking account, 26% in a savings account, 9% give the money to a relative for saving, 4% save by investing in other financial products, 3% acquire another type of asset, and 30% do not save. As for Colombian migrants, 42% do not save and 35% save in bank accounts. Some of the reported reasons for migrants not using bank accounts include: 48% lacks documents, 25% does not need savings, 12% lacks confidence in the financial system, 7% does not have funds, 3% does not know how, 2% has credit problems or is overdrawn and 2% thinks the commissions and required minimum balances are too high.

The savings account is the entry product to the financial system, and the number of customers associated through credit cards and microcredit decreased. During 2013, a total of 1,872,482 Colombians joined the financial system, of which, 1,701,000 (91%) joined through savings accounts. This number increased by 106% compared to 825,000 persons who joined through savings accounts in 2012. On the asset side, the number of persons included in the system through credit cards and microcredit decreased, from 95,000 in 2012 to 60,000 in 2013, in the first case, and from 70,000 to 53,000 in the second. This performance is consistent with the trend of the credit portfolio that displayed much more moderate growth in 2013 compared to 2011 and 2012, when particularly the consumption and microcredit portfolio (including credit cards) displayed great growth.

The inactivity of savings accounts continues to grow. This reveals the need to consider, within the financial inclusion strategy, both the importance of joining the system and the importance of remaining active in it in order to achieve sustainable bank use levels. Given the activity recorded in the savings accounts, we have observed the need for the financial institutions to design innovating savings products according to the needs of the population so that adequate incentives are generated and the financial consumers optimize their use and are thus able to see the benefits obtained when they are part of the financial system. As of end-2013, out of the 51.2 million saving accounts, nearly 51% were inactive. This last year, the inactive accounts grew by 3.4 million.

Low-income customers have the smallest share and use of savings accounts. Upon considering the activity of the accounts according to the socioeconomic profile of the customers, we find that the financial system has an important challenge to attract the low income population where penetration is low. During 2013, only 34% of the customers classified as low income had an active account. This is consistent with the fact that the savings capacity of this segment is limited, and consequently a large part of the savings accounts are opened only as a mechanism to receive a payment; once the payment is recorded, it is immediately withdrawn to meet their basic needs.

The use rate of savings accounts displays significant differences between inhabitants of medium and small size towns and inhabitants of big municipalities. While the number of savings accounts for every 10,000 adults is lower than 8,000 for the small municipalities, the indicator for the municipalities of more than 100,000 inhabitants is higher than 17,000.

The largest proportion of savings accounts recorded a balance of less than 5 legal minimum wages. As of end-2013, nearly 94% of the savings accounts had a balance of less than 5 legal minimum wages. Nevertheless, those same accounts concentrated 4.2% of the total funds obtained through this product.

Through the survey taken from the entities of the Colombian insurance sector by the Superintendencia Financiera in April 2014, we were able to obtain information about access to the insurance market by individuals in urban and rural areas, disaggregated by line, amount of insured values, and distribution channel used. Based on this information, we observed progress between 2012 and 2013 in the percentage of risks with insured values lower than or equal to one legal minimum wage, which is a fact that reveals the possibility of increasing the penetration of insurance in Colombia by covering a larger number of risks with a lower insured value. Additionally, on analyzing the survey information by channels, we find that there are substantial opportunities to achieve financial inclusion through the different alternative channels to reach populations that are not reached through traditional channels is significant. Thus this alternative can become a potential mechanism for increasing the penetration of insurance in the country.

The credit portfolio growth trend continues to be similar to that recorded in previous years. This portfolio maintained growth of nearly 15%, a magnitude similar to that recorded during 2012 and reached COP 297.4 billion. The commercial portfolio displayed growth of 12.6%, lower than the growth recorded for 2011 (19.1%); this performance was due to the deceleration recorded by some sectors of the national economy such as the industrial, mining, and commercial sectors.

Growth of the consumption portfolio slowed down compared to the record levels reached in 2010 and 2012, from 18% as of end-2010 to 15% at the end of 2013. This performance was explained mainly by the deceleration recorded in household consumption and by the measures implemented by the la SFC in order to sustain portfolio quality, such as the establishment of additional provisions in function of the growth of the non-performing loans portfolio⁶⁷.

The mortgage portfolio recorded annual growth of 31%, mainly explained by downward trend of interest rates. The Government's subsidy plan, through the coverage of interest rates that was implemented since April 2009 and that, since April 2013, applied to new homes of an approximate value of between COP 80 million and COP 200 million (135 and 335 legal minimum wages, respectively) also explains this performance.

Microcredit displayed an increase in non-performing loans during 2013. This led to tightening of the conditions used by the entities to provide these credits, as well as to improve the processes of recovery of the non-performing loans portfolio. Given this performance, in 2013 we observed deceleration of the pace of growth of this line, from 22% in 2012 to 18% at the end of 2013.

International best practices and principles for the protection of financial consumers have been developed in Colombia during recent years. These principals have three pivotal points: disclosure of information and transparency, responsible business behavior by providers of financial products and services, and

⁶⁷ External Circular Letter 026 of 2012.

complaint handling and redress. They must be integrated into financial inclusion and education policies and must be framed by the financial regulation and supervision.

The legal environment in Colombia has endeavored to maintain a balance between the needs and wellbeing of the population and the supply of financial products and services. The legal environment has intended to minimize this information disproportion, particularly the disproportion related to contractual costs and conditions of financial services so that the consumers are able to purchase different products and have their rights enforced. In this sense, the increase in available information for financial consumers, the elements of prevention and security, and the control measures have led to a progressive change in the most common reasons for complaint between 2007 and 2013.

The institutional nature of financial consumer protection has demonstrated its effectiveness in terms of resolution of disputes. Since the Delegated Office for Jurisdictional Functions “Delegatura para Funciones Jurisdiccionales” of the SFC was established, 1,020 legal claims were submitted from April 2012 to December 2013. In 2013 alone, 852 claims were submitted; out of those, 266 were in process and 566 had been decided upon as of December 31 cut-off date. 688 of these legal claims were for small amounts (less than 40 legal minimum wages), which means that financial consumers now have an expedite and effective resolution channel to address small claims.



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