FINANCIAL INCLUSION REPORT 2018

BANCA DE LAS OPORTUNIDADES

sfc
Superintendencia Financiera de Colombia

FINANCIAL INCLUSION REPORT 2018

BANCA DE LAS OPORTUNIDADES

sfc
Superintendencia Financiera de Colombia

FINANCIAL INCLUSION REPORT 2018

BANCA DE LAS OPORTUNIDADES

Freddy H. Castro B, Director

TECHNICAL TEAM

Economic Analysis Unit

Paola Arias, Chief

Daniela Londoño, Analyst

Michael Bryan, Analyst

Sara Gómez, Analyst

Marcela Jiménez, Analyst

SUPERINTENDENCIA FINANCIERA DE COLOMBIA

Jorge Castaño, Financial Superintendent of Colombia

Juliana Lagos, Director of Research and Development

TECHNICAL TEAM

Ernesto Murillo, Deputy Director of Analysis and Information

Mariana Escobar, Advisor

Kelly Granados, Analyst

Yamile Castro, Analyst

PRODUCED BY:

BANCA DE LAS OPORTUNIDADES

Calle 28 No. 13a - 15, 38th Floor
Phone: 486 3000
Customer service line: 756 1172
Other cities: 01 8000 180 720
www.bancadelasoportunidades.gov.co
Bogotá, Colombia

SUPERINTENDENCIA FINANCIERA DE COLOMBIA

Calle 7ª No. 4 - 49
Telephone: 3078042
Customer service line: 018000 120 100
www.superfinanciera.gov.co
Bogotá, Colombia

.Puntoaparte bookvertising

INDEX OF ABBREVIATIONS

AFI	Alliance for Financial Inclusion
DANE	National Department of Statistics
DFID	United Kingdom Department for International Development
DNP	National Planning Department
FAO	Food and Agriculture Organization
FINAGRO	Fund for Agricultural Financing
MPI	Multidimensional Poverty Index
NGO	Non-governmental organization
SEDPE	Specialized Electronic Payment Processing Company
SES	Superintendencia de la Economía Solidaria
SFC	Superintendencia Financiera de Colombia
SMMLV	Current minimum monthly wage
UVT	Tax value unit
TDA	Agricultural Development Securities

TABLE OF CONTENTS

INTRODUCTION

The Superintendencia Financiera de Colombia and Banca de las Oportunidades are pleased to present the eighth Financial Inclusion Report. The objective of this report is to measure progress in the sector, as well as identify priorities and strategic objectives for Colombia. Since 2011, this report has presented main figures regarding financial services, focusing on the dimensions of access, use, quality, and wellbeing, as defined by the Alliance for Financial Inclusion (AFI).

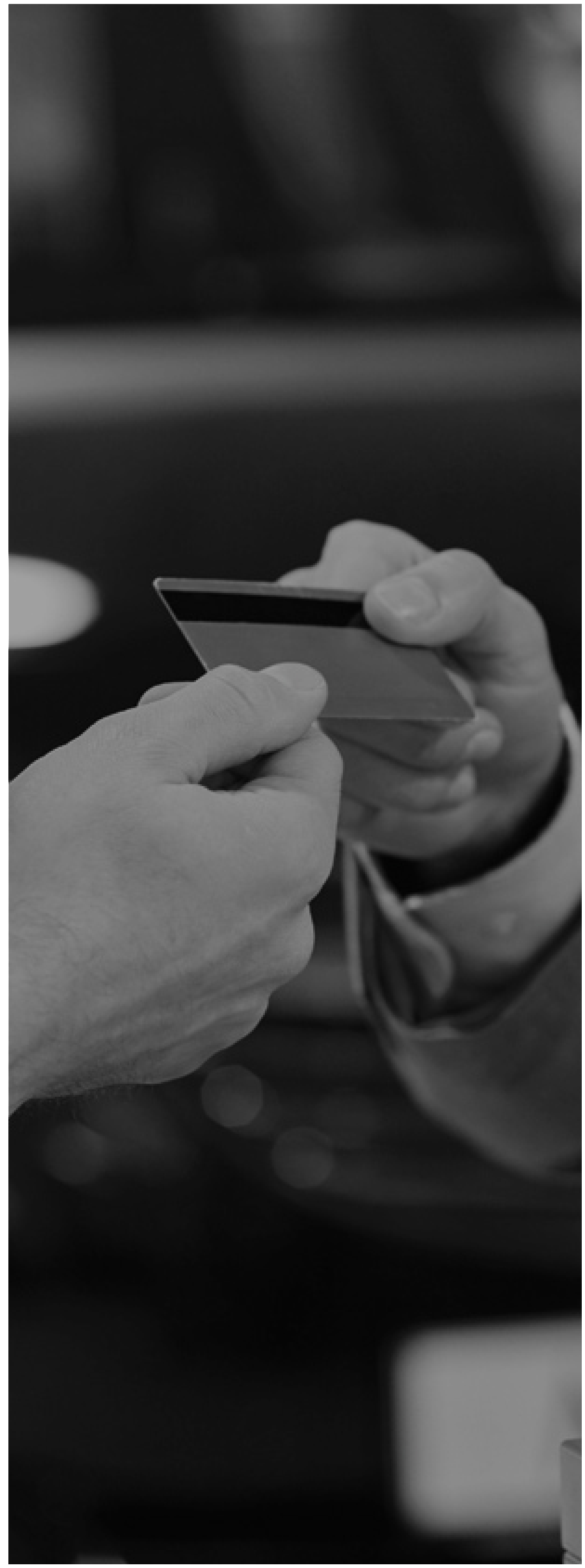
A good measurement of financial inclusion promotes progress both in the supply of products and services, as well as in the formulation of policies and programs adapted to the context, characteristics, and needs of the Colombian population. This progress is essential for promoting economic development and poverty reduction in two ways. First, financial inclusion indirectly improves the economy's formalization and allows resources to be channeled towards productive activities that are necessary to promote economic growth. Second, it directly reduces vulnerability to adverse economic events and raises the living standards of the low-income population, facilitating stability in household consumption amid fluctuations in income.

In 2018, Colombia reached important milestones in financial inclusion. Colombia maintained financial inclusion coverage in all municipalities, and also succeeded in increasing the financial inclusion indicator, closing the year at 81.4%. In other words, 28 million adults had at least one financial product, who in turn call for client-centered services, omnichannel access for increased convenience, and transparency within the financial system, while 6.3 million adults still need distinctive and innovative solutions in order to overcome challenges currently limiting their access.

Additionally, the rise in technological innovation began to drive financial inclusion in Colombia. In 2018, the first specialized electronic payment processing company (SEDPE, as per the Spanish acronym) was put into operation in Colombia, and for the first time, the total number and value of internet transactions surpassed those transactions carried out in branches. These achievements have been recognized both domestically and internationally. In 2018, Colombia continued to lead the ranks in the Global Microscope, carried out by *The Economist Intelligence Unit,* which evaluates the financial inclusion climate in 55 countries. Moreover, Colombia strengthened its position as the third largest Fintech ecosystem, according to Finnovista.

Significant efforts were also made to supplement the information reported by financial institutions with the publication of the second Financial Inclusion Demand Survey and the first Insurance Demand Survey results in Colombia. Financial consumers' points of view, collected through these surveys, is becoming increasingly relevant, as financial innovation is transforming the way in which services are designed and delivered.

Despite the progress made, there is still a need to bring financial inclusion to those who have historically been neglected, such as women, young people, and the rural population. This challenge forces us to review the way in which we analyze and present data; we must focus on garnering a better understanding of the existing gaps, the changing demand for financial services, and the disrupting power technological innovations possess when offering these services.



Based on these circumstances, we present a new edition of the Financial Inclusion Report, with a revamped structure and updated indicators that reflect the priorities and key strategic areas in the sector. The first chapter focuses on the main findings in 2018. In the following six chapters, the main gaps are examined by level of rurality, poverty, age group, and gender; the progress and challenges of financial digitization and coverage for the last mile; and the role of microcredit as a driver for development.

Additionally, in order to provide greater access to information for financial service providers, policymakers, academia, and the interested public, the downloading of information annexes will be enabled for free use. These annexes are structured around the dimensions defined by AFI and include key databases and indicators to continue monitoring financial inclusion in Colombia. This information can be downloaded at **www.superfinanciera.gov.co** and **www.bancadelasoportunidades.gov.co**

Lastly, we would like to thank the team at the Superintendencia Financiera de Colombia for their efforts and dedication in compiling this report: Ernesto Murillo, Mariana Escobar, Kelly Granados and Yamile Castro, and to the Banca de las Oportunidades team: Paola Arias, Daniela Londoño, Michael Bryan, Sara Gómez and Marcela Jiménez.

Jorge Castaño Gutiérrez
Financial Superintendent of Colombia

Freddy H Castro B
Banca de las Oportunidades Director

1

MAIN FINDINGS

There has been significant progress in financial inclusion in Colombia. The adoption of new channels and products allowed the financial system to improve its coverage, ease of transactions, and access. In the last decade, 12 million Colombians joined the financial system, increasing financial inclusion from 55.5% in 2008 to 81.4% in 2018. Therefore, at the close of last year, 28 million of the 34 million adults in Colombia had access to at least one financial product[1,2]. Specifically, 26.8 million adults had at least one deposit product and 13.9 million had at least one credit product. In 2018, the products with the greatest penetration have been savings accounts and consumer credit, including credit cards. In fact, 25.8 million adults had a savings account, 8.9 million had a credit card, and 6.8 million had consumer credit[3].

Despite this progress, two significant challenges persist. First, 6.3 million Colombian adults, equaling 18.6% of Colombia's adult population, have yet to be included in the financial system. Of this group, 40.9% are in cities, 25.1% in medium-sized municipalities, 17.8% in rural municipalities, and 16.2% in dispersed rural municipalities. As such, various solutions are required in order to overcome the challenges that limit access to financial services for certain segments of the population, given the wide range of ages, geography, and gender. In particular, young people and the rural population are the most marginalized groups.

1. The number of adults with products is tracked using national identification numbers. The financial inclusion indicator is calculated as the ratio of adults with a financial product to the total adult population estimated by the National Department of Statistics (DANE, as per the Spanish acronym).
2. The calculation of the number of adults with a financial product includes three types of entities: credit establishments overseen by the Superintendencia Financiera de Colombia, financial credit unions overseen by the Superintendencia de Economía Solidaria, and microfinance NGOs. In the first quarter of 2018, a rigorous revision of institution classifications was carried out, at which point, those that did not comply with the classification were removed.
3. The number of adults with consumer credit and those with a credit card are differentiated.

MAIN INDICATORS OF ACCESS AND USE OF FINANCIAL PRODUCTS IN 2018

81.4%

of adults had access to the financial system

68.5%

of adults had at least one active financial product

78.0%

of adults had at least one deposit product

40.5%

of adults had at least one credit product

Although access has increased in recent years, the level of use, measured as the percentage of adults with at least one active financial product[4] as a proportion of the total number of adults with products, has remained constant in recent years, closing 2018 at 84.1%. Additionally, the relationship between adults with at least one active financial product and Colombia's total adult population reached 68.5% at the close of 2018.

The 2018-2022 National Development Plan establishes a goal to increase the financial inclusion indicator to 85% in the next four years. Based on the forecasts from the 2005 population census, it is estimated that at least 1.3 million adults will enter into the financial system in the next four years. This group is expected to include more than half a million people who live in rural and dispersed rural municipalities, which will increase the rural financial inclusion indicator from 60.7% to 68.0%. Likewise, the National Development Plan proposes increasing the financial inclusion indicator of adults with active products from 68.5% to 77.0%, which implies that approximately 4.6 million adults will begin to use their products.

Gaps in access indicators

Access to formal financial services is diverse in terms of social and demographic characteristics of the population, such as level of poverty, geographic dispersion, rurality, age, and gender.

By geographic location, the departments with the largest population density and lowest poverty rate have the highest indicators of financial inclusion. Bogotá, which registered the highest indicator, at 98.7%, had a population density of 3,693 adults per square kilometer and a multidimensional poverty indicator of 24.3%. On the other hand, the departments with the lowest population density and greatest poverty levels are those that lag the furthest behind in terms of inclusion. Vaupés, with the lowest indicator, at 27.7%, had a population density of only one adult per square kilometer, and 68.1% of its population was multidimensionally poor.

Additionally, both access to financial products as well as coverage lessens as the municipalities' rurality increases[5]. As for access, the financial inclusion indicator fluctuated between 88.7% for cities and urban agglomerations and 55.4% for dispersed rural municipalities. As such, financial presence remained concentrated in the country's urban areas. For example, in cities, there were 485 access points per 100,000 adults[6]. By contrast, this indicator was at 255 in rural municipalities and dispersed rural municipalities.

The financial inclusion indicator also varied by age, with young adults, or centennials[7]—aged between 18 and 25 years old—as the most financially excluded. While this age group's indicator was at 57.3%, the baby boomers—those aged between 41 and 65 years old—had the highest indicator at 89.1%.

Gender gaps still exist in terms of levels of access to financial services, favoring men. In 2018, 80.0% of adult women in Colombia had access to at least one financial product, compared to 82.6% of men. The largest difference was at the level of credit disbursement, where average figures for loans granted to women were lower than those granted to men, for all modalities.

4. A deposit product is considered to be active when it has had at least one movement in the last six months. A credit product is active when there is a pending debt.

5. See Chapter 6: The Urban-Rural Gap.

6. These figures include branches and correspondents.

7. Centennials, or Gen Z, are those aged between 18 and 25 years old.

There must be continued incentives to use financial products

As of December 2018, approximately 23.5 million adults had at least one active product. This equaled 68.5% of Colombia's adult population and 84.1% of banked adults.

The differences recorded in the level of use at the departmental level, by rurality, gender, age group, and poverty quintiles were smaller than those observed in the financial inclusion indicator. By departments, the level of use ranged between 74.4% and 87.3%, a difference of 12.9 percentage points. The departments with the highest level of use were Antioquia (87.3%), Bogotá (86.9%), and Huila (86.7%), while those with the lowest level of use were Arauca, Vichada, and Vaupés, with percentages below 79.0%.

Regarding rurality levels, the gap in level of use was two percentage points between cities and urban agglomerations, at 84.7%, and rural municipalities and dispersed rural municipalities, at 82.9%. Additionally, for municipalities included in the lowest quintile for multidimensional poverty, the level of use was at 85.2%, while municipalities in the highest quintile were calculated at 81.5%. This implies a 3.7 percentage point gap.

By gender, women's use was 0.6 percentage points lower than that of men: 83.8% compared to 84.4%, respectively. Finally, by age groups, similar levels of use are observed for most age groups, except for adults over 65 years of age, who registered a level of use of 72.1%, compared to 85.8% for those with ages between 18 and 25, or 87.8% for those between 25 and 40.

Deposit and credit products in financial inclusion

In 2018, 78.0% of adults had at least one deposit product[8], 77.6% of which were active. The traditional savings account was the product with the highest penetration; 25.8 million adults (75.2%) had at least one[9]. The number of adults with a traditional savings account increased by 2.4% in the past year, and its level of use closed at 68.5%.

In 2018, there was a total of 68.9 million traditional, simplified, and digital savings accounts. Traditional savings accounts had the highest penetration, followed by simplified savings accounts. Regarding traditional savings accounts, there was a total of 62.5 million, 25.8 million of which were active. Compared to 2017, the total number of traditional savings accounts increased by 5.3%, yet those that were active fell by 0.5%. As such, the activity level of this product fell from 43.8% to 41.3%[10]. In terms of institution types, the highest account activity level was found in the unions overseen by the Supersolidaria, where 68.7% of the savings accounts were active, while the lowest was found in banks and financing companies, at 39.8% and 39.9%, respectively.

8. 26.8 million adults had at least one deposit product.

9. In terms of institution types, 25.7 million adults had savings accounts with credit institutions, and 283,700 with financial credit unions overseen by the Superintendencia de la Economía Solidaria (SES, as per the Spanish acronym).

10. The level of activity corresponds to the quotient of the number of active accounts divided by the total number of accounts. The level of use corresponds to the quotient of the number of adults with active products divided by the total number of adults with products.

At the close of 2018, 93.2% of traditional savings accounts were concentrated in banks. This participation rate has remained constant over the last few years. The average savings account balance was 2.9 million pesos. Specifically, there were 46.3 million accounts whose individual balances were up to 1 current minimum monthly wage (SMMLV, as per the Spanish acronym). The average balance of accounts in this range was $50,588 pesos. Additionally, there were 2.8 million accounts whose balance was between 1 and 3 SMMLV. In this group, the average balance was 1.4 million pesos. Finally, there were 1.1 million accounts with balances between 3 and 5 SMMLV, with an average balance of $3 million pesos.

As for simplified savings accounts, there were 2.3 million registered accounts at the close of 2018, 76.8% more than in 2017. Of those, 1.3 million simplified savings accounts were active, equaling a 117.5% increase in the same time period. These accounts had the highest level of activity, at 56.1%. Simplified savings accounts were offered by seven financial institutions, one more than in 2017.

The second most common deposit product was the electronic deposit. At year's end, there were 4.9 million electronic deposits, 39% of which were active. Compared to 2017, the number of electronic deposits grew by 18%. The number of simplified electronic deposits, representing 98% of all electronic deposits, increased by 17.1%, reaching more than 4.7 million. Of these, 38.5% were active. Electronic deposits are offered by a larger group of financial institutions; at the close of 2018, eleven institutions offered electronic deposits[11]. One year prior, only three banks offered electronic deposits.

Finally, digital savings accounts followed. At the close of 2018, there were 4.1 million of these accounts, 1.6 million (38.2%) of which were active. The average balance of digital savings accounts was $36,405 pesos. It is noteworthy that the number of digital savings accounts increased by 1.3%, yet the number of active accounts decreased by 15.8% in the last year. The majority of digital savings accounts are offered by public banks.

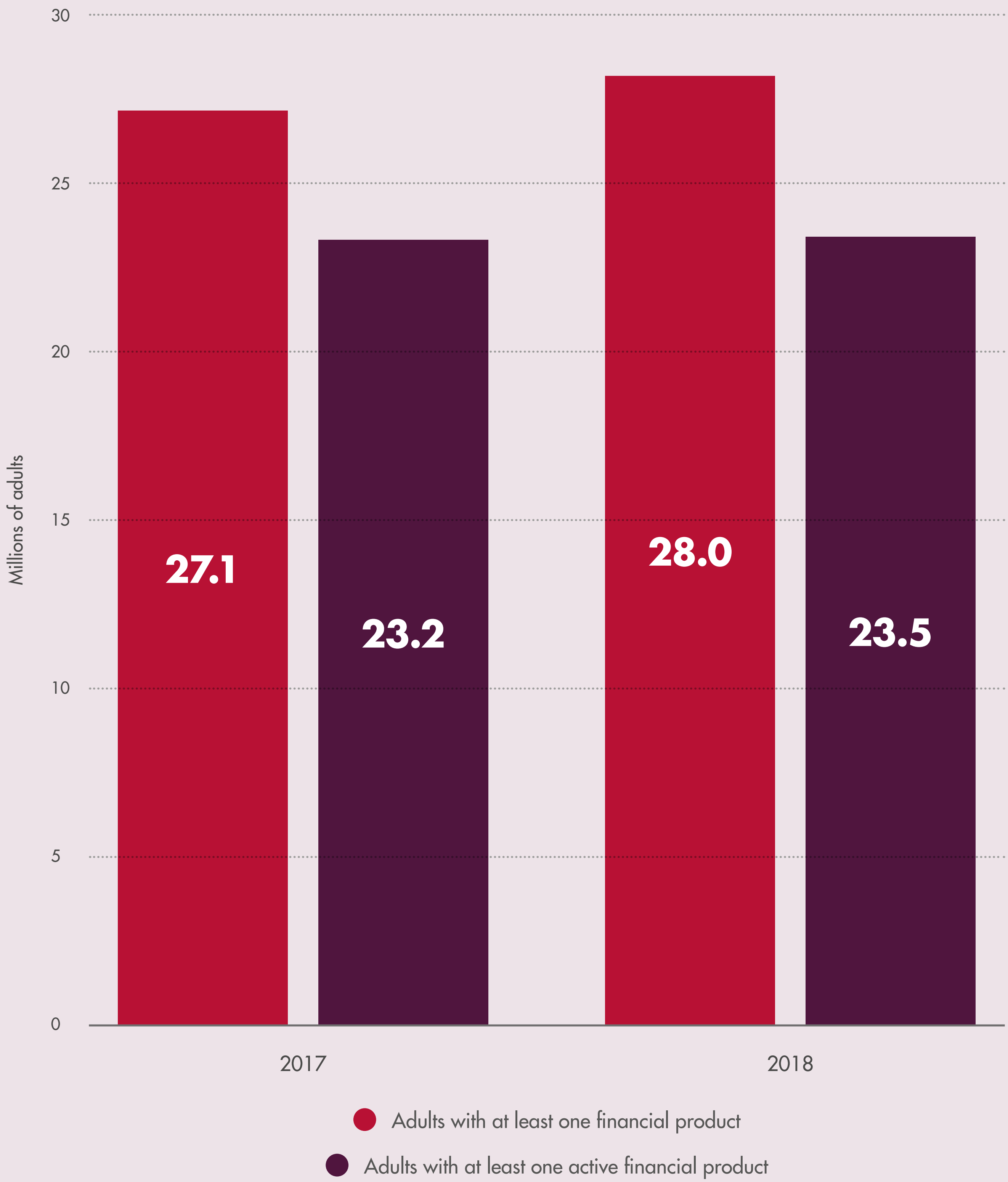
As for credit products, at the close of 2018, about 13.9 million adults (40.5%), had one. The credit card was the most used product; 8.9 million adults had at least one. It was followed by the consumer credit loan, used by 6.8 million adults, and microcredit, with 3.1 million. The product with the lowest penetration was the housing loan, used by 1.1 million adults.

The majority of adults have products with credit institutions

Credit institutions overseen by the Superfinanciera have included most of the population in the financial system. As of December 2018, 80.5% of the adult population (27.6 million) had at least one product with credit institutions; 5.1% (1.7 million people) in financial credit unions overseen by the Supersolidaria; and 4.1% (1.4 million adults) in NGOs specialized in microfinance.

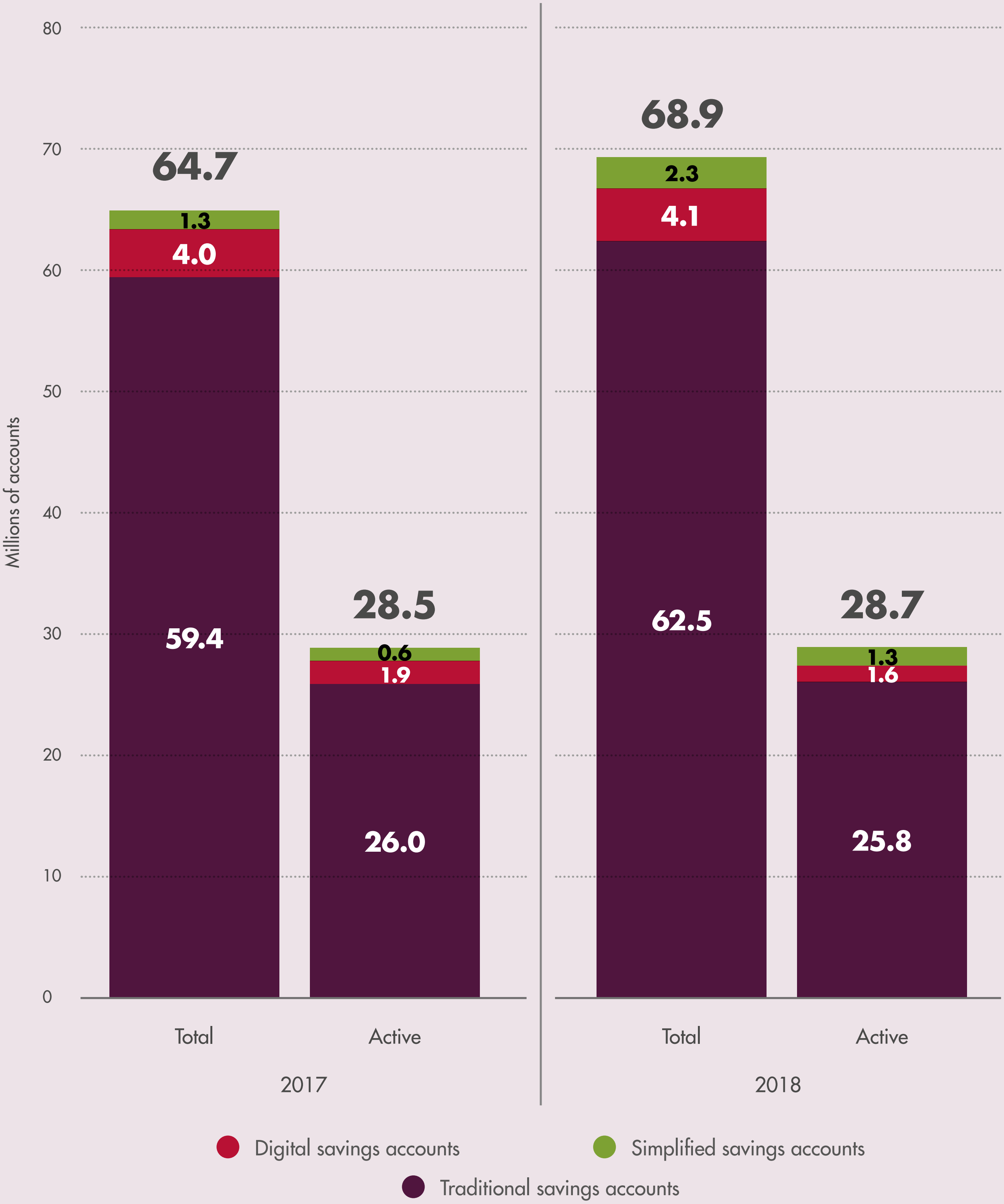
11. Of these, four offered only simplified electronic deposits.

Graph 1.1 Total number of adults with financial products and those with active products in 2017 and 2018



Source: Banca de las Oportunidades

Graph 1.2 Number of total and active savings accounts in 2017 and 2018



Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria

Digital channels are gaining popularity for transactions

With credit institutions overseen by the Superfinanciera, 6.334 billion transactions were made in 2018, 2.899 billion of which were monetary transactions. The latter, which does not include balance inquiries, totaled a value of $7,183 trillion pesos, with an average of $2.5 million pesos per transaction. Compared to 2017, the number of operations increased, while the traded amount decreased;5.451 billion transactions were made and $7,209 trillion pesos were mobilized.

As in 2017, the Internet continued to be the channel in which the largest number of transactions were made. In fact, this channel recorded 49.8% of all monetary and non-monetary transactions, followed by ATMs and point of sale (POS) terminals, with 10.0%.

As for the amounts traded, 39% of transactions took place via the Internet, followed by branches, with 37.55, and ACHs with 15.8%. At the close of 2018, monetary transactions via the Internet exceeded those made in branches for the first time, indicating a greater preference for the digital channel.

The channels with the highest growth compared to the previous year were mobile telephony, with a 61% increase in the number of transactions and 71.4% actual annual increase in the total value traded, followed by correspondents, with an increase of 38.8% in the number of transactions and 39.5% in the value traded. The number of internet transactions increased by 22.4%.

The most common transaction in 2018 was the balance inquiry, representing 54.2% of total transactions, followed by payments, at 23.9%, and withdrawals at 13.3%. Compared to 2017, sending money orders was the transaction that increased the most, at a rate of 30.3%. Regarding amounts traded, payments represented 39.1% of the total, followed by transfers at 36.3%.

Financial inclusion for businesses

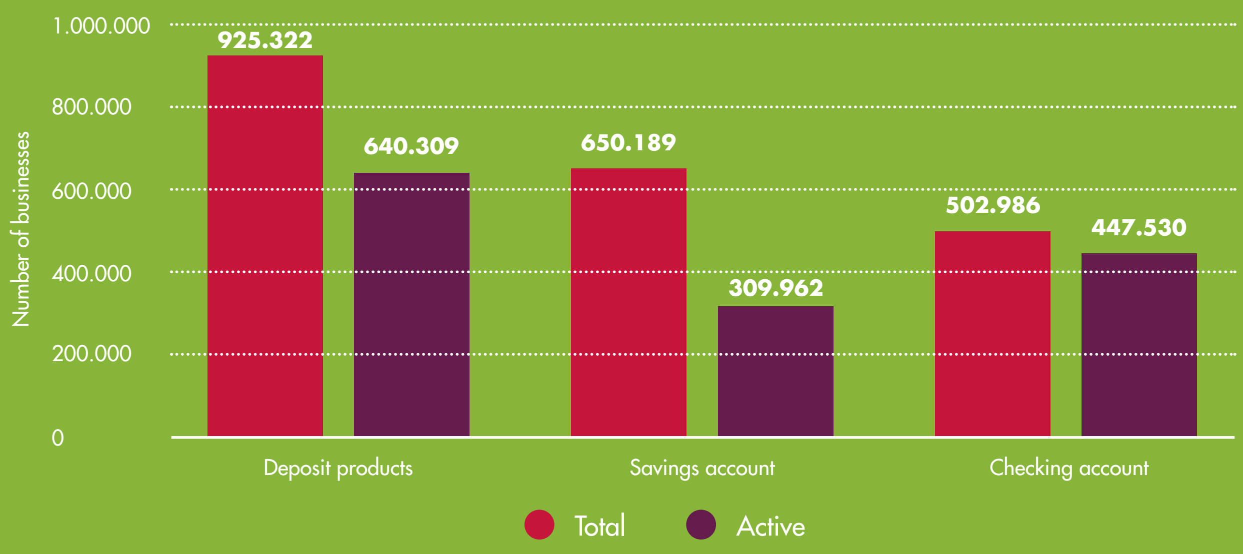
At the close of 2018, 947,464 businesses[12] had at least one formal financial product. Even though the number of banked businesses has increased in the last few years, the growth rate decreased last year. The majority of banked Colombian businesses (946,520) had their financial products in credit institutions, and a smaller number (4,050) in financial credit unions overseen by the Supersolidaria and microfinance NGOs (718)[13].

The financial product with the greatest penetration among Colombian businesses was the savings account; 650,189 businesses had this product. As for deposit products, the checking account followed, with 502,986 businesses having one (Graph 1.3). Among credit products, commercial credit had the highest penetration (255,410), followed by credit cards (96,499), and microcredit (12,952) (Graph 1.4).

Of all the businesses with at least one financial product, 71.6% were active (677,971). Although the number of businesses with at least one active financial product has increased in recent years, this growth has been slower than the number of businesses with financial products. This has resulted in a slight decrease in businesses' level of use, which went from 72.1% in 2016 to 71.6% in 2018. The level of use for businesses is lower than that of individuals. It is important to highlight that the level of use varies considerably depending on the product. While the savings account had a level of use of 47.7%, the checking account's level of activity was 89.0%.

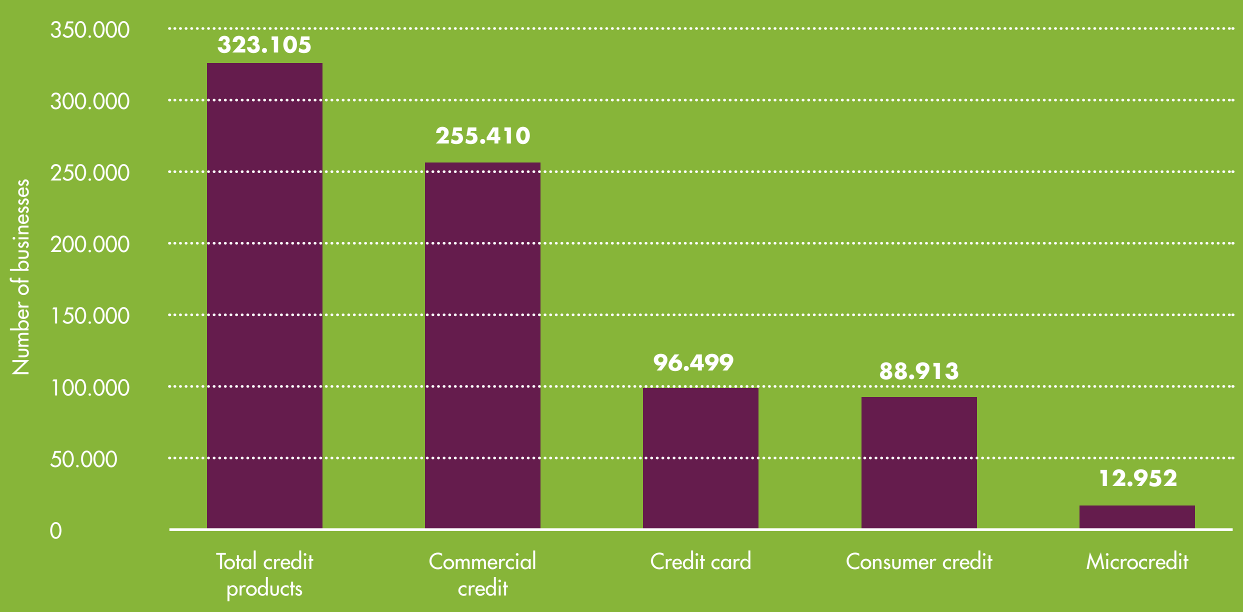
12. This refers to businesses that are registered as corporations
13. Businesses are counted by their tax identification number (NIT), therefore the sum of businesses with products from credit institutions, unions, and NGOs does not equal the total number of businesses with at least one.

Graph 1.3 Number of businesses with at least one credit product, 2018



Source: Banca de las Oportunidades.

Graph 1.4 Number of businesses with at least one credit product, 2018



Source: Banca de las Oportunidades.

Table 1.1 Main indicators of financial inclusion, 2018

Category	Subcategory	% of adults with financial products	% of adults with active financial products	% of adults with products that are frequently used
National total		81.4	68.5	84.1
Age group	18-25	57.2	49.1	85.8
	26-40	87.6	76.9	87.8
	41-65	89.1	74.2	83.3
	Over 65	77.4	55.8	72.1
Gender	Men	82.5	69.1	83.8
	Women	80.0	67.5	84.4
Level of rurality	Cities and urban agglomerations	88.7	75.1	84.7
	Medium-sized municipalities	71.2	58.6	82.4
	Rural municipalities	66.0	54.7	82.9
	Rural municipalities and dispersed rural municipalities	55.4	45.3	82.9
Department	Amazon	84.2	63.2	75.1
	Antioquia	84.7	73.9	87.3
	Arauca	78.1	61.4	78.6
	San Andres archipelago	65.2	53.5	82.1
	Atlántico	78.5	65.0	82.8
	Bogotá, D.C.	98.7	85.7	86.9
	Bolívar	69.5	58.6	84.3
	Boyacá	78.0	64.1	82.2
	Caldas	77.4	63.7	82.4
	Caquetá	61.7	51.3	83.1
	Casanare	97.1	81.5	83.9
	Cauca	63.0	52.2	82.9
	Cesar	81.3	67.2	82.7
	Chocó	53.5	44.7	83.5

Category	Subcategory	% of adults with financial products	% of adults with active financial products	% of adults with products that are frequently used
Department	Córdoba	65.8	54.3	82.6
	Cundinamarca	79.9	67.4	84.3
	Guainía	40.5	32.6	80.5
	Guaviare	60.2	50.0	83.0
	Huila	82.6	71.6	86.7
	La Guajira	46.5	36.3	78.2
	Magdalena	75.8	62.7	82.7
	Meta	85.1	69.9	82.2
	Nariño	61.2	50.8	82.9
	Norte de Santander	85.0	70.0	82.3
	Putumayo	70.5	57.9	82.1
	Quindío	75.0	60.3	80.4
	Risaralda	88.2	72.0	81.6
	Santander	90.1	74.9	83.1
	Sucre	71.9	58.9	81.9
	Tolima	81.0	67.7	83.6
	Valle del Cauca	81.0	64.9	80.1
	Vaupés	27.7	20.7	74.7
	Vichada	44.6	33.2	74.4
Multidimensional poverty quintiles	First	86.3	73.6	85.2
	Second	82.0	68.0	82.8
	Third	78.8	66.0	83.8
	Fourth	66.2	54.7	82.7
	Fifth	59.2	48.3	81.5

Source: Banca de las Oportunidades and DANE.

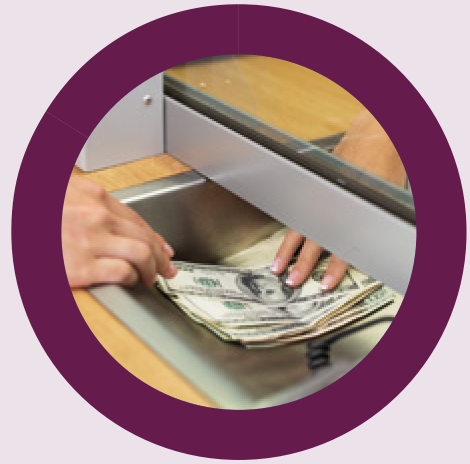
2

FINANCIAL COVERAGE FOR THE LAST MILE

In the last decade, Colombia's financial infrastructure has been significantly strengthened. In addition to the traditional service model with branches, banking correspondents were also incorporated. Their light structure has allowed the financial system to reach remote and sparsely populated regions, increasing coverage and guaranteeing at least one access point in each of Colombia's 1,102 municipalities. However, with the advent of digital transformation, the prevalence of the correspondents channel over branches represents significant challenges, such as integrating technological innovations into the branch model to ensure its continued relevance and ability to meet financial consumers' changing needs. Other challenges include how to increase the level of activity and correspondent bank use, as well as how to reach the last mile and guarantee the effective presence of the financial system in municipalities with vulnerable coverage.

NUMBER OF POINTS OF ACCESS TO THE FINANCIAL SYSTEM, 2018

135.797
Correspondents



7.812
Branches

16.192
ATMs

421.946
POS terminals

The correspondent bank model: a pillar in Colombia's financial infrastructure

Financial coverage in Colombia was strengthened in the last year. At the close of 2018, there were 465 access points for every 100,000 adults, and 167 access points for every 1,000 square kilometers1. Between 2017 and 2018, 91 access points for every 100,000 adults and 32 points per 1,000 square kilometers were added (Graph 2.1).

This trend can mainly be explained by the evolution of correspondents, now established as the channel with the highest opening rates in the last few years. While in 2018 the number of correspondents grew by 29.2%, ATMs registered a one-digit growth and branches remained unchanged. Thus, the share of the number of correspondents in all access points (excluding POS terminals) grew by more than three percentage points, closing 2018 at 85.0%. ATMs and branches lost ground, reaching 10.1% and 4.9% of access points, respectively.

The effectiveness of the correspondent model has been generalized and proves its effectiveness in coverage expansion strategies enacted by the institutions using this channel. In 2018, the financial credit unions' correspondent network2 expanded by 30.7%, banks by 28.9%, and financing companies by 8.2%. The first specialized electronic payment processing company (SEDPE, as per the Spanish acronym) had a total of 1,230 correspondents, which were previously outsourced. The correspondents' opening rate has been significantly higher than that of branches for all types of institutions. Among banks, the growth rate of correspondents was 30.1 percentage points higher than that of branches; this difference was 28.3 and 3.8 percentage points in unions and financing companies, respectively.

The financial infrastructure established by this strategy has mainly been employed by the banking sector. At the close of 2018, more than 95% of the total correspondents were concentrated in banks, and the remaining 5% was distributed among the other four types of institutions. These concentration levels have been maintained in recent years.

Reinventing the office channel

Branches have traditionally been Colombians' preferred channel to access the portfolio of services offered by the financial system. However, recent trends suggest that a renewal is needed to maintain their relevance.

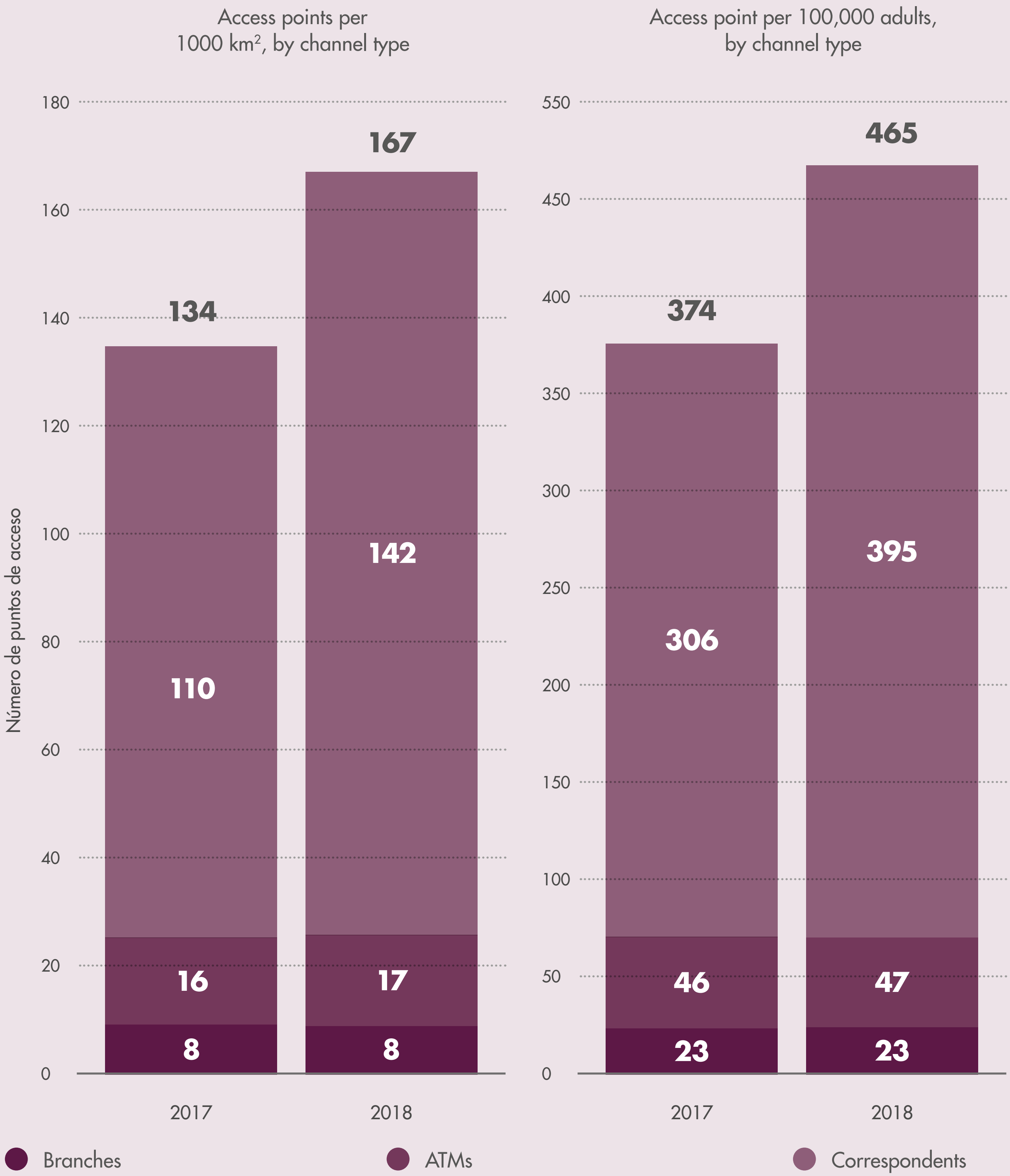
On one hand, the national network of branches has not reached the penetration and widespread use that correspondents have, and recently, the network has stopped expanding. In the last year, banks—the main users of this channel—closed 71 branches. However, this reduction of branches was compensated by the expansion of financial credit unions, financing companies, credit unions, financing companies, and microfinance NGOs in 71 branches. At the close of 2018, banks accounted for nearly 75% of all branches, followed by financial credit unions, whose network represented 14%.

In addition to these figures, there are challenges that come with the growing digitalization of financial services. As presented in the third chapter, non-traditional channels such as the Internet are increasingly used to carry out financial transactions. Equally relevant are the generational factors that influence the preference of some channels over others. As revealed in Chapter 6, the centennial and millennial generations see digital technology as a central element in their interactions with the financial system.

1.This includes branches, correspondents, and ATMs.

2.Throughout this chapter, information on financial credit unions overseen by the Superfinanciera and financial credit unions overseen by the Supersolidaria is presented in an aggregate manner, except for Graph 2.3.

Graph 2.1 Evolution of geographic and demographic coverage indicators (2017 and 2018)



Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, microfinance NGOs, and the National Department of Statistics (DANE, as per the Spanish acronym).

The underlying diversity in financial coverage

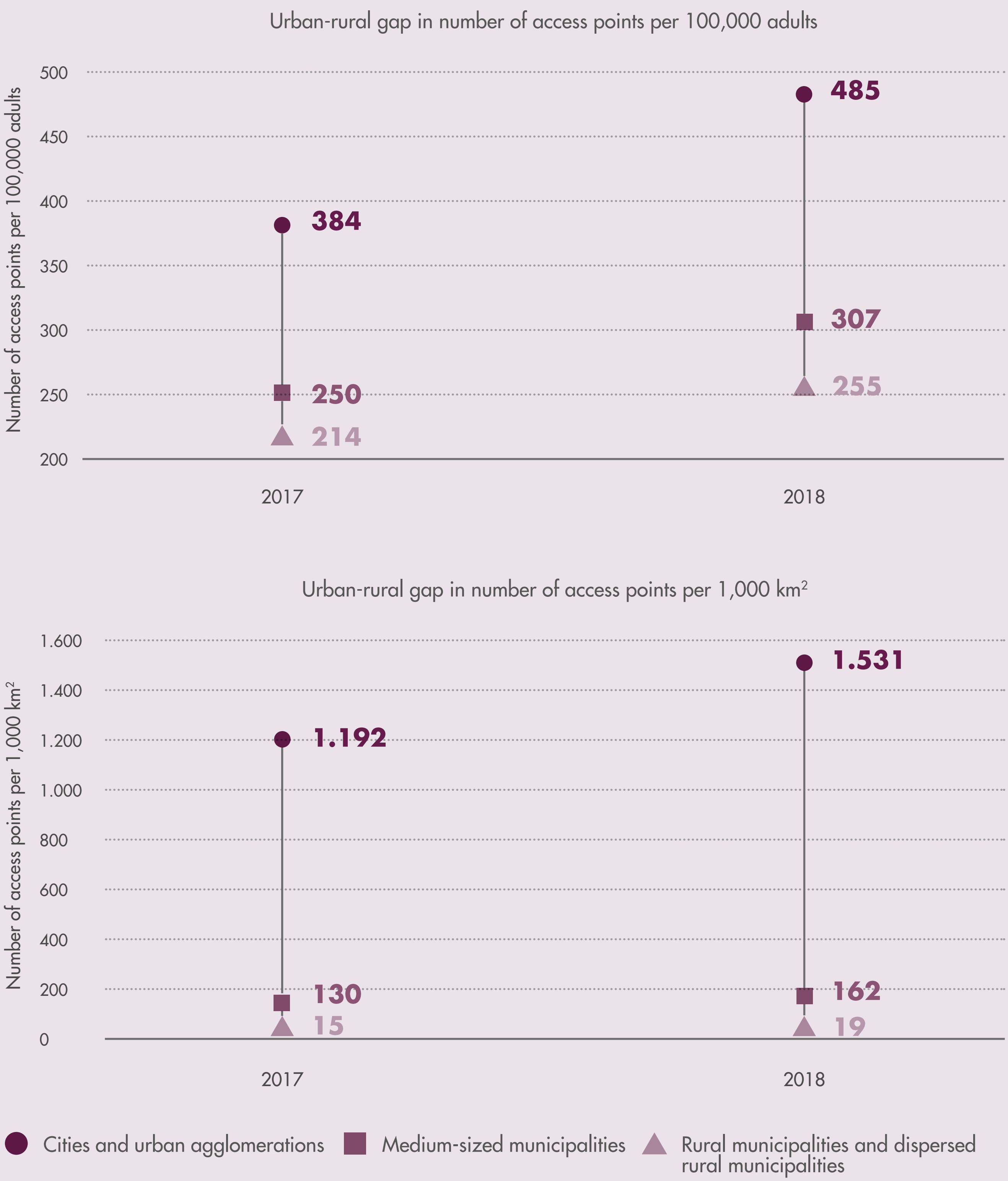
Despite progress in coverage, the presence of financial institutions continues to be concentrated in the largest and most populated areas of Colombia, while the most peripheral areas have lagged behind. 77.9% of the branches and correspondents were in cities and urban agglomerations, where 67.1% of the adult population lived in 2018, while 10.1% of access points were found in rural municipalities and dispersed rural municipalities, where 16.5% of the adult population lived. Similarly, 42.2% of adults in the 13 main cities had access to 55.3% of branches and correspondents, while 57.8% of adults in other municipalities had access to 44.7% of these points.

The greater concentration of access points per adult in cities has created significant coverage gaps. At the close of 2018, there were 485 access points for every 100,000 adults in cities, while this indicator was at 225 for rural municipalities and dispersed rural municipalities. Meanwhile, the demographic access indicator was 548 access points per 100,000 adults in the 13 main cities and 323 in the rest of the municipalities. This implies a gap of 231 points between cities and rural municipalities and 225 between major cities and the rest of the areas, which widened compared to 2017 (Map 2.1).

The increase in the urban-rural gap can be explained by two factors. First, private banks, which had the largest number of access points, were more concentrated in cities and urban agglomerations than other financial institutions; 79% of its points were in these areas and 9% in rural and dispersed rural municipalities. These figures contrast with those of financial credit unions overseen by the Supersolidaria and microfinance NGOs, whose penetration in cities is around 50% (Graph 2.3). It is worth noting that the majority of access points of the first SEDPE in operation were located in cities.

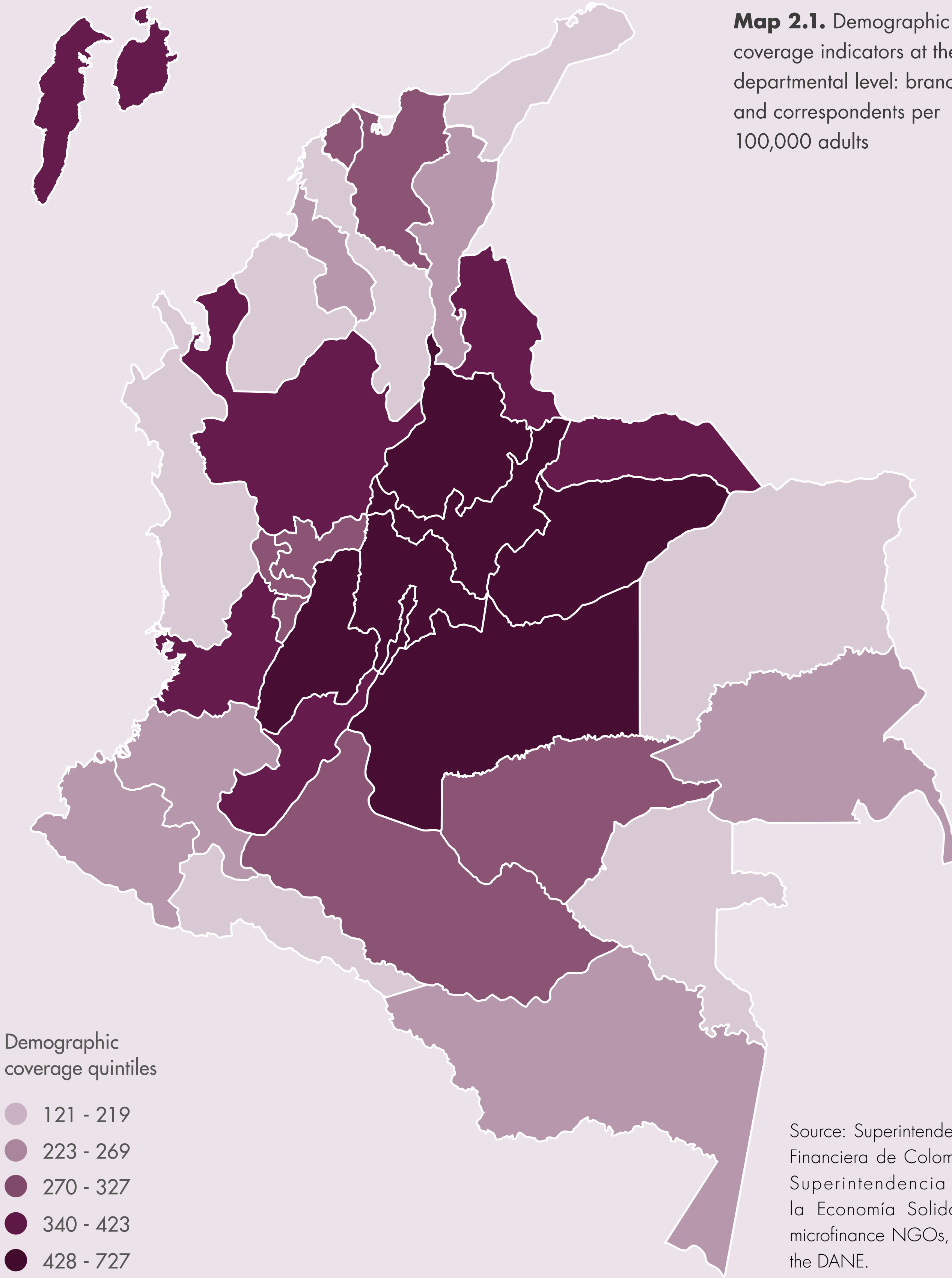
Second, the correspondents' opening rate, which was 17 times higher than that of branches, was directed primarily toward cities. More than 80% of the new access points were opened in cities and less than 10% in rural and dispersed rural municipalities.

Graph 2.2 Evolution of the urban-rural demographic coverage gap in number of branches and correspondents (2017-2018)



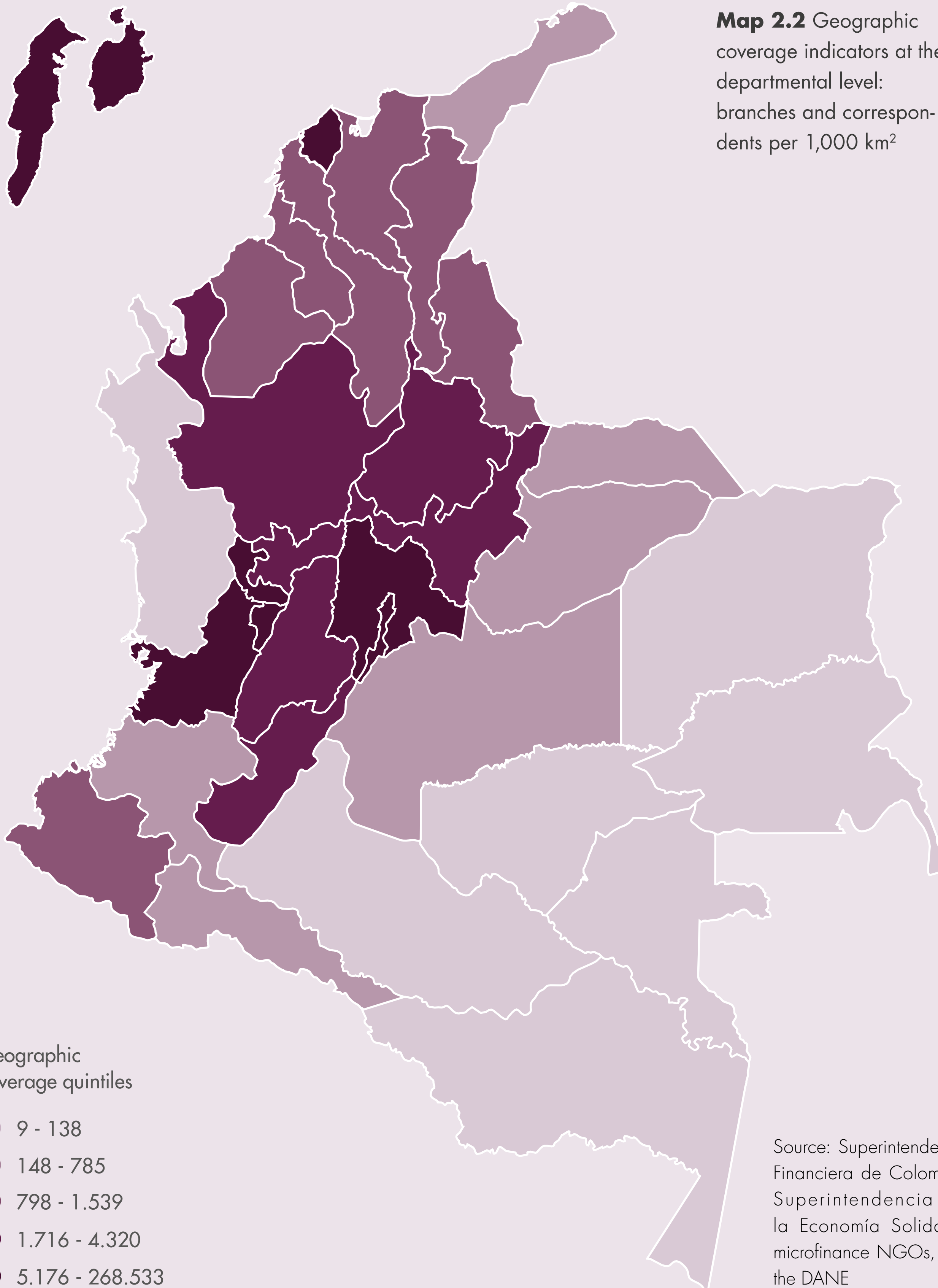
Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, microfinance NGOs, and the DANE.

Map 2.1. Demographic coverage indicators at the departmental level: branches and correspondents per 100,000 adults



Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, microfinance NGOs, and the DANE.

Map 2.2 Geographic coverage indicators at the departmental level: branches and correspondents per 1,000 km^2

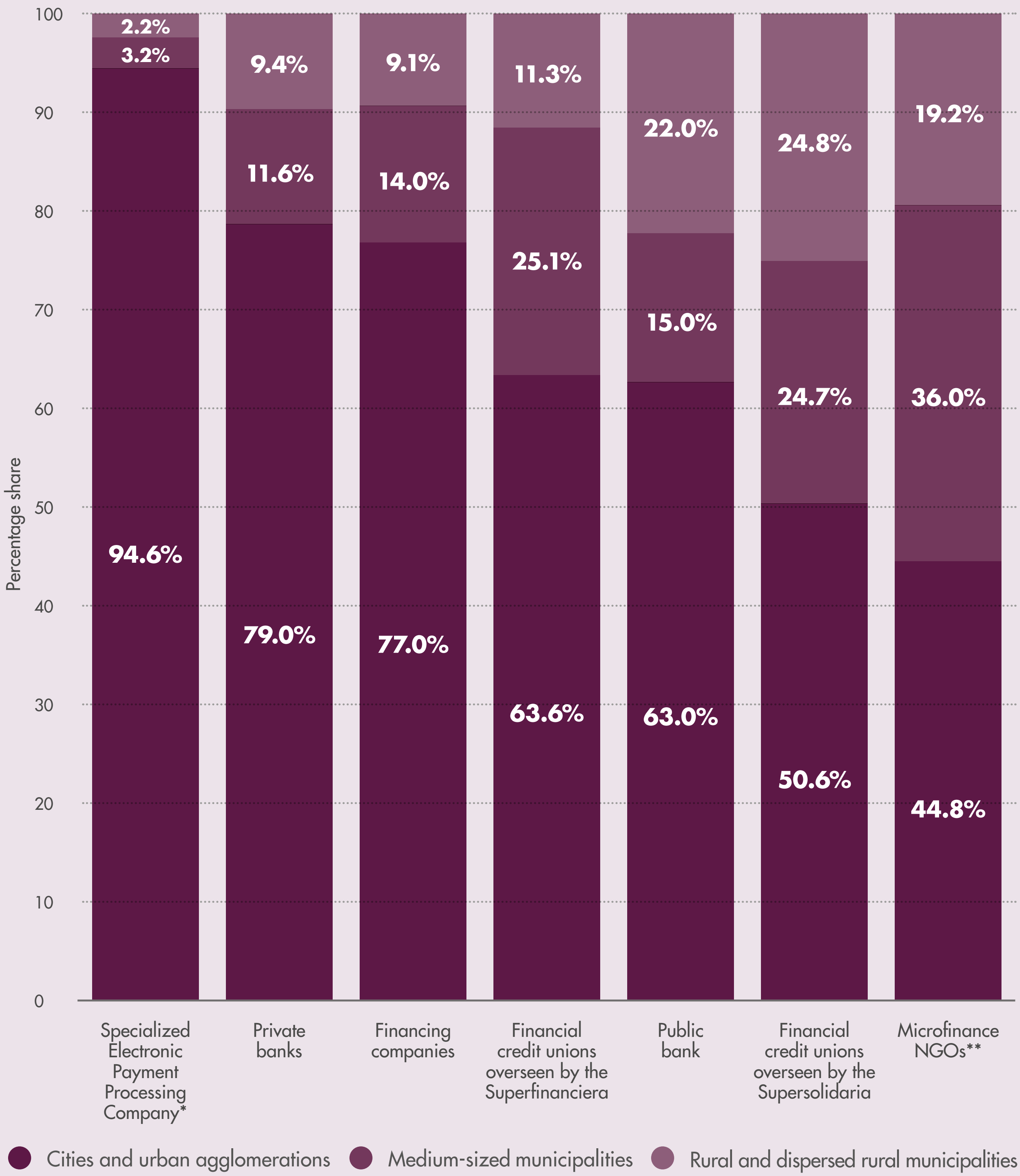


Geographic coverage quintiles

- 9 - 138
- 148 - 785
- 798 - 1.539
- 1.716 - 4.320
- 5.176 - 268.533

Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, microfinance NGOs, and the DANE

Graph 2.3 Office and correspondent distribution by rurality and institution type



Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, microfinance NGOs, and the DANE.

Note: *Only correspondents. **Only branches.

Vulnerable financial coverage

Although every municipality in Colombia had at least one access point to the financial system, two challenges still remain in terms of coverage. First, the level of activity of bank correspondents[3] must be increased. In 2018, credit institutions reported that 80% of the correspondents were active, leaving the remaining 20% inactive[4].

Through these correspondents, 325.2 million financial transactions were made for a value of $113.4 trillion pesos. The two most frequent types of transactions were payments, which represented 56% of the number of transactions, and withdrawals, representing 22.5%. Similarly, 41% of the amount traded also corresponded to payments, followed by deposits with 28.6%.

The second challenge is the need to guarantee the presence of financial institutions in the last mile—those places where the correspondent model has yet to operate effectively. At the end of 2018, 965 of the 1,102 municipalities in Colombia, or 87.6%, had stable coverage, given that one or more branches were present, as well as self-operated active correspondents. The remaining 137 municipalities had vulnerable coverage, since they had an office without self-operated correspondents, or had no branches but up to two active internal correspondents (Diagram 2.1)[5]. Throughout the last year, three municipalities went from the vulnerable coverage category to stable coverage. The majority of municipalities with vulnerable financial coverage were rural: at the close of 2018, 83.9% were classified as rural or dispersed rural municipalities, and 62% of all vulnerable coverage municipalities were in only five departments: Boyacá, Chocó, Bolívar, Santander, and Nariño.

Additionally, 29 of the 137 municipalities with vulnerable coverage faced a highly critical situation: two municipalities, Taraira (Vaupés) and Arroyohondo (Bolívar), had neither branches nor active correspondents, and 27 guaranteed their financial presence exclusively with active outsourced correspondents[6]. Moreover, 59% of the municipalities with critical financial coverage were in the dispersed rural category, with more than half in the departments of Chocó, Magdalena, and Nariño (Table 2.1).

This situation confirms the need to strengthen the presence of the financial sector in the last mile with innovative strategies and channels. The digital solutions created with the new technologies can mitigate geographical barriers and reduce operating costs. In addition, models such as mobile correspondents can strengthen the penetration of basic financial services beyond municipal urban centers. In this context, public-private collaboration is required to improve connectivity and close the digital gap for populations throughout Colombia.

3. The proportion of correspondents of credit institutions overseen by the Financial Superintendence of Colombia through which at least one transaction was made throughout a quarter.
4. The activity level improved by 5 percentage points compared to 2017.
5. Correspondents can be self-operated or outsourced. Correspondent services of several institutions can be outsourced at the same physical location.
6. Of these municipalities, 16 were served exclusively by private banks with outsourced correspondents, three by the public bank, and eight by both.

Diagram 2.1 Distribution of municipalities with vulnerable financial coverage by levels of criticality

High criticality

2 municipalities	Without branches or active correspondents
27 municipalities	Without branches or active self-operated correspondents
48 municipalities	Without branches, one active self-operated correspondent
50 municipalities	Without branches, two active self-operated correspondents
None	One office without active correspondents
10 municipalities	One office and one or two active outsourced correspondents

Low criticality

Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, microfinance NGOs, and the DANE.

Note: In the absence of georeferencing data, the measurement of the number of correspondents is aggregated to the information of those that are outsourced for all institutions, regardless of the physical point where they are located. Over the last year, the degree of correspondent outsourcing decreased by 4 percentage points, closing at 87% at the end of 2018. When the activity level is low and the degree of outsourcing high, the concentration of the correspondents in a few physical points can be significant. As a result, those municipalities where a substantial part of the financial presence is through outsourced correspondent access points are considered more critical in the context of this report.

The geographical dynamics of POS terminals

In 2018, there were 435,836 POS terminals in Colombia, that is, 13 per 1,000 adults and 454 per 1,000 km2. The number of POS terminals grew by 8% compared to 2017, equaling more than 30,000 terminals. In the last four years, about 100,000 were added. Regarding institutions, CredibanCo and Redeban had 421,924 POS terminals in total. The information compiled at the municipal level was calculated using the POS terminals of these two institutions.

In 2018, Redeban and CredibanCo POS terminals were present in every Colombian department. The five departments with the highest number were Bogotá DC, Antioquia, Valle del Cauca, Atlántico, and Cundinamarca, accounting for approximately 67.9%. In addition, the five departments with the highest demographic coverage indicator were San Andrés, Providencia, and Santa Catalina Archipelago, Bogotá DC, Risaralda, Quindío, and Valle del Cauca, all with a number of POS terminals per 1,000 adults above the national average (13).

POS terminals are highly concentrated in cities. 91.1% of POS terminals were in cities, 6.4% in medium-sized municipalities, 1.8% in rural municipalities and 0.7% in dispersed rural municipalities. The 13 largest cities accounted for 67.6%.

This concentration of POS terminals in cities makes it difficult to accept card payments in medium-sized municipalities, particularly in rural areas. This has to do with the fact that linking small businesses to the payment system is a difficult task, which is why purchasers lack incentives to expand their offer. Expanding the market and reaching those small businesses in medium-sized and rural municipalities, known as the last mile, is a major challenge; one must arrive with new agents and support models for electronic payments.

Table 2.1 Distribution of municipalities with a critical level of financial coverage

Department	Municipality	Without branches or active correspondents	Without branches or active self-operated correspondents
Antioquia	Murindó		●
Bolívar	Arroyohondo	●	
	El Guamo		●
Boyacá	Caldas		●
Cauca	Santa Rosa		●

Department	Municipality	Without branches or active correspondents	Without branches or active self-operated correspondents
Chocó	Alto Baudó		●
	Bojaya		●
	Cértegui		●
	El Cantón del San Pablo		●
	El Litoral del San Juan		●
	Juradó		●
	Lloró		●
	Río Iró		●
	Río Quito		●
	Sipí		●
Cundinamarca	Beltrán		●
	Nariño		●
Magdalena	Concordia		●
	Pedraza		●
	Remolino		●
	San Zenón		●
Nariño	La Tola		●
	Magüi		●
	Roberto Payán		●
Norte de Santander	Santiago		●
Santander	Cepitá		●
	Jordán		●
Sucre	Palmito		●
Vaupés	Taraira	●	

3

TRANSFORMATION THROUGH DIGITALIZATION

Technology and digitalization are rapidly transforming the way that the financial sector operates. These changes are mainly due to two major trends. On one hand, smartphones and digital technology have modified consumers' expectations, who are increasingly more connected and demanding, and who expect to be able to buy, search, share, and interact at any time, in any place, and with whomever they choose. This expectation also extends to financial needs. Consumers expect their financial products and services to be agile, adaptable, and omnichannel.

On the other hand, an ecosystem with new specialized actors and traditional stakeholders is rapidly being established. These actors are focusing on combining technology and using alternative information structures and innovative approaches in order to offer new experiences and financial services, as well as specific solutions for underserved populations.

Colombia has made significant efforts that align with this global trend. For more than a decade, adjustments to the regulatory framework have been made, aiming to make financial services offerings more inclusive. One of the first achievements is the creation of the correspondent model, which allows various entities to expand their coverage, reaching municipalities where they previously had no presence. In today's digital world, they offer the possibility of having cash-in and cash-out points for transactional products based on digital technologies.

In recent history, the Unit for Regulatory Forecasting and Financial Regulation Studies (URF, as per the Spanish acronym) and the Superintendencia Financiera have significantly advanced in order to pave the way for this digital ecosystem in Colombia, which includes the simplification of procedures for opening digital and traditional savings accounts, electronic deposits, and the regulation of specialized electronic payment processing companies (SEDPEs, as per the Spanish acronym). To date, three SEDPEs have received an operating license from the Superintendencia Financiera, and one is already in operation.

A promise for effective financial inclusion has been created around this transformation, where the digitalization of financial services makes it possible to reduce obstacles related to geographical location, the absence of credit history or information, and the fixed costs assumed by consumers. Similarly, it is expected that new technologies and greater collaboration will not only provide more opportunities to access products and services, but also increase trust and use.

Colombia's future challenge will be to ensure that this ecosystem of digital and innovative solutions becomes an effective tool for financial inclusion that aids both the underserved population and those groups whose needs are not being met by the traditional system. To this end, both traditional and new stakeholders must work on creating scalable and high-impact business models.

New dynamics of physical branches in a digital financial system

The Colombian financial sector has recognized that its principal infrastructure is no longer based on office structures and has understood the importance of having more cost-efficient channels to expand its target market, such as correspondents. The last chapter mentioned that the number of branches remained constant in 2018, while the opening of correspondents increased by 29.2%, despite the fact that its activity increased by only five percentage points last year. Banks, specifically, reduced their number of branches in 2018. These dynamics coincide with global trends, where branch closures are common, as well as strategic transformation processes in order to maintain this channel's relevance. This transformation is based on the effective integration of emerging technologies into traditional operating models, which implies the need for agile, secure, and intuitive virtual service platforms, as well as the use of digital solutions and data analytics to create financial solutions focused on consumers' most complex needs.

Transactions are now carried out through digital channels

In 2018, 6.334 billion financial transactions worth $7,183 trillion pesos were made in the credit institutions overseen by the Superfinanciera. 45.7% of transactions corresponded to monetary transactions, which do not include balance inquiries. There was an increase in the number of operations and a decrease in the amount traded, compared to 2017, when 5.451 billion transactions were made and $7,209 trillion pesos were mobilized.

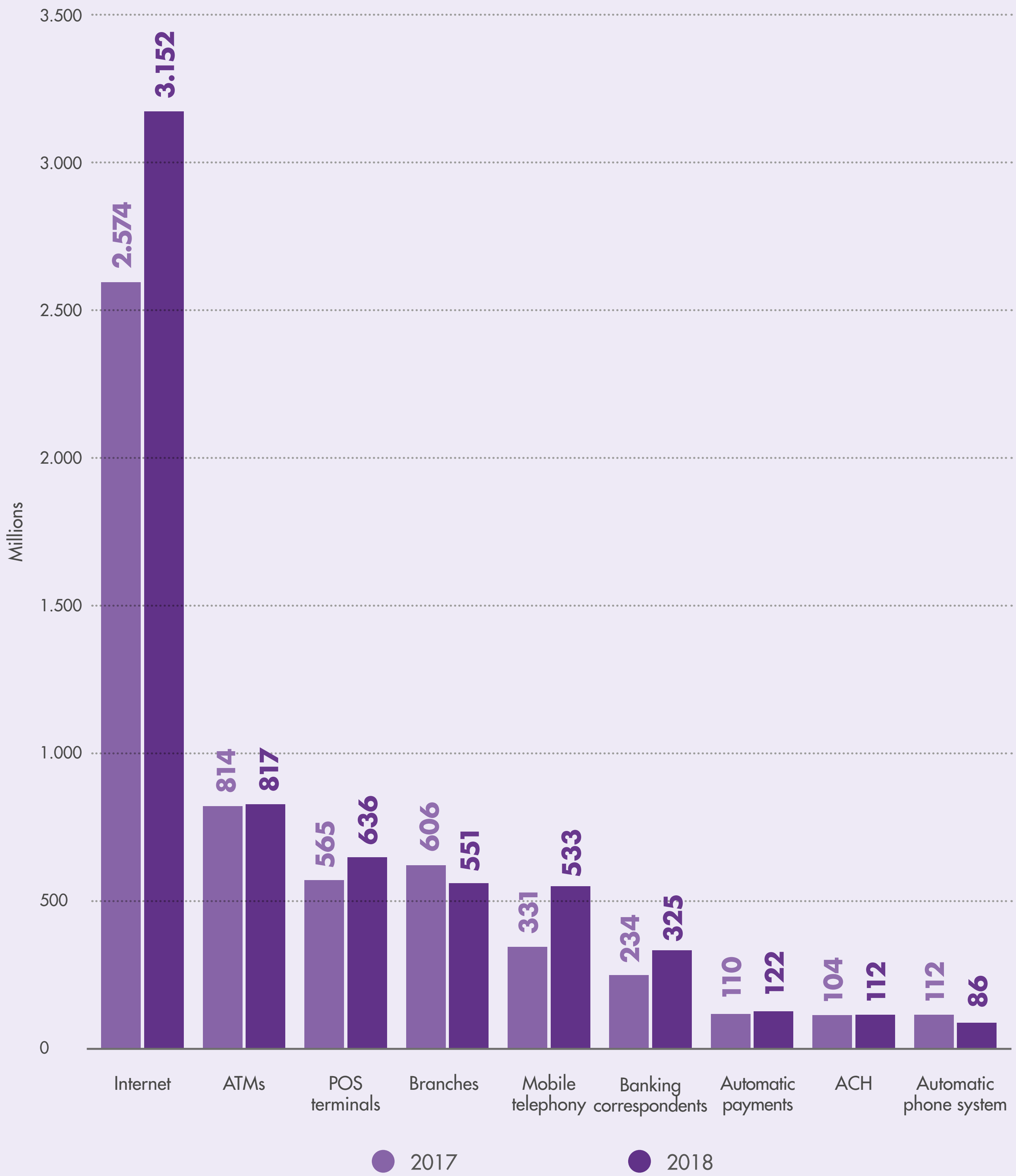
The average amount of these transactions was $2.5 million pesos, through ACH channels ($10.1 million), the Internet ($6.2 million), and branches ($5.3 million). On the other hand, correspondents ($348,736), mobile telephony ($345,736), and POS terminals ($171,608) exhibited the lowest average transaction amounts.

Overall, Colombians preferred digital transactions. In fact, 2018 was the first year in which Internet operations exceeded those carried out in physical branches in both number and amount. The Internet channel mobilized 49.8% of transactions and 39% of the amount traded, while these percentages for branches were 8.7% and 37.5%, respectively (Graphs 3.3 and 3.4). In 2018, Internet transactions increased by 22.4% in number and 6.1% in actual annual amount. In contrast, branches saw a 9.2% reduction in transactions and 16.2% decrease in the actual annual amount traded (Graph 3.5). Additionally, the average amount traded on the Internet was greater than that in branches: $6.2 million versus $5.3 million pesos.

At the close of the year, the channel with the greatest growth in both number and amount was mobile telephony, with an increase of 61% in number and 71.4% in actual annual amount, followed by correspondents, with an increase of 38.8% in number and 39.5% in actual annual amount.

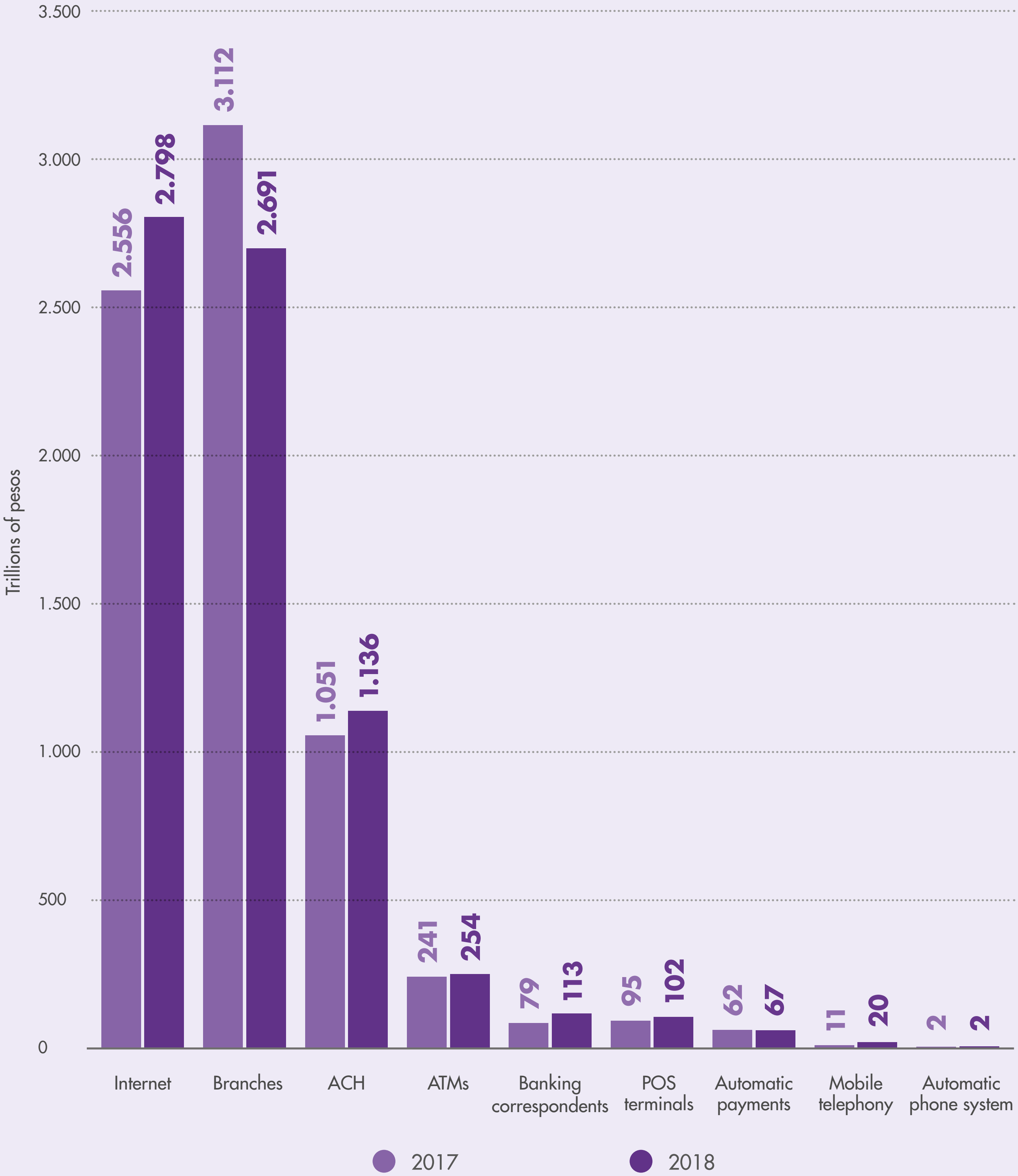
Non-monetary transactions were the main transactions carried out through digital channels. The most common transaction carried out on the Internet and mobile telephony was balance inquiry (85.6% of all internet transactions and 89.4% of all mobile telephony transactions). Correspondents and branches were mainly used to make payments, which respectively equaled 56% and 43.7% of all transactions carried out (Graph 3.6).

Graph 3.1 Number of transactions per channel type



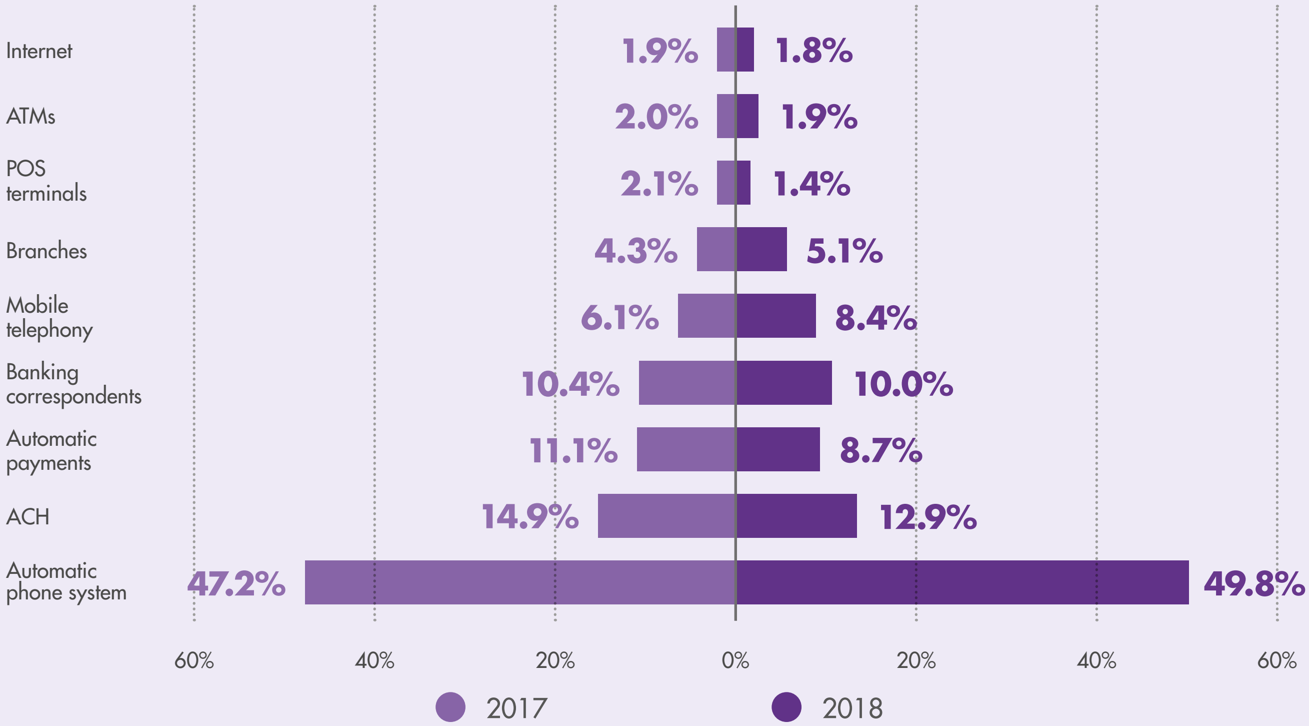
Source: Superintendencia Financiera de Colombia.

Graph 3.2. Amount transacted per channel type



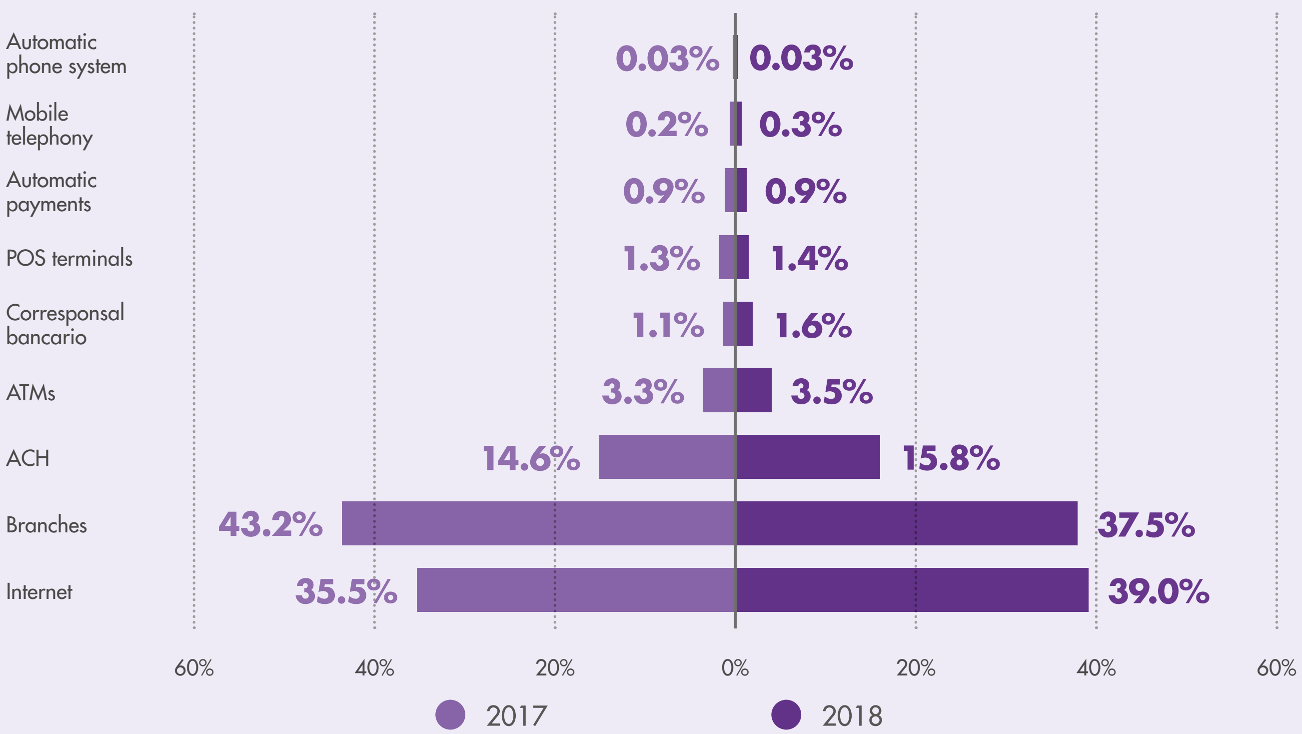
Source: Superintendencia Financiera de Colombia.

Graph 3.3 Share (%) of number of operations per transactional channel



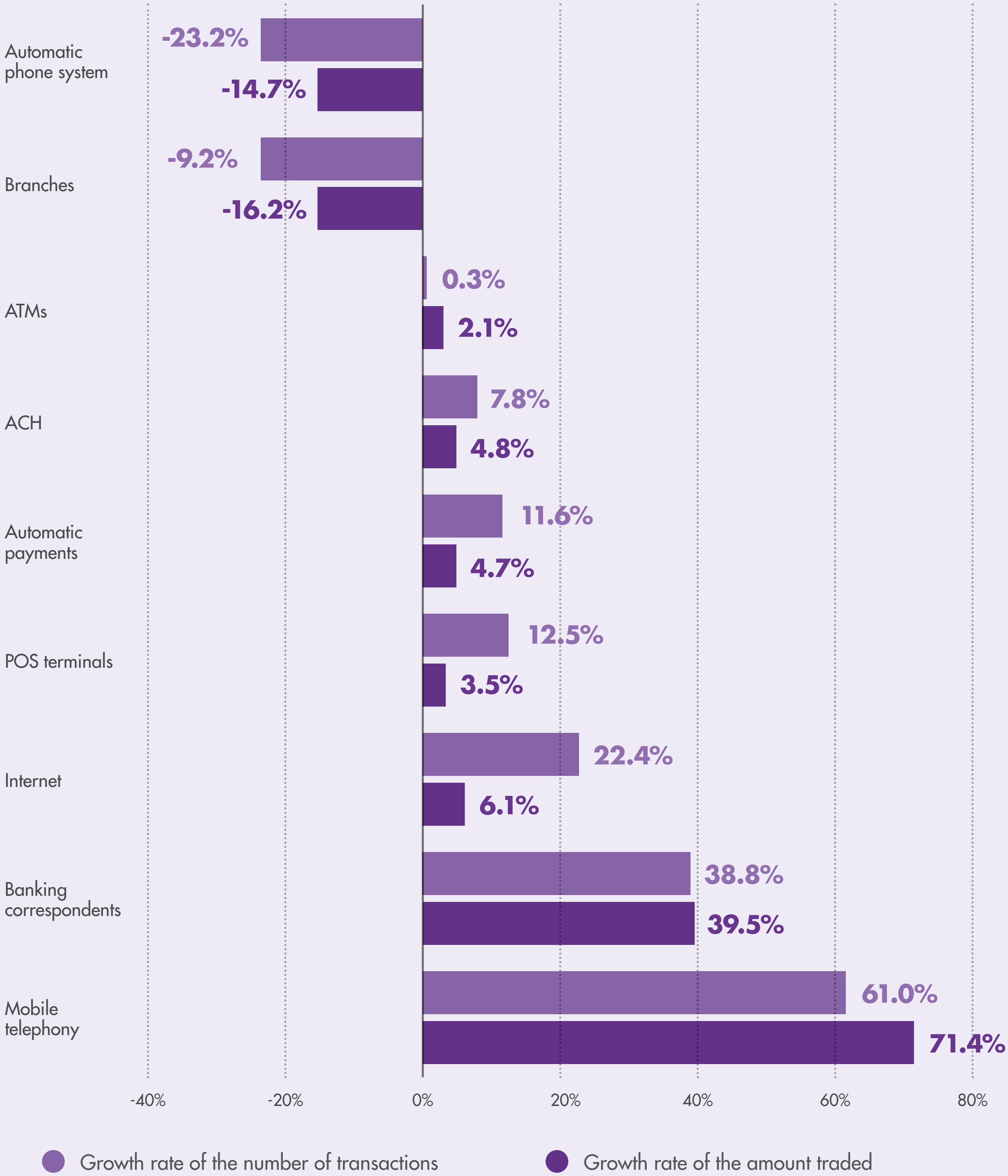
Source: Superintendencia Financiera de Colombia

Graph 3.4. Share (%) of amount transacted by transactional channel



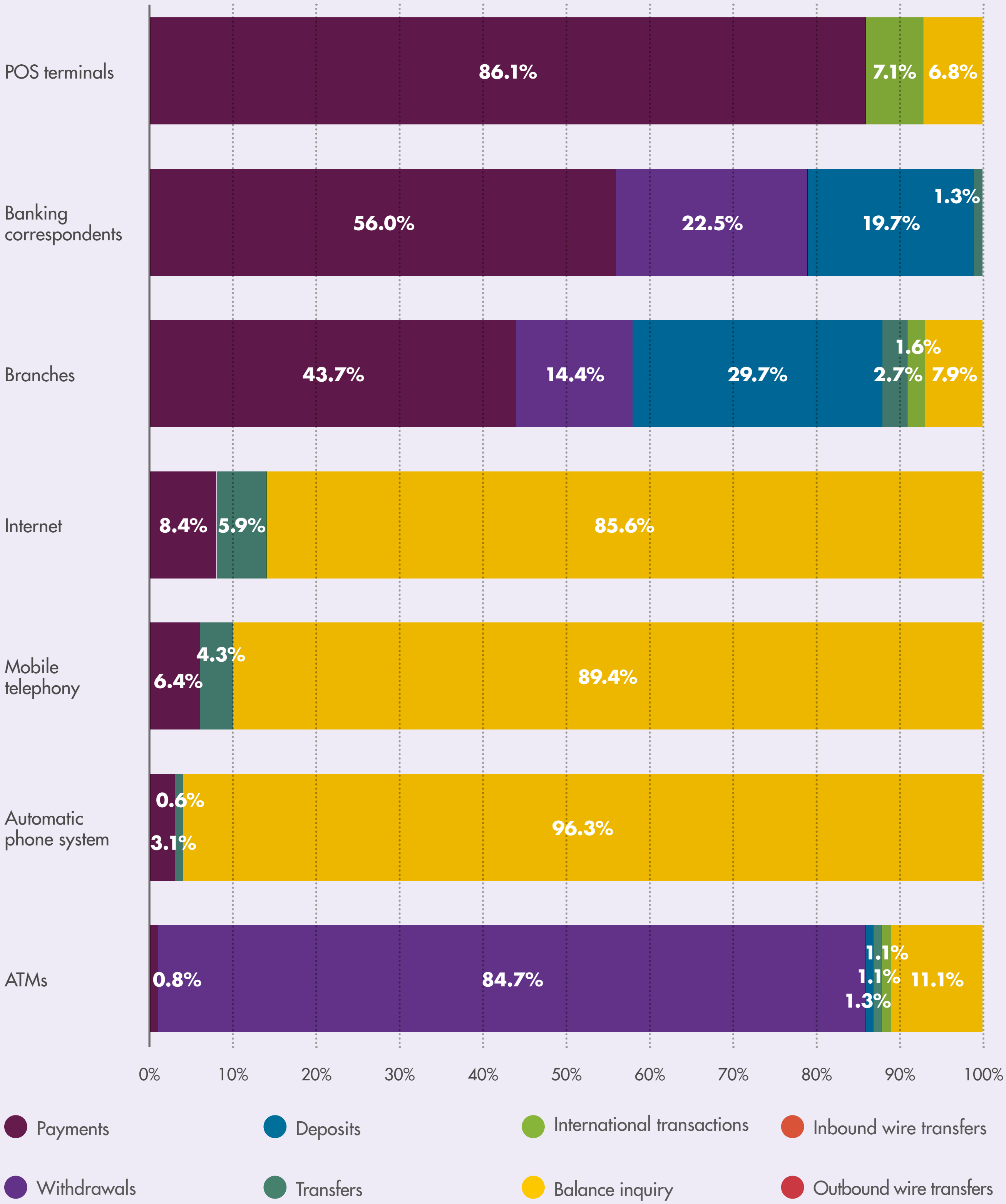
Source: Superintendencia Financiera de Colombia.

Graph 3.5. Annual growth rate of the number and amount traded by transactional channel, 2017-2018



Source: Superintendencia Financiera de Colombia.

Graph 3.6. Share of operations per channel and transaction type, 2018



Source: Superintendencia Financiera de Colombia.

The role of simplified savings accounts, digital savings accounts, and electronic deposits in a digital financial system

One of the main innovations underway by the Colombian financial system are mobile applications and portfolios[1] across three dynamics: i) mobile internet penetration, which has reached 54%[2], mobile telephony at 110%[3] and smartphones, with 51%[4]; ii) creation of SEDPE licenses, which offer electronic deposits; and iii) progress made from a regulatory perspective, in terms of banks' know-your-customer (KYC) obligations. Regarding the last point, in Colombia, simplified opening procedures for savings accounts were established and the electronic deposit product was also created, which allowed institutions overseen by the Superfinanciera to offer products in a remote and flexible way from the moment of opening.

In the last year, the number of simplified savings accounts increased from 1.3 million to 2.3 million as well as their level of activity, which went from 45.6% to 56.1%. The increase in electronic deposits was 18% (742,304 more than in 2017), reaching 4.9 million. However, their level of activity was lower than in 2017, dropping from 45% to 39%. Digital savings accounts reached 4.1 million in 2018, also showing an increase of 1.3% compared to 2017. This product's activity also decreased eight percentage points during the last year, going from 46% to 38.23%.

Traditionally, only a select few have led the way in developing these types of products that leverage mobile and digital innovations. By the end of 2018, banks had 99.6% of total electronic deposits and 98.4% of simplified savings accounts. The remaining percentages were distributed among financial credit unions overseen by the Superintendencia Financiera, financing companies, and the SEDPE. It is worth mentioning that digital savings accounts are only offered by banks.

It is important to note that not only simplified products can be implemented by cell phone. Now, traditional saving accounts can be opened 100% digitally. Although it is not known how many traditional savings accounts are opened through digital channels, data analysis showed that there was a total of 62.5 million accounts, 25.9 million of which were active in 2018. Compared to 2017, the number of these accounts increased by 5.3%, a growth rate that decreased by three percentage points relative to the previous year. These accounts' activity level decreased from 43.8% in 2017 to 41.3% in 2018. Banks are the main providers of these accounts, representing 93.2% of the total. However, the highest account level of activity was found in the financial credit unions overseen by the Superintendencia de la Economía Solidaria, where 68.7% of savings accounts were active, while the largest increase in number of accounts was in financing companies, with an 11.7% annual growth rate.

1. The overseen entities that answered the fintech survey conducted by the Superintendencia Financiera in 2018 reported that these were the main innovations they were developing.
2. Source: GSMA Country overview: Colombia 2017 Mobile internet per inhabitant penetration
3. Source: GSMA Country overview: Colombia 2017 Connection penetration (does not include M2M/inhabitants)
4. Source: GSMA Country overview: Colombia 2017 Smartphone adoption (as connection percentage, does not include M2M).
5. GSMA 2017. *Country overview: Colombia La colaboración público-privada para promover la innovación y la creación de nuevas empresas*. Disponible en: https://www.gsmaintelligence.com/research/?file=96dd21c24a04e35db09df5d8db700817&download
6. Ibíd.

Technology does not solve everything: a digital transaction ecosystem must still be developed

This progress comes with its own set of challenges. First, Colombia must move forward and continue with its efforts aimed at increasing mobile and fixed internet connectivity in order to offer universal access to digital products. In Colombia, nearly 20 million people still do not have access to the Internet, with rural areas being the most disconnected, limiting their ability to access and use financial services through digital and internet-based channels. Second, work must be done to develop trust and empower the population regarding the use of digital channels for financial transactions. According to The Global System for Mobile Communications (GSMA), "the potential mobile internet user feels that he does not have the necessary skills to use the Internet and worries about the security issues that must be taken into account"[5]. The results of a demand survey carried out by this same institution showed that security concerns and the lack of digital skills are the main barriers affecting the demand for mobile internet[6]. Finally, emerging technologies and the application of emerging innovation processes must be used to design innovative channels and services that allow the population to acquire, use, and be assisted in a safe and easily accessible environment. Therefore, innovations that encourage the use of the financial system are especially needed in order to establish an ecosystem of digital transactions.

SFC Innovates

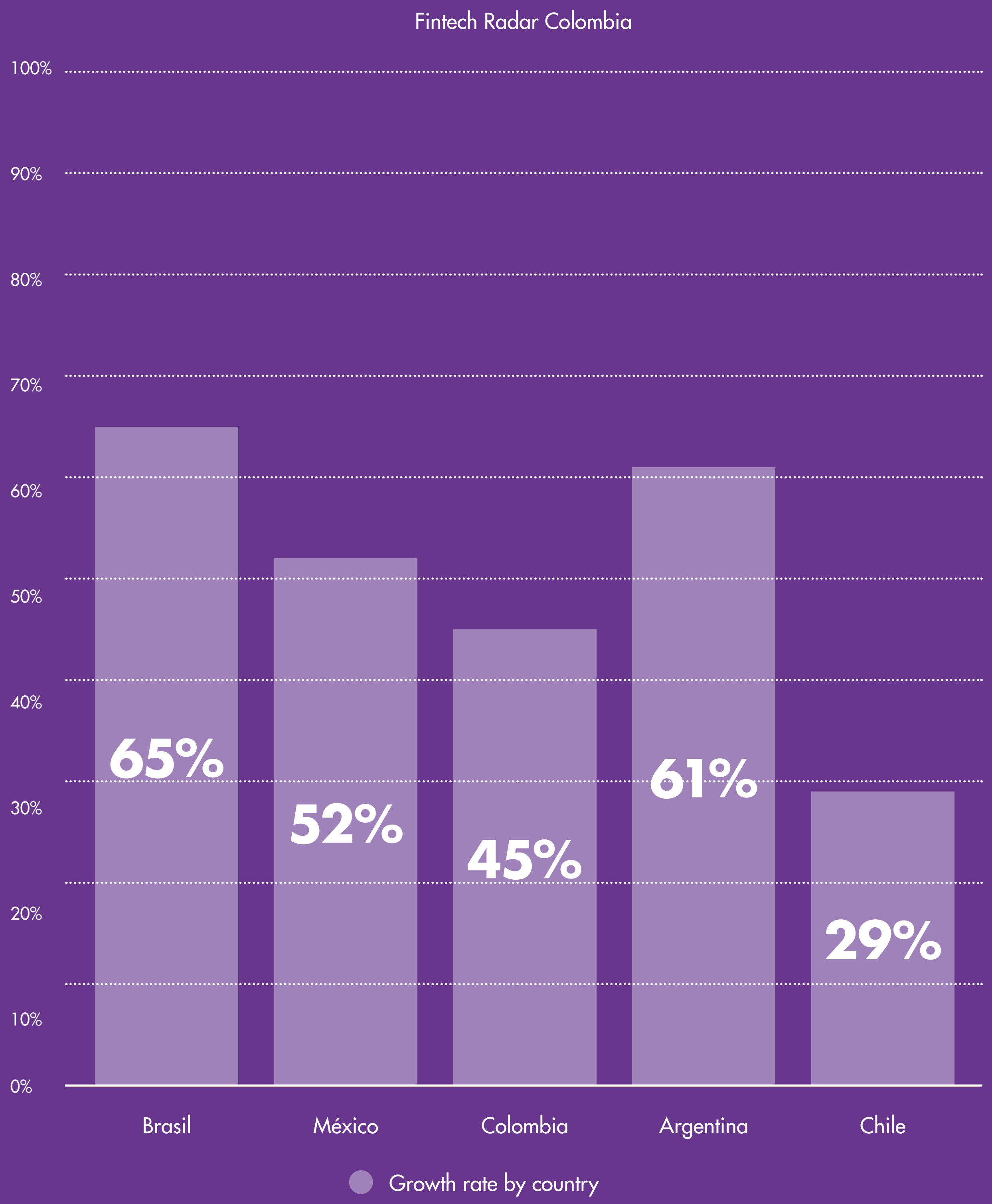
According to figures from *Finnovista Fintech Radar*, Colombia had 180 Fintech ventures as of October 2018, including 78 new ones created in 2018—following the example of ecosystems such as Brazil, with almost 377 ventures, and Mexico, with 334. In Colombia, there is a significant boom in Fintech businesses focused on payment and remittance services, equaling 27% of the industry in terms of number of businesses (Graph 3.7). There is also a wide range of digital services aimed at facilitating financial management (25%) and business finance management (14%) (Graph 3.8).

