



FINANCIAL INCLUSION REPORT 2016



Superintendencia
Financiera
de Colombia



**BANCA DE LAS
OPORTUNIDADES**



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Report
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Contents

Acknowledgments	4
Introduction	7
Box 1: National Strategy for Financial Inclusion of Colombia	14
Financial penetration	22
Holding of financial products By individuals and companies	48
Transactional Analysis	76
Box 2: Access and use of technologies in Colombia	95
Box 3: Recent dynamics of cash use in Colombia	100
Deposit products	106
Credit	124
Insurance	144
Box 4: Main international trends in the mass adoption of insurance products	147
Box 5: Remittances	160
Quality dimension of financial inclusion: protection of financial consumers	166
Box 6: National Strategy for Economic and Financial Education of Colombia (EEF)	182
Annexes	186
Index 1	199
Index 2	205

For Banca de las Oportunidades and Superintendencia Financiera de Colombia it is a pleasure to present the sixth Financial Inclusion Report with data to December 2016 to the Government, industry and all other stakeholders interested in the subject of financial inclusion.

The report consolidates information from a variety of sources: Superintendencia Financiera de Colombia, Superintendencia de Economía Solidaria and micro lending specialized NGOs, that are completed with information from DANE, DNP, Information Clearinghouses, Low Value Payment Networks (Credibanco and Redeban), among others, to generate the main financial inclusion indicators. These indicators include analyze several aspects, including penetration, holding of products by individuals and companies, dynamics of savings, credit and insurance products, analysis of transactional channels and recent progress in protection of financial consumers.

From the information integrated in this Report we seek to contribute to answering questions such as: What has been the evolution of the coverage in the country and in which areas are more efforts required? What is the state of financial inclusion and what are the characteristics and patterns of the population with financial products? What is the gateway product to the financial system? What are the dynamics of the traditional and emerging transactional channels? What has the behavior of formal products been like: savings, credit and insurance? What are the products and entities that cause the greatest dissatisfaction to financial consumers? among others.

In this sixth version of the Report, four boxes were included on topics of National Strategy for Financial Inclusion, National Strategy for Economic and Financial Education, remittance dynamics, recent evolution of cash use and use of technologies by the Colombian population.

As in previous versions, the commitment to continuously improve the quality and diversity of information included in the Report is preserved, in order to

help guide the decision-making of the various stakeholders related to financial inclusion issues.

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Introduction

Introduction

Several studies have analyzed the impact of financial inclusion on economic growth, poverty reduction and equity. In this context, the World Bank and its member countries set the goal of achieving financial access for the entire adult world population by 2020¹.

In the same vein, in 2015 CGAP² prepared a study that collects voluminous empirical evidence on the connection between greater financial inclusion with the subjects mentioned, specifying their relation with the 17 sustainable development goals³ which were adopted by the 193 countries that make up the United Nations in September 2015 within the framework of the definition of the 2030 Agenda.

The evidence gathered in this document highlights some channels that are determinant in the reduction of poverty and greater gender equality. For example, access to formal financial services improves the capacities of people, especially women, to invest in productive activities, health and education, and to get out of poverty through these investments.

In the specific case of women, it is shown that having access to a savings account increases their investment in productive activities and health and reduces the probability of having to sell their assets in case of emergencies.

Similarly, access to digital payment mechanisms brings benefits such as raising the population's ability to receive remittances in emergencies, making government transfers aimed at reducing poverty more effective, and even increasing the efficiency of international humanitarian aid in the face of catastrophes.

1 World Bank, Achieving Universal Financial Access by 2020. Taken from <http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020>.

2 CAGP (2015), achieving the sustainable development goals: the role of financial inclusion.

3 Ibid., according to the evidence gathered, financial inclusion has a direct or indirect relationship with at least seven of the seventeen sustainable development goals: 1. Eradicate poverty, 2. Zero hunger, 3. Health and welfare, 4. Quality education, 5. Gender equity, 10. Reduction of inequality and 16. Peace, justice and solid institutions.

The relationship between financial inclusion and the objective of Zero hunger and food security is related with the greater possibilities for farmers and rural producers to invest, improve their production and profits when they have access to accounts, credit and insurance. The document includes evidence from countries such as Ghana and Zambia where, by having access to climate insurance, producers are more likely to raise their investment, their yields and even grow crops more sensitive to climate change, but more profitable.

In contrast with the objectives of quality health and education, evidence is provided that savings and insurance allow dealing better with medical contingencies. In the case of education expenditures, credit and remittances focused on this type of spending are instruments that increase investment in education and this has multiplier effects on economic growth, equality and development in general.

This confirms the importance for countries of having a public policy for financial inclusion that is not an end in itself but a means to reach broader goals. However, to achieve these macro objectives it is necessary to permanently identify the transformations and challenges that financial systems face. Among major recent changes in the financial environment, there are new technologies, the entry of non-traditional players, the development of new financial services, the identification of specific needs in certain market segments and the entry of increasingly demanding consumers.

Given this, in order to meet the new demand profiles, consumer-centered innovation must be fostered (easily accessible, agile and low-cost products) and the development of a value offering that responds to the needs of the sub-segments – assisted or neglected by the traditional financial system, such as rural population, migrants – displaced, women, young people and small merchants, among others.

To deal with these challenges, the industry must work on aspects such as efficiently managing the points of access offered to consumers, promoting the development of digital and inclusive payment ecosystems, deepening the analysis of information and reducing user distrust of the financial sector via an offer that generates value and economic and financial education strategies that empower them and enable them to make informed decisions.

In 2016, the National Government reviewed the achievements of the last ten years in financial inclusion and re-defined the main challenges for the coming years, which are included in the National Strategy for Financial Inclusion (2016) and in certain goals incorporated in the National Development Plan (2014 -

2018)⁴. Initiatives undertaken to achieve these national objectives will require the ongoing articulation between public – private stakeholders directly and indirectly related to the public policy of Inclusion and Financial Education.

Among the advances made in financial inclusion, it is worth noting that Colombia achieved 100% coverage or presence of any point of access to the financial system throughout the country at the beginning of 2015.

Similarly, levels of financial inclusion, measured through the percentage of people with any formal financial product, have been increasing over time. Between 2008 and 2016, the number of people excluded from the formal financial system fell from 12,7 million (2008) to 7,8 million (2016), which meant an increase in the financial inclusion indicator associated with credit institutions of 21% going from 55,5% (2008) to 76,4% (2016)⁵.

Despite the positive performance of the financial inclusion indicator, there are still challenges to the active use of financial products. To December 2016, the difference between holding and active holding of products was estimated at 11%, given that, while the percentage of people with any financial product was 77,3%, the percentage of people with a current product was 66,3% %.

In order to maximize the achievements and continue to advance on different fronts of financial inclusion, the National Strategy for Financial Inclusion defined by Colombia identifies the main challenges and proposes concrete lines of action to overcome them.

The first challenge is to increase the active use of financial products and achieve this goal, these are the proposed initiatives: i) developing a financial offer of value for the population that meets the real needs and expectations of consumers, ii) developing an ecosystem that promotes electronic transactions and involving all stakeholders in the chain of transactions (Government, consumers, small businesses, suppliers, financial intermediaries, technology developers – innovators – Fintech companies, Clearinghouses, Low Value Networks, among others) and iii) developing an inclusive insurance market through a comprehensive work plan that involves actions on various fronts (strengthening of information, particularly from demand, capacity building and accompaniment to the insurance industry and consumer protection).

As a second challenge, the Strategy identified the need to close gaps in access and use of formal financial services between urban versus rural areas of the country⁶

4 Various international studies such as the Global Microscope (2016) and the Brookings Institution's Digital and Financial Inclusion Project (2016) highlight Colombia's leadership in having an environment conducive to financial inclusion. Among the aspects that stand out in the country are the long-term commitment of the National Government to the policy of Financial Inclusion, the creation of the Inter-Sector Commission on Financial Inclusion (2015), the dynamism in enacting regulations and the coordination and strengthening of the institutional framework that articulates public and private sectors around the issue.

5 This indicator increases to 77,3% when considering all financial institutions (financial intermediaries, cooperatives with savings and loan activity supervised by Supersolidaria and NGOs specializing in micro lending).

and proposes initiatives such as: (i) increasing knowledge and information on rural financial inclusion; (ii) modernizing the rural finance system currently operating in the country (e.g. access to and channeling of rediscount resources and guarantees targeted to the rural sector) and, (iii) adjusting and redesigning the financial channels and products through which the rural population is served.

A third challenge, seeks to promote alternatives for access to financing and development of SMEs and includes initiatives that help increase the formalization of small merchants, stimulate financial transactions and the dissemination and greater use of instruments (security interests on movable property and factoring) which favor access to finance by SMEs.

On the subject of formalization, the government issued regulations for a simplified scheme for fiscal formalization (single tax) that consolidates the payment of several taxes that are the responsibility of small businesses and offers incentives in terms of access to social security including health, pensions and compensation funds and the elimination of the withholding of 1,5% of the value of transactions when these are carried out through electronic means.

As for the creation of an ecosystem that promotes electronic transactions and that includes small businesses, the proposal is to develop pilot exercises involving various stakeholders in the chain, different technological options and business models to find the best alternatives for scaling up and making these types of ecosystems sustainable.

Regarding the use of alternative financing mechanisms by SMEs, the aim is to increase the knowledge and use of instruments such as factoring and security interests on movable property, which are already in place in the country with the necessary regulation, but greater efforts are required for their dissemination and effective use.

Finally, the fourth prioritized challenge in the National Strategy is the implementation of the Economic and Financial Education Strategy, whose pillars and lines of action have already been developed with the support of the public and private sectors and the support of the World Bank.

In this final section of the introduction the main conclusions of each chapter are highlighted.

At the level of penetration and as already mentioned, the presence in 100% of the entire national territory reached in 2015 is maintained. By the end of 2016, the total number of points of access amounted to 481.928, distributed between Points of Sale (75,6%), agents (19,6%), ATMs (3,2%) and offices (1,7%).

6 At the level of access, for example, while in cities the number of financial offices and correspondents per 100.000 people is 27,1 and 336,1, respectively, in rural dispersed municipalities these indicators are reduced to 14,1 and 150,6, respectively. Similarly, while the percentage of people with any current financial product in cities is 73,1%, in rural dispersed municipalities this is reduced to 43,2%.

Most of these points of access are concentrated in intermediate cities and municipalities, with the exception of mobile advisors who have a more homogenous distribution throughout the country. This behavior ratifies the need to develop innovative channels to deepen financial coverage in the most remote and rural areas.

In terms of formal financial products, the positive evolution of the financial inclusion indicator stood at 77,3% as of December 2016, equal to 25,7 million people with any financial product in an Entity. This indicator for the number of people with current products has fallen to 66,3%, equal to 22 million people, as at same date. This result highlights the importance of furthering actions that contribute to closing the persistent usage gap.

This chapter calls attention to the need to carry out targeted actions in certain segments of the population that have lower financial inclusion indicators compared to the national average. Women are in these segments (particularly in rural areas and in access to credit), men in some savings products, young people and people over 65 in most of the products analyzed.

During the year 2016, 999.187 people entered the financial system for the first time, mostly through savings accounts with financial intermediaries, which accounted for 77,4% of total new revenues.

At the departmental level, the low level of current ownership of financial products in Vaupes (17%), Vichada (29,1%) and La Guajira (34,7%) were significantly lower than the national average (66,3%). These departments coincide with those with less financial coverage.

By the end of 2016, there were respectively 751.851 and 561.680 companies with at least one product and with at least one active product, out of the total number of entities.

Regarding transactionality, the positive evolution described in previous reports continues to be observed. By the end of 2016, the number of transactions in the system increased 14% compared to 2015 and the value transacted increased 5%.

In the agent channel, the high concentration in number of transactions in cities and intermediate municipalities (75% and 13% respectively) is highlighted, where the most common type of transaction corresponded to collections, while rural municipalities (rural and dispersed rural) the number of transactions was 9% and the most representative types of operations were deposits (22%) and withdrawals (27%).

On this occasion, the chapter includes an analysis of the virtual transactions indicator and cashless transactions⁸ per 100.000 people, which show growth between 2014 and 2016 of 63% and 43%, respectively. Likewise, holder of transactional services (number of people with credit and debit cards per 100.000 people) grew 17% over the same period.

From the chapter on savings accounts, the report highlights that these continue to be the main gateway product into the financial system: a statement that is evidenced both in holding (number of people with this product) and in the number of savings accounts that are currently in the financial system.

As of December 2016, the number of accounts reached 62,1 million of which 46% were used actively, 96% were traditional savings and 4% were electronic savings accounts (CAE accounts). At balance level these accounts represented \$ 157,6 billion pesos. The most representative entities in number of accounts and balance are the banks.

By level of rurality, cities account for the largest number of accounts with 80.5% of the total, followed by intermediate municipalities (11,8%), rural and dispersed rural with 5,2% and 2,5%, respectively.

In contrast to credit products, we highlight the progress in regulation of the modernization of the system of secured transactions on movable property, Law 1676 of 2013 regulated by Decree 1835 of 2015, with positive results in terms of their use.

During 2016, the loan portfolio was less dynamic compared to previous years due to the performance of the economy, recording lower growth values than in previous years with real annual variation of 1,9% and nominal of 7,7%, standing at \$ 412,2 billion pesos at the end of the year.

The insurance chapter highlights the global trend in the sector in targeting its actions to empowering consumers through technology, turning their preferences and needs into a driving force for innovation. This translates into offering good after-sales service, adequately segmenting the population and supported by new technologies to provide services with technical excellence.

In 2016, the value of premiums written increased, as evidenced by the increase in the insurance penetration index (value of premiums written in relation to GDP), which stood at 2,8%. The density index (average monthly insurance expense per

individual), for its part, stood at \$492.021 pesos at the end of the year, 9,6% higher than the figure recorded a year earlier.

The lines with the largest share in the last year were personal insurance, especially the group life debtors line, which had the highest number of policyholders (25,8%). With regard to the casualty line, special growth was observed in theft and fire insurance, especially among women.

With regard to remittances, Colombia received a total of USD 4.858 million in the past year, representing growth of 4,8% compared to 2015. The main issuing country continues to be the United States (46%), followed by Spain (18%).

Likewise, in 2016 remittances were channeled especially through banks and finance companies. For its part, the payment method used to receive the funds continues to be over the counter, with a total of 72,7% and the remaining 27,3% through deposit to savings or checking accounts.

In the specific case of remittances, the impact of the entry of new players in the Fintech sector is highlighted, payment mechanisms are currently being developed using mobile technology and the internet, through platforms not requiring that payments be sent internationally, which changes the traditional way of providing this type of cross-border financial services.

Finally, the chapter on consumer protection includes an approach to regulation on consumer protection and highlights the restructuring of the Superfinanciera through Decrees 1848 and 1849 of 2016, which create the Delegate for Consumer Protection and Transparency to supervise comprehensively and with greater capacity aspects of consumer protection, market conduct and the illegal exercise of financial activity.

This overview shows the main accomplishments and challenges of the country in financial inclusion, from supply and demand, making an important call to industry and Government on the importance of considering issues of innovation, promotion, use, access and regulation, in order to develop comprehensive actions that not only consolidate advances in access and use of financial services, but also ensure the quality of these services and their positive impact on the welfare of consumers.

⁷ Defined as the sum of the number of transactions performed through the Internet and mobile phones.

⁸ Defined as the sum of the number of transactions performed through the Internet, mobile phones and debit and credit cards.

Box 1: National Strategy for Financial Inclusion of Colombia

As has been recognized by various international studies⁹, Colombia stands out as one of the countries with the best environment for financial inclusion, largely thanks to the long-term commitment of the Colombian Government to the financial inclusion policy. The Financial Inclusion¹⁰ public policy, created in 2006, and called Banca de las Oportunidades, is a National Government program focused on developing projects to raise the levels of financial inclusion in the country.

In its early years, the financial inclusion policy was aimed at raising the levels of financial penetration by facilitating the population's access to financial services, through a variety of Government incentives to the private sector to expand the presence of Financial institutions (through branches, agents and mobile advisers), in municipalities that, because of their characteristics, were not sustainable for the financial sector.

Subsequently, the financial inclusion policy has implemented projects on various topics related to raising the active use of financial products and developing a supply more aligned with the needs of the population. Numerous technical consultancies to the financial sector have been carried out with various objectives, such as: institutional strengthening, transfer of methodologies and support for product development.

In 2016, after ten years of implementing the financial inclusion policy, the Government performed an assessment of the progress made and the new challenges in terms of financial inclusion. This analysis is reflected in the document of the National Strategy for Financial Inclusion of Colombia published in August of 2016. This work of identification and classification

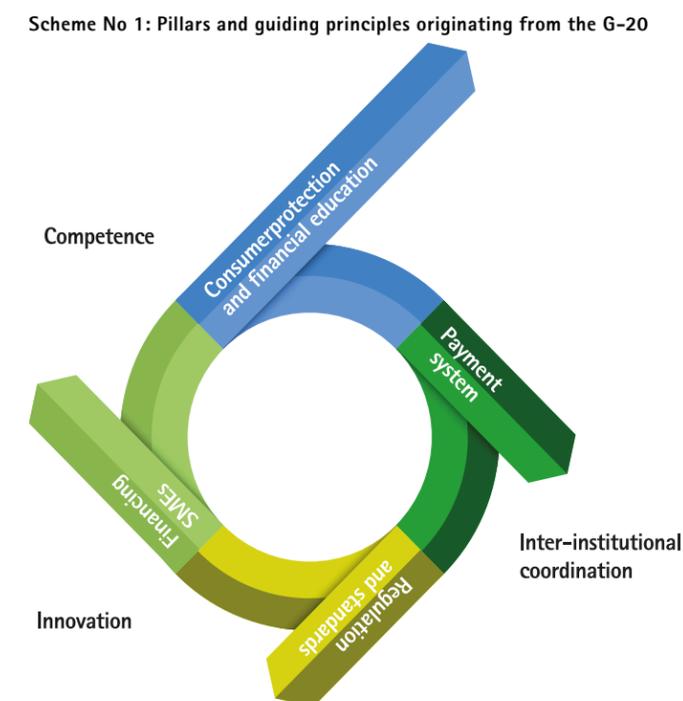
⁹ See Microscopio Global (2016) and Financial and Digital Inclusion Project Report, Brookings (2016).
¹⁰ CONPES document 3424 of 2006 and Decree 3078 of 2006.

of priorities was carried out in a coordinated way between the various instances of government and with feedback from relevant private sector stakeholders.

The National Strategy for Financial Inclusion calls all stakeholders around a common agenda, with clear goals and objectives. The materialization of this agenda also requires the coordinated efforts of all the stakeholders involved.

The formulation and adoption of this type of strategies has been growing in several countries and the G-20 has been the international entity responsible for defining guidelines and guiding principles for countries to structure their national strategies for financial inclusion, taking into account the realities and context-specific challenges.

Scheme No 1 presents the pillars and guiding principles proposed by the G-20:



Source: Estrategia Nacional de Inclusión Financiera (basado en el G20), elaboración BdO

For the Colombian case, the Government prioritized four aspects of the Strategy: (i) increasing the use of formal financial products and services and electronic transactions; (ii) deepening the financial inclusion (access and use) by the rural population; (iii) designing alternative financing systems for small and medium-sized enterprises (SMEs); and (iv) developing and implementing the National Strategy for Economic and Financial Education (EEF), which is presented in detail in box 4.

The following is a summary of the main actions that are outlined in the Strategy to be carried out in each of the four prioritized aspects.

1. Increase the use of formal financial products and services and electronic transactions

The importance of carrying out specific actions in this regard is evidenced by the dormancy rates of products such as savings accounts, which are the product with the highest penetration among Colombians and due to the high use of case in the economy, especially for low-value high-frequency transaction between people and between people and companies.

As of December 2016, in the financial system the number of savings accounts increased to 62,1 million, of which 28,4 million were current, which is 46% of the total. Similarly, as of December 2016, there were 23,6 million people with savings accounts, of which 17 million had them current, that is 72,2% of the total.

The two indicators suggest that there are some causes that prevent more active use of financial products and electronic payments in the economy. Various demand studies¹¹ performed in the country, identify causes such as the high costs associated with formal financial products, the lack of income of some segments of the population and the lack of adequate products as the main reasons explaining the low activity of financial products and the high use of cash.

The main actions proposed in the National Strategy for Financial Inclusion to advance this issue are summarized in Scheme No 2.

11 Financial Inclusion Demand Study, Banca de las Oportunidades and Superintendencia Financiera de Colombia (2015) and Proyecto F Asobancaria, Banco de la Republica and Redeban (2016).

Scheme No 2: main actions proposed in the topic of use and electronic transactions

Formalization of small merchants	Digitization of Government payments and collections at the territorial level	Promotion of electronic payments
<ul style="list-style-type: none"> • Regulation of the single tax system¹² (Law 1819 of 2016). • Pilot of electronic transactions in small shops (based on a proposal made by the Inter-American Development Bank (IDB) and the World Economic Forum (WEF)). 	<ul style="list-style-type: none"> • Based on the IDB's consultancy to the Colombian Government identifying barriers and opportunities for improvement to increasing the electronic transactions of local governments. 	<ul style="list-style-type: none"> • Strengthening of telecommunications networks throughout the country. • Mass adoption of internet access

2. 2. Deepening financial inclusion for rural populations

In Colombia, most of the population and economic activity are concentrated in large cities. For this reason, the rural sector is characterized by its lower socioeconomic development, due in part to the deficit in economic and financial infrastructure in these regions¹³.

As discussed in the chapters on penetration and holding of financial products, many rural municipalities have insufficient financial penetration¹⁴, their populations face a variety of risks¹⁵ and their levels of economic and financial education are precarious. In this context, the rural population's access to basic financial services is lower than in the cities¹⁶.

Given the above, one of the topics prioritized in the National Strategy for Financial Inclusion in Colombia is to develop a set of actions that provide sustainable alternatives for formal financial integration and social development of the rural population, which included the following:

12 The single tax is a system of simplified taxation targeted at small informal merchants that was included in the Tax Reform of 2016, from the Study contracted by BDO (2015). It is a voluntary alternative to income tax for natural persons or small merchants whose commercial establishments have an area equal to or less than 50 m2 and with gross annual income of 1.400 to 3.500 UVTs (\$ 44.602.600 to 111.506.500 million pesos). This system offers incentives to merchants to receive social security benefits (BEPS or ARL), the possibility of enrollment in Compensation Funds and for those who accept electronic payments, exemption from payment of the 1,5% value of transactions.

13 See details, Mision Rural (2015), Volume 2, Chapter 9: Inclusion productiva y agricultura familiar.

14 For example, municipalities known to have fragile financial penetration are those that have only one or two agents as their only access points to the financial system. These details are included as annex XXX, of the penetration chapter.

15 According to the Longitudinal Survey of Universidad de los Andes - ELCA (2013), see Ensayos sobre Inclusion Financiera, chapter 3, the most common shocks among the population residing in the rural areas of the country are related to crop loss (29,2%), accident or sickness of a family member (27,7%), natural disaster (22,3%) and loss of livestock (19,8%).

16 Ibid., for 2013, the percentage of respondents in rural areas with access to formal credit was 29,6% compared to 19% who used informal mechanisms. At the savings level, the percentage of respondents with access to formal credit was 2,1% compared to 11% who used informal mechanisms.

Scheme 3: main actions proposed for deepening of rural financial inclusion

Update of Finagro's resource rediscount model	Strengthening guarantee schemes for the rural sector
<ul style="list-style-type: none"> • Development of rediscount on block operations¹⁷ accompanied by a comprehensive collateral system that facilitates the use of the FAG by financial intermediaries. • Review of interest rate limits on loans with Finagro resources. • Expand the network of financial intermediaries that channel Finagro's rediscount resources (including cooperatives and NGOs). 	<ul style="list-style-type: none"> • Greater knowledge and use of security interests on movable property. • Evaluate the current conditions of the guarantees of the Fondo Agropecuario de Garantias - FAG - (maximum limits of coverage, viability of global guarantees and structuring of the mortgage FAG).
Development of the rural risk management system	Development of initiatives by the Banco Agrario de Colombia and other actors
<ul style="list-style-type: none"> • To deepen the market for inclusive insurance in the country, with the possibility of having support for pilots by the Government in subjects such as collective, livestock and catastrophic insurance. • Finagro's structuring of the Agricultural Risks Unit to support and coordinate the efforts of trade groups, research centers and academia to provide specialized information on agricultural risks to solve information asymmetries and adjust the current instruments of agricultural risk management¹⁸. 	<ul style="list-style-type: none"> • Designing better adjusted channels and products to the realities of the rural population. • Development of an "on site" financial services offering including services such as collections. • Establishment of innovative channels, such as mini or simplified offices through which small amounts of credit can be channeled¹⁹ y • Strengthening of schemes such as comprehensive mobile advisors.

3.3. Development of alternative financing schemes for SMEs

In spite of the important contribution of small and medium-sized companies to the production and generation of employment in the country, the deepening of the portfolio directed to this market segment is low compared to what is observed in other similarly developed countries in Latin America and the world²⁰.

Some of the reasons for this situation include the low level of development of specialized financial services for SMEs and a large gap in knowledge of existing products by micro-entrepreneurs.

¹⁷ See page 28 of the National Strategy for Financial Inclusion.
¹⁸ See page 31, of the National Strategy for Financial Inclusion document.
¹⁹ See page 30, of the National Strategy for Financial Inclusion document.
²⁰ According to the National Strategy for Financial Inclusion (page 14), the ratio of the SME portfolio to the total portfolio in Colombia is below that of other countries such as Chile, Japan and Korea. In addition, some of the existing financing mechanisms are used very little, according to the results of the Great SMEs Survey (ANIF - 2015), only 3% of SMEs use factoring as a financing mechanism because they do not know how it works.

Within the framework of the National Strategy for Financial Inclusion, the actions proposed to develop alternative funding sources for SMEs include the following:

Scheme 4: Main actions proposed in relation to new financing options for SMEs

Increase the use of security interests on movable property	Increase knowledge of available schemes such as factoring	Propose appropriate regulation around crowdfunding schemes
<ul style="list-style-type: none"> • The necessary regulatory adjustments have already been made for the implementation of the security interests on movable property, but we must work on greater knowledge and use of these by micro-entrepreneurs. 	<ul style="list-style-type: none"> • Much of the regulation needed in this area has been issued: Single Invoice Registry, electronic invoice as a security. • It is necessary to work more on their dissemination, knowledge and use by micro-entrepreneurs. 	<ul style="list-style-type: none"> • The study document for draft regulation on the subject has already been published. • The issuance of definitive regulation is pending.

All the actions proposed in the financial inclusion strategy require joint and coordinated work between the various Government entities that make up the Inter-Sector Commission on Financial Inclusion and of Economic and Financial Education and from these with the private sector.

It is worth noting that within the Inter-Sector Commission on Financial Inclusion, two subcommittees were recently created: the rural subcommittee and the Fintech subcommittee, whose work will provide important guidelines on these two specific issues.



Financial
penetration

Financial penetration

Introduction

This chapter presents the main financial penetration indicators in the country, associated to the access dimension of financial inclusion.

Tracking is performed through these indicators on the evolution of points of access nationwide and at municipal level, by type of entity (banks, finance companies, financial cooperatives supervised by the Superintendencia Financiera de Colombia (SFC), cooperatives with a savings and loan section supervised by Superintendencia de Economía Solidaria (SES) and NGOs specializing in micro lending) and by type of point of access (offices, agents, Points of Sale, automatic tellers and mobile advisors).

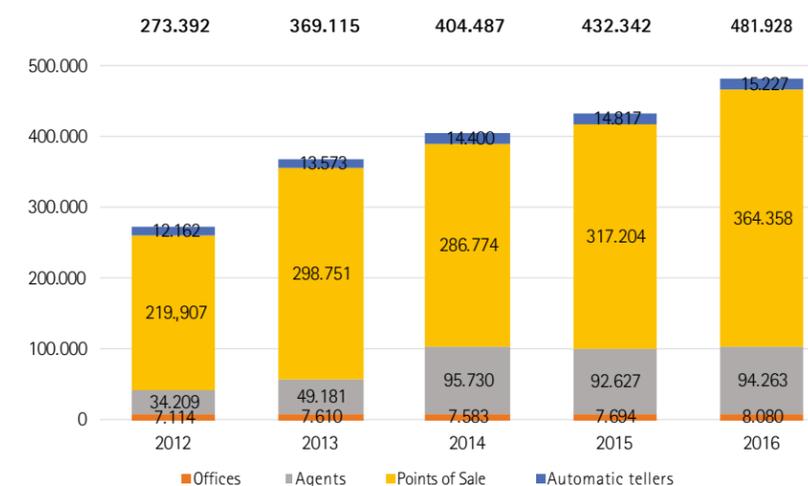
Since 2015, the country reached 100% coverage in the national territory, a situation that was maintained during 2016. Despite this, challenges persist in regard to the greater reach of certain traditional points of access, as well as in the development of innovative channels that facilitate access to formal financial services by the population, mainly that living in rural and dispersed rural areas.

Below, we present the main penetration indicators at national, territorial and international level and their evolution over the past five years.

National analysis

As opposed to the 2015 version of the Financial Inclusion Report, this year Points of Sale were included again in the national analysis given their relative importance in the total points of access in the country. Notwithstanding the foregoing, the largest share of the operations performed through these devices corresponds to payments to merchants and their location coincides in many cases with the sites where agents operate. This last aspect can generate double accounting of certain points in the aggregate.

Chart 1. Evolution in the number of financial points of access



Sources: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs, prepared by Banca de las Oportunidades.

Nationwide to December 2016, the total number of points of access for all entities reached 481.928, a level which, compared to the total observed in 2012 (273.392) implied an increase of 208.536 points during said period and an average annual growth of 15,7%.

This result is primarily due to the dynamics of banking agents and Points of Sale, the former with average annual growth of 34,2% and the latter with 14,3%, during the period.

With the exception of the decrease in total points of access that was seen in 2015, due to the voluntary wind-up of Compañía de Financiamiento Mi Plata, the growth trend in points of access has been maintained with an average annual increase close to 52.000 points.

Between 2015 and 2016, the total points of access grew 11,5%, equal to 49.586 new points. Those recording the greatest growth rates in the last year were Points of Sale, which grew at a rate of 14,9% (47.154) and offices at a rate of 5,0% (386).

Also worthy of comment is that the highest number of agents was reported in the year 2014, from when a stabilization is seen in the total number for this type of points, in the last year, recorded annual growth of 1,8%.

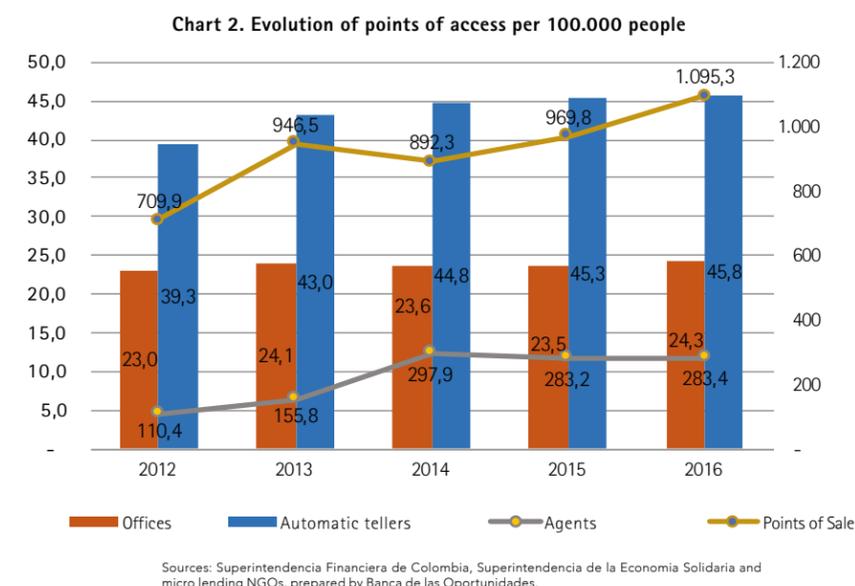
With respect to participation by type of point, the trend is maintained with Points of Sale as the most represented points (76%) and agents (20%). Both constitute 96% of the total points of access (PoA). To December 2016, automatic tellers and offices represented 3% and 2% of the total, respectively. This composition is similar to that observed in previous years.

Upon excluding Points of Sale, the total number of PoAs was seen to roughly double between 2012 and 2016, going from 53.485 to 117.570 points (average annual growth of 24,7% during the period). The performance of PoAs, excluding Points of Sale, is explained for the most part by the dynamics of agents and in the last year by the increase in number of offices.

Automatic tellers grew at an average annual rate of 5,8% between 2012 and 2016, which meant 3.065 additional ATMs during that period. Over the last year, this type of point grew 2,8%, represented in 410 new automatic tellers compared to the data for 2015.

In prior reports, the number of mobile advisors of 17 NGOs was tracked, which reported at the end of 2016, 2.448 advisors. This indicator vis-à-vis the number in 2012 (1.166), represents average annual growth of 20%, that is, 1.282 additional advisors during this period. For that year, 30 financial intermediaries: 5 banks, 1 finance company, 1 financial cooperative supervised by the SFC, 6 cooperatives supervised by SES and 17 NGOs, reported this type of point of access reaching a nationwide total of 8.960 mobile advisors to December 2016. The national and territorial analysis of mobile advisors, however, is concentrated on the information provided by the NGOs, because historical data are available and because in all other cases it is necessary to continue working on the validation and quality of the information.

To December 2016, the total PoA per 100.000 people stood at 1.448,7 a result mainly obtained through the performance in number of Points of Sale , which went from 710 to 1.095 per 100.000 people nationwide between 2012 and 2016.



Upon considering the number of PoAs per 100.000 people without taking Points of Sale into account, the aggregate indicator is 353,4 points of access per 100.000 people, a figure that is almost double the level for the year 2012 which was 173,0 PoA per 100.000 people.

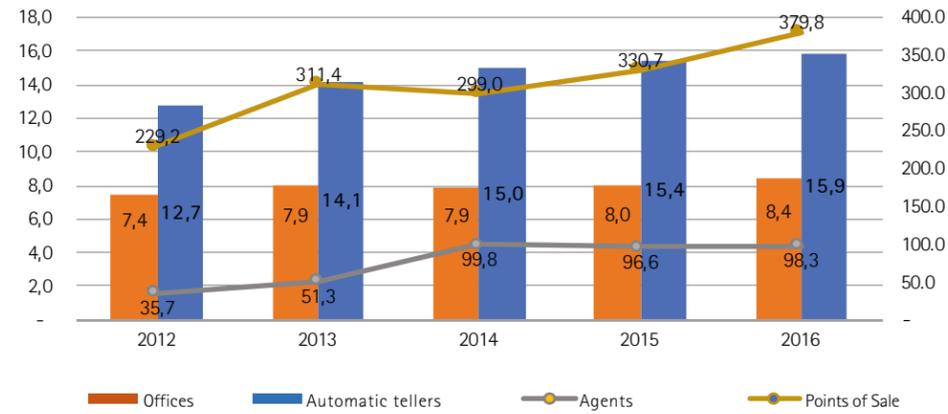
The indicator for the number of agents per 100.000 people went from 110,4 (2012) to 283,4 (2016), a level of offices and automatic tellers, the increase in indicators was 23,0 and 39,3 (2012) to 24,3 and 45,8 (2016), respectively.

In regard to the geographic indicator, that is, the number of points of access per 1.000 km², the figures went from 285,0 (2012) to 502,4 (2016). In this case, Points of Sale again explain to a greater extent the performance of the indicator.

The number of Points of Sale per 1.000 km² to December 2016 was 379,8. This is followed by the indicator for banking agents with 98,3, automatic tellers with 15,9 and offices with 8,4 per 1.000 km².

21 The Report for the year 2015 clarified that the decrease observed in the number of Points of Sale between 2013 and 2014 was due to an adjustment in the information reported by Credibanca to Superfinanciera. For this reason, in the total data for Points of Sale from the year 2014, 42.373 Points of Sale were excluded (which were reported to the SFC). The Exclusion is done because these Points of Sale are a part of a scheme known as a Network of Networks and are the property of partners of this network.

Chart 3. Evolution of points of access per 1.000 km2



Sources: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs, prepared by Banca de las Oportunidades.

Detail of performance by type of point

Offices

Between 2012 and 2016, offices in the country increased from 7.114 (2012) to 8.080 (2016), which corresponds to an increase in 966 offices and an average annual growth of 3,3% during the period.

Banks are the entities which contribute the most branches to the total, which represented 75,1% at the close of 2016, Bank offices grew at an average annual rate of 4,5%, during the period, a result that is above the average annual office growth for the total number of institutions.

To December 2016, the 27 banks reported 6.070 offices throughout the country, the entities with the greatest penetration through branches being: Bancolombia 790 (13% of total), Banco de Bogota 760 (12,5%), Banco Agrario 749 (12,3%), Banco Davivienda 593 (9,8%) and Banco BBVA 477 (7,9%).

The savings and loan cooperatives supervised by Supersolidaria (with a share of 10,2% in the total number of offices), increased their branches by 130 between 2012 (697) and 2016 (827), which meant average annual growth of 4,4%.

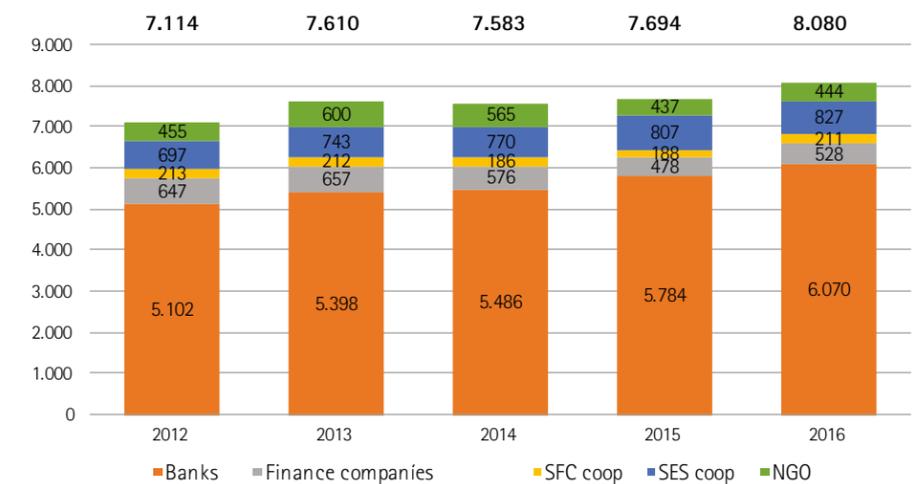
²² In 2016, a methodological adjustment was made on the data for the number of offices reported by savings and loan cooperatives supervised by SES; as a consequence of this adjustment, the total historical series for the offices of this type of entity was updated, incorporating 18 additional entities to the dataset.

Of the total offices reported by the 188 cooperatives supervised by SES, those standing out are Coomultrasan (52), Microempresas de Colombia (23), Coasmedas (23), and Coomuldesa (23). This distribution in total offices of cooperatives with a savings and loans section supervised by the SES indicates that penetration through branches in this type of entity is not too concentrated, given that the majority of these points are distributed among numerous independent entities.

The financial cooperatives supervised by the SFC (5 entities with a 2,6% share of the total offices), exhibited a slight increase in the number of offices between 2015 and 2016, 23 additional offices and annual growth of 12,2% in the last year. Of this group, the entities that most increase their penetration in terms of offices were: Cootrafa (8), Cooperativa JFK (7) and Cooperativa Financiera de Antioquia (4).

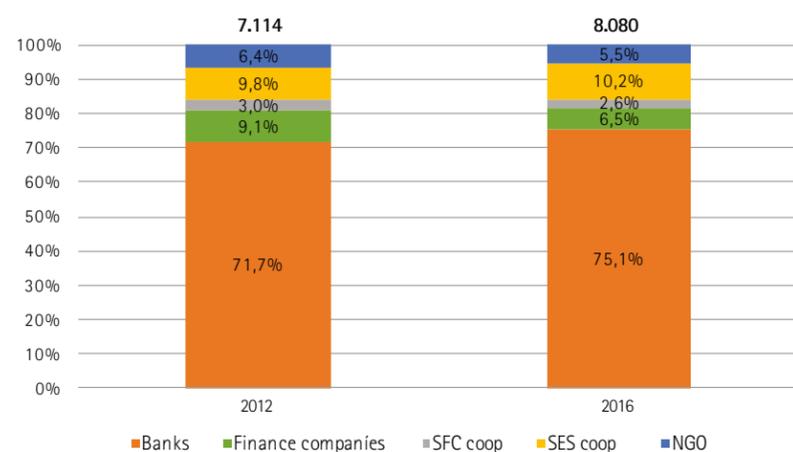
The NGOs that had a 5,5% share of total offices, decreased their number of branches by 11 points between 2012 (455) and 2016 (444). Similarly, finance companies exhibited a 119-point decrease in this period, going from 647 (2012) to 528 (2016).

Chart 4. Evolution of number of offices by type of entity



Sources: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs, prepared by Banca de las Oportunidades.

Chart 5. Composition of offices by type of entity 2012 vs 2016



Sources: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs, prepared by Banca de las Oportunidades.

Agents

Between 2012 and 2016, agents went from 34.209 to 94.263 points, a level of growth that was notable until 2014. From that year, the total number of agents has not shown significant changes.

As mentioned in reports for previous years, the dynamics of agents up to 2014 was influenced by the agency scheme that is predominant in Colombia which is through aggregators²³, which are hired by financial entities to provide certain financial services in their name.

Given this model and the current reporting templates, over-reporting of the number of agents is estimated to be close to 100%, that is to say, the actual number of physical points is being counted twice.

Nationwide, banks continue to be the entities that most commonly represent this type of points. To December 2016, they amounted 89.255, with a 94.7% share of the total, followed by finance companies with 4.848 points (5,1% of the total).

The total group of cooperatives (supervised by SFC and SES) reported 160 agents at the end of 2016, which represented less than 2% of the total. Although agents seem not to be very representative in the case of cooperatives, their numbers have been growing over the past three years.

²³ According to the study carried out by CGAP - BdO (2014), 72% of the agents points in the country were managed through networks of aggregators, these agents provide financial and non-financial services through their networks of partner merchants and, over the past years, are offering postal services, payments, sales of games of chance, top-ups of airtime for cell phones, among others.

Between 2014 and 2016, the number of agents of cooperatives supervised by the SFC increased from 11 to 57, while in cooperatives supervised by SES, the number of agents increased from 53 to 103.

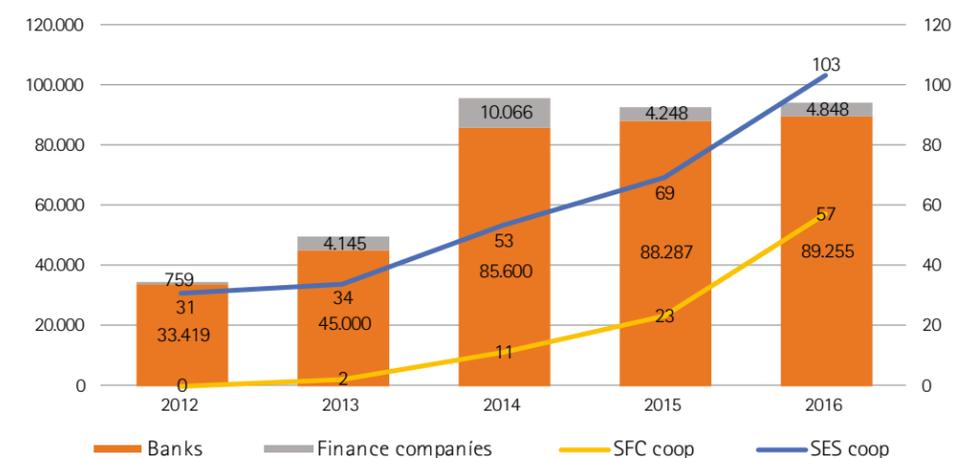
This last is an opportunity given that although the number of agents operated by the cooperatives is growing, it is still possible to enhance it.

When comparing the composition of agents by type of entity for the years 2012 and 2016, it can be seen that although banks are the most representative of this type of point, their relative importance in the total has decreased because other entities have strengthened this channel, particularly finance companies, which increased their agents from 759 (2012) to 4.848 (2016).

The groups of banks that have the largest network of agents were: Banco de Occidente with 10.213 points (10,8% of the total), Citibank with 10.036 (10,6%), Banco Caja Social with 9.809 (10,4%), Colpatria with 9.712 (10,3%) and AV Villas with 8.113 points (8,6%).

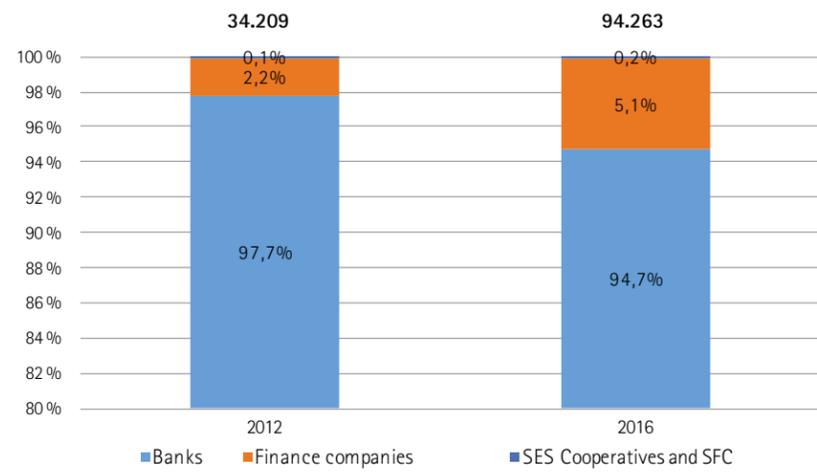
Between 2015 and 2016, the Banco WWB, Bancolombia and Banco Agrario, were the entities reporting the greatest increase in their network of agents, the first with 4.740 additional points, the second with 1.480 points and the third with 1.152 additional points. At the territorial level, the agent networks of these three entities grew above all in Bogota, Antioquia, Cundinamarca and Boyaca.

Chart 6. Evolution of the number of agents by type of entity



Sources: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, prepared by Banca de las Oportunidades.

Chart 7. Composition of agents by type of entity 2012 vs 2016



Sources: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, prepared by Banca de las Oportunidades

Automatic tellers (ATMs) and Points of Sale

To December 2016 the number of automatic tellers came to 15.227 and the indicators per 100.000 people and per 1.000 km² stood at 45,8 and 15,9, respectively.

Banks were the entities most representative in number of automatic tellers with a total of 12.912 (84,8%), followed by Servibanca with 2.315 (15,2%).

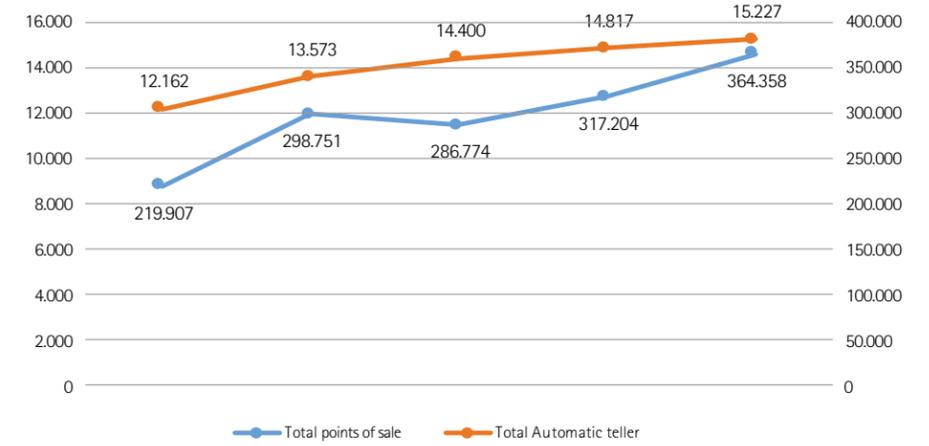
Between 2012 and 2016, bank automatic tellers grew at an average annual rate of 6%, represented in 2.649 additional ATMs in that period. Between 2015 and 2016, the number of bank automatic tellers increased by 352 (annual growth of 2,8%), mostly the property of Bancolombia (239).

Servibanca's automatic tellers increased by 416 between 2012 and 2016, which meant average annual growth of 5,2% during that period.

Points of Sale for their part came to 364.358 to December 2016, of which 97% belong to low amount networks (Credibanca and Redeban). Between 2012 and 2016, the number of Points of Sale increased by 144.845 devices, which meant average annual growth of 14,9% during this period.

At the end of 2016, the Points of Sale indicator per 100.000 people and per 1.000 km² stood at 1.095 and 379,8, respectively.

Chart 8. Evolution in the number of ATMs and Points of Sale (2012 - 2016)



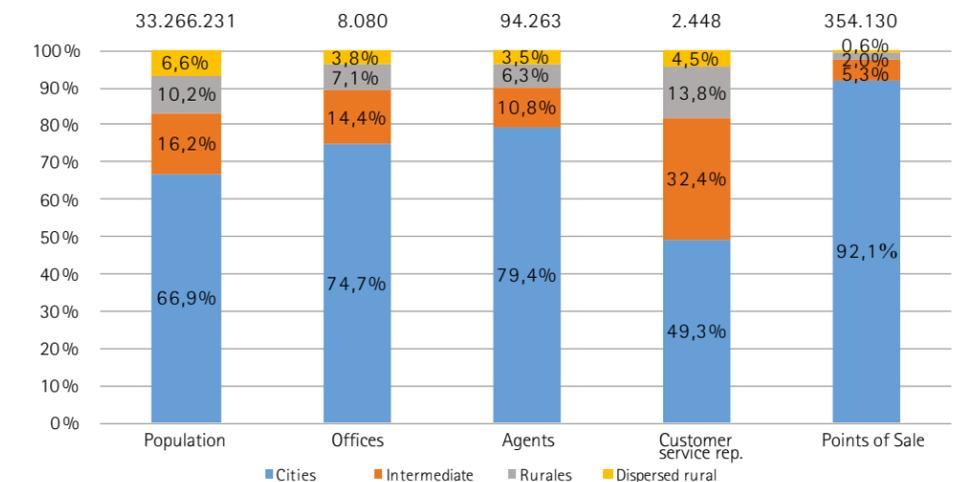
Sources: Superintendencia Financiera de Colombia and low amount networks, prepared by Banca de las Oportunidades

Departmental and municipal analysis

Colombia, like many countries in Latin America, has the largest part of its population concentrated in cities and agglomerations, which makes economic development very centralized as is the financial infrastructure in consequence, this also means that important gaps appear when comparing the penetration indicators of cities with the rural municipalities of the country.

This territorial concentration of population is reflected in the penetration indicators associated to the diverse financial points of access.

Chart 9. Distribution of points of access by rurality level - 2016²⁴



²⁴ Two aspects are clarified vis-à-vis the figures: i) for mobile advisors only the number reported by the 17 NGOs was used and ii) the municipal information on Points of Sale was reported directly by the low amount networks (Credibanca and Redeban).

Sources: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs. The municipal information on Points of Sale was provided by the low amount networks Redeban and Credibanca, prepared by Banca de las Oportunidades

When detailing the distribution of PoAs by rurality level, mobile advisors are the ones exhibiting more homogenous distribution in the various types of municipalities. The other points of access are concentrated in cities and intermediate municipalities, spotlighting the persistent challenge of developing alternative channels and mechanisms for delivery of formal financial services to more remote zones. Mobile advisors are seen as a valuable alternative for this goal because thanks to their mobility they can go to where users are.

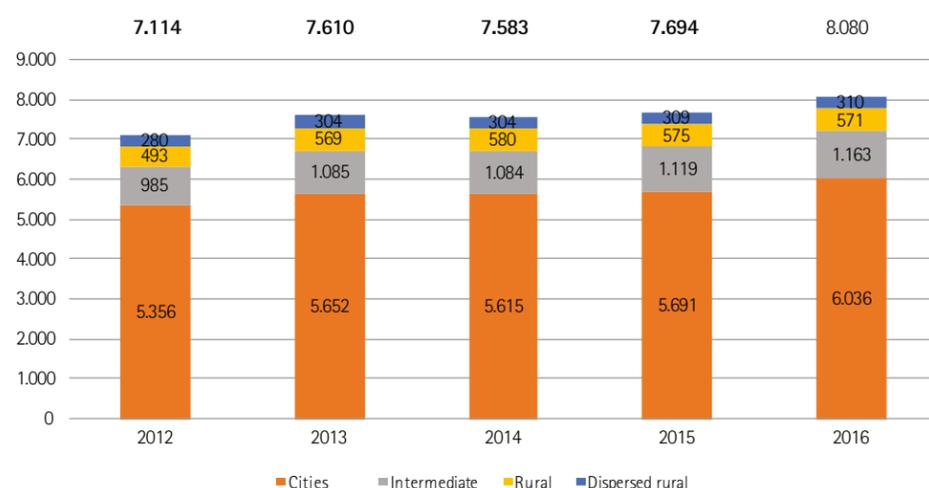
Moving forward, it is important to monitor in greater detail the dynamics of mobile advisors to precisely determine which entities use this channel, what type of service they offer and what technology is implemented in their operations to promote their enhancement.

Offices

Offices have grown in number at all rurality levels, mainly on intermediate and rural municipalities. Nationwide, the average annual growth in offices was 3,3% between 2012 and 2016; this rate was 4,3% in intermediates and 3,9% in rural, which corresponds to 178 and 78 additional offices in those municipalities respectively.

In contrast, lower average annual growth was observed between 2012 and 2016 in cities with 3,1% (680 additional offices) and in dispersed rural municipalities, with 2,6% (30 additional offices).

Chart 10. Evolution in number of offices by rurality level 2012 - 2016



Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs, prepared by Banca de las Oportunidades.

The number of offices per 100.000 people for each of the rurality levels coincides with the data described. While the indicator increased 1,3 points nationwide between 2012 and 2016, the greater increase is observed in intermediate and rural municipalities with 1,7 points in each one.

Between 2012 and 2016, the indicator for number of offices per 1.000 km² remained stable. Cities were the only types of municipalities where the indicator exhibited an increase, moving from 73 (2012) to 82,1 (2016).

Table 1. Financial offices per 100.000 people by rurality level

Type of entity	2012	2013	2014	2015	2016
Cities	26,0	26,9	26,2	26,0	27,1
Intermediate	19,8	21,4	21,0	21,3	21,6
Rural	15,1	17,3	17,3	16,8	16,8
Dispersed rural	13,1	14,0	13,9	14,2	14,1
Total Nationwide	23,0	24,1	23,6	23,5	24,3

Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs, prepared by Banca de las Oportunidades.

Table 2. Financial offices per 1.000 km² by rurality level

Type of entity	2012	2013	2014	2015	2016
Cities	73,0	77,0	76,5	77,5	82,1
Intermediate	10,0	10,8	10,7	11,0	11,2
Rural	2,2	2,5	2,6	2,5	2,5
Dispersed rural	0,5	0,5	0,5	0,6	0,6
Total Nationwide	7,4	7,9	7,9	8,0	8,4

Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs, prepared by Banca de las Oportunidades.

Detailing penetration through offices in dispersed rural municipalities, only 12 banks have a presence in this type of municipality with 239 offices, with Banco Agrario standing out with 189 offices and Bancolombia with 11.

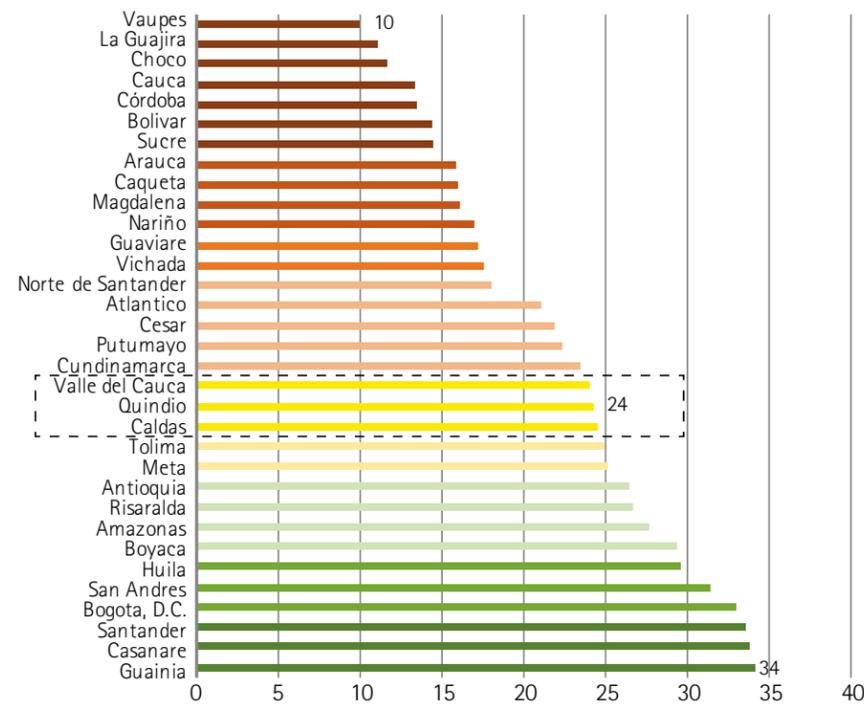
For their part, only 30 cooperatives with a savings and loans section supervised by the SES are present in dispersed rural municipalities with 54 offices. The entities with the largest number of branches in this type of municipality are Coomuldesa (5), Cooperativa Congente (4) and Comultrasan (4).

Finally, for the case of NGOs, only 5 of these entities are present in dispersed rural municipalities with 13 offices, distributed thusly: Contactar (6), Fundación de la Mujer (2), Crezcamos (2), Fundación Avanzar (2) and Fundación Amanecer (2).

This outlook shows there is an opportunity for other financial intermediaries to strengthen their presence in those territories and improve the conditions for access of the population living in those municipalities.

At the departmental level, 18 of the 32 departments have an indicator for number of offices per 100.000 people below the national average (24,3). The departments of Vaupes (10), La Guajira (11), Choco (12), Cauca (13), Cordoba (13), and Bolivar (14) stand out because of their lower penetration in offices

Chart 11. Number of offices per 100.000 people by department



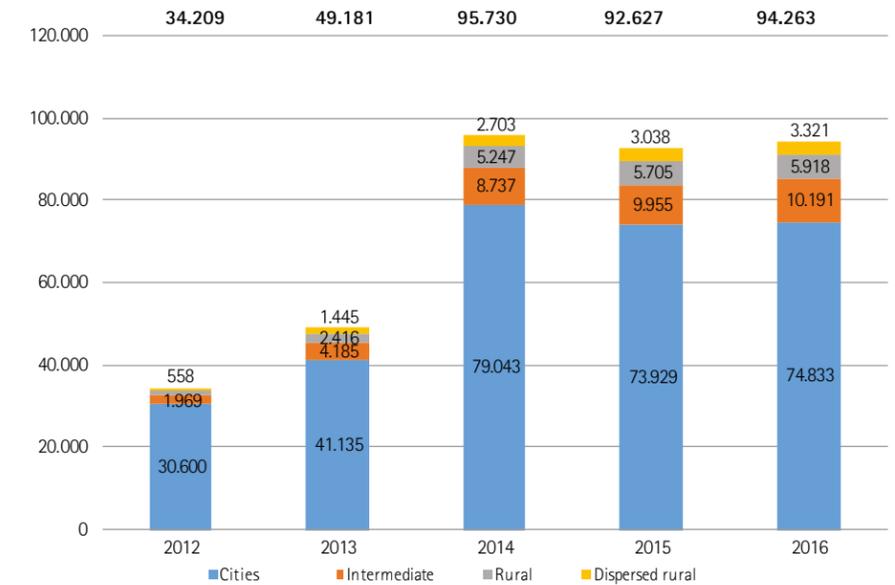
Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs - prepared by Banca de las Oportunidades.

Banking Agents

Although agents are a channel concentrated in cities, it needs noting that over the past five years, their greater dynamism was seen in rural and dispersed rural municipalities, with average annual growth of 63,2% and 66,9%, respectively. Between 2012 and 2016, the number of agents in rural municipalities increased from 1.082 to 5.918 points, while in dispersed rural municipalities they grew from 558 to 3.321 points.

In dispersed rural municipalities 3.321 agents were reported, of these 3.110 belong to banks, particularly to Bancolombia (446), Banco Davivienda (355), Banco de Bogota (335) and Banco Agrario (327).

Chart 12. Evolution in number of agents by rurality level 2012 - 2016



Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, prepared by Banca de las Oportunidades.

As of December 2016 the indicator for number of agents per 100.000 people stood at 283,4 for the national average. This indicator presents an important variation between its level in cities (336,1) and its level in all other types of municipalities. Penetration through agents in cities is more than twice the value of that observed in dispersed rural municipalities

Table 3. Agents per 100.000 people by rurality level

Type of entity	2012	2013	2014	2015	2016
Cities	148,4	195,6	368,5	338,3	336,1
Intermediate	39,6	82,5	169,6	189,6	189,0
Rural	33,2	73,5	156,2	166,8	173,9
Dispersed rural	26,2	66,6	123,9	139,2	150,6
Total Nationwide	110,4	155,8	297,9	283,2	283,4

Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, prepared by Banca de las Oportunidades.

With respect to the indicator for number of agents per 1.000 km², for the national total this stood at 98,3 to December 2016. It is worth noting that this indicator in cities is way above that observed in all other types of municipalities, 10 times greater vis-à-vis intermediates, 39 times greater vis-à-vis rural and 170 times greater vis-à-vis dispersed rural. These differences are due to the greater extension of the geographical area in km² of rural areas compared to the area in urban zones.

Table 4. Agents per 1,000 km² by rurality level

Type of entity	2012	2013	2014	2015	2016
Cities	416,8	560,3	1.076,7	1.007,0	1.017,3
Intermediate	20,0	41,7	86,1	97,6	97,9
Rural	4,8	10,7	23,2	24,9	26,0
Dispersed rural	1,0	2,6	4,8	5,5	6,0
Total Nationwide	35,7	51,3	99,8	96,6	98,3

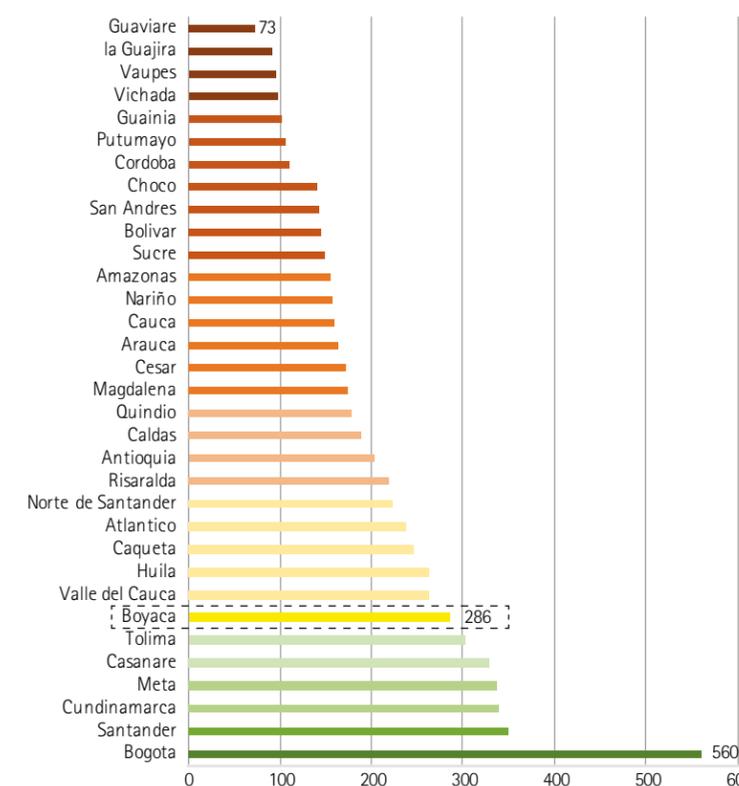
Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, prepared by Banca de las Oportunidades.

Upon observing the number of agents per 100.000 people per department, the high concentration of this channel in certain parts of the country is ratified, this being particularly pronounced in Bogota with 560 points.

Associated to this, only 6 departments of the 32 have an indicator above the national average (283,4), these are: Santander (350), Cundinamarca (339), Meta (338), Casanare (329), Tolima (303) and Boyaca (286).

In contrast, the departments with the lowest demographic penetration (per 100.000 people) through agents are: Guaviare (73), La Guajira (91), Vaupes (95), Vichada (98), Guainia (102), Putumayo (105) and Cordoba (110).

Chart 13. Number of agents per 100.000 people by department



Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria, prepared by Banca de las Oportunidades.

Mobile Advisors

The information that is presented in this section corresponds only to that of NGOs, this being the case for which historical information is available.

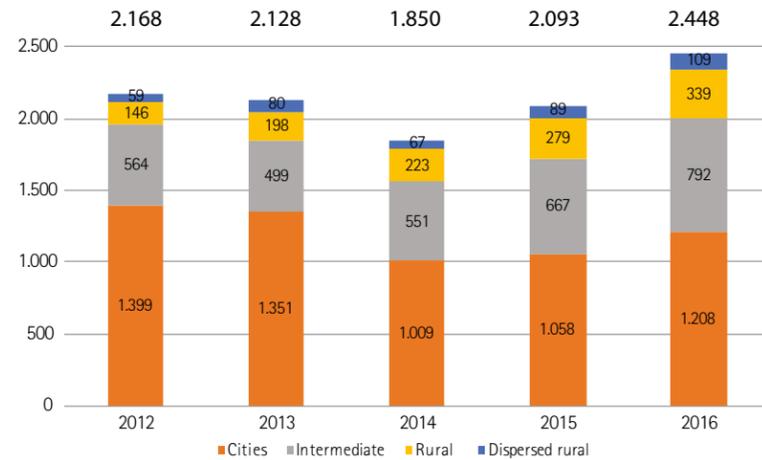
Mobile advisors have taken on greater importance because they are a versatile and flexible mechanism for reaching the country's remotest populations, which is evidenced in their more homogenous distribution in the various types of municipalities. In contrast, the other types of PoAs are characterized by their high concentration in cities.

To December 2016, NGOs reported a total of 2.448 advisors, 49,3% in cities, 32,4% in intermediates, 13,8% in rural and 4,5% in dispersed rural.

Between 2012 and 2016, average annual growth of mobile advisors nationwide was 20%, with greater growth in cities (22%) and intermediates (26%).

Over the past year, the increase in mobile advisors was 17%, for this period the municipalities where the channel was most dynamic was in rural and dispersed rural with annual growth of 22% in each case.

Chart 14. Mobile advisors by rurality level for NGOs



Sources: Micro lending NGOs, prepared by Banca de las Oportunidades

Points of Sale

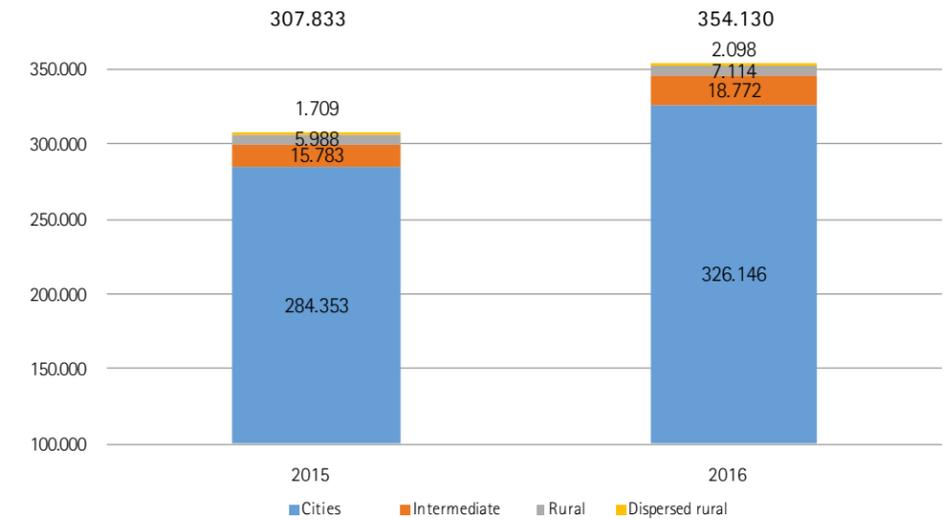
Between 2015 and 2016 a growing trend was observed in the number of Points of Sale in the country, with annual growth of 15%, which corresponds to 46.297 additional Points of Sale over the last year.

As in the case of other points of access, these devices are mainly located in cities where 92% of the total is concentrated. The location of this infrastructure is associated to the most important type of service they provide to financial consumers, which is that of allowing electronic payments to merchants.

As shown in the chapter on holding of financial products, the majority of the users who have savings accounts and credit cards are located in cities and this factor is a determinant in explaining the location and growth of this type of devices.

Despite Points of Sale being an urban channel, the increase of these devices in rural and dispersed rural municipalities has to be highlighted. Between 2015 and 2016, annual growth of 21% and 24%, respectively, were observed and which correspond to 1.245 and 418 additional Points of Sale in each case.

Chart 15. Evolution in the number of Points of Sale by rurality level between 2015 and 2016²⁵



Source: DANE, DNP, Low amount networks (Credibanco and Redeban), prepared by Banca de las Oportunidades.

To December 2016, the Points of Sale of low amount networks would have covered 928 municipalities of the 1.102 in the country, that is 84,2% of the national territory. This means that at the close of 2016 there were 178 municipalities that did not have this type of infrastructure to stimulate electronic transactions through merchants.

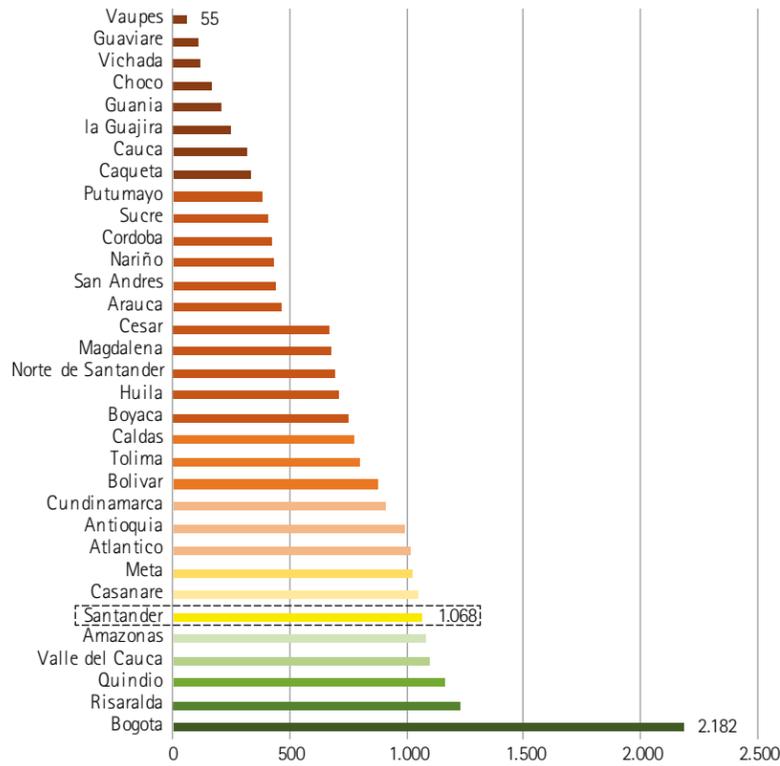
In the group of municipalities that had no Points of Sale there are two cities (San Cristobal - Bolivar and Nariño - Nariño), 11 intermediate municipalities located mostly in the departments of Bolivar and Nariño, 30 rural municipalities and 59 dispersed rural municipalities, mainly located in Boyaca and Choco.

At the end of 2016, the departments that exhibited a lower indicator in the number of Points of Sale per 100.000 people were: Vaupes (11), Guainia (24), Vichada (45) and Guaviare (71).

At the upper end of the Points of Sale indicator per 100.000 people the standouts are Bogota (2.182) and the departments of Risaralda (1.230), Quindio (1.163), Valle del Cauca (1.101), Amazonas (1.077) and Santander (1.068).

²⁵ Clarity is made in that the municipal information on Points of Sale considered in this section corresponds to that reported directly by the low amount networks. This differs slightly from that officially publishes in the Superfinanciera web page, where for December 2015 and December 2016, the data reported by both networks to Superfinanciera were 306.799 and 353.905, respectively.

Chart 16. Number of Points of Sale per 100.000 people by department

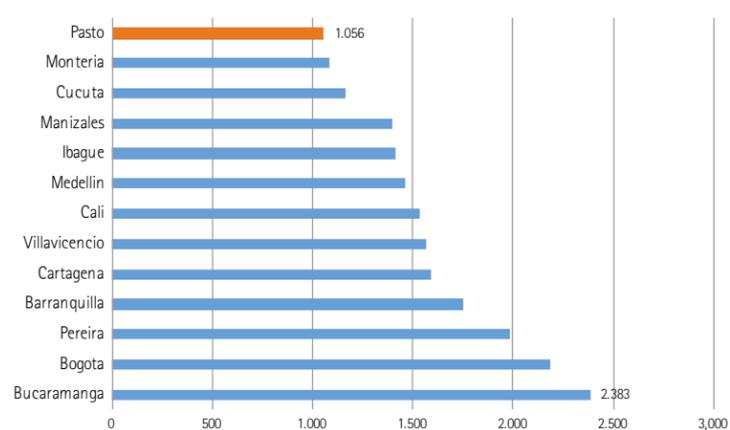


Source: DANE, DNP, Low amount networks (Credibanco and Redeban), prepared by Banca de las Oportunidades

At the level of the 13 main cities, all have an indicator over 1.000 Points of Sale per 100.000 people. Of these, all with the exception of Pasto (1.056 Points of Sale per 100.000 people) have indicators above the national average (1.068).

The standouts with the highest indicators are Bucaramanga (2.383) and Bogota (2.182).

Chart 17. Number of Points of Sale per 100.000 people in the 13 main cities



Source: DANE, DNP, Low amount networks (Credibanco and Redeban), prepared by Banca de las Oportunidades

A few annexes are included at the end of this chapter that provide detailed information at the municipal level on the change in financial penetration through offices and agents per 100.000 people between 2012 and 2016, as well as the situation in regard to fragile financial penetration at the end of the year 2016.

International comparison

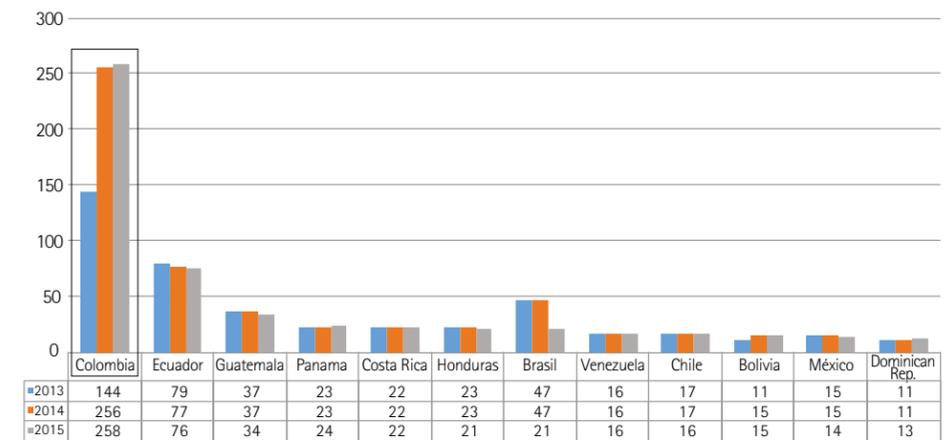
The information in this section is based on reports from the Financial Access Survey published annually by the International Monetary Fund (FAS Survey 2015, from its English abbreviation).

According to this information, to December 2015, the aggregate number of offices and agents of banks in Colombia rose to 94.074 points, a figure three times larger than that of other countries in the Latin American region, such as Mexico (12.831 points) and Brazil (32.950 points).

In terms of the number of points of access per 100.000 people (grouping branches and agents), at the end of 2015, Colombia led the group of countries in the Region with 258 points, while the other countries reported lower indicators, among these Ecuador (76 points), Guatemala (34), Panama (24), Costa Rica (22) and Honduras (21 points).

In the analysis of number of offices and Bank agents per 1.000 km², the behavior is similar to that of the indicator per 100.000 people. To December 2015, Colombia leads the ranking with 85 points per 1.000 Km², followed by Ecuador (35), Guatemala (33) and Dominican Republic (19).

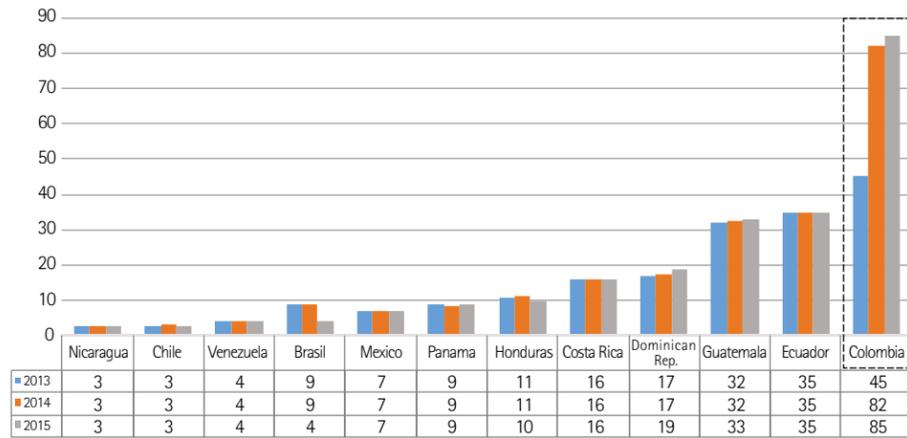
Chart 18. Number of Offices and Banking Agents per 100.000 people comparative 2013 to 2015²⁵



²⁵ This section presents the information on the 12 countries in Latin America and the Caribbean with the greatest levels in each of the indicators considered.

Source: FAS Survey (2015), prepared by Banca de las Oportunidades

Chart 19. Number of Offices and Banking Agents per 1.000 km2 comparative 2013 to 2015



Source: FAS Survey (2015), prepared by Banca de las Oportunidades

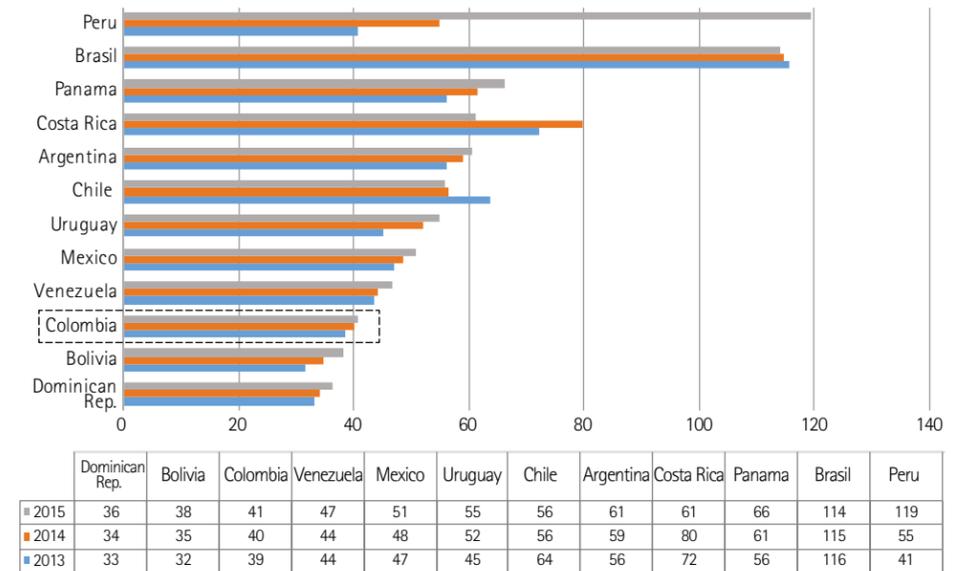
With regard to the network of automatic tellers, the leading position is in Brazil which reported 182.378 automatic tellers at the end of 2015. Following by number of ATMs are Mexico (46.627) and Peru (26.976). Peru showed a large increase in the network of automatic tellers, explained by a reclassification of the information they had been reporting the IMF. Colombia ranked in fifth place in number of automatic tellers (14.817).

In regard to the number of automatic tellers per 100.000 people, the countries with the highest indicators are Peru, Brazil and Panama with 119, 114 and 66 automatic tellers per 100.000 people, respectively.

Colombia, for its part, occupied the tenth place with an indicator of 41 automatic tellers per 100.000 people.

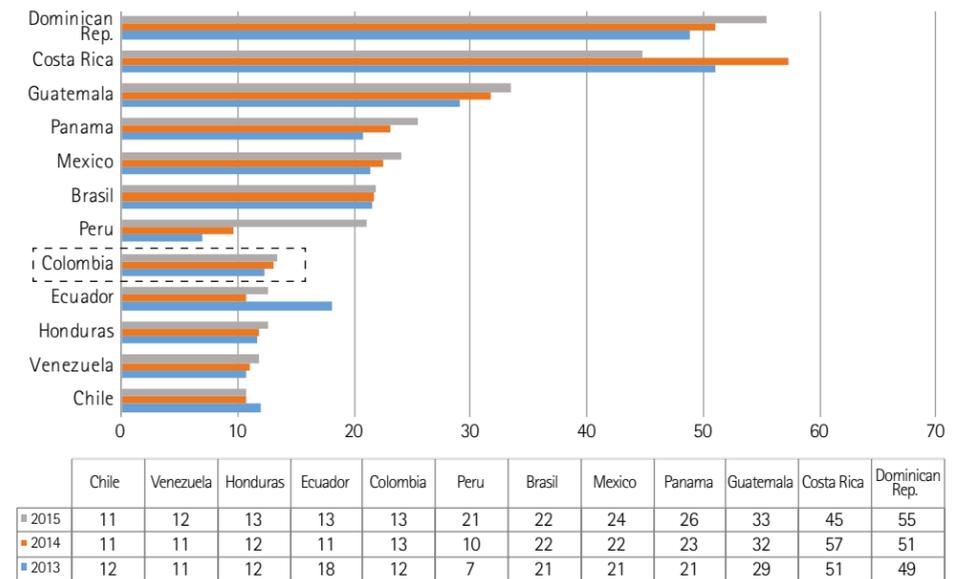
Finally, the number of automatic tellers per 1.000 km2 was led by the Dominican Republic with 55, followed by Costa Rica, Guatemala and Panama with 45, 33 and 26 automatic tellers per 1.000 km2, respectively. Colombia was ranked eighth in this indicator with 13 ATMs per 1.000 km2.

Chart 20. Total Number of Automatic Tellers (ATMs) per 100.000 people comparative 2013 to 2015



Source: FAS Survey (2015), prepared by Banca de las Oportunidades

Chart 21. Total Number of Automatic Tellers (ATMs) per 1.000 km2 comparative 2013 to 2015



Source: FAS Survey (2015), prepared by Banca de las Oportunidades

Conclusions

For 2016, the positive evolution on the subject of financial penetration was maintained with agents showing great dynamism, particularly in rural municipalities and offices grew in all types of municipalities.

The number of municipalities with the exclusive presence of one or two agents, known for the effects of this report as fragile financial penetration municipalities, was reduced from 56 to 38 between 2015 and 2016.

The dynamism in penetration in offices stands out, which for the past year grew at a rate of 5%, which meant opening 386 additional offices over the past year, mainly by Banks.

Points of Sale and banking agents are the points of access most widely extended throughout the country, both with high concentration in the largest cities and municipalities.

In the case of Points of Sale, the higher indicators in cities are explained by the type of services provided being driven toward facilitating electronic payments to merchants through the use of cards.

Highlighted are the growth in agents in savings and loans cooperatives supervised by SES and SFC over the past year, despite the fact that their network of agents remains marginal vis-à-vis that of banks and finance companies. In this regard, we highlight the opportunity these entities have to strengthen their presence in the remotest zones of the country through this channel and, in turn, contribute to reducing the gaps in penetration that exist between urban and rural zones.

Mobile advisors for their part offer great potential in reaching out in cost-efficient manner to rural and remote zones, given their ease of travel toward communities. Moving forward, it is important to continue to strengthen the reporting of information on this type of points to better learn of their evolution and the services they offer the communities, taking into account NGOs, in addition to other financial intermediaries that have this access channel available.

According to the demographic indicator (100.000 people), the departments of Vaupes and La Guajira are those with the most critical penetration levels, both in offices as well as agents. Likewise, Choco, Cauca and Cordoba are identified for offices, and Guaviare, Vichada and Guainia for agents.

The challenge in penetration continues to prevail, more so in a post-conflict scenario, where there is a wish to develop innovative access channels and new products that allow the true and sustainable inclusion of the population living in the remotest zones of the country.

This is why the detailed and ongoing mapping of the existence of points of access in the country's municipalities calls attention to gaps thereby stimulating the presence of financial entities and the most appropriate types of points of access in each territory, increasingly bridging financial supply and demand and driving in this manner access to formal financial services in the country.





Holding of
financial
products by
individuals and
companies

Holding of financial products by individuals and companies

This Chapter presents the state and recent evolution of the financial inclusion indicator highlighting certain peculiarities according to the type of financial institution and product.

In the latest annual reports, it has been possible to expand and further detail this analysis, thanks to the joint efforts between Banca de las Oportunidades and TransUnion, seeking to improve the quality of databases and consolidating new information about people and companies with financial products in the country.

Below, there is a description of the national and municipal ownership of financial products of the adult population and in the case of companies, the main indicators are shown at the national level.

INDIVIDUALS National analysis

Financial inclusion indicator²⁷

Between 2008 and 2016, only considering credit institutions²⁸, Colombia went from having a financial inclusion indicator of 55,5% (equal to 15,9 million people) to 76,4% (equal to 25,4 million people). Thus, in the last eight years, the number of people with any formal financial product, increased by 9,5 million.

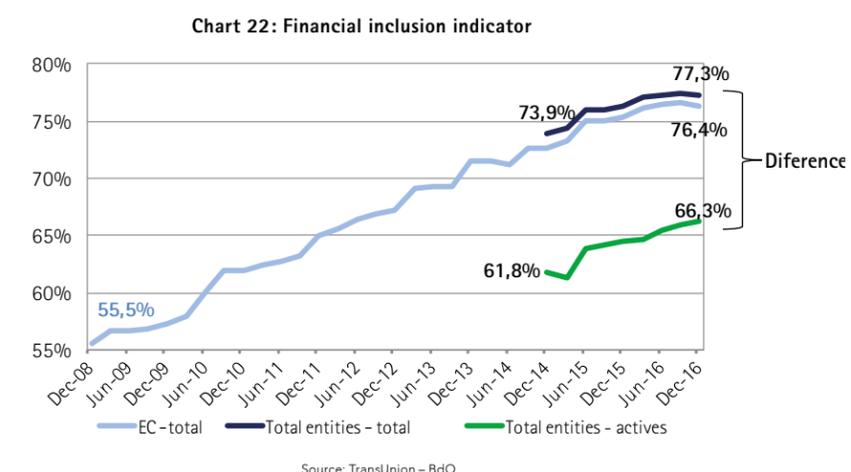
The quantification of the financial inclusion indicator started from December 2014 on people with financial products in financial intermediaries and in two additional types of entities: the cooperatives with a savings and loan section under the oversight of the Superintendencia de la Economía Solidaria (SES) and the NGOs focused on microloan placements. From this new measurement it became possible to establish that, although the financial inclusion indicator

increases with the addition of these new types of entities, this increase is marginal given that the greatest percentage of the adult population in Colombia gains access to formal financial services through financial intermediaries.

Likewise, from December 2014 the financial inclusion indicator began to be differentiated in two categories: i) product holding indicator and ii) active holding²⁹ indicator of products. According to these new indicators, for the total number of entities, between December 2014 and 2016, the percentage of people with any product increased from 73,9% (23,7 million people) to 77,3% (25,7 million people), while the percentage of people with any current product increased from 61,8% (19,9 million people) to 66,3% (22 million people).

From the most detailed information available in the last three years, two aspects are highlighted: i) the existence of a gap between holding of products versus active holding of products, which for December of 2016 was 11%, and ii) the greater growth in absolute and relative terms in the number of people with active products compared with the number of people with products, which, if they were maintained, would contribute to reducing the difference between the two indicators.

At the level of product type, the greatest increase in the number of people with active products is mainly observed among users of savings accounts, consumption credit (consumption and credit card) and fixed-term savings or certificates of deposit (CD).



²⁷ Percentage of people with financial products
²⁸ Banks, finance companies, financial corporations and financial cooperatives are among the financial intermediaries that are supervised entities by the Superintendencia Financiera de Colombia.

²⁹ The difference between both concepts is explained by the state in which the holder of each financial product is reported to the information clearinghouse on the part of the financial entities. The group of people with products that are current or in force does not consider those reported as cancelled, unrenewed or inactive during the reference period.

Table 5: Financial inclusion indicator by type of entity

Date	Financial intermediaries		SES Coop		NGO		All entities	
	%People w/some form of product	%People w/some form of product active	%People w/some form of product	%People w/some form of product active	%People w/some form of product	%People w/some form of product active	%People w/some form of product	%People w/some form of product active
Dec-2014	72,7%	60,5%	4,0%	2,5%	5,8%	2,7%	73,9%	61,8%
Dec-2015	75,4%	63,5%	3,9%	2,5%	3,8%	2,2%	76,3%	64,5%
Dec-2016	76,4%	65,1%	4,2%	2,7%	3,7%	2,4%	77,3%	66,3%

Source: TransUnion – BdO.

The previous table presents the financial inclusion indicators (%people with any product and %people with any active product) by type of entity³⁰. Highlighted here is that the greater part of the population that has formal financial products are engaged through financial intermediaries.

Thus, the percentage of people with any financial product to December 2016, was 76,4%, 4,2% and 3,7%, in the financial intermediaries, cooperatives with a savings and loans section supervised by Supersolidaria and NGOs, respectively.

Similarly, the percentage of people with any active product on the same date, was 65,1%, 2,7% and 2,4%, in the financial intermediaries, cooperatives with a savings and loans section supervised by Supersolidaria and NGOs, respectively.

Active users of financial products by gender and age

Once the share of people with formal financial products is identified, active users are characterized next by gender and age.

With respect to gender, there is a need to highlight the effort made over the last year to improve the quality of this information. While in 2014 and 2015 the share of people identified with the Unique Personal Identification Number (NUIP) of which it was not possible to identify their gender was over 20%, at the end of the year 2016, this share was reduced to 0,2%.

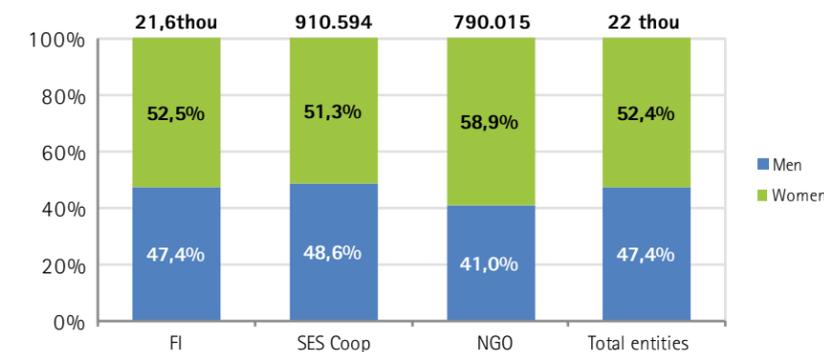
More robust information was generated from the above, in such a way that in the cumulative data by type of entity, with the exception of the NGO group, no clear differences were identified with respect to the active holding of financial products by gender.

Although the share of women with any active product is greater compared to the share of men, this difference bears a relation with the distribution of the adult population of the country, which to December 2016 consisted in 48,6%

men and 51,4% women. This distribution is similar to that observed in relation to the active holding of financial products by type of entity.

In the case of NGOs, however, active holding of financial products by women was 18% greater compared to men. In this manner, of the total active users in this type of entities (790.015 people), 41% are men and 58,9% are women. This composition allows inferring that, in the case of micro lending channeled through NGOs, the main target market corresponds to women.

Chart 23. Distribution of people with any active financial product by gender and type of entity – 2016



Source: TransUnion – BdO.

As for the composition of people with specific active products by gender, in the case of deposit products certain well differentiated patterns are observed. The active users of savings accounts show no clear differences in composition by gender. To December of 2016, of the 17 million people with active savings accounts, 52,5% were women and 47,4% men.

To the contrary, in all other deposit products it can be seen that the greatest share of active users are women. In the case of electronic savings accounts (CAE)³¹, the difference in favor of women is 76,8%, given that out of 2,5 million people with CAE accounts, 88,4% are women and 11,6% men. This behavior is explained because the majority of this type of accounts is used to channel Government transfers to the population, particularly from the Mas Familias en Accion program³²and victims of armed conflict, who are mostly women.