In response to this accelerated pace of innovation and the significant challenges for authorities in supervising the provision of financial services, the Superintendencia Financiera de Colombia (SFC, as per the Spanish acronym) launched Innova SFC in April 2018. It is the first initiative within the innovation strategy with the objective to promote, facilitate, and accompany the financial sector's innovation strategy, in order to ensure that it is carried out in a sustainable and responsible manner. To this end, a series of tools aimed at facilitating innovation in the financial system have been determined and made available to the Fintech ecosystem, namely:

- elHub: **The innovation office** that serves as a point of contact in the SFC for those interested in the Fintech ecosystem.
- laArenera: ***The supervisor's sandbox,*** a framework that allows innovative financial institutions to test their products, technology, or business models in a controlled environment and in real time.
- regTech: A line of work that will allow the supervisor to ***innovate from within,*** identify and optimize internal processes, and work towards greater efficiency in supervisory processes.

As of December 2018, the hub had assisted 88 entities, there were 8 pilot proposals for the sandbox, and 5 proofs of concept for supervision and compliance activities (suptech and regtech) had been carried out.

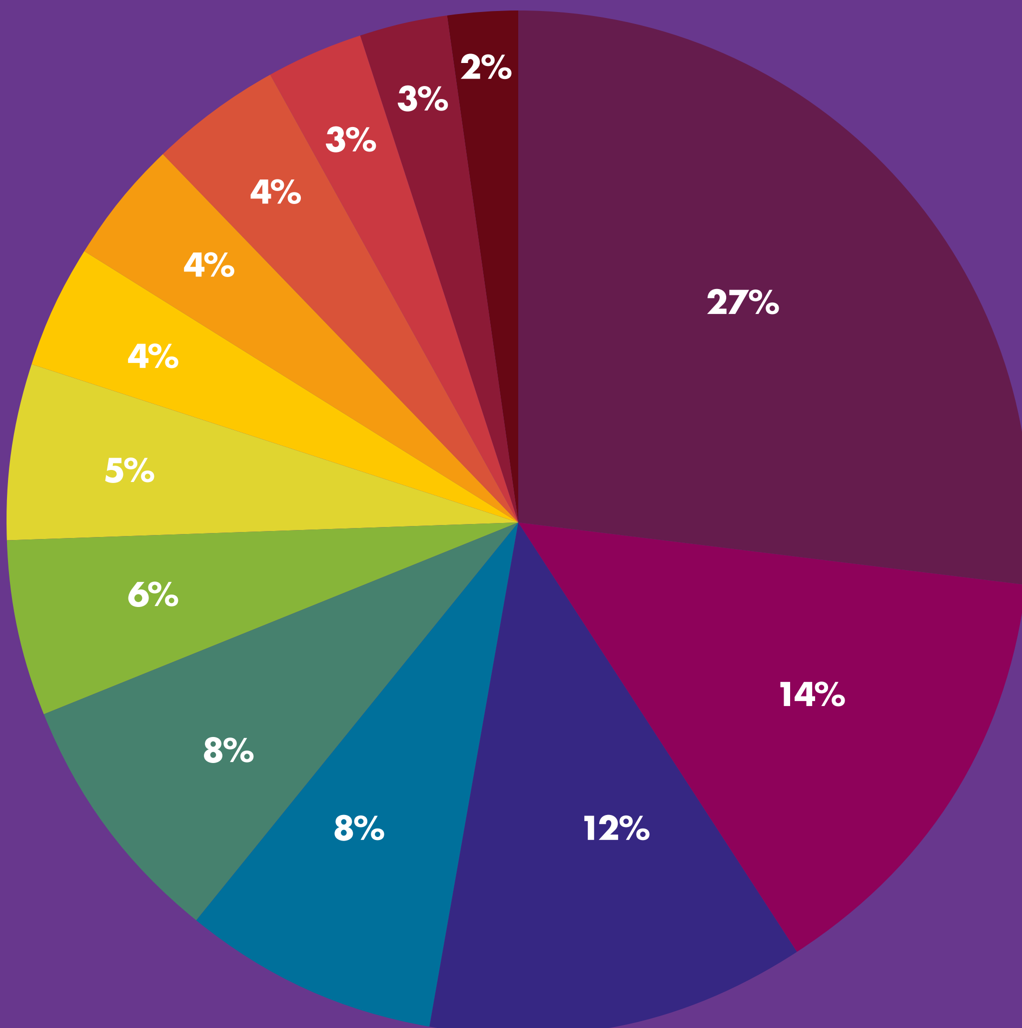
Graph 3.7. Growth of fintech ecosystem by country



Source: Finnovista Fintech Radar.

Graph 3.8. Ecosystem distribution by activity type, October 2018

Finnovista Fintech Radar Colombia



- **Digital banks** (3 startups)
- **Comparative of financial service offerings** (5 startups)
- **Assets management** (6 startups)
- **Crowdfunding** (7 startups)
- **Financial management for individuals** (7 startups)
- **Financial and stock markets** (8 startups)
- **Scoring, identity, and fraud** (10 startups)
- **Insurance** (10 startups)
- **Business technology for financial institutions** (15 startups)
- **Commercial loans** (15 startups)
- **Consumer loans** (21 startups)
- **Financial management for businesses** (25 startups)
- **Payments and remittances** (48 startups)

Source: Finnovista Fintech Radar.

4

GENDER DYNAMICS

The role of women in society has changed significantly in recent years: their educational level and labor force participation are increasing1. Despite progress in gender equality and women's empowerment, there are still idiosyncratic and socio-economic factors that generate an unequal division of labor and limits women's access to economic resources. Many women continue to depend on their partners; one in three married women in developing countries has no control over household spending on major purchases and approximately one in ten is not consulted on how their own income should be used (United Nations, 2015). Additionally, women often have more limited opportunities to own property and generally have less control over their financial future (IPA, 2017).

Regarding financial services, according to the 2017 Global Findex results, more than one billion women worldwide are still excluded from the financial system; regarding account ownership, a gender difference of 9 percentage points still exists in developing economies2. This gap has not changed since 2011, despite overall progress in financial inclusion. Understanding these systemic differences is key to effectively providing women with access to formal financial services including savings, credit, transactions, and insurance on equal terms.

1. See inset *"Integrating Colombian women into the labor market"*, included at the end of this chapter.
2. The Global Findex database 2017.

FINANCIAL INCLUSION INDICATORS BY GENDER, 2018

MEN

Financial inclusion indicator:

82.6%

Level of use:

83.0%

WOMEN

Financial inclusion indicator:

80.0%

Level of use:

84.4%

In Colombia, women have less access to financial services than men

Colombian adult women's access to financial services has increased in recent years, but numerous challenges remain. In 2018, the financial inclusion indicator for men was 82.6%, compared to 80% for women, a difference of nearly three percentage points. Additionally, this gap widens when using data from the demand surveys carried out by the Superintendencia Financiera and Banca de las Oportunidades, reaching 20 percentage points in the 2017 measurement. The same applies to the World Bank's 2017 Global Findex, where the gender gap for Colombia was 10 points. The differences recorded between the information on supply and demand could be explained, among other factors, by idiosyncratic dynamics, such as the predominance of patriarchal authority and low levels of financial education, leading women to fail to recognize financial products as their own.

Regarding the supply data, there was a gap favoring men in 20 departments and Bogotá D.C. Specifically, Vichada, Bogotá D.C., Casanare, and Meta registered the largest difference, which ranged between 8.1 and 10.5 percentage points. In contrast, twelve departments had a gap favoring adult women, but of lesser average magnitude[3]: Bolívar, Cauca, Chocó, and Sucre had the greatest difference, between 4.3 and 6.6 percentage points.

The gender gap for credit products was larger than for the deposit: 3.8 versus 2.4 percentage points, respectively. In the 12 departments with a gap favoring women in the financial inclusion indicator, the proportion of women with deposit products was higher than that of men. Of these, only in San Andres, Magdalena, and Chocó was the difference also in favor of women for credit products. Additionally, the average amounts disbursed to women were lower than those of men for all types of credit. In the case of microcredit, this figure was $4.8 million for men and $4 million for women. As for consumer credit, the average amount disbursed to men was $1.2 million pesos and to women was $950,000. Finally, on average, men were disbursed $115.5 million pesos for home purchases, while the figure for women was $99.8 million.

Among the factors that explain the gender gap in the financial inclusion indicator are the obstacles women face to enter the labor market, which are stated in the following inset. In fact, women tend to have lower levels of employment and participation, lower wages, and higher unemployment rates (Arango, Castellani and Lora, 2016). This situation affects access to financial services for several reasons. First, savings accounts—the gateway to the financial system—are opened as a result of their employers' obligation or suggestion in more than half of the cases (Banca de las Oportunidades and Superintendencia Financiera de Colombia, 2018). Second, income stability and formality is one of the determining factors for credit approval.

Despite the generalized gap favoring men, certain products have been used mostly by women. The most representative case is that of accounts used to disperse conditional cash transfers from the Más Familias en Acción program, aimed primarily at mothers who are heads of household. As of December 2018, 76.3% of adults with digital savings accounts were women, who held 3.5 of the 4 million existing accounts. This meant that, for every 10,000 women, 1,954 held digital savings accounts, while only 374 of every 10,000 men held this type of account. In addition, the average balance in digital savings accounts was higher for women than for men: $61,419 pesos versus $54,692. Certificates of deposit and electronic deposits were also mostly acquired by women, who owned 63.7% and 54.7% of these products, respectively.

3. The twelve departments with a gap favoring adult women are: Sucre, Chocó, Bolívar, Cauca, Magdalena, Nariño, La Guajira, Córdoba, San Andrés, Providencia, and Santa Catalina Archipelago, Atlántico, Boyacá, and Quindío.

Integrating Colombian women into the labor market

Although the relative workforce gap between men and women was reduced by five percentage points over the last ten years (half a percentage point per year), at the end of 2018, it remained around 21 percentage points. There is a similar trend in the employment rate, whose gender gap narrowed by three percentage points over the same period of time, landing at 22 percentage points.

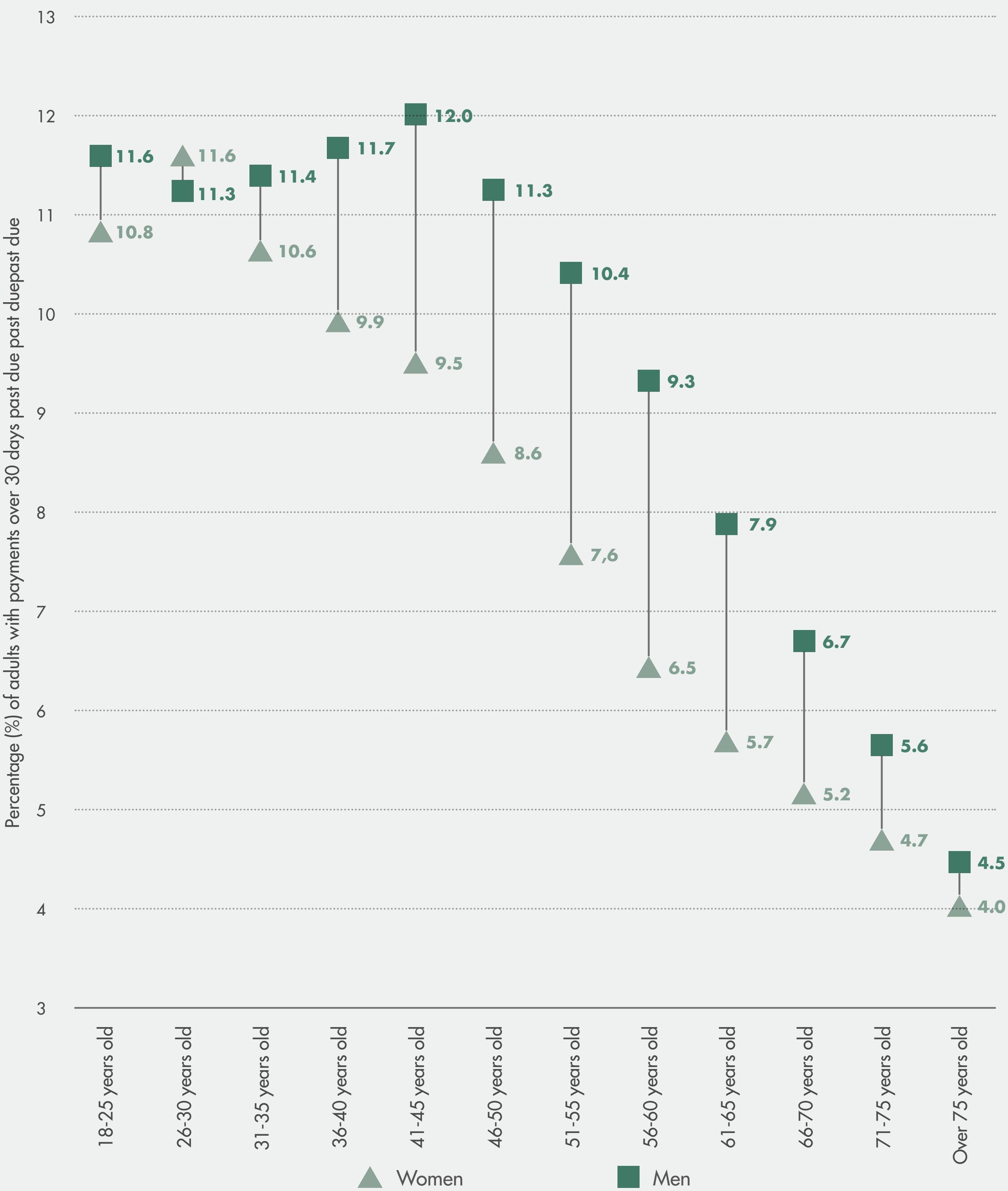
Additionally, the Colombian labor market is characterized by a higher rate of unemployment among women compared to men. In fact, throughout the last quarter of 2018, the unemployment rate among women was six percentage points higher than the rate among men. As a woman's education level and age increases, her likelihood for unemployment decreases. Family circumstances also affect this likelihood: it is higher if married and with children under two years of age, but less so if the woman is head of the household or if the spouse or other family members have a good income source (Arango, Castellani and Lora, 2016).

However, when analyzing the salary compensation patterns among men and women, women who have the highest education levels in relation to men do not enjoy the same salary compensation. The proportion of women in the workforce who have finished their secondary, technical or technological, undergraduate, or graduate studies is 12 percentage points higher than that of men. However, when analyzing the distribution of the economically active population by gender and monthly labor income range, the proportion of women earning less than a minimum wage is 12 percentage points higher than that of men, while the proportion of women earning more than a minimum wage is 12 percentage points lower than that of their counterpart (National Department of Statistics, 2018).

Women are more committed to paying their loans

Although adult women have less access to formal loans than men, they have lower default indicators in both number and amount. As of December 2018, the percentage of women's credit products with payments more than 30 days past due was 8.9%, while that of men was 10.5%. In general, this difference favoring adult women is maintained for the different age groups, where the widest gap is in the group made up of adults between the ages of 51 and 55 (Graph 4.1).

Graph 4.1. Gender gaps in overdue payment rates by age groups, 2018



Source: Banca de las Oportunidades.

Gender gaps depend on age

As explained in Chapter 5, young people participate the least in the labor market, have a higher unemployment rate, and are less financially included. While 80% of adult women had financial products, only 54.7% of women between the ages of 18 and 25 had them, a difference of nearly 25 percentage points. Among men, 82.6% of men had financial products, and those between 18 and 25 years of age had an indicator of 58.7%, representing a difference of 24 percentage points.

Gender gaps vary by age group. For adults between 18 to 25 years of age, men had more access to financial products. In this segment, the largest observed gap was eight percentage points. However, this trend reverses for the age group of 36 to 55 year olds, where women have a greater financial inclusion rate. In this case, however, the differences do not surpass four percentage points. Finally, for the population over 56 years old, access gaps favoring men expand, reaching 14 percentage points for elderly adults (Graph 4.2).

Financial exclusion of men and women is exacerbated with rurality

While 85.7% of adult women in cities and urban areas accessed formal financial services, only 60.5% had access in rural and dispersed rural municipalities. The situation is similar among men: the proportion that has access to financial products in cities was 91.4%, while those with access in rural and dispersed rural municipalities fell to 60.5%.

As a result of this difference, young people in rural areas were those who most lagged behind: in rural and dispersed rural areas, the proportion of adult women with financial products was at 30.8% and men at 30.1% (Graph 4.3). With regard to this situation, it is worth highlighting that young people represent great potential in terms of financial inclusion, given that they are part of a generation that is more familiar with communications and technological advances, identified as key aspects to reach these isolated areas with low population density (Graph 4.3).

Additionally, the magnitude of gender gaps changes depending on level of rurality. In cities and urban areas, the proportion of men who have access to financial products is larger than that of women, in the four age groups defined in Graph 4.3. At a smaller scale, this pattern is reversed in rural and dispersed rural municipalities, where this indicator is greater for women, except in elderly adults.

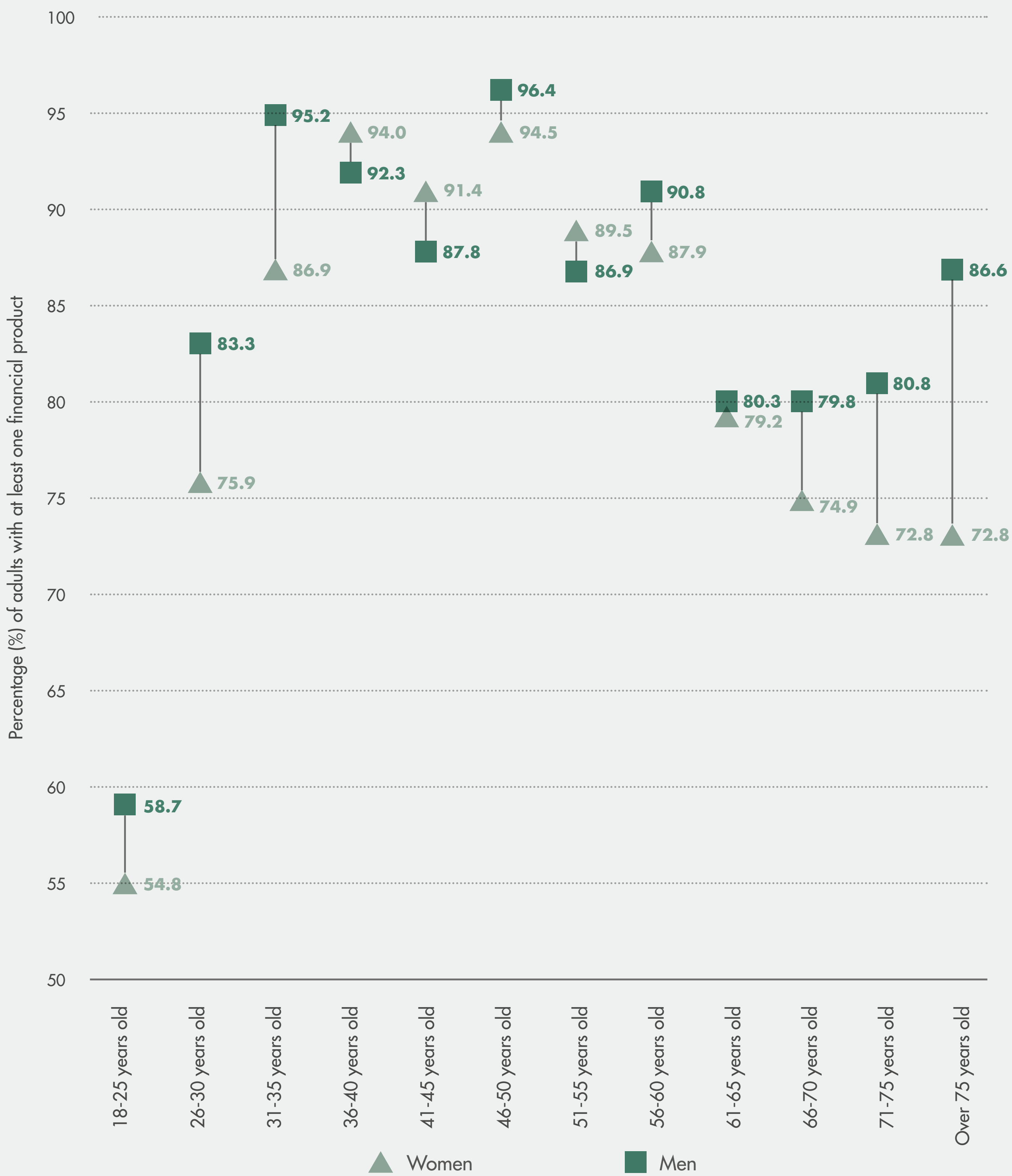
Why focus on gender-based inclusion?

The reduction of gender disparities presented throughout this chapter, particularly in rural youth, is a priority, in order to establish an environment of inclusive economic growth that will contribute to fighting poverty in Colombia. Indeed, studies have shown that promoting access to formal financial services with a focus on gender amplifies the effects that financial inclusion has on well-being.

It has been concluded, for example, that women leverage the benefits of microcredit access throughout the community, because, compared to men, they have more reliable payment profiles and tend to invest their businesses' profits and use savings in ways that have a more lasting and significant impact on their families' quality of life (Cheston & Kuhn, 2002).

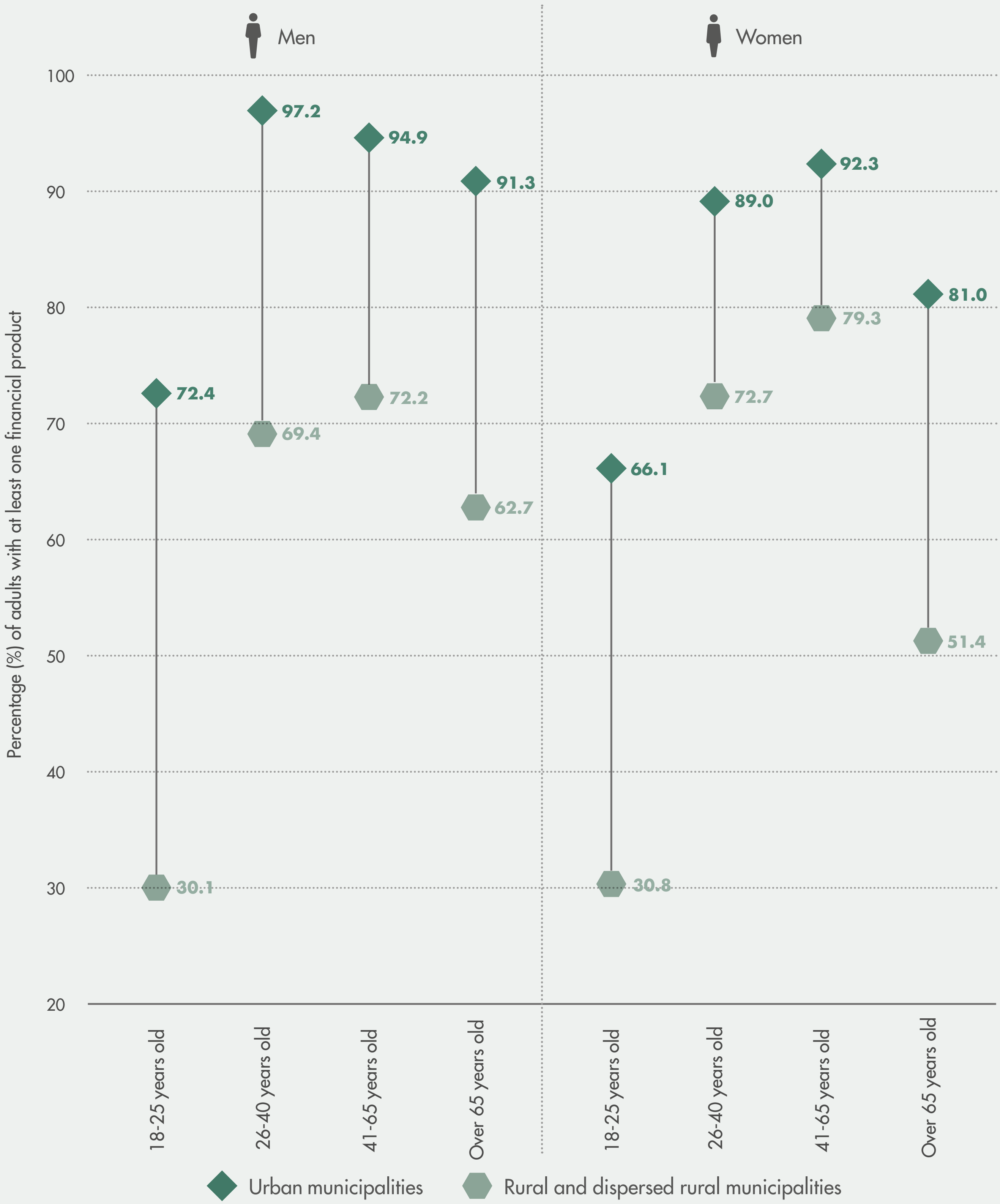
Additionally, in the case of the most vulnerable women, financial inclusion strengthens their economic empowerment, which includes aspects such as self-confidence, trust, respect, and independence (Holloway, Niazi, & Rouse, 2017). As a result, promoting women's access to microfinance can reduce levels of economic anxiety within families, thus mitigating the occurrence of conflicts (Arunachalam, 2007). In this way, investing more resources for greater financial inclusion with a focus on gender favors social mobility, the reduction of domestic violence and poverty, basic skills development in households, and the creation of human capital (Women's World Banking, 2011).

Graph 4.2. Gender gaps in access to financial products by age groups, 2018



Source: Banca de las Oportunidades and the DANE.

Graph 4.3. Urban-rural gap by age group and gender, 2018



Source: Banca de las Oportunidades and the DANE.

5 GENERATIONAL DIFFERENCES

In order to overcome the existing barriers in terms of access and use of formal financial services, it is important to understand the various contexts, characteristics, and needs of Colombia's people. Therefore, the demographic perspective, especially for age and generational groups, has significant potential. Since the beginning of the millennium, the Colombian population has been aging, which brings challenges to the formal financial system. In 2005, children and young people represented nearly half of the population; in 2018, this proportion fell by more than six percentage points. As such, the participation of elderly adults grew by two percentage points in the same period of time (Graph 5.1).

The life cycle theory, applied to the design of inclusion and financial education strategies, shows that financial preferences and needs change as a person ages. For example, young adults need products that allow them to access digital services, meet their educational needs, receive their first salary, and build a credit history. Elderly people, on the other hand, require products that allow them to use and manage their resources, in many cases sourced from their pensions, which serve as support in their strategies to make ends meet.

Financial institutions in Colombia have started to develop strategies focused on different generations. Some have implemented rapid, simple, personalized, and self-managed solutions based on mobile technology for the youngest groups, the centennials[1] and millennials[2]. Others have focused on maintaining or winning back the trust of baby boomers[3] and elderly adults[4], aimed at developments that improve the experience and accessibility of applications. However, these efforts to develop differentiated solutions have not been sufficient, since in reality, different generations of adults in Colombia do not access the formal financial system in the same way.

Baby boomers and millennials are the most financially included, with access indicators above the national average. In contrast, older adults and centennials are the ones who have the least access. The gap in the financial inclusion indicator between baby boomers and centennials was more than 30 percentage points. In this context, Colombia's challenge in the coming years is to succeed in integrating its youngest adults into the financial system. Access to formal financial services such as savings, credit, or insurance allows young people to invest in their training, start businesses more easily, or accumulate assets.

1. Born between 1993 and 2000.
2. Born between 1978 and 1992.
3. Born between 1953 and 1977.
4. Born before 1953.

FINANCIAL INCLUSION INDICATORS BY AGE GROUP

57.3%

Generation Z, or *centennials*

87.7%

Generation Y, or *millennials*

89.1%

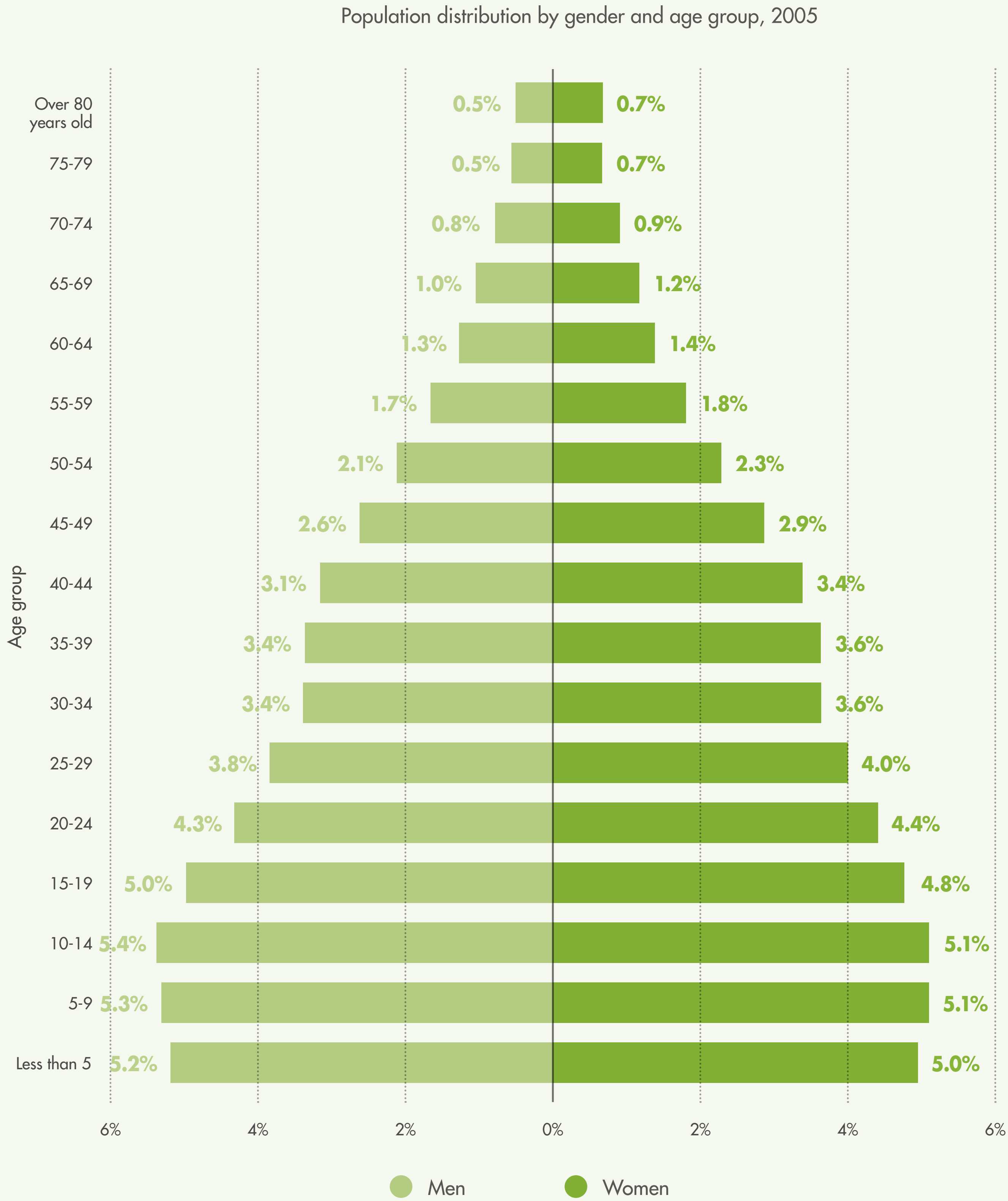
Generation X, or *baby boomers*

77.5%

Adults over 65 years old

Source: Banca de las Oportunidades and the National Department of Statistics (DANE, as per the Spanish acronym).

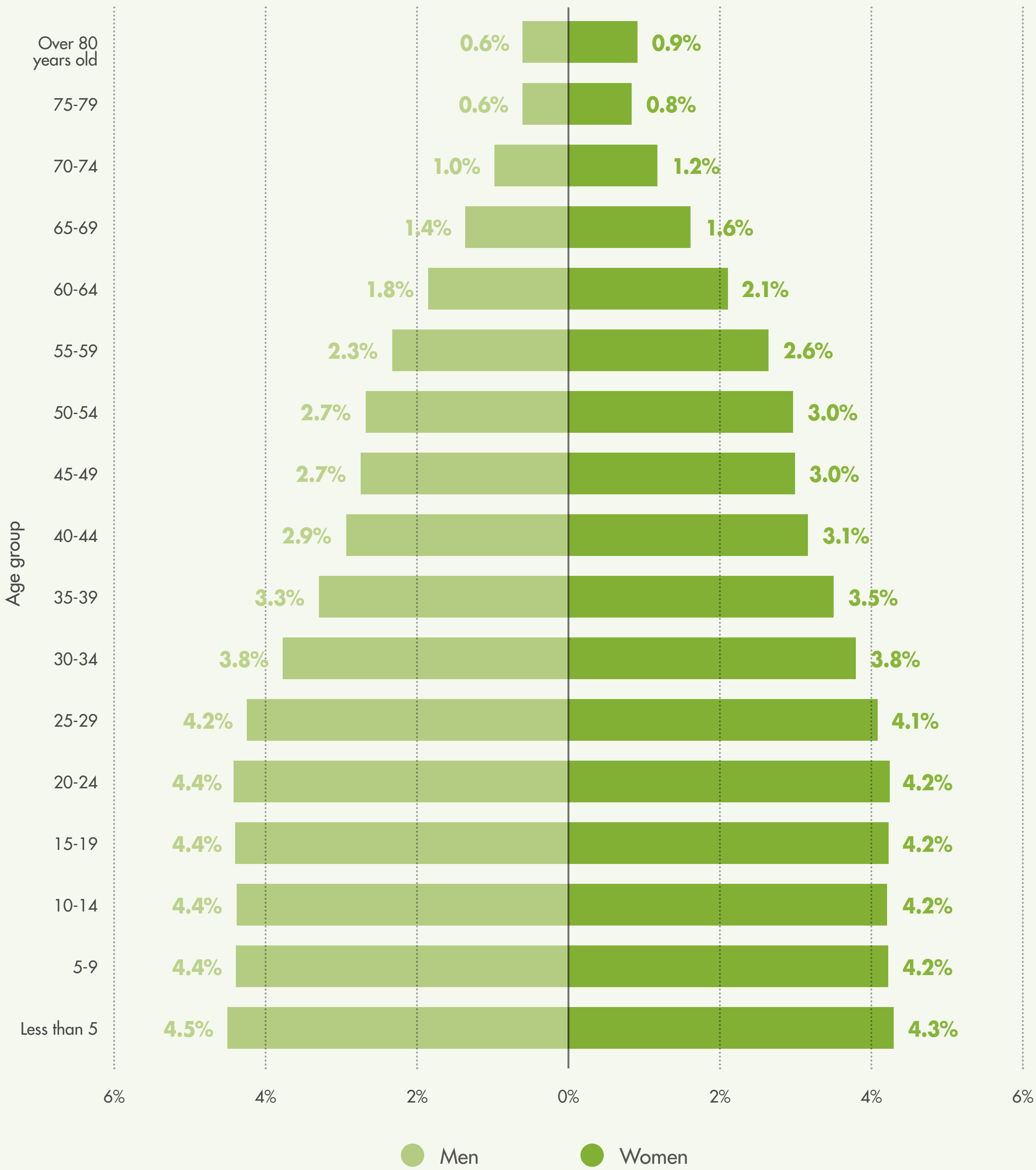
Graph 5.1. Evolution of Colombia's population pyramid, 2005-2018



Source: DANE.

Graph 5.1. Evolution of Colombia's population pyramid, 2005-2018

Population distribution by gender and age group, 2018



Source: DANE.

Financial inclusion of Generation Z, or centennials (18-25 years old)

Centennials, or Generation Z, are heavy consumers who expect digital technology to make their lives easier. It is estimated that they will have a purchasing power of $29 to $130 trillion dollars by 2020 (Forbes, 2019). Additionally, many of them are entering or attending university, which means that they demand student loans, transactional products, and credit cards with costs adjusted to their payment capacity.

In Colombia, 6.8 million adults, or 20%, belong to this age group—the least included generation in the formal financial system. As of December 2018, 57.3% of young adults between 18 and 25 years old had access to at least one financial product, 24 percentage points below average. Of the financially included *centennials*, 3.4 million had an active product, equaling a level of use of 85.8% (Graph 5.2). In terms of access, this lag is made up of two determining factors. First, those within the economically active population face more pronounced labor market entry problems than other age groups. Second, outside the economically active population, there is another segment whose majority study and are financially dependent on their parents, demanding few financial services or doing so with support of their relatives. In fact, the youth population presented an unemployment rate of 18.1% in the mobile quarter from November 2018 to January 2019, compared to the national average of 12.8% (DANE, 2019).

54.5% of *centennials* (3.7 million adults) had at least one deposit product (Graph 5.3). Although this is the most financially excluded population segment, this group represents the highest use of their deposit products: 82.2% were active. Specifically, 3.6 million centennials had a savings account, making it the product with the greatest penetration in this group. Electronic deposits and simplified savings accounts followed. Checking accounts and certificates of deposit were the least used deposit products among this group. Their preference for agile and digital products (electronic deposits and simplified savings accounts) is associated with young people's familiarity with technology. *Centennials* are digital natives.

In terms of credit, 1.4 million centennials (21.1% of this age group) had at least one credit product. This low credit penetration can be explained by lack of income from work, collateral, or credit history. The most popular credit product for *centennials*, or Generation Z, was the credit card, with 12.4% having at least one, followed by consumer credit at 9.8%, and microcredit at 3.2% (Graph 5.4). The housing loan had the lowest penetration among *centennials*, compared to the other age groups; only 14,332 (0.2% of this population) had this type of credit. This correlates with the fact that many young people in this age group are not focused on acquiring housing or do not have the capacity to do so.

Financial inclusion of Generation Y, or millennials (26-40 years old)

Globally, this generational group is responsible for the majority of consumer goods purchases and are beginning or have possibly already established a career, home, or family. They are more financially conservative, given the financial crises that they or their parents experienced, including those in emerging markets in the nineties or the 2008 financial crisis. They value technology and financial platforms, as well as physical branches (Deloitte, 2015). In fact, this generation uses all financial channels more than any other generation.

In Colombia, the population between 26 and 40 years of age is estimated to be 11 million people, or 32.1% of adults. Of these, 9.7 million had at least one financial product, which translates into a financial inclusion indicator of 87.7%. This indicator surpasses the national average by six percentage points and the *centennials*' indicator by 30 percentage points. Of those financially included, 8.5 million had at least one active financial product, with a level of use of 87.8%.

More than 9.3 million *millennials* (84.7% of this group) had at least one deposit product. As with *centennials*, the product with the highest penetration was the savings account, with 9.1 million people having one, followed by electronic deposits and digital savings accounts. The high penetration of digital products can be explained by this group's high levels of exposure to technology since their teenage years. In this group, the checking account and other savings products were also the products with the least penetration. The level of use of deposit products was 82.4%, and that of the savings accounts was 73.7%. The deposit products' level of use among *centennials* and *millennials*, which was higher than other generations, denotes the market potential in two segments.

As for access to financing, 5.1 million *millennials* (46.3% of this age group) had at least one active credit product. Like centennials, the most popular product within this segment was the credit card, with 31.1% (3.4 million debtors) having this product, followed by consumer credit with 22.8% (2.5 million), and microcredit with 9.4% (1 million). *Millennials* and *baby boomers* were the ones who most accessed housing loans (Graph 5.4).

Financial inclusion of Generation X, or *baby boomers* (41-65 years old)

The *baby boomer* generation has been adapting to digital technology since analog technology was used. The majority know the existing financial products very well; their main concern is linked to their financial commitments and obligations. Although they have smartphones, most do not use them to carry out transactions or financial operations (Banca de las Oportunidades and Superintendencia Financiera de Colombia, 2018).

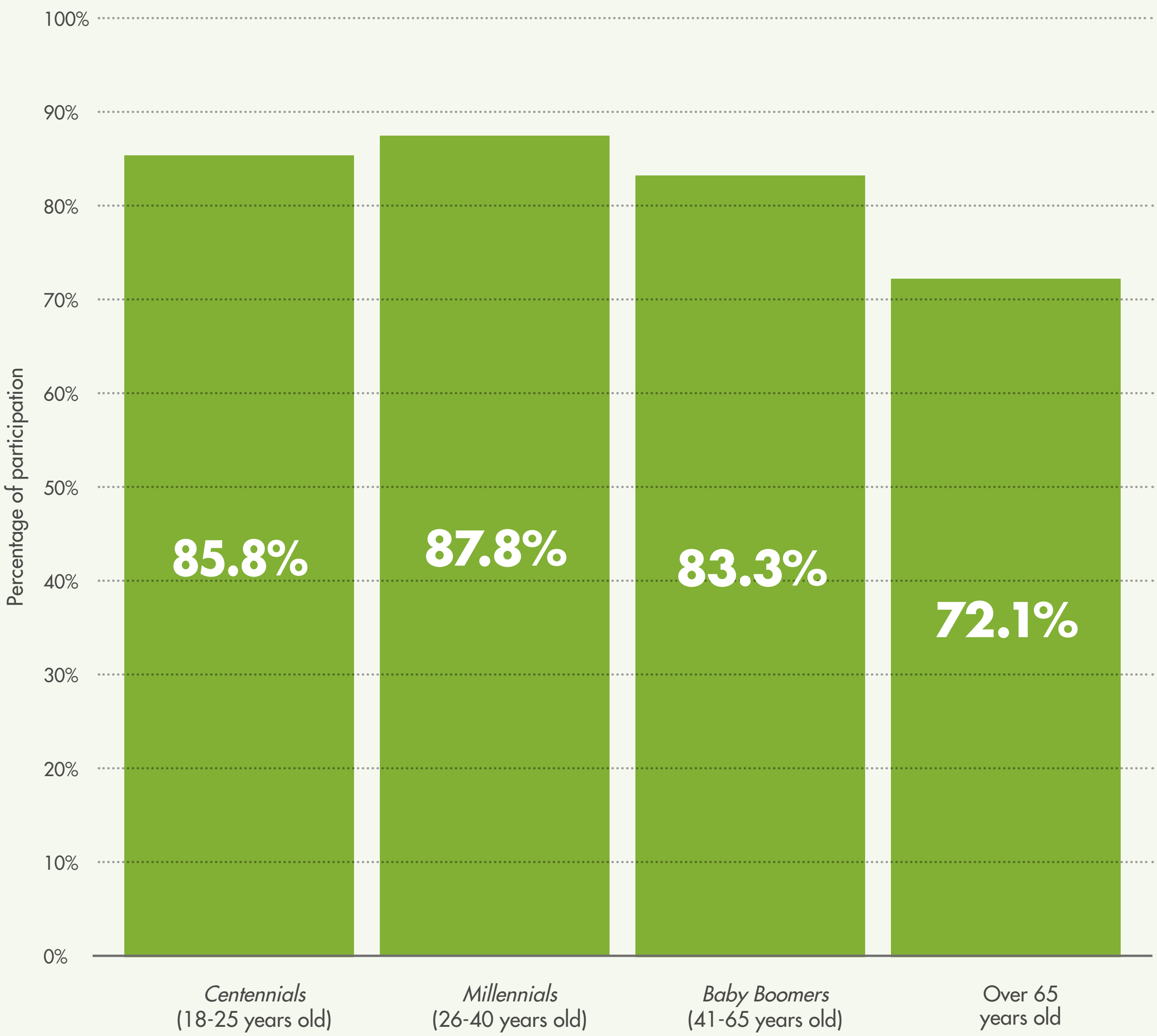
This generation represents the largest part of Colombia's population; it is estimated that 37.2% of the adult population falls into this age group. Furthermore, this figure is trending upward, since Colombia, as most emerging countries, has a gradually aging population (Graph 5.1). In 2018, *baby boomers* were the most financially included group. 98.1% (11.4 million adults) between 41 and 65 years of age had access to at least one formal financial product. Of this group, nearly 9.5 million had at least one active financial product, representing 83.3% in terms of level of use.

As for deposit products, about 10.9 million (84.9%) had at least one of these products. Similar to other age groups, the savings account was the predominant product in this segment, with 10.5 million people having said product, followed by electronic deposits and digital savings accounts. Although *baby boomers* are less familiar with digital technology than *centennials* and *millennials*, they have also opened these digital products, due to the national government's efforts to use them as a widespread means for conditional cash transfers—primarily directed at mothers who are heads of household, many of whom are part of this age group. The checking account was the product with the fourth greatest penetration among *baby boomers.* Additionally, this generation held the most checking accounts of all age groups. The level of use of deposit products was 74.7%, with that of savings accounts at 63.4%. Generation X, or *baby boomers*, are the group who most accessed credit. In fact, 6.2 million adults between 41 and 65 years old (48.4% of this group) had at least one credit product. Similar to the aforementioned age groups, the credit card had the greatest penetration, with 31.1% holding this product, followed by consumer credit (23.1%), and microcredit (13.0%). Furthermore, 581,260 *baby boomers* had housing loans at the close of 2018.

For the elderly, payment defaults are lower

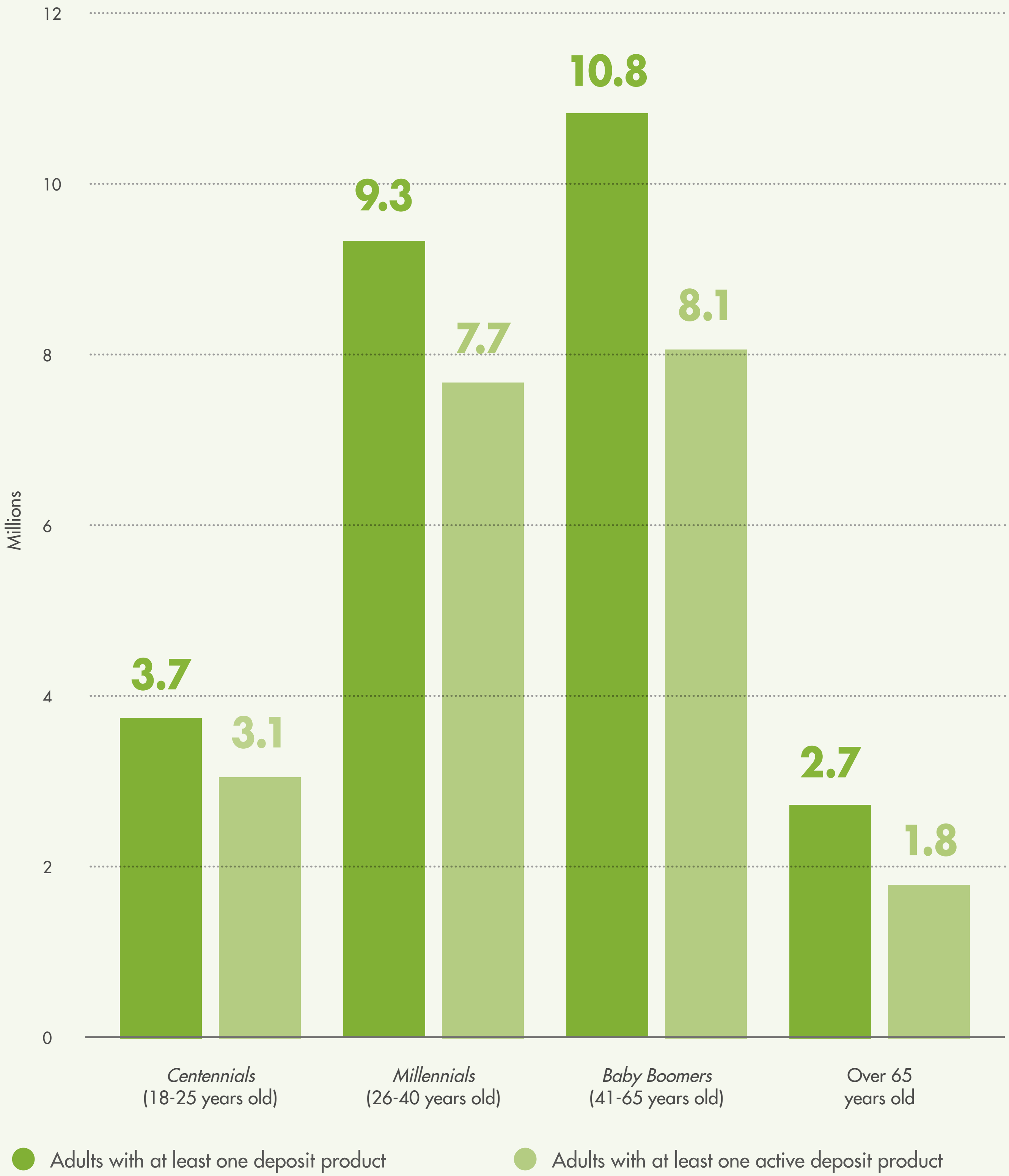
Payment defaults decrease as age increases. The percentage of adults with payment on credit products over 30 days past due was 11.2% among centennials, 11.1% among millennials, 9.1% among baby boomers, and 5.3% in adults over 65 years of age.

Graph 5.2. Levels of use by age group, 2018



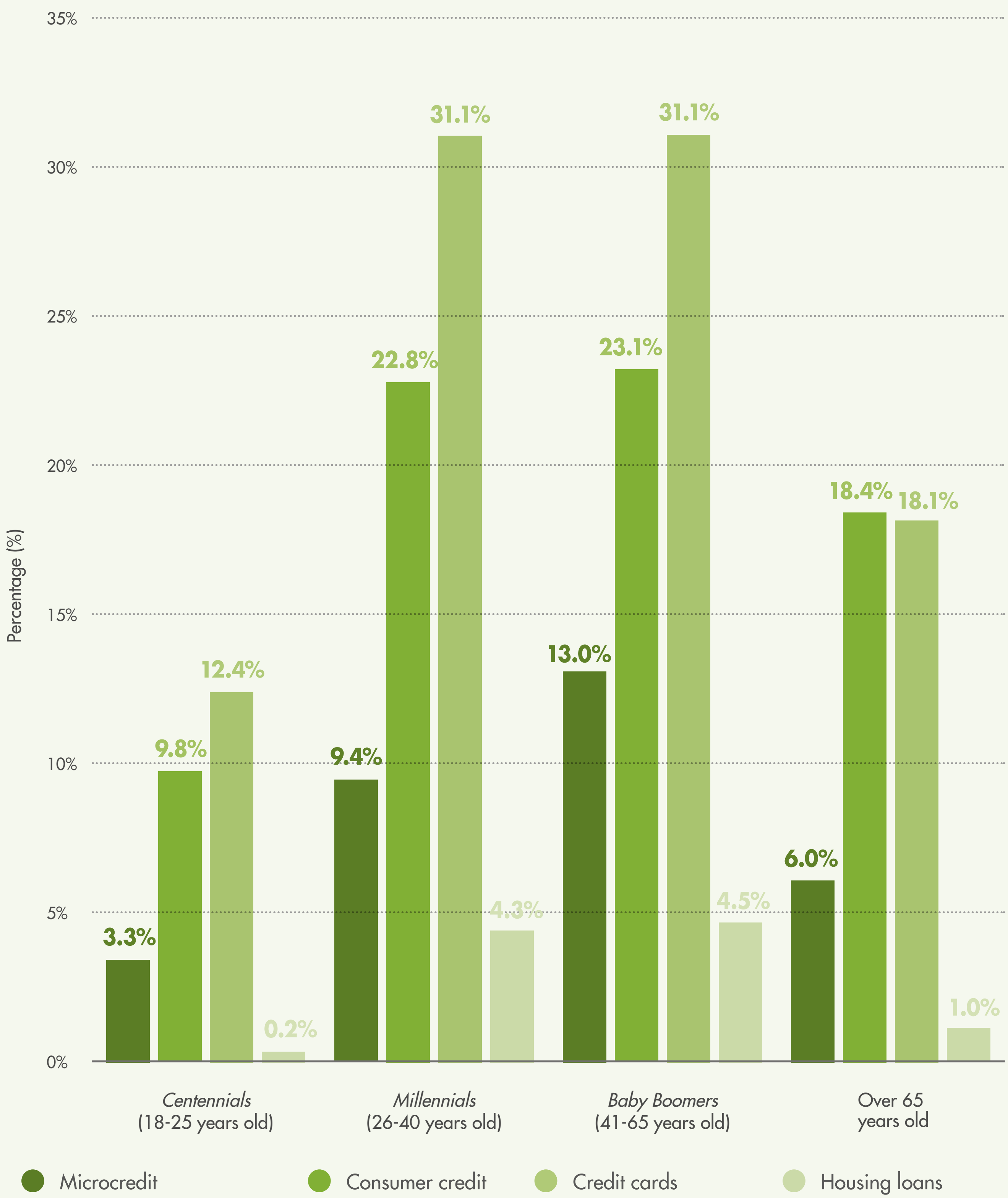
Source: Banca de las Oportunidades.

Graph 5.3. Number of adults with at least one deposit product by age group and activity, 2018



Source: Banca de las Oportunidades.

Graph 5.4. Percentage of adults with at least one credit product by age group, 2018



Source: Banca de las Oportunidades.

Financial inclusion for adults aged 65 and older

Adults aged 65 and older tend to use less technological innovations and instead prefer to use conventional media and channels. A high percentage is reluctant to use digital banking for fear of carrying out digital transactions or lack of trust. They prefer physical channels, where they can have direct contact with staff from the financial institution. Additionally, some institutions are cautious with this demographic due to uncertainty about their financial capacity, income stability, and physiological state.

Adults over 65 have the second lowest indicator of financial inclusion after centennials. 77.5% of adults over 65 years old (2.9 million) had at least one financial product. In addition, this age group showed the lowest level of use with 72.1%.

Adults over 65 years of age had the second lowest level of access in terms of both deposit and credit products. In fact, 2.7 million adults in this age range (74.3%)[5] had at least one deposit product, while 65.7% had at least one active. The majority (2.6 million) had a savings account, whose level of use was 60%. Checking accounts and savings products such as certificates of deposit followed. In contrast, the proportion of older adults with digital savings accounts, simplified savings accounts, or electronic deposits was less than 4%.

With respect to financing, only 31.4% of elderly adults had a credit product. Specifically, 18.4% of this population had consumer credit and 18.1% had a credit card. Moreover, 6.0% had microcredit and 1.0% had housing loans.

With which product do Colombians enter the financial system?

In 2018, 1.1 million adults entered into the financial system for the first time, a figure similar to the prior year. The most common gateway into the financial system continues to be through saving accounts; 75% of all adults that joined the financial system for the first time did so with this product (Graph 5.5). However, products such as the electronic deposit and simplified savings accounts have grown in popularity. Their share as entry products went from 0.8% and near 0% in 2017 to 6.4% and 3% in 2018, respectively.

Generally, more than one tenth of adults joined the system for the first time with a credit product. After the savings account, the second most relevant product is microcredit, whose share reached 5.6%. Credit cards and consumer credit follow, whose share reached 4.8% and 2.8%, respectively. These dynamics highlight the importance of promoting the responsible use of these products among those who are just entering the financial system. The objective is to avoid situations of indebtedness that could have a negative effect on well-being.

After an analysis of adults' financial behavior when entering for the first time, differences are observed based on which product was opened. After one year, 172,893 new products existed as a result of the 274,877 adults that entered the financial system with a savings account in the last quarter of 2017.

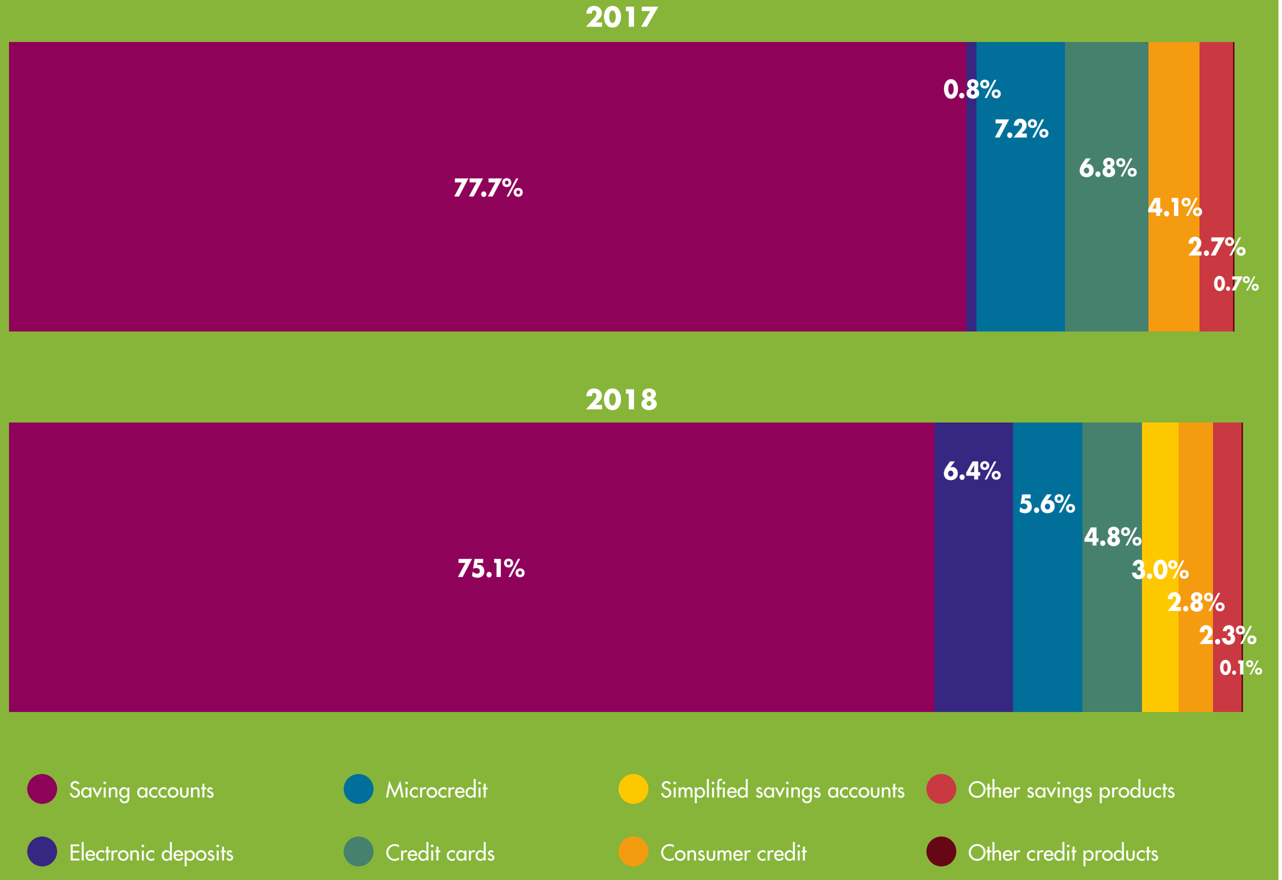
5. As of December 2018, there were one million retirees with a pension. As a result, the percentage of adults with pensions, as a proportion of all adults with at least one deposit product, was 37.5%.

Of this total, 33.6% corresponded to products within the real sector, followed by savings accounts, which had a share of 28.6%, credit cards with 11.6%, and microcredit with 7.9%.

Regarding the behavior of those who entered the system for the first time with a microcredit in the last quarter of 2017 (28,177 adults), after one year, 26,605 loans had been originated. Of these, 46.7% corresponded to new microcredits, 26.5% to real sector products, and 20% to savings accounts.

Finally, by taking an in-depth look at those who accessed the financial system through a credit card at the end of 2017 (29,644 adults), it was found that 15,195 debts were generated after one year. The majority was generated with products from the real sector with 42.7%, followed by savings accounts (31.5%), credit cards (9.9%), and microcredit (5.1%). The credit card is the product that generates the greatest diversification of debt compared to savings accounts and microcredit.

Graph 5.5. Distribution (%) of adults that entered into the system for the first time in 2018, by entry product



Source: Banca de las Oportunidades.

6

THE URBAN-RURAL GAP

International evidence shows that the poor population is mostly rural. According to United Nations figures, approximately 80% of the world's extremely poor live in rural areas. The rural poor are mostly located in remote geographical areas that are difficult to access, with low population density and little access to markets. In addition, given the limited access to financial services and social security frameworks, this population lacks mechanisms to handle risks associated with income fluctuation and external adverse eventsleaving them in a highly vulnerable situation (FAO, 2018).

Given this problem, the first Sustainable Development Goal—to eradicate poverty in all its forms at a global level by 2030—emphasizes the need to guarantee rights to economic resources and access to financial services, including microfinance. Having access to savings, credit, or insurance allows people and businesses to meet medium and long-term objectives, as well as be better prepared to face misfortune.

However, it is not a simple task. High transaction costs, combined with low income, informality, poor financial education, and land tenure problems for the rural population make it difficult to develop cost-efficient and sustainable business models for financial institutions. Therefore, many of the services available to the rural population are relatively expensive or rigid. For example, In Colombia, only 36.4% of the households in rural areas have their own land, and the share of self-employed and unpaid family members in employment is 57.3%, a figure that is nearly 20 percentage points higher than that of cities and urban areas. These factors have historically influenced the disconnection of the rural population with Colombia's formal financial system (Misión para la Transformación del Campo, 2016).

FINANCIAL INCLUSION INDICATORS BY LEVEL OF RURALITY, 2018

88.7%

Cities and urban areas

71.2%

Medium-sized municipalities

66.0%

Rural municipalities

55.4%

Dispersed rural municipalities

Source: Banca de las Oportunidades and the National Department of Statistics (DANE, as per the Spanish acronym).

As rurality increases, financial inclusion decreases

This relationship is explained, in part, by the financial sector's limited presence in Colombian rural areas. Despite a widespread increase in correspondents, rural penetration continues to be low compared to cities. As mentioned in the second chapter, the gap in the financial coverage indicator between cities and rural and dispersed rural municipalities reached 230 access points per 100,000 adults and 1,512 points per 1,000 km2 in 2018.

Similarly, there is a correlation between coverage and access to financial products and services. As of December 2018, 88.7% of adults living in cities and urban agglomerations (20.4 million), had at least one financial product, while in the medium-sized municipalities this indicator was 71.2% (4 million adults); meanwhile, the indicator was 66.0% (2.2 million adults) in rural municipalities and 55.4% (1.2 million) in dispersed rural municipalities.

The level of use is similar across various levels of rurality, and unlike coverage and access indicators, it has remained unchanged in recent years. In fact, as of December 2018, the percentage of adults with an active product as a proportion of adults who have at least one was 84.7% in cities and urban agglomerations, 82.4% in medium-sized municipalities, and 82.9% in the rural and dispersed rural municipalities (Graph 6.1).

Deposit products and rurality

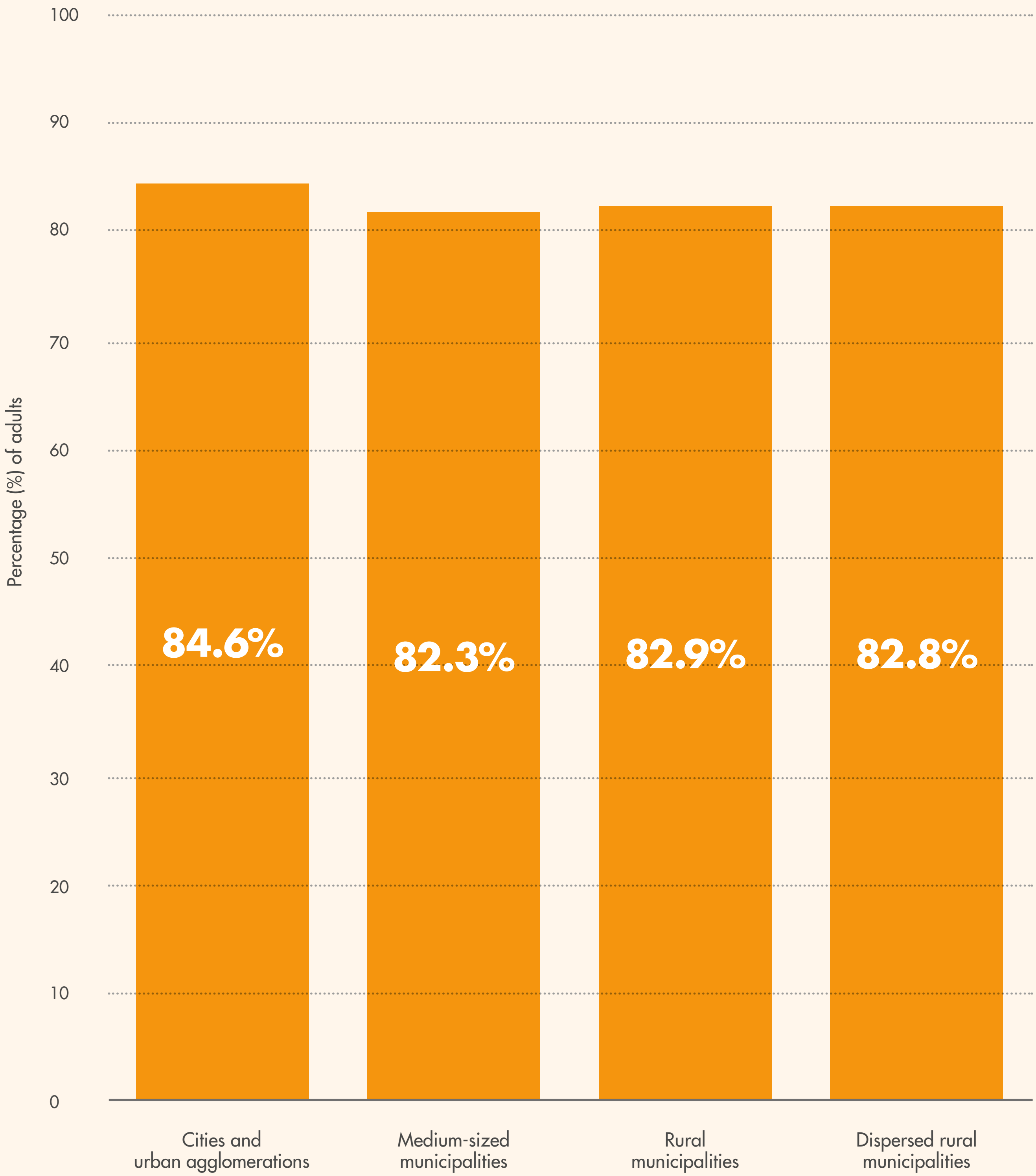
The gap in the financial inclusion indicator was observed in both deposit and credit products. 85% of adults living in cities (19.6 million) had at least one deposit product, while this indicator was 63.1% (2.1 million adults) in rural municipalities and 53.5% (1.2 million adults) in dispersed rural areas. This reflects a difference of about 31.6 percentage points between urban and dispersed rural municipalities (Graph 6.2). In medium-sized municipalities, 67.5% of its inhabitants (3.8 million) had at least one deposit product. The level of use between various levels of rurality was similar, which was between 75.4% and 78.3%.