³⁰ It is important to note that the count in the number of people (unique identification numbers) is performed for each type of entity in independent fashion. Thus, the consolidated data for the total number of entities is not equal to the sum of people with financial products in each type of entity. This is because unique identification numbers are counted in each type of entity and in the consolidated figures so that the count is only done once when an individual has products in more than one type of entity. more than one type of entity.

³¹ Electronic savings accounts (CAE accounts) are targeted at the Sisben level 1 population and to the population registered in the Sole Registry of Displaced Populations. A large part of this population are beneficiaries of the Government transfers programs, additionally, this type of account has monthly debit limit of 2 SMMLV (approximately COP \$1.500.000).
³² According to information published by Prosperidad Social on its web page, to December 2015, 2,6 million families with 4,7 million minors have benefited through the Mas Familias en Accion - MFA Program.

Similarly, in the case of products that can be handled via cell phones (simplified procedure savings accounts - CATS³³ and electronic deposits³⁴) and CDs, a greater share of women is observed having current products. In each case, the difference in the share of women versus men with those products is 31% in favor of women.

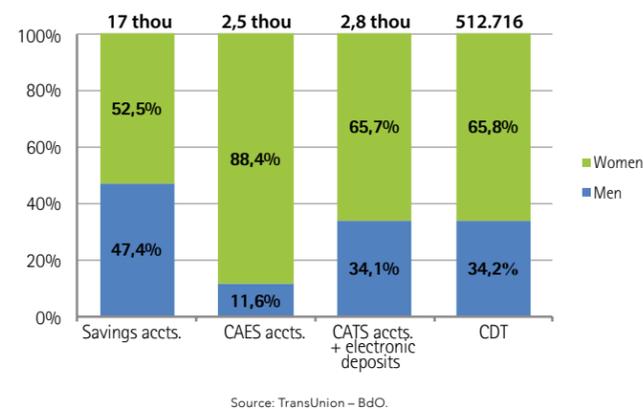
Thus, to December 2016, out of 2,8 million current users of cell phone-enabled products, 65,7% were women and 34,1% men. Similarly, of 512.716 active CD users, 65,8% were women and 34,2% were men.

In the case of electronic deposits, part of this division can be explained because it is a product that channels an important share of Government transfers. With regard to CD users, the common perception about women being more prone to saving in order to reach certain goals is ratified, for which fix term saving could constitute a good tool.

With regard to credit products, no clear differences are observed by gender, with the exception of consumption credit (consolidating consumption credit + credit cards). In this case, of 16,4 million people with this type of current credit at the end of 2016, 53,3% were men and 46,5% women, that is, a 6,8% difference in favor of men.

Additionally, the greater share of women with access to microloans which was highlighted for the specific case of NGOs, is lost when considering the composition of the population with current microloans for the total entities. At the consolidated level, of 3 million users with current microloans at the end of 2016, 48% were men and 51,9% women.

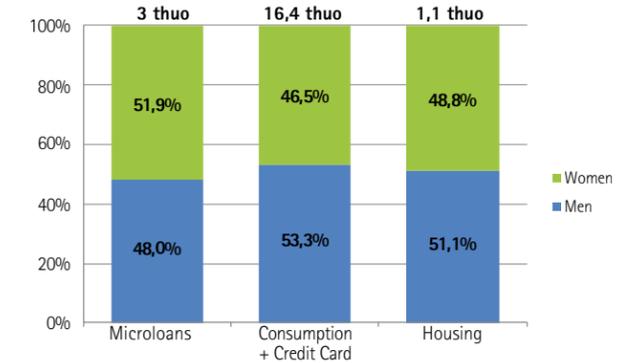
Chart 24: People with deposit products active by gender and product-2016



33 The simplified procedure savings accounts (CATS), are sight deposits that can be activated through a cell phone, with the national identification number and its date of issue. The monthly debit limit of these accounts is 3 SMMLV (approximately COP\$2.200.000) and the maximum balance is 8 SMMLV (approximately COP\$5.900.000).
 34 Electronic deposits (ED) are sight deposits other than savings accounts and checking accounts, whose holder can be a natural or legal person. The financial intermediaries can offer simplified formality EDs or normal formality EDs. These are under simplified formalities so long as the monthly debit limit and maximum balance do not exceed 3 SMMLV (approximately COP\$2.200.000). In this case, an account can be opened by cell phone with the identification number and its date of issue. When not dealing with a simplified formality product, the normal formality process has to be performed for know-your-customer and asset laundering control.

35 The total numbers of people with current cooperative products supervised by Supersolidaria and of NGOs have an asterisk to call attention to the fact that those totals are slightly lower than those shown in the segmentation by gender. The difference is explained because the database by age ranges is missing age information in certain records.

Chart 25: People with credit products active current by gender and product - 2016



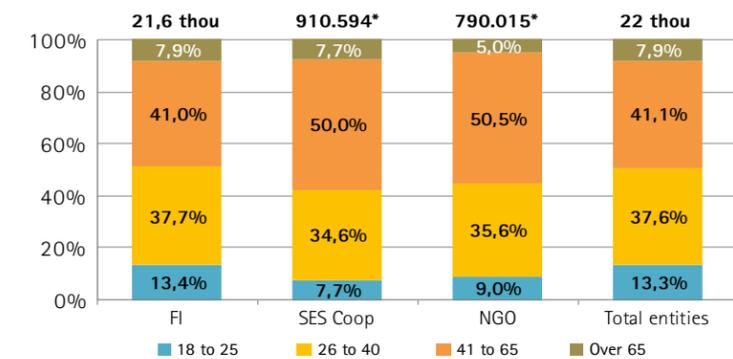
Source: TransUnion - BdO.

With respect to the composition of active users of financial products by age range, we highlight that for the total number of entities, the greatest share of users is concentrated in the 41 to 65 years old range (41,1%) and 26 to 40 years old (37,6%). These two ranges jointly represent 79% of the active users of the financial system, a percentage equal to 84,6% in the case of cooperatives with financial activity supervised by Supersolidaria and to 86% in that of NGOs.

Youths (people between ages 18 and 25) have increased their share in the total of active users of the financial system over the last two years. In 2014, they represented 9% and at the end of 2016 it came to 13,3%. This segment constitutes 7,7% in the cooperatives supervised by the Supersolidaria and 9% in the NGOs.

Those over the age of 65 are the least representative segment out of the total. By type of entity constitute 7,9% of the total entities and financial intermediaries, 7,7% in cooperatives supervised by Supersolidaria and 5% in the NGOs.

Chart 26: Distribution of people with any active financial product by age range and type of entity - 2016³⁵



Source: TransUnion - BdO

At the level of specific products, certain clear trends are identified with regard to age ranges of active users. In the case of savings accounts, 77,3% of active users are between 26 to 65 years old. This share is similar to that described with respect to users with any active product out of the total entities.

Youths between 18 and 25 years old (15,1%) are close to double that of those aged 65 years (7,6%). Furthermore, the youth segment has increased its relative importance out of the total number of active users in the last two years in various deposit products, among these, savings accounts, products that are handled by cell phone, such as simplified procedure savings accounts (CATS accounts) and electronic deposits and CDs. In the case of electronic savings accounts (CAE accounts) active users are mostly people between the ages of 26 and 65 years (95,6%).

The active users of products that can be handled by cell phone, such as simplified procedure savings accounts and electronic deposits have an age composition that is similar to that for savings accounts: 82% are between 26 to 65 years old and 14,4% are youths between 18 and 25 years old. This means, that although the acceptance of mobile banking products tends to be higher among youths, there are also active users of these products who are older than 40.

As a matter of fact, some financial institutions with this type of product offerings maintain that users in certain cases are digitally born to financial life their age notwithstanding³⁶.

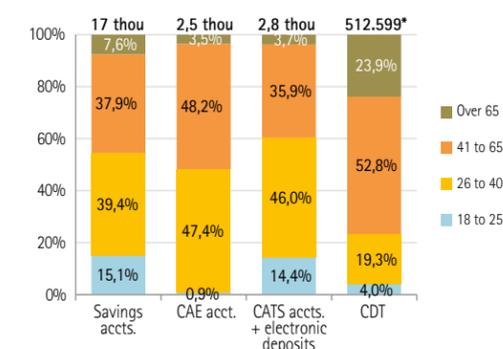
Fixed-term savings through CDs is most characteristic among people between 41 to 65 years old (52,8%) and above 65 years old (23,9%). This composition seems logical to the extent that this type of savings implies that users need to have liquidity surpluses that can be kept separate for some time to be spent in the future.

With regard to credit products, users with current credit are more concentrated in the 25 to 65 years old age ranges, the range at which 95,4% of mortgage loan debtors are grouped, 87,2% of those for mortgage loans and 84% of those for consumption loans.

For their part, the share of youths between 18 and 25 years old (6,9%) and those older than 65 years old (6%) with current microloans, is similar.

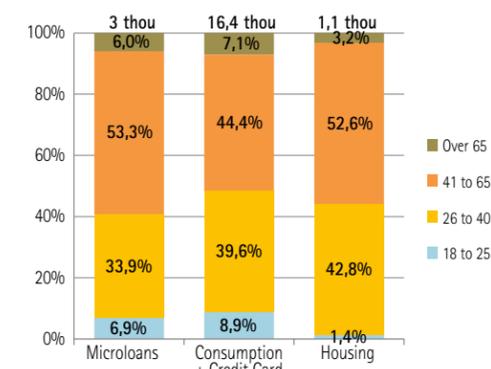
In the case of consumption lending, the share of youths with current products (8,9%) is slightly greater than the share of those older than 65 years old (7,1%) and in the case of housing loans, youths (1,4%) and those older than 65 years old (3,2%) are less representative of the total debtors.

Chart 27: People with deposit products current by age and product - 2016³⁷



Source: TransUnion - BdO.

Chart 28: People with credit products current by age and product - 2016



Source: TransUnion - BdO.

Adults entering the financial system for the first time³⁸

The number of people entering the financial system for the first time has been tracked since December 2014. According to the information from the past three years, 1 million adult users on average enter for the first time each year.

During 2016, 999.187 people entered for the first time, 5,6% more (53.361 additional people) compared to that observed in the year 2015, mainly explained by the greater number of people who entered the financial system through consumption credit (including credit cards), CDs and microloans.

³⁶ Programs, such as Government transfers, have contributed in this process of digital birth into financial life. To December 2016, according to information from Banco Davivienda, it is estimated that of the 2,7 million users with active electronic deposits, 650.000 (24%), were beneficiaries of Government transfer programs.

³⁷ The number of people with an active CD, segmented by age ranges has an asterisk to call attention to the fact that it is slightly lower than the number of users with an active CD segmented by gender. The difference is explained because in the information segmented by age ranges there are some records without age data.
³⁸ From December 2014, the number of people entering the financial system for the first time is being quantified by type of entity and by type of product. First time users are understood as those whose identification numbers do not exhibit coincidences (no prior records are identified) in the historical databases of the TransUnion information clearinghouse.

Financial intermediaries account for 95,3% of the total first time entries, the cooperatives supervised by Supersolidaria 1,4% and NGOs 3,3%.

A few variations are seen from one year to the next with regard to products through which the greater entry of persons is recorded, despite the fact that the main products for entry into the financial system in 2016 were savings accounts with 77,4% of the total.

In second place, products such as credit cards (7,1%), microloans (6,7%), consumption credit (3,7%) and CDs (2,9%) stand out. This was stimulated by the growing trend in attractive interest rates on deposits that prevailed during the greater part of the year 2016 and which made this type of savings more attractive³⁹.

Chart 29: People entering for the first time to the financial system

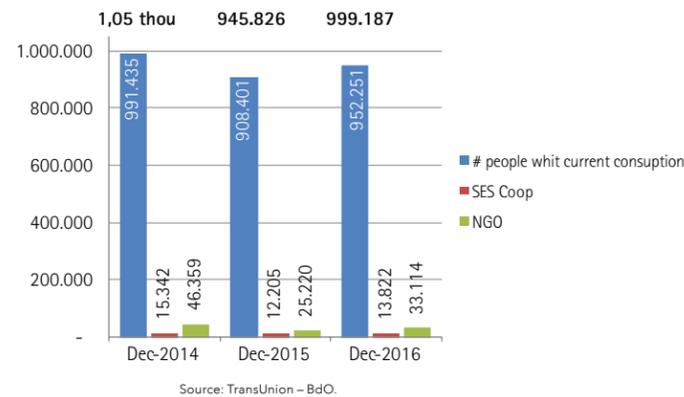
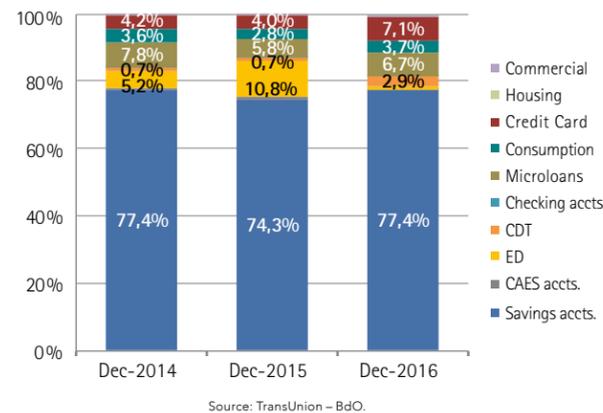


Chart 30: Products for entry to financial system



39 Between December 2015 and 2016, the TDR increased by 168 bp, going from 5,24% to 6,92%, during that period.

Municipal Analysis⁴⁰