At the end of 2018, about 1 million adults (82.3%) had at least one savings account in cities and urban areas. However, this indicator was lower in medium-sized municipalities, at 64.4% (3.6 million adults); in rural areas, at 60.4% (2 million); and in dispersed rural areas, at 51.3% (1.1 million). The level of use ranged between 69.4% and 65.5% at various levels of rurality. When analyzing total savings accounts, a similar trend is found.

As of December 2018, there were 62.5 million savings accounts distributed as follows: 85.2% in cities, 10.1% in medium-sized municipalities, 3.2% in rural municipalities, and 1.5% in dispersed rural municipalities. These differences translate into access gaps by levels of rurality and at the departmental level. In the first case, at the close of last year, cities had 231,30.1 savings accounts per 100,000 adults; medium-sized municipalities, 111,813.3; rural 58,574.4; and dispersed rural, 41,829.3.

Similarly, the three departments with the highest savings account indicator per 100,000 adults were: Bogotá D.C. (300,120.9); San Andres, Providencia, and Santa Catalina Archipelago (239,626.5); and Santander (219,669.5). On the other hand, those with the lowest demographic access indicators were Vichada (81,584.5), La Guajira (72,845), and Vaupes (40,871.2), which are more peripheral and rural departments.

Graph 6.1. Levels of use by rurality, 2018



Source: Banca de las Oportunidades.

Additionally, the level of activity of savings accounts, which was 41.3%, fell slightly as rurality increased, from 41.1% in cities to 39.7% in dispersed rural municipalities. The average balance of active savings accounts was $6.6 million pesos, and there was no clear trend by rurality: the average balance in cities was $7.3 million, $2.4 million in medium-sized municipalities, $2.6 million in rural municipalities, and $4.1 million in dispersed rural municipalities.

Digital deposit products have been instrumental in strengthening rural financial inclusion. Digital savings accounts show a greater concentration in cities, but this is not as pronounced as in traditional savings accounts. It should be noted that digital savings accounts have been used to disperse government resources, such as those of the conditional transfer program Más Familias en Acción, and are mainly offered by public banks, which have a significant presence in rural municipalities, as mentioned in the second chapter.

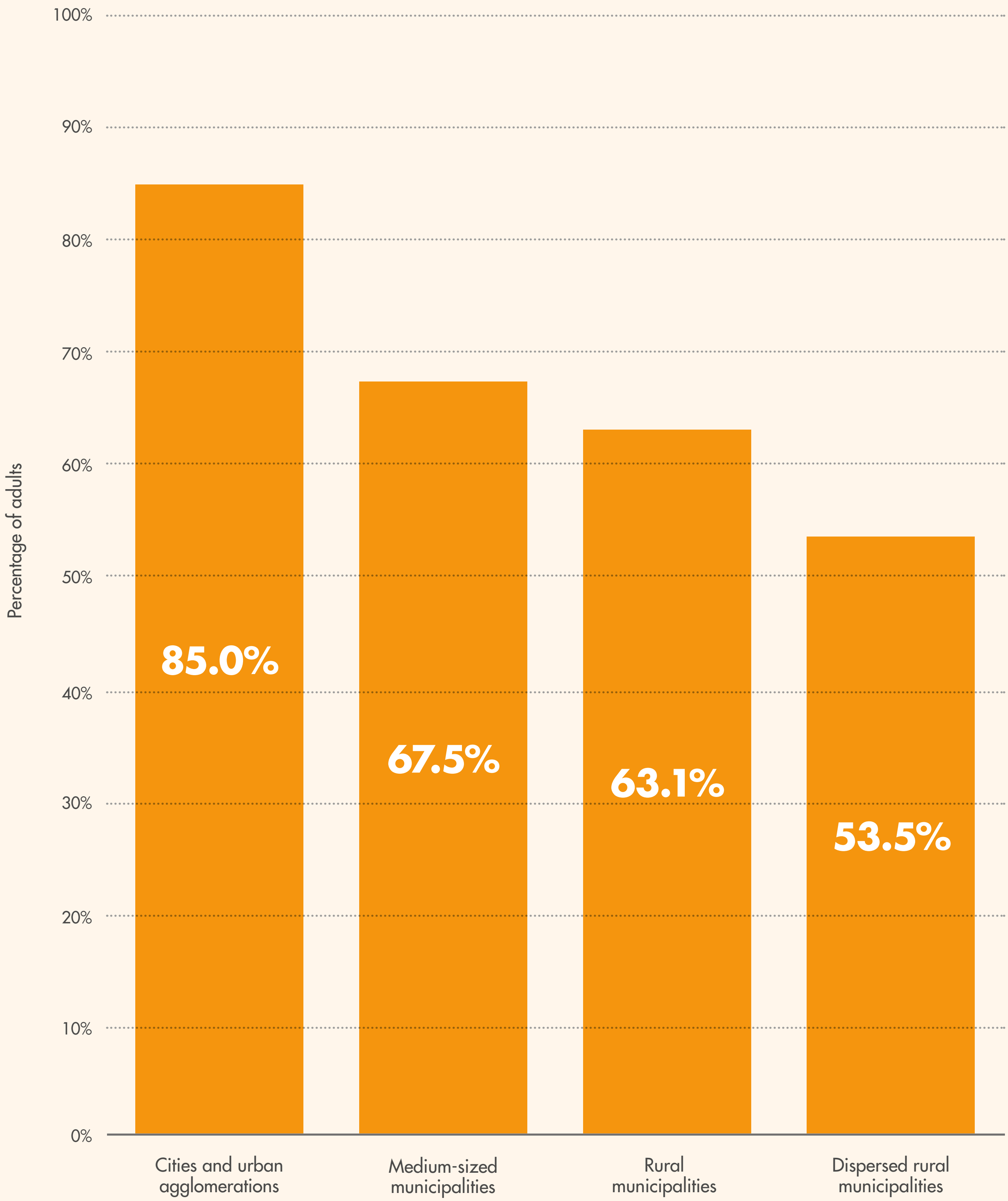
At the close of 2018, there were 4.1 million digital savings accounts in Colombia. Of these, 49.1% were in cities, 25% in medium-sized municipalities, 16.5% in rural municipalities, and 9.3% in dispersed rural municipalities. Given this distribution, the indicator's behavior by level of rurality per 100,000 adults is reversed in relation to that of savings accounts, leaving cities with a lagging indicator compared to other municipalities. In cities there were 8,689 digital savings accounts per 100,000 adults, 18,078 in medium-sized municipalities, 19,845 in rural, and 16,703.2 in dispersed rural municipalities.

In general, this behavior is also reflected at the departmental level, where there is greater product penetration in more rural departments. The three departments with the highest demographic access indicators were Guaviare (30,652.1), Putumayo (30,401.1), and Caquetá (25,359.8). Those with the lowest demographic access indicators were Cundinamarca (6,583.8)[1], Vaupés (6,237.4), and Bogotá D.C. (4,186).

The digital savings account level of activity, at 38.2%, was lower than that of savings accounts. In fact, unlike traditional accounts, activity levels increased considerably with rurality, from 16.5% in cities to 61.3% in dispersed rural municipalities. Digital savings accounts' low activity levels in cities is tied to their low use in Bogotá D.C. Similarly, the average balance in active digital savings accounts was higher in dispersed rural municipalities ($138,745.4) compared to cities ($110,076.5). Digital savings accounts' larger presence in rural municipalities, and their relatively high activity levels in these areas, indicate this product's greater rural target. Digital savings accounts are indeed relevant, and in terms of financial innovation, they are useful products to boost rural inclusion.

1. Does not include Bogotá D.C.

Graph 6.2. Percentage of adults with at least one deposit product, by levels of rurality, 2018



Source: Banca de las Oportunidades and the DANE.

Microcredit penetration is high in rural municipalities

Credit products had less penetration than deposits regardless of the level of rurality. In Colombia, 40.5% of the adult population (13.9 million adults) had at least one credit product. This indicator was 46.5% (10.7 million) in cities, 27.5% (933,060 adults) in rural municipalities, and 22.7% (516,832 adults) in dispersed rural municipalities.

Microcredit has been the product with the greatest presence in rural municipalities in terms of ownership and number of disbursements. As of December 2018, 9.25% of Colombian adults had at least one microcredit loan. In terms of rurality, microcredit is a fundamental tool in the path towards achieving financial inclusion objectives in the most underserved areas: 6.5% of adults in cities had microcredit, while the indicator was 15.6% in rural municipalities and 14.2% in dispersed rural municipalities.

In 2018, 2.4 million microcredits were disbursed, 57.8% of which was carried out in cities, 26.1% in medium-sized municipalities, and 16.1% in rural and dispersed rural municipalities (Graph 6.3). With regard to microcredit, 5,996.6 microcredits were disbursed per 100,000 adults in cities, 11,077.6 in medium-sized municipalities, 7,171.3 in rural, and 6,162.8 in dispersed rural municipalities.

Banks and microfinance NGOs provided the majority of disbursements at all rurality levels, accounting for 70.9% and 22.3% of the total, respectively. However, the proportion of disbursements from microfinance NGOs in rural and dispersed rural municipalities was proportionally larger than that of banks. 24.8% of NGO disbursements were made in rural and dispersed rural municipalities and 46.4% in cities. For banks, these figures were 14.5% and 58.6%, respectively.

There were significant differences in the average amount disbursed by these two types of institutions: $4.5 million by banks and $3 million by microfinance NGOs. In the case of microfinance NGOs, there are no significant differences in the average amounts disbursed based on rurality levels: $2.9 million pesos in cities and $3.2 million in dispersed rural municipalities. For banks, however, this value grew with rurality level: banks disbursed $4.4 million in cities and $6.3 million in dispersed rural municipalities.

In cities, the concentration of consumer and housing credit exceeded that of microcredit. In 2018, 6.8 million adults had consumer loans, equivalent to 19.9% of this population. This indicator was 24.7% for cities, in contrast to 9% and 6.2% for rural and dispersed rural municipalities, respectively. These differences are calculated by analyzing disbursements per 100,000 adults by levels of rurality and at the departmental level.

This figure was 336,646.6 in cities, 27,209.7 in medium-sized municipalities, 5,757.9 in rural areas, and 3,256.4 in dispersed rural areas. On the other hand, the departments with the highest number of disbursements per 100,000 adults were Bogotá (618,188.3), Atlántico (304,437.3), and Quindío (273,273.6). At all levels of rurality, disbursements were made mostly by banks. Banks accounted for 78.3% of the disbursements in cities, 73.7% in medium-sized municipalities, 60.9% in rural municipalities, and 82.7% in dispersed rural municipalities.

Regarding housing loans, 3.2% of Colombia's adults (1.1 million) had this type of credit. While the indicator of access to housing credit amounted to 4.4% for cities, it was only 0.6% and 0.5% for rural and dispersed rural municipalities. Likewise, 94.5% of housing credit disbursements[2] made during 2018 (162,695) were concentrated in cities and urban areas and only 0.91% (1,573.) in rural and dispersed rural municipalities. Thus, 496.4 housing loans were disbursed for every 100,000 adults in cities, 97.4 in medium-sized municipalities, 25.5 in rural, and 12.2 in dispersed rural municipalities. The departments with the highest disbursements per 100,000 adults were Bogotá (693.6), Risaralda (542.8), and Quindío (496.3), while Guainía (16.0), Chocó (5.5), and Vaupés (no disbursements) had the lowest performance.

Similar to consumer credit, the average amount of housing loan disbursements decreases with rurality. This figure was $108.1 million in cities, $109.8 million in medium-sized municipalities, $80.6 million in rural, and $7 million in rural dispersed areas. Moreover, for all levels of rurality, housing loan disbursements were extended mostly by banks. In cities, banks accounted for 92.1% of disbursements, in medium-sized municipalities, 90.9%; in rural municipalities, 89.1%; and in dispersed rural municipalities, 98.2%.

Moreover, small amount consumer credit was mainly concentrated in cities and had low penetration. Of the 23,099 disbursements offered in 2018, 99% were in cities, 0.8% in medium-sized municipalities, and 0.2% in rural and dispersed rural areas. The average disbursed amounts were approximately one million pesos and did not vary significantly by rurality. Additionally, most disbursements were offered by a single bank.

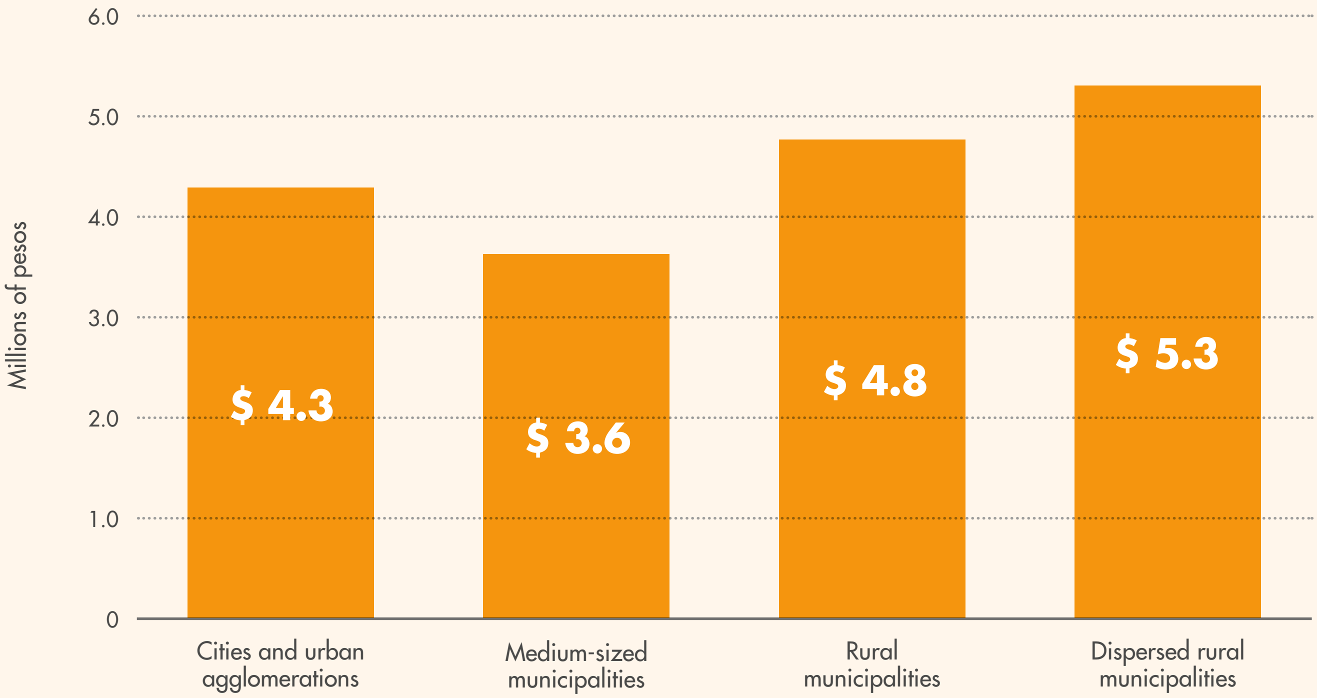
Finally, the population's default level increases slightly as municipalities become more rural. As of December 2018, the percentage of adults with credit products over 30 days past due was 9.5% in cities and urban agglomerations, 10.1% in medium-sized municipalities, and 10.4% in rural and dispersed rural municipalities.

Achieving greater inclusion in rural areas

In recent years, this report has concluded that the government and financial sector's efforts should focus not only on promoting the provision of and access to financial services in Colombia's rural areas, but also on their use, to effectively include 2.2 million adults outside the system. This population represents a wide range of homes, economic activities, and businesses that offer the means and tools for Colombia's economic and productive development and social transformation. Therefore, while taking the complexity of the problem into account, efforts must be focused on finding not only technological but also innovative solutions in order to overcome the challenges of rural finance (insufficient infrastructure, dispersed populations, high informality, low financial education, and low land tenure).

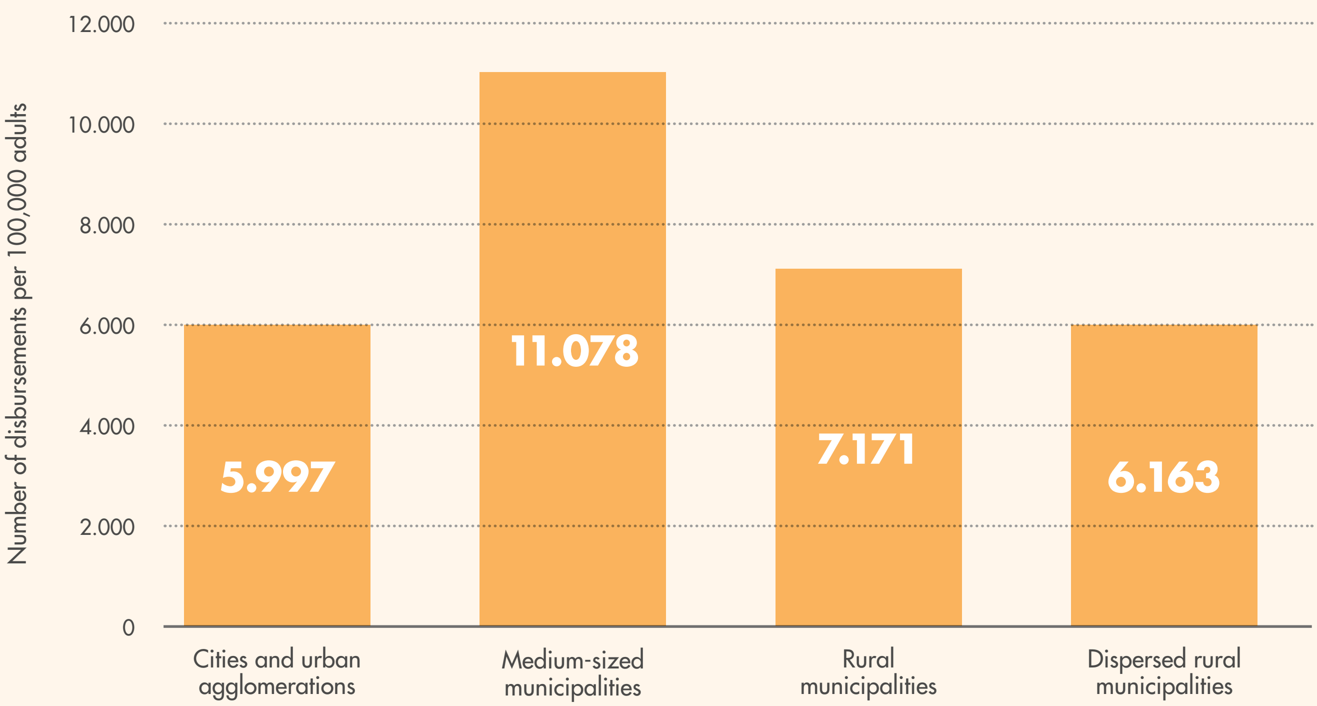
2. The total national disbursement of housing credit was 172,118 credits in the amount of $18.6 quadrillion pesos

Graph 6.3. Average microcredit disbursement amounts by level of rurality, 2018



Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, and microfinance NGOs.

Graph 6.4. Demographic indicator of microcredit disbursements by level of rurality, 2018



Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, and microfinance NGOs.

Financing for small agricultural producers

Historical evidence shows that no country has managed to overcome poverty without achieving significant increases in productivity, specifically in the agricultural sector. In 2004, the UK Department for International Development (DFID) emphasized the close correlation between poverty reduction rates and differences in agricultural performance over the past 40 years. Each 1% increase in agricultural labor productivity reduced the number of people living on less than one dollar per day by between 0.6 and 1.2% (Thirtle *et al*., 2001). These results highlight the need to provide small agricultural producers with tools to improve sector productivity through access to productive resources, financing, knowledge, and markets.

Small agricultural producers in Colombia have had limited access to credit. This has limited agricultural productivity and sector competitiveness by restricting investment, participation in value chains, the use of supplies, and technological adoption, all of which would enable a transformation into higher value activities (Misión para la Transformación del Campo, 2016; Echavarría *et al*., 2018). According to the 2014 National Agricultural Census, only 27% of the producers in the sector had accessed loans under the Fund for Agricultural Financing (FINAGRO, as per the Spanish acronym) conditions.

As such, the 2018-2022 National Development Plan includes development and productivity of Colombia's rural areas as one of the priorities within the Entrepreneurship pillar. This plan aims to increase small rural producers' capacity to access markets as well as promote agricultural producers' financial inclusion as a tool to facilitate making and receiving payments, safely accumulate assets, invest in education, health, and physical capital, and mitigate risks.

In relation to financing, the loan under FINAGRO conditions is made up of the rediscount portfolio, sustained with resources from FINAGRO, the replacement portfolio, which corresponds to financial institutions' colocations using their own resources[3], and the agricultural portfolio, made up of other loans granted by financial institutions that do not correspond to the replacement portfolio. In addition, loans to small producers granted with a rediscount and replacement portfolio can benefit from access to the Agricultural Guarantee Fund administered by FINAGRO.

At the close of 2018, the gross balance of the loan portfolio in FINAGRO conditions closed at $15.3 trillion pesos, corresponding to 414,982 operations. Compared to 2017, the balance increased by 0.1% in real terms, while the number of operations showed a reduction of 6.8% compared to the previous year. This behavior is explained by the reduction in the number of agricultural and replacement loans and by the reduction of the rediscount portfolio's real balance, which was offset by the growth of the other two modalities.

The share of the replacement and rediscount portfolio changes considerably depending on whether it is analyzed from the perspective of balances or number of operations. While the balance of the credit portfolio in FINAGRO conditions was primarily replacement-based, the operations were concentrated in rediscount. In fact, the former accounted for 77.5% of the balance and only 28.7% of the operations; the second, for 22.2% of the balance and 70.6% of the operations. The remaining proportions corresponded to the agricultural portfolio (Graph 6.5).

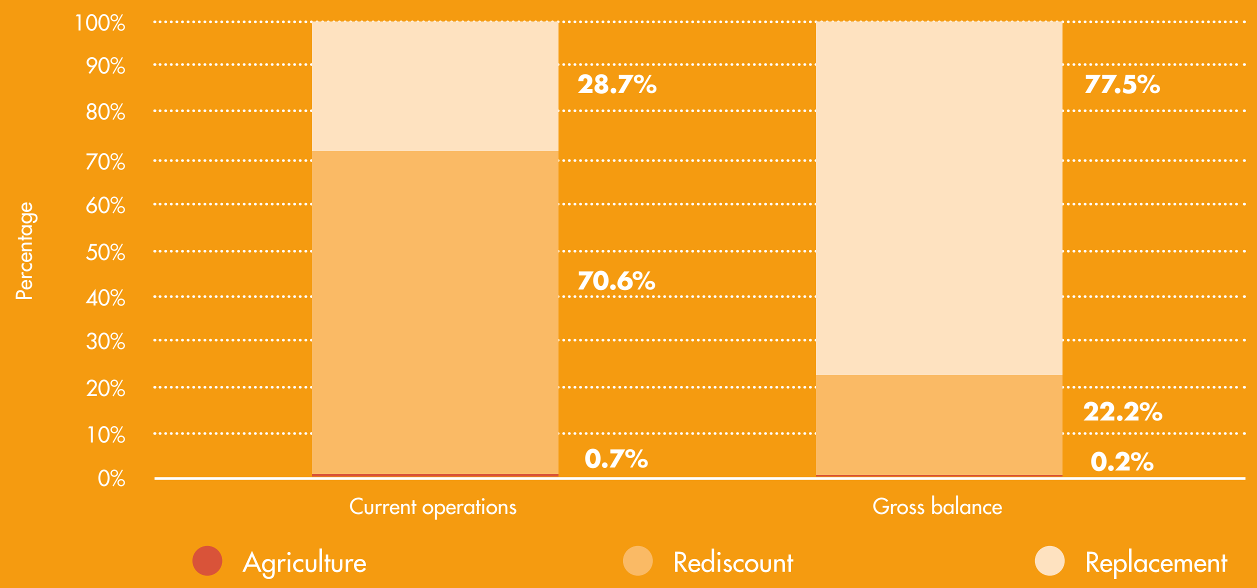
This is explained, in part, by the distribution of the rediscount and replacement portfolios for different types of producers. 93.5% of rediscount operations were in the hands of small producers, in contrast to 43.7% of the replacement. Given the small amounts in these producers' portfolios, their share in terms of the total balance was lower: 63.6% for rediscount and 2.0% for replacement (Graph 6.6). The average balances of the small producers' portfolios were lower for the replacement portfolio than for the rediscount one: $4.6 million versus $7.9 million.

In contrast, although large producers registered fewer credit operations than small ones, they had a greater participation in relation to the portfolio balance, given their larger financing requirements—specifically in the case of the replacement portfolio. Large producers accounted for 7.9% of replacement portfolio operations and 84.9% of their balance; for the rediscount portfolio, these percentages were 0.2% and 29.5%, respectively. In the case of both portfolios, the large producers' average amounts were the highest. However, the replacement portfolio had greater averages than the rediscount one: $1,070.2 million compared to $516.2 million.

Finally, when analyzing the portfolio by credit destination, even more differences are evident. At the end of 2018, 91% of the rediscount portfolio was allocated to production activities, 7% to transformation and commercialization processes, and 2% to support services. Of that 91%, two thirds were covered by small producers and less than one tenth by large producers. On the contrary, 53% of the replacement portfolio was destined for transformation and commercialization, 25% for production, and 21% for support services. Of the total balance for transformation and commercialization, 95% was allocated to large producers and 0.3% to small producers.

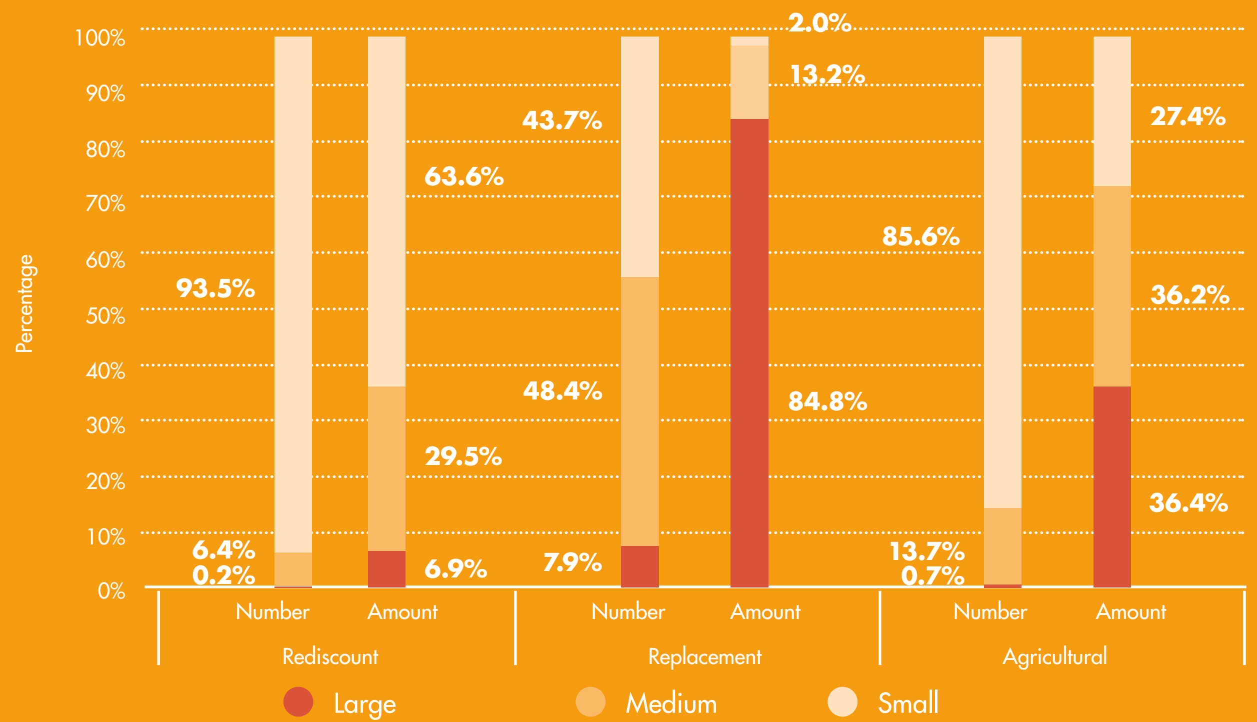
3. Financial intermediaries used their own resources to offer credit disbursements in order to replace obligatory investments in agricultural development securities (TDA, as per the Spanish acronym).

Graph 6.5. Distribution of credit portfolio in FINAGRO conditions, by sources



Source: FINAGRO.

Graph 6.6. Distribution of credit portfolio in FINAGRO conditions, by source and producer type



Source: FINAGRO.

Financial inclusion as a tool for overcoming poverty

As mentioned throughout the report, financial inclusion can help reduce poverty and inequality. For example, in Kenya, enabling digital payments for households excluded from the financial system generated an 8% increase in their income and a 2% increase in GDP between 2008 and 2012[4]. However, despite the variety of financial products worldwide, many low-income adults remain dependent on informal financial services, which are unreliable, costly, and risky. In Colombia, the latest demand study carried out by Banca de las Oportunidades and the Superfinanciera (2018) indicated that 7.2% of the surveyed population had access to informal financial services. This figure worsens in the less educated and more rural population.

In this regard, access to fvormal financial products and services in Colombia has an inverse relationship with different poverty measurements[5]—as their incidence increases, the proportion of adults with at least one financial product decreases. In the case of monetary poverty, the access indicator for the least vulnerable group of departments was 90%. In contrast, this indicator was 63.2% for the group that includes the most vulnerable departments, a difference of 24 percentage points (Graph 6.7).

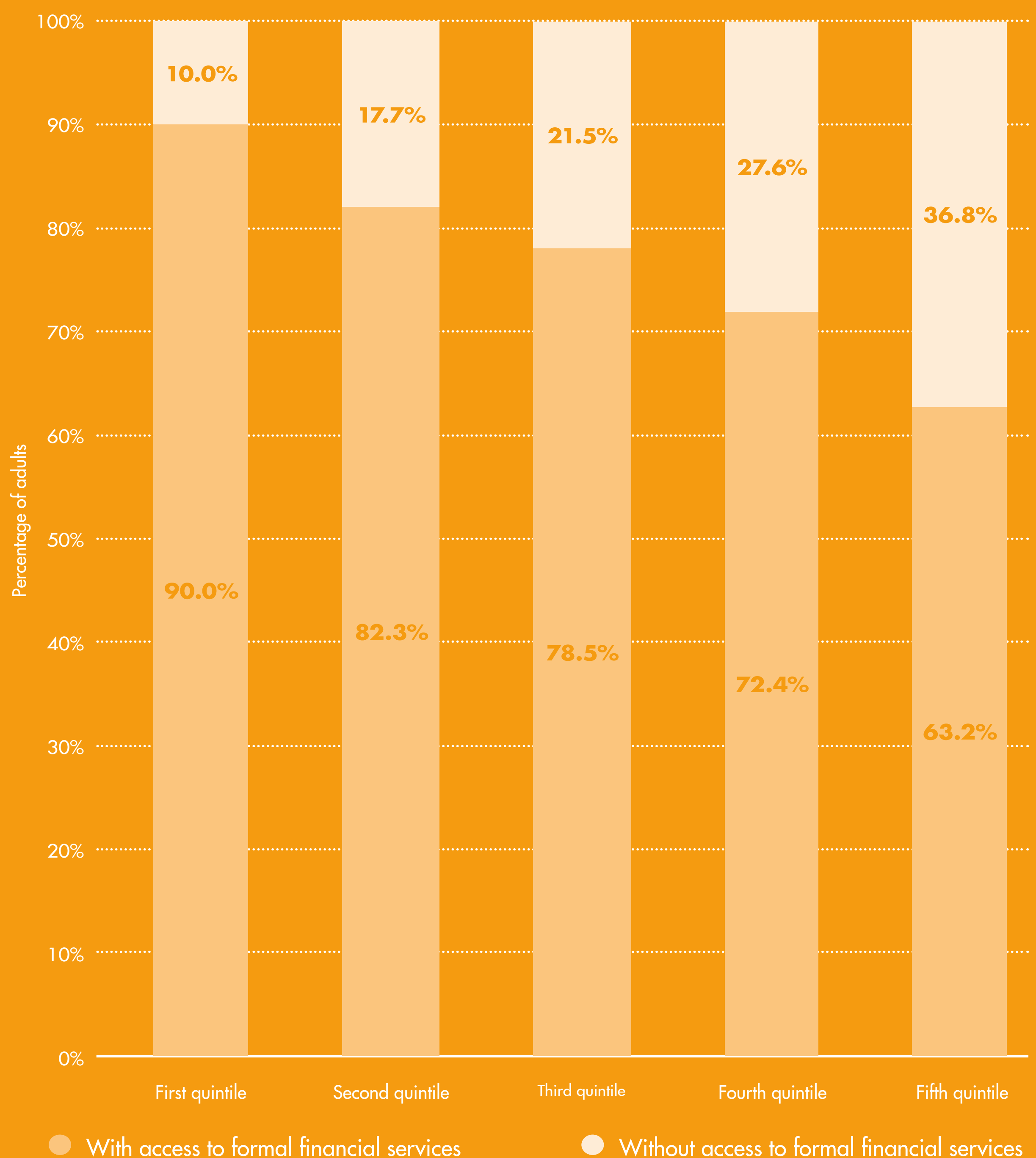
From the point of view of extreme monetary poverty, these differences are slightly greater. While the proportion of adults with financial products in the first group was 90.9%, in the latter group, the number fell to 61.8%. This implies an access gap of 27 percentage points. These patterns remain when replicating the exercise with multidimensional poverty data. In fact, in the group of departments with the lowest incidence of poverty, the financial inclusion level was 86.3%, while in the highest incidence group, access was 26 percentage points lower, at 59.2% (Graph 6.8).

The departments in the lowest quintiles of poverty and inclusion are, in turn, the most rural. The relationship between poverty and urbanization as well as municipalities' connection with the city system is inverse, resulting in increased incidences of poverty as the population becomes more disperse[6]. This situation is explained by less access to goods and services, low capacity for income generation, and informal labor.

Finally, in terms of poverty quintiles, there are no significant differences in the level of use across departments, which suggests that the problems of use are cross-cutting and require structural solutions.

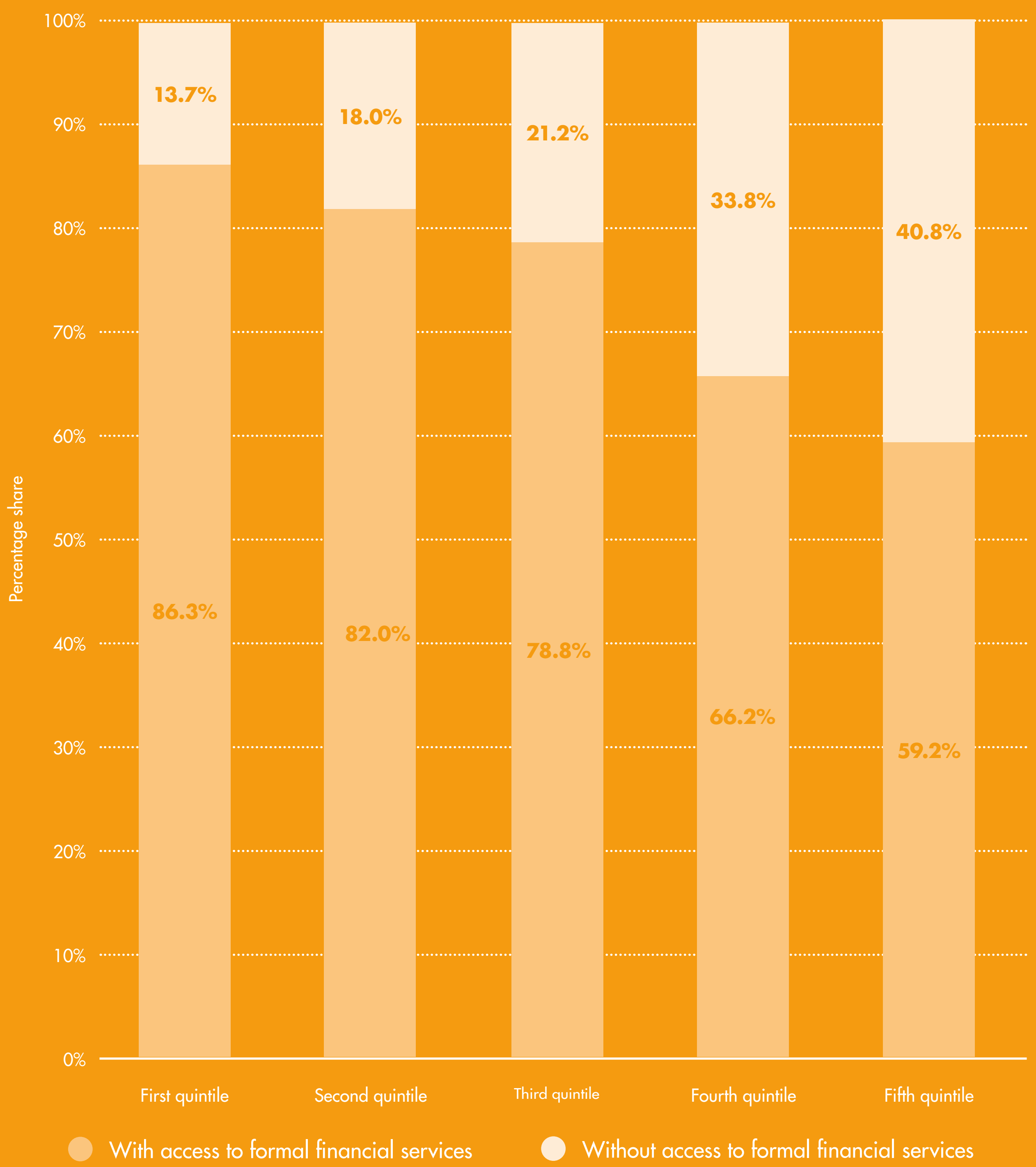
4. World Bank, Better than Cash Alliance, and Bill & Melinda Gates Foundation (2014). The opportunities of digitizing payments. G20 Global Partnership for Financial Inclusion.
   La República (2018) "Los pagos electrónicos llegan a 80.000.
5. To analyze the relationship between financial inclusion and poverty, the proportion of adults accessing credit and deposit products was calculated for five different departmental groups, classified according to their state of monetary and multidimensional poverty. The first group or quintile includes the 20% of departments with the lowest incidence of poverty, while the last includes the 20% with the highest poverty levels.
6. Misión para la Transformación del Campo Colombiano (2014), National Planning Department.

Graph 6.7. Proportion of adults with at least one financial product, by departmental monetary poverty quintiles



Source: Banca de las Oportunidades and the DANE.

Graph 6.8. Proportion of adults with at least one financial product, by multidimensional poverty quintiles



Source: Banca de las Oportunidades and the DANE.

7

MICROCREDIT: A MEANS FOR INCLUSION

The microfinance sector has grown worldwide since the 1990s, demonstrating that it is possible to provide financing to population segments traditionally excluded from the financial sector due to lack of formal income records, collateral, or even payment capacity, which would allow them to channel resources towards productive activities[1] (Cull & Jonathan, 2017).

In this way, microcredit has become a tool that steers the population away from informal financing mechanisms and, in addition, provides a gateway to other formal financial products, such as insurance or savings products, generating greater protection and formality mechanisms. Specifically for women, studies have demonstrated that microcredit has a significant impact because it strengthens their financial base, improves their economic contribution to their families, and increases their bargaining power, which, in turn, leads to greater women's empowerment (Mafizur, Hong, & Khanam, 2017).

Despite progress, smaller businesses' access to finance remains limited in Colombia, restricting their ability to grow and even threatening their survival. According to data from Banca de las Oportunidades and the Superintendencia Financiera de Colombia (2018), only 20.6% of microenterprises have access to formal credit, 6.4% to non-financial formal loans, and 7.5% to informal credit mechanisms, leaving 65.5% with no credit. In addition, about 98% of the businesses that close each year are microenterprises (Confecámaras, 2017). In this context, it is essential for public and private sectors to continue working towards boosting financial inclusion and, in particular, offering credit to microentrepreneurs, a line of action defined in the 2018-2022 National Development Plan.

1. Meanwhile, microcredit allows low-income households to increase consumption levels, health, and assets (Bel Hadj Miled & Ben Rejeb, 2015).

MICROCREDIT ACCESS FIGURES, 2018

3.1 million

adults and businesses with microcredit

$15 trillion

pesos is the microcredit portfolio balance

2.4 million

disbursements worth $10.1 trillion pesos, equal to an average disbursement of $4.2 million pesos

Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, and microfinance NGOs.

Access to microcredit

As of December 2018, the total balance of the microcredit portfolio was $15 trillion pesos (Graph 7.1), granted to 3.1 million adults and 12,952 Colombian businesses with microcredit[2]. According to Confecámaras, there are 1.5 million active and duly renewed businesses in Colombia, more than 90% of which correspond to microenterprises and, of these, 77.9% are registered as natural persons. Moreover, consistent with the Colombian business network, access to microcredit figures indicate that most loans are held by natural persons; the fact that more individuals have microcredit loans than active businesses is linked to the informality that is prevalent in Colombia.

Of the adults who had microcredit, 2.4 million were granted by banks, 834,407 by microfinance NGOs, and 159,932 by credit unions supervised by the Supersolidaria[3]. Microcredit was divided evenly among men and women, a trend that has remained constant in recent years[4]. Regarding the location of microcredit, 48.0% was in cities, 24.7% in medium-sized municipalities, 16.9% in rural areas, and 10.3% in dispersed rural areas. The concentration of microcredit in cities and urban agglomerations was lower than that found for other types of credit.

Disbursements

In 2018, 2.4 million microcredits were granted, 2.8% less than in 2017. Banks disbursed 70.9% of the loans, followed by microfinance NGOs with 22.3%, and credit unions with 5.5%. These disbursements were made for a total amount of $10.1 trillion pesos, exceeding the $8 trillion granted during 2017, with the average amount disbursed at $4.2 million. In this regard, it should be noted that the number of microcredit disbursements has not grown significantly in recent years: since 2015, the number of operations in this modality has averaged around 2.4 million. As for disbursements, there has been a reduction equivalent to an actual average of 0.8% in the last four years.

96.4% of microcredit disbursements made in 2018 equaled less than 25 times the current minimum monthly wage (SMMLV, as per the Spanish acronym) and corresponded to 79% of the total amount. The average value of microcredits of less than 25 SMMLV was $3.4 million pesos. NGOs offered the lowest amounts, with an average disbursement value of 3 million pesos, indicating that these institutions are the ones most frequently reaching the pyramid base. On the other hand, the average amount of bank disbursements was $4.5 million, with credit unions supervised by the Supersolidaria averaging $5.1 million, and financing companies averaging $5.9 million. Finally, the highest average was recorded by financial credit unions supervised by the Superintendencia Financiera de Colombia with $10.6 million.

2. The majority of the gross microcredit portfolio balance was concentrated in banks.

3. This distribution was similar to that found in businesses, with 12,518 microcredits in credit institutions, 325 in NGOs, and 147 in credit unions.

4 .It should be noted that the holding of this type of credit has been similar for men and women during the last 3 years. Previously, in 2014 and 2015, women had more microcredits than men.

In 2018, more credits were disbursed to women than men. 42.6% of all microcredit disbursements were made to women, while 34.4% to men; additionally, with regard to amounts, 40.4% corresponded to those granted to women and 39.2% to men[5]. This is the only modality in which women had a greater share than men. The distribution of housing loan disbursements, for example, was 53.9% for men and 46.1% for women, while consumer credit was equally distributed. However, men's microcredit amounts had a higher average than those of women by approximately one million pesos: $4.8 million versus $4 million[6].

On the other hand, microcredit disbursements had a lower share than other credit modalities in cities and urban areas, demonstrating their relevance in reaching a historically underserved population. Of all microcredits disbursed in Colombia during 2018, 16.1% were offered in rural and dispersed rural municipalities with 18.9% of the amounts[7]. Thus, the average amount disbursed in cities and urban agglomerations ($4.3 million) was lower than that found in rural and dispersed rural municipalities ($4.9 million).

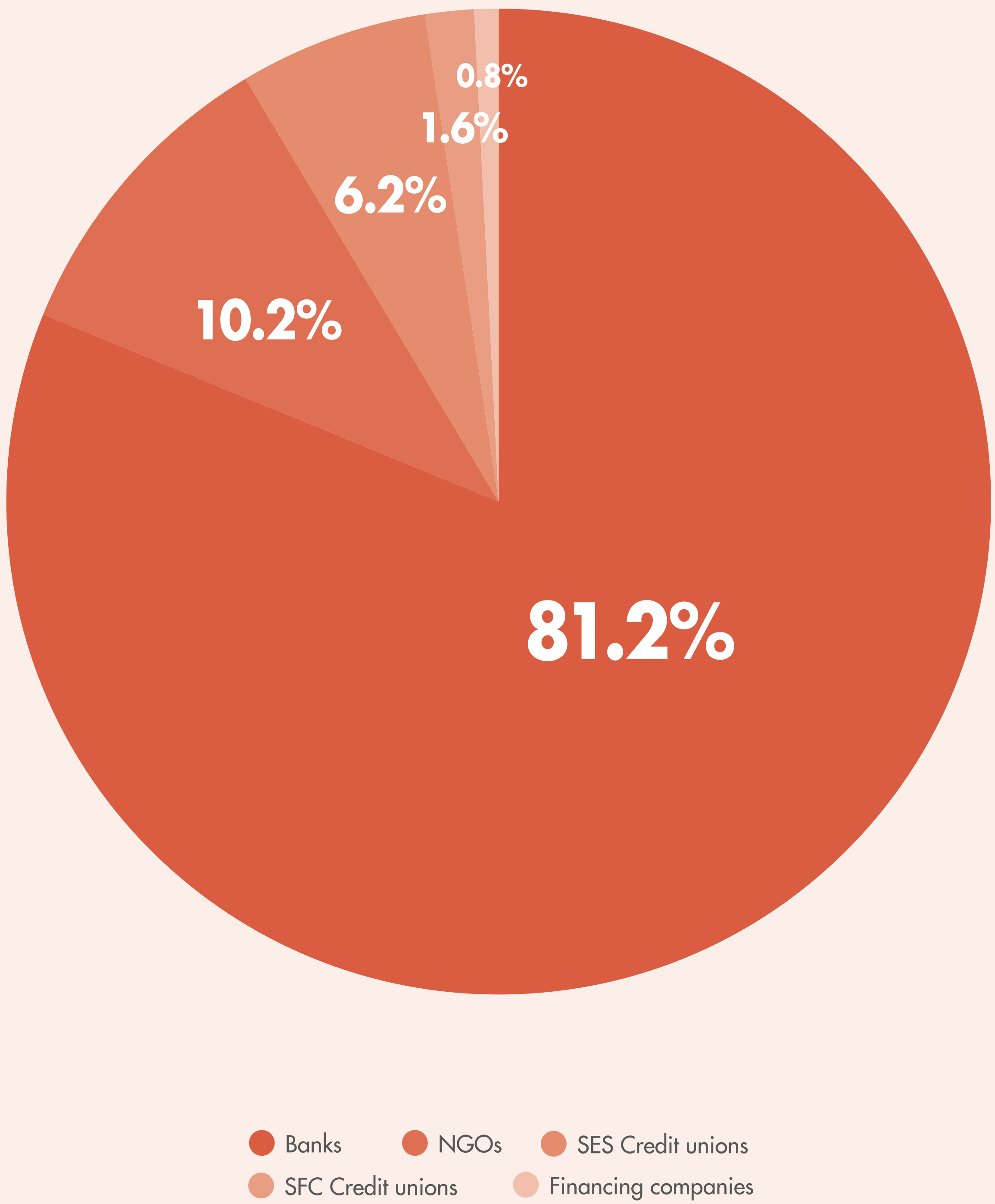
In contrast, disbursements of other types of credit, such as housing and consumer credit, had a share of less than 2% in rural municipalities (Graph 7.2). Additionally, the average amount of microcredits in rural municipalities amounted to 5 million pesos, while in cities their value was $4.3 million. This difference, favoring rural municipalities, reflects the supply of financial credit institutions under FINAGRO conditions for small producers that are accounted for as microcredit.

The majority of disbursements, both in number and amount, were contributed by the banks, followed by microfinance NGOs at all levels of rurality. In this regard, the market for financing companies was concentrated only in cities and medium-sized municipalities, while the other entities granted loans at all levels of rurality. It should be noted that NGOs granted a greater number of disbursements in municipalities classified as rural and rural dispersed.

Consistent with its inclusive role, the distribution of microcredit disbursements at the departmental level showed more homogeneous behavior compared to other credit modalities, with 40.2% in number and 44.2% of the disbursed amount concentrated in five departments: Antioquia (10.7%), Valle del Cauca (8.3%), Santander (7.5%), Nariño (7.4%), and Bogotá (6.3%). In contrast, other types of credit, such as housing, carried out 60.4% of their disbursements in three departments and consumer credit carried out 61.5% in two8. The most disbursements per 100,000 adults in 2018 were made in the following departments: Huila (18,087), Putumayo (17,231), Guainía (15,694), Nariño (14,563), and Casanare (12,665)9, all medium-sized rural departments (Map 7.1).

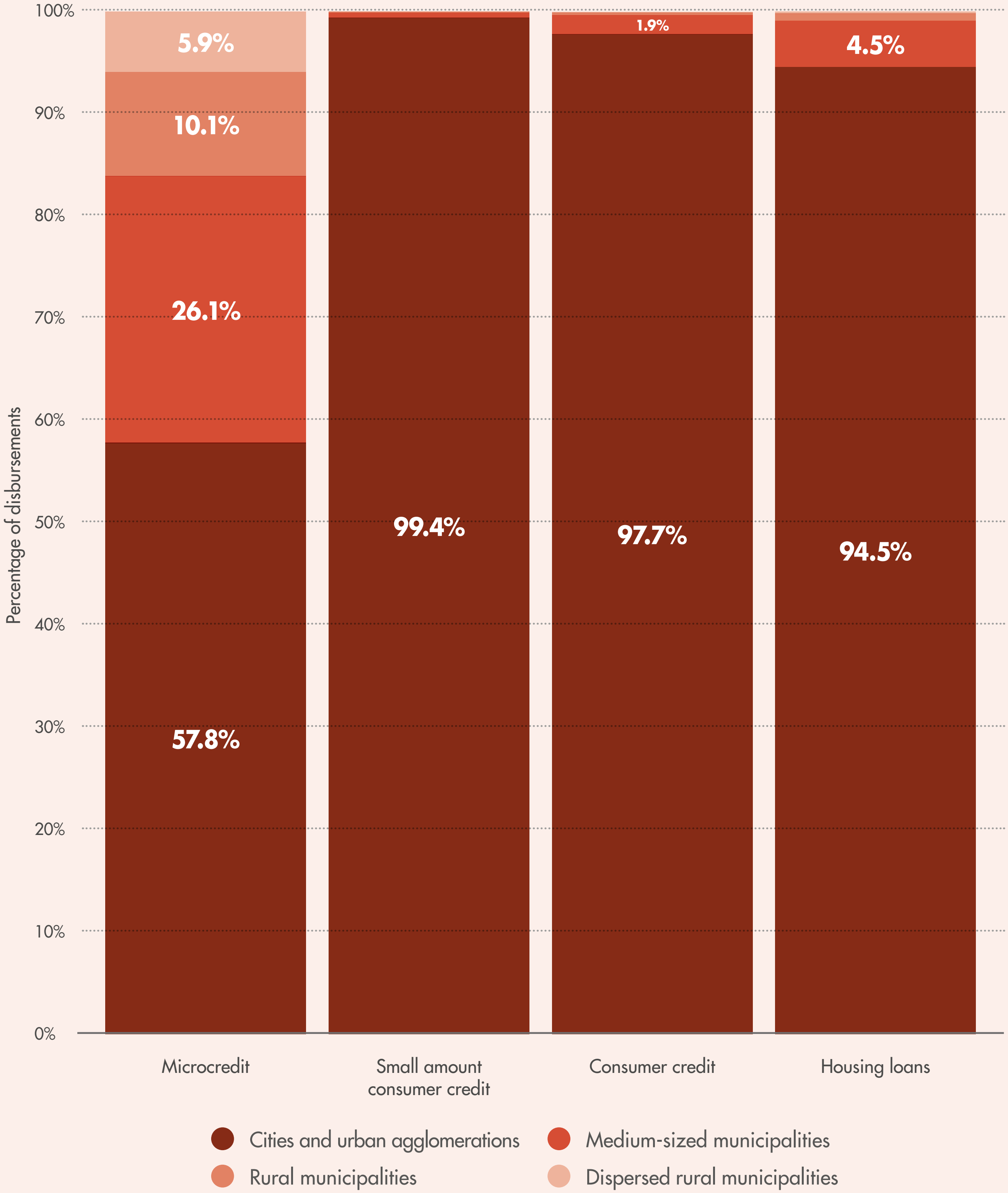
5. The rest of the microcredits were disbursed to businesses, which mostly correspond to the microenterprise segment.
6. The classification by gender is made for credit institutions and Superintendencia de la Economía Solidaria (SES, as per the Spanish acronym) credit unions. For the calculation, microfinance NGOs were not taken into account.
7. See chapter 5.
8. In the Housing modality: Bogotá (33.9%), Antioquia (15.4%), and Valle del Cauca (11.1%). Consumer credit: Bogotá (51.3%) and Antioquia (10.2%)..
9. On the other hand, the departments with the least access per 100,000 adults were Vichada (1,194), San Andres and Providencia Archipelago (1,747), and Bogotá (2,501).

Graph 7.1. Distribution of gross microcredit portfolio balances, by type and institution



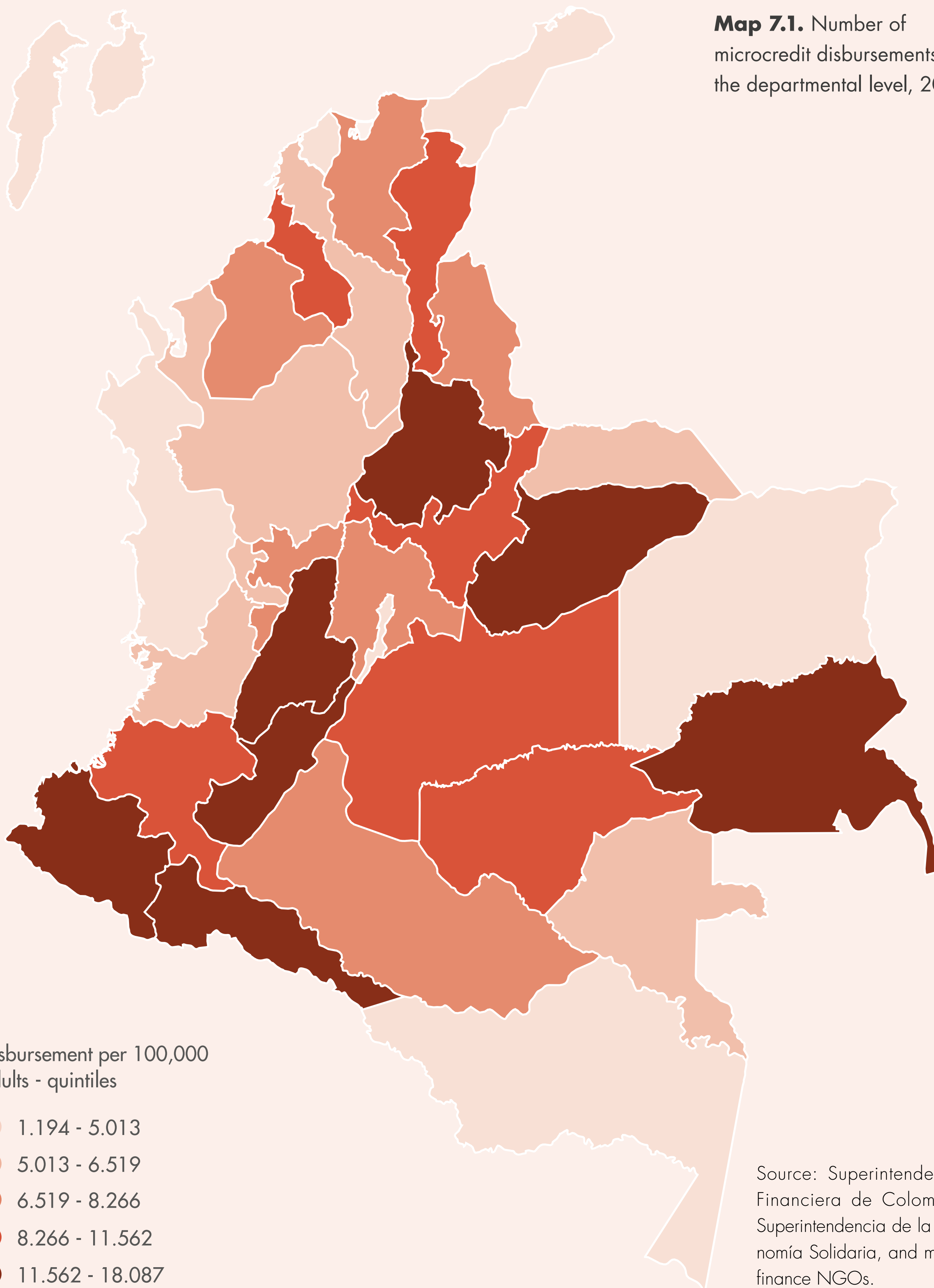
Source: Superintendencia Financiera de Colombia (SFC), Superintendencia de la Economía Solidaria (SES), and microfinance NGOs.

Graph 7.2. Credit disbursement distribution by level of rurality, 2018



Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, and microfinance NGOs.

Map 7.1. Number of microcredit disbursements at the departmental level, 2018



Disbursement per 100,000 adults - quintiles

- 1.194 - 5.013
- 5.013 - 6.519
- 6.519 - 8.266
- 8.266 - 11.562
- 11.562 - 18.087

Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, and microfinance NGOs.

8

ACCESS TO INSURANCE

People face a variety of risks, be it related to weather, illness, or theft. However, the population greatly lacks protection mechanisms to manage these risks. For example, climate fluctuations can affect farmers by preventing investment or impacting their crop yield. Therefore, financial inclusion through insurance not only becomes an important tool to reduce poverty, but also to help those escaping from poverty and vulnerable situations manage risk and improve families' ability to recover. For this reason, the Superintendencia Financiera and Banca de las Oportunidades believe it is important to monitor the insurance industry performance from a financial inclusion perspective. Thus, since 2014, within the framework of this report, the following types of insurance were identified as those that facilitate entry into the formal financial system (see Table 8.1). They will be the subject of the following analysis.

Table 8.1. Insurance types

PERSONAL INSURANCE	GENERAL INSURANCE
Accidents	Fire
Group life- voluntary	Earthquakes
Group life - debtors	Theft
Life - individual	Home
Periodic economic benefits (BEPs, as per the Spanish acronym)	Agricultural
Unemployment	Civil responsibility
Health	Automobile

Source: Superintendencia Financiera de Colombia.

Performance of Colombia's insurance market

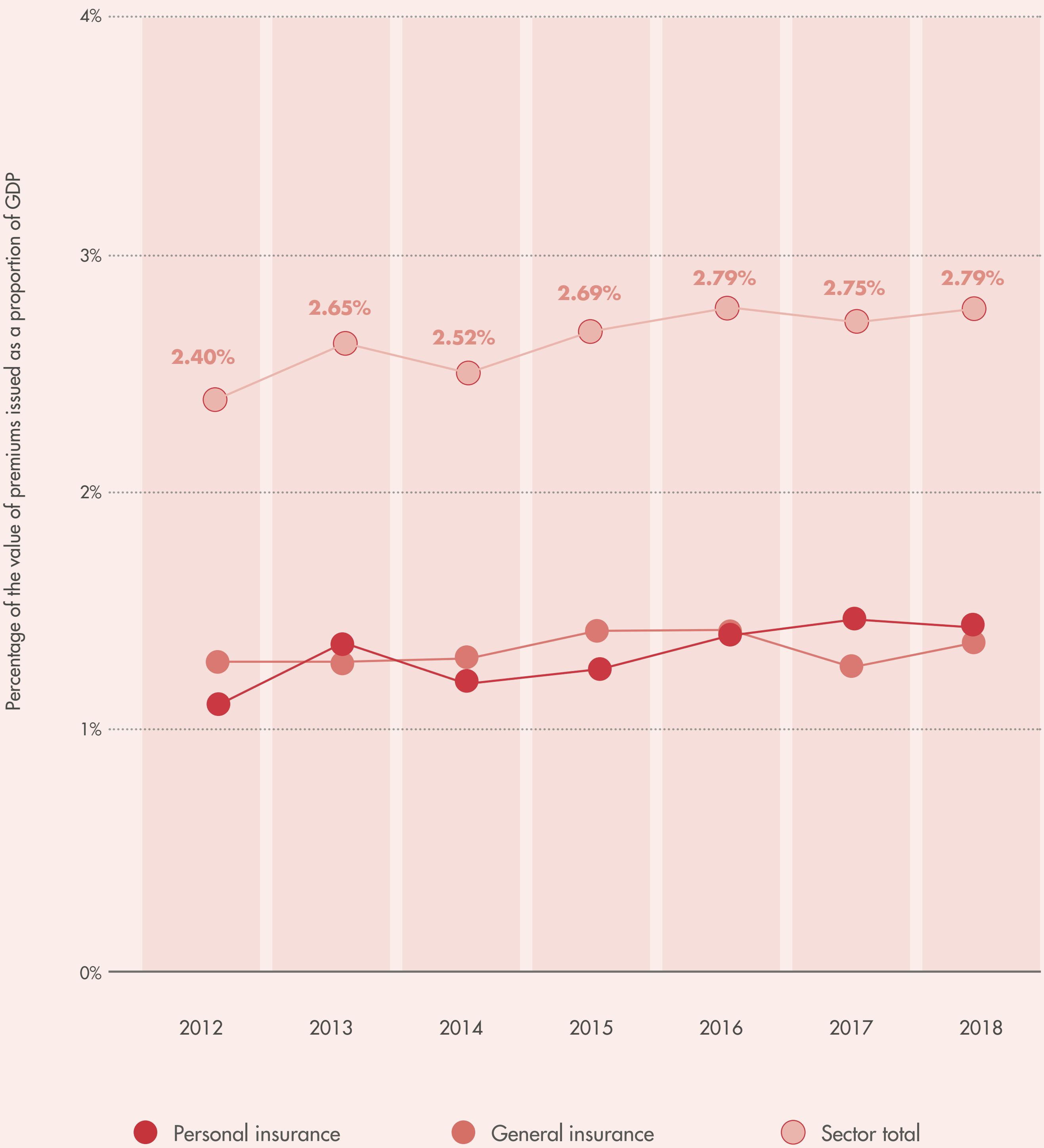
Between 2017 and 2018, the annual real growth rate of the insurance sector, calculated from the premiums issued, was 1.6%, and for the segments associated with inclusive insurance, the increase was 5.3%. The penetration of the insurance sector, understood as the ratio of premiums issued to GDP, was 2.79%, 1.43% of which was for personal insurance, and the remaining 1.37% for general insurance. This has remained stable in recent years, which speaks to the opportunity for improvement by offering more products adapted to the needs of Colombians, as well as financial education, which would translate into greater integration levels. When comparing this indicator with regional data, the Colombian insurance sector's growth potential is evident.

On the other hand, the insurance density in Colombia, measured as per capita expenditure on insurance, was $550,116 pesos in 2018—equivalent to an actual annual growth of 0.5% ($19,730 more than the previous year).

The gross claims rate (claims paid / premiums issued), which provides a proxy of subscription[1] by companies in the insurance sector, was 51.6%, with an annual variation of 2 percentage points compared to 2017.

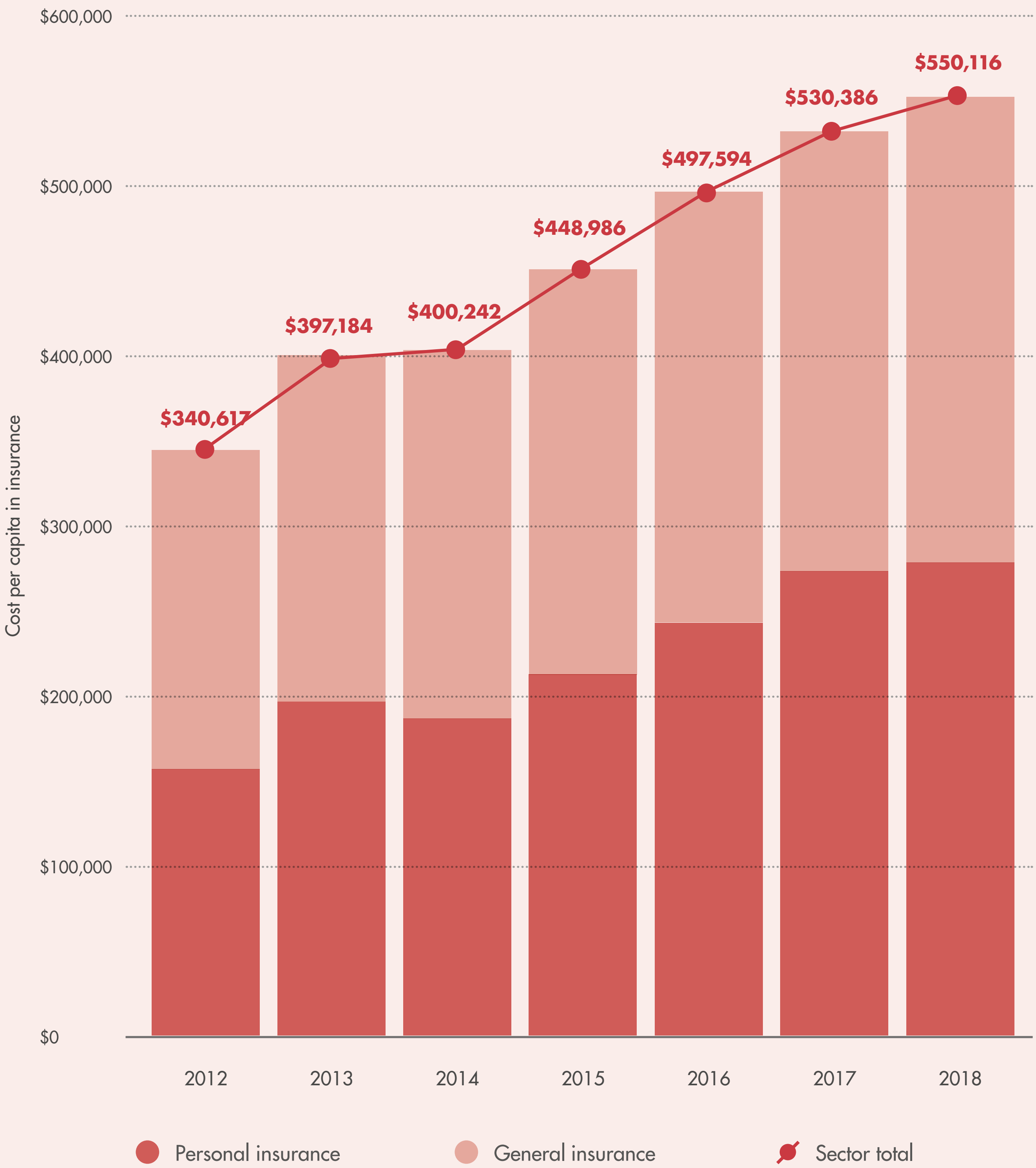
1. The subscription is the policyholder's signing of an insurance policy with an insurance company.

Graph 8.1. Historical insurance penetration, 2018



Source: Superintendencia Financiera de Colombia.

Graph 8.2. Insurance density, 2012-2018



Source: Superintendencia Financiera de Colombia.

Inclusive insurance

Inclusive insurance is regarded as one of the first types of insurance that people might have access to, which contributes to reducing poverty, improving social welfare, promoting economic development, and contributing to financial stability. The Superintendencia Financiera defined the product this way in order to measure it from a financial inclusion perspective, then developed an annual survey, which is completed by overseen companies.

In 2018, the total value of issued premiums associated with inclusive insurance amounted to $15.1 trillion pesos, equaling 55.2% of the insurance sector's total production, and represented a real annual increase of 5.3%, 3.7 percentage points above the industry's recorded growth, and 2.2 percentage points above recorded figures in 2016 and 2017 (Graph 8.3).

Compared to the total premiums issued, personal insurance amounted to $6.9 trillion pesos, which represented 45.9% of the total production of inclusive insurance and a real annual growth rate of 5.3%. The segments that most impacted this result were: individual life, voluntary group life and debtor group life insurance. On the other hand, general insurance associated with financial inclusion issued a total value of $8.1 trillion in premiums, representing 54.1% of this type of insurance, a figure that indicates a real annual increase of 5.4%. The segments that contributed most to this result were fire and earthquake insurance (Graph 8.4).

There was a total of 74,614,136 inclusively insured risks, which represented an increase of 26.6% between 2017 and 2018. The segments with the highest growth in the number of policies were theft and fire.

Commercialization channels for inclusive insurance

In recent years, significant efforts have been made to increase insurance commercialization channels, which resulted in 10 different channels in 2018 (see Table 8.2). These efforts have been aimed at fostering more flexible and inclusive channels that offer effective solutions to meet the needs of all social and economic sectors throughout Colombia.

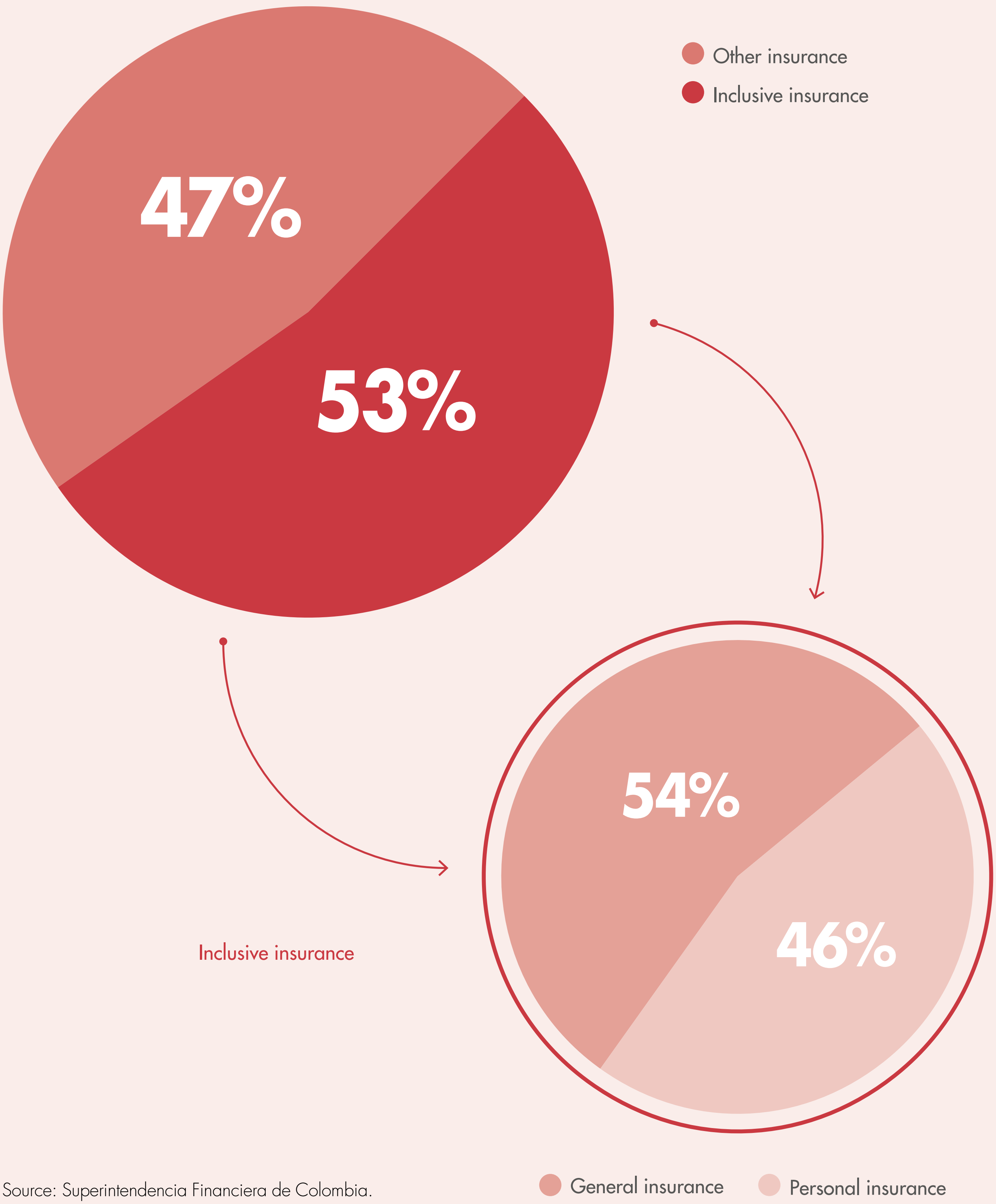
In 2018, network use was positioned as the most representative distribution channel for commercializing insurance in Colombia, contributing 47.7% of all insured risks, followed by intermediary insurance (30.8%), and individual brokers (11.7%). The channels with the highest growth compared to 2017 in the number of insured risks were insurance intermediaries (62.2%), network use (57.5%), public utility companies (28.3%), and stores and superstores (10.7%). Regarding the use of channels by gender, there is no difference between men and women (Graph 8.5).

The main channels used to commercialize inclusive insurance depend on rurality. In cities and urban areas, network use (64.8%) reported the highest percentage of insured risks, followed by insurance intermediaries (15.0%) and individual brokers (7.0%). On the other hand, in rural and dispersed rural areas, network use (91.6%) held the vast majority, followed by public utility companies (2.4%) and individual brokers (2.2%) (Graphs 8.6 and 8.7).

Table 8.2. Commercialization channels

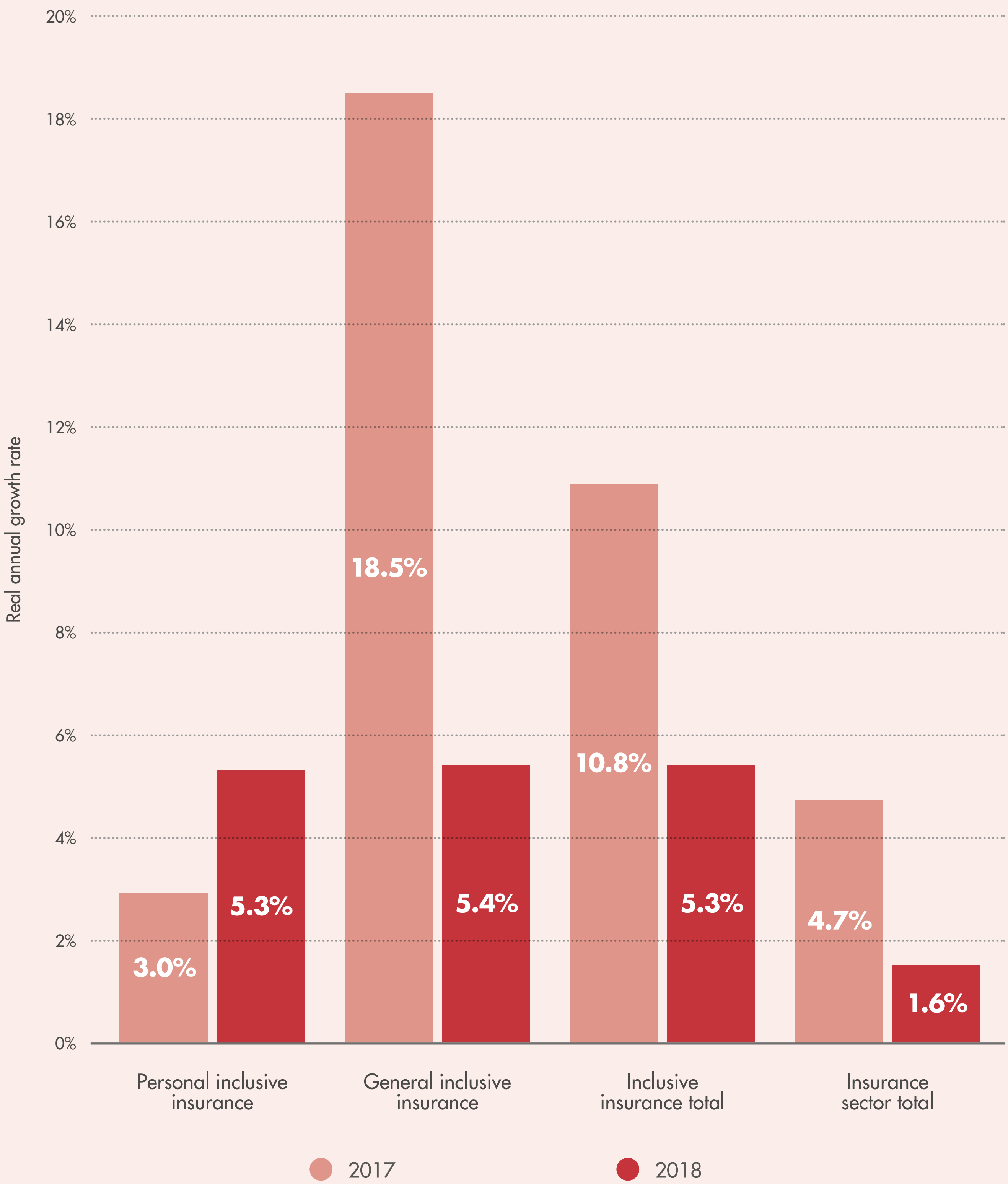
- Use of institutional networks supervised by the Superintendencia Financiera and correspondents or network use
- Microfinance institutions
- Solidarity sector
- Public utility companies
- Electronic media, mobile devices, and internet
- Individual brokers
- Stores and superstores
- Insurance intermediaries
- Correspondents for natural persons
- Other commercialization channels

Graph 8.3. Share of issued insurance premiums for financial inclusion, 2018



Source: Superintendencia Financiera de Colombia.

Graph 8.4. Share of issued insurance premiums for financial inclusion, 2018

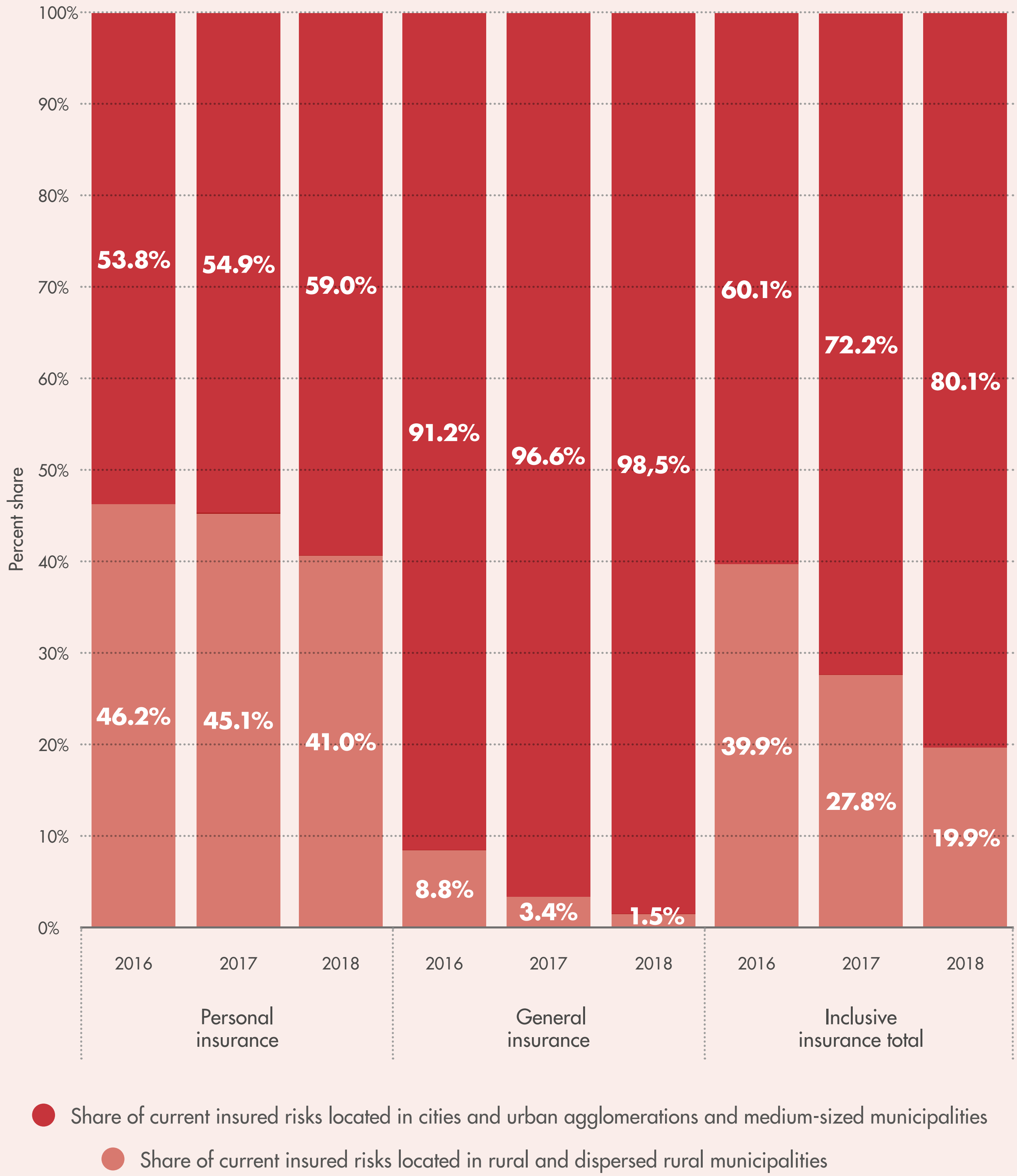


Source: Superintendencia Financiera de Colombia.

Graph 8.5. Share of channels by number of insured risks, 2018

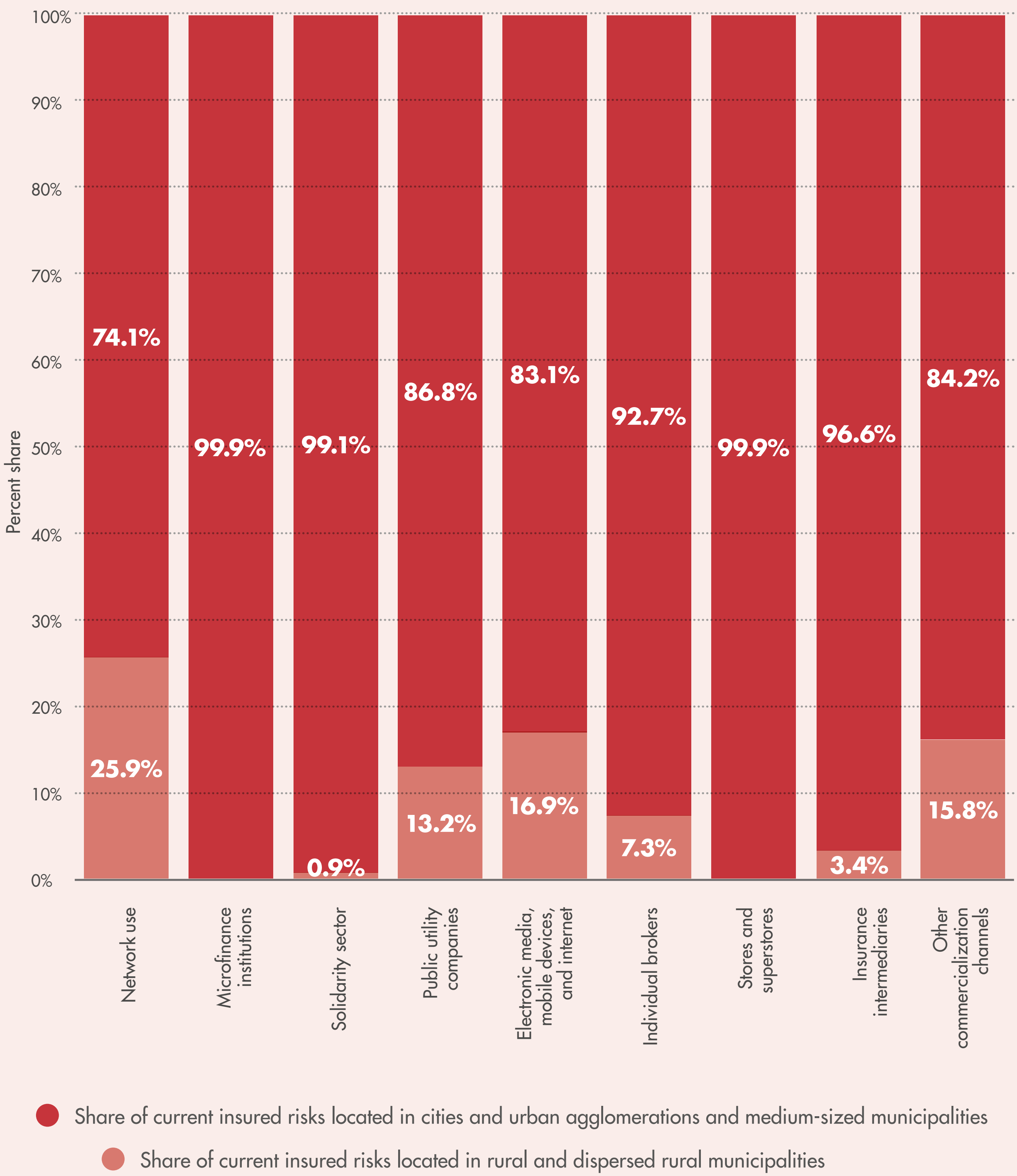
Source: Superintendencia Financiera de Colombia.

Graph 8.6. Current insured risks by level of rurality and insurance type



Fuente: Superintendencia Financiera de Colombia.

Graph 8.7. Current insured risks by level of rurality and commercialization channel, 2018



Source: Superintendencia Financiera de Colombia.

Who are the policyholders of inclusive insurance?

The gender gap in access to insurance is greater than in deposit or credit products, reaching 30 percentage points. In 2018, 66.1% of those insured through inclusive insurance policies were men, 31.1% were women, and the remaining 2.8% is attributed to businesses. This gender gap widened between 2017 and 2018, during which time women's share increased from 29.0% to 31.1%, while for men it increased from 42.8% to 66.1%.

When comparing participation by gender in both personal and general inclusive insurance, figures show that the gap is larger in general insurance than in personal insurance. Specifically, 48.9% of personal insurance policies and 9.3% of general insurance policies are held by women, while 50.6% of personal insurance policies and 85.2% of general insurance policies are held by men. Women's higher share in inclusive personal insurance was mainly in the segments of funeral, personal accidents, and individual life and health insurance; For general insurance, their share was concentrated in automobiles, fire, and home insurance. Regarding levels of rurality, 80.1% of current insurance policies were located in cities and only 19.9% in rural and dispersed rural municipalities. However, the number of policyholders in rural and dispersed rural areas increased by 44.7% between 2017 and 2018. The segments that most boosted this growth were the debtors group life insurance and periodic economic benefits (BEPs), for personal insurance, the latter increasing by 46.3%.

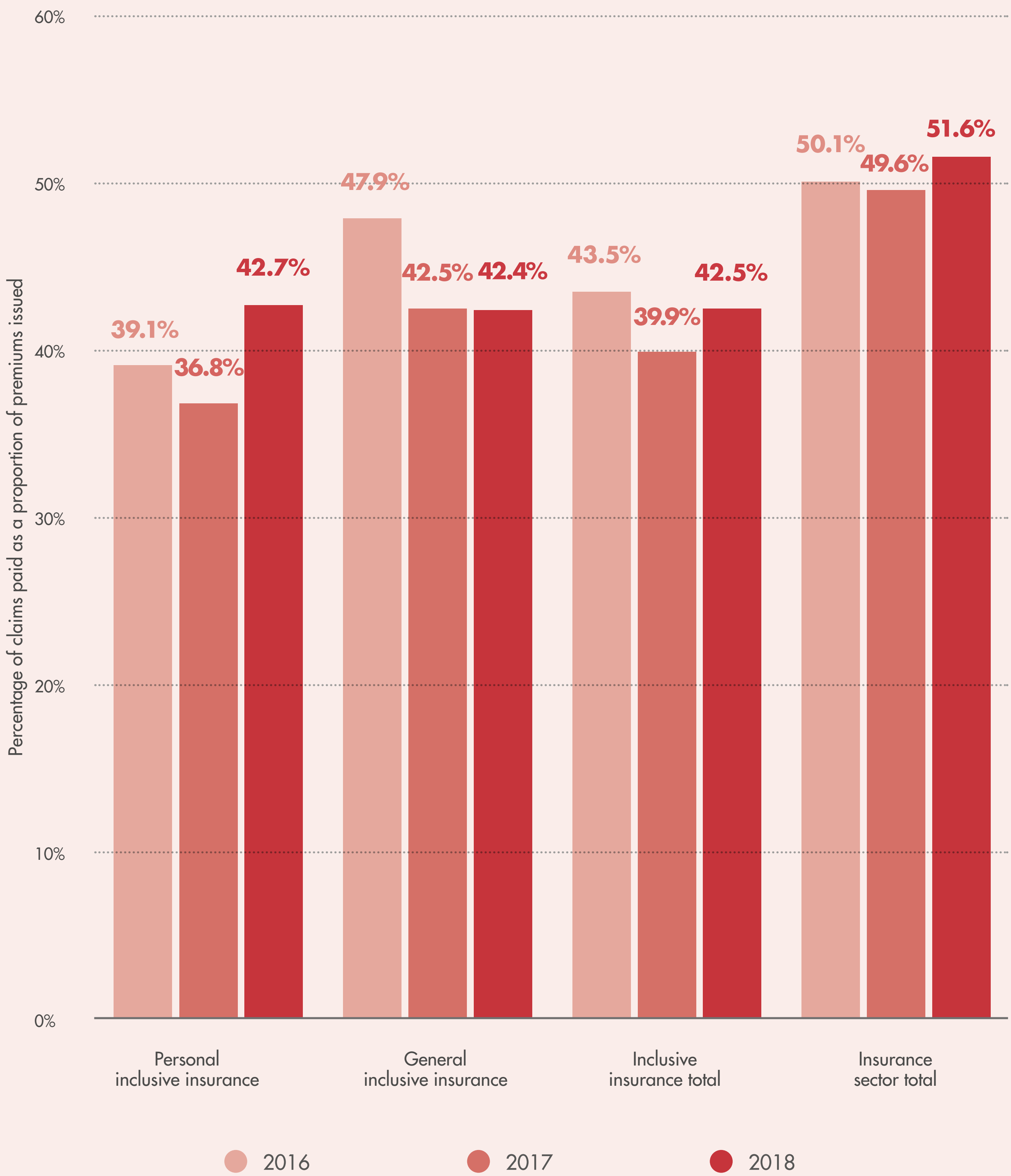
Insurance usage

The ratio of total cancellations to total current policies, understood as the cancellation index, measures the population's insurance usage, how the sector is carrying out its clients' profiling, and whether or not it is responding to clients' needs. For example, in 2018 the segments with the highest cancellation rate were unemployment (34.4%), voluntary group life (15.9%) and personal accidents (14.5%). For general insurance, the segments were earthquake (42.2%), fire (31.1%), and automobile (23.3%). Theft, civil liability, and unemployment are segments whose cancellation rate decreased.

The gross claims rate[2] for inclusive insurance was 42.5%, 2.7 percentage points higher than in 2017. Inclusive insurance associated with personal insurance presented a claims rate of 42.7%, an increase of 5.9 percentage points, while general insurance's claims rate was at 42.4%, a decrease of 1 percentage point. The personal insurance segments with the highest claims rates were health (75.5%), voluntary group life (46.8%), and debtor group life (35.4%). For general insurance, the segments were automobiles (51.9%), fire (47.8%), and civil liability (33.8%). The segments for which the claims rate increased were fire, agriculture, and individual life (Graph 8.8).

2. Gross claims rate: defined as the ratio between the number of claims paid and the number of premiums issued.

Graph 8.8. Gross claims rate by inclusive insurance type, 2018



Source: Superintendencia Financiera de Colombia.

GLOSSARY

Active correspondents: correspondent institutions that have carried out operations during the last quarter.

Automated Clearing House (ACH): the electronic funds-transfer system between financial entities, through a computer-based clearing house established to process electronic transactions.

Banking correspondents: the natural or legal persons hired to provide financial services on behalf of a credit institution, under the conditions established in Decree 2672 of 2012.

Certificate of Deposit (CD): a security issued by a financial institution to a client who has deposited money, with the purpose of saving and earning interest over a specific term (from 30 to 720 days, depending on the entity).

Cities and urban agglomerations: municipalities and their agglomerations identified within the city system.

C**redit institutions:** banks, financial corporations, financing companies, and financial credit unions overseen by the Superintendencia Financiera.

Digital savings accounts: demand deposits for those who belong to level 1 of the Social Program Beneficiary Identification System (SISBEN), displaced persons registered in the Single Registry of Displaced Persons, or beneficiaries of aid programs and/or subsidies granted by the Colombian state. Authorized credit institutions and credit unions cannot charge holders for account management or operation. Likewise, a minimum of two (2) cash withdrawals and one balance inquiry made by the client per month will not generate commissions in favor of these entities. Digital savings accounts have a monthly debit limit of 3 SMMLV.

Dispersed rural municipalities: municipalities with less than 25,000 inhabitants in the municipal capital and a low population density.

Electronic deposits: demand deposits whose holder can be a natural or legal person, and that can be activated by cell phone, with an identification number and its date of issue. They are associated with one or more instruments or mechanisms that allow the holder to make payments, transfer funds, or make withdrawals via physical documents or digital means. Electronic deposits can be categorized as either simplified or ordinary procedure. The main function of electronic deposits with simplified opening procedure is to serve as a channel for the dispersion of subsidies, where their limit of monthly debits and maximum balance equals 3 SMMLV. If the deposit or account balance exceeds the maximum limit foreseen for the simplified opening procedure—with resources other than those from subsidy programs or benefits granted by the Colombian state—the ordinary opening procedure must be carried out, which additionally includes the process of gathering information about the client and control of money laundering.

Medium-sized municipalities: municipalities with 25,000 to 100,000 inhabitants in the municipal capital and a high population density (more than 10 inhabitants per km^2), or municipalities with less than 25,000 inhabitants, but with a population density of more than 50 inhabitants per km^2.

Level of activity: ratio between the number of active products and the total amount of products. A product is considered active when at least one transaction has been made in the last six months.

Level of use: ratio of the number of adults with an active financial product to the total number of adults who have at least one product.

Monetary operations: monetary transactions, handling, or transfers made by the entities' customers and/or users during a specified period of time.

Multidimensional Poverty Index (MPI): an index which identifies multiple deprivations at the household and individual level in health, education and standard of living. The MPI reflects both the incidence of multidimensional deprivations and their intensity—that is, how many deprivations the poor experience simultaneously.

Non-monetary operations: balance inquiries made by the entities' customers during a specified period of time.

Outsourced correspondents: correspondents that are connected through data transmission systems and whose administration is contracted with a third party by the overseen entity.

Rural municipalities: municipalities with less than 25,000 inhabitants in the municipal capital and a medium population density (approx. 10 inhabitants per km^2), or municipalities with more than 25,000 inhabitants, but with a low population density (less than 10 inhabitants per km^2).

Self-operated correspondents: correspondents that are connected through data transmission systems and managed directly by an overseen entity.

Simplified savings accounts: demand deposits for natural persons. Simplified savings accounts can be activated by cell phone, with an identification number and its date of issue. Contrary to digital savings accounts, simplified savings accounts may charge fees for handling, withdrawals, or transfers. The monthly debit limit of these accounts is 3 times the current minimum monthly wage (SMMLV) and the maximum balance is 8 SMMLV.

Specialized electronic payment processing company (SEDPE): financial entities overseen by the Superintendencia Financiera, with flexible regulatory requirements, which can capture public savings with the sole purpose of offering services of payments, wires, transfers, collection, and savings. These operations will be exempt from the bank transaction tax, provided that the withdrawals do not exceed 65 tax value units (UVT, as per the Spanish acronym) per month.

Total number of operations: consolidates the number of monetary operations and the number of non-monetary transactions (balance inquiries) made by the entities' customers and/or users during a period of time.

Value of all transaction: value (in millions of pesos) of all monetary transactions, handling, or transfers made by customers or users of the entities during a specified period of time.

REFERENCES

Arango L. E., Lora, E., & Castellani, F. (2016). Desempleo Femenino en Colombia. Bogotá: Colombia's Central Bank.

Arunachalam, R. (2007). Microfinance and Innovative Financing for Gender Equality: Approaches, Challenges, and Strategies. Organization for Economic Co-operation and Development (OECD).

Banca de las Oportunidades and Superintendencia Financiera de Colombia (2018). Estudio de demanda de inclusión financiera (Informe de resultados segunda toma 2017). Bogotá. Source: http:// bancadelasoportunidades.gov.co/sites/default/fi- les/2018-08/II%20 ESTUDIO%20DE%20DEMAN- DA%20BDO.pdf

Bel Hadj Miled, K., & Ben Rejeb, J.-E. (2015). Microfinance and Poverty Reduction: A Review and Synthesis of Procedia - Social and Behavioral Sciences, 705 – 712.

Cheston, S., & Kuhn, L. (2002). Empowering Women Through Microfinance. Opportunity International.

Colombia Fintech (April 26, 2019). Colombia Fintech. Source: https://www.colombiafintech.co/novedades/colombia-se-posiciona-como-el-tercer-hub-de-fintech-en-latinoamerica-finnovista.

Confecámaras (2017). Determinantes de la supervivencia empresarial en Colombia. Bogotá.

Cruz, I. (12 May 2017). Meet the generations and learn about their financial habits. Source: https://www.bbva.com/en/us/podcast-loca- tion-has-become-less-important-with-technology.

Cull, R., & Jonathan, M. (2017). Microfinance and Economic Development. Washington: World Bank Group.

De la O Campos, A. P., Villani, C., Davis, B., & Taka- gi, M. (2018). www.fao.org/home/en/. Source: http://www.fao.org/3/ca1908en/CA1908EN.pdf

Deloitte (2015). Millennials and wealth management: Trends and challenges of the new clientele. Inside magazine issue 9.

Demirgüç-Kunt, A., Klapper L., Singer D., Ansar S. and Hess J. (2018). Global Findex database 2017: Medición de la inclusión financiera y la revolución de la tecnología financiera. Cuadernillo de reseña. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0 IGO. National Planning Department (2015). El campo colombiano: un camino hacia el bienestar y la paz. Misión para la transformación del campo. Source: https://colaboracion.dnp.gov.co/CDT/ Agriculturapecuariofo-restal%20y%20pesca/El%20 CAMPO%20COLOMBIANO%20UN%20CAMI- NIO%20HACIA%20EL%20 BIENESTAR%20Y%20 LA%20PAZ%20MTC.pdf.

Forbes (12 April 2018). Source: https:// www.forbes.com/sites/jefffromm/ 2018/01/10/ what-you-need-to-know-about-the-financial-im- pact-of-gen-z-influence/#4db0bb8256fc.

Global System for Mobile Communications (2017). ht- tps://www.gsmaintelligence.com/ research/?file=- 96dd21c24a04e35db09df5d8db700817&-download. Holloway, K., Niazi, Z., & Rouse, R. (2017). Women's Economic Empowerment Through Financial Inclusion: A Review of Existing Evidence and Remaining Knowledge Gaps

Holloway, K., Niazi, Z., & Rouse, R. (2017). Women's Economic Empowerment Through Financial Inclusion: A Review of Existing Evidence and Remaining Knowledge Gaps

Innovations for Poverty Action. Source: https://www.poverty-action.org/sites/default/files/pu- blications/Womens-Economic-Empowerment-Through-Financial-Inclusion-Final-Spanish-Web.pdfInnovations for Poverty Action. Source: https://www.poverty-action.org/sites/default/files/pu- blications/Womens-Economic-Empowerment-Through-Financial-Inclusion-Final-Spanish-Web.pdf

Mafizur, M., Hong, S., & Khanam, R. (2017). The effects of microfinance on women's empowerment: New evidence from International Journal of Social Economics

National Department of Statistics. (2018). Estadísticas de mercado laboral. Bogotá..

Thirtle, C., Irz, X., & Lin, L., McKenzie-Hill V., & Wiggins, S. (2001). The Relationship Between Changes in Agricultural Productivity and the Incidence of Poverty in Developing Countries. Source: https://www.researchgate.net/publication/252758187_The_Relationship_Between_Changes_in_Agricultural_Productivity_and_the_ Incidence_of_Poverty_in_Developing_Countries

United Nations (2015). The World's Women 2015: Trends and Statistics. United Nations, Department of Economic and Social Affairs, Statistics Division. Sales No. E.15.XVII.8.

Women's World Banking. (2011). Solutions for Financial Inclusion: Serving Rural Women. WWB Focus Note.

BANCA DE LAS OPORTUNIDADES

sfc
Superintendencia Financiera de Colombia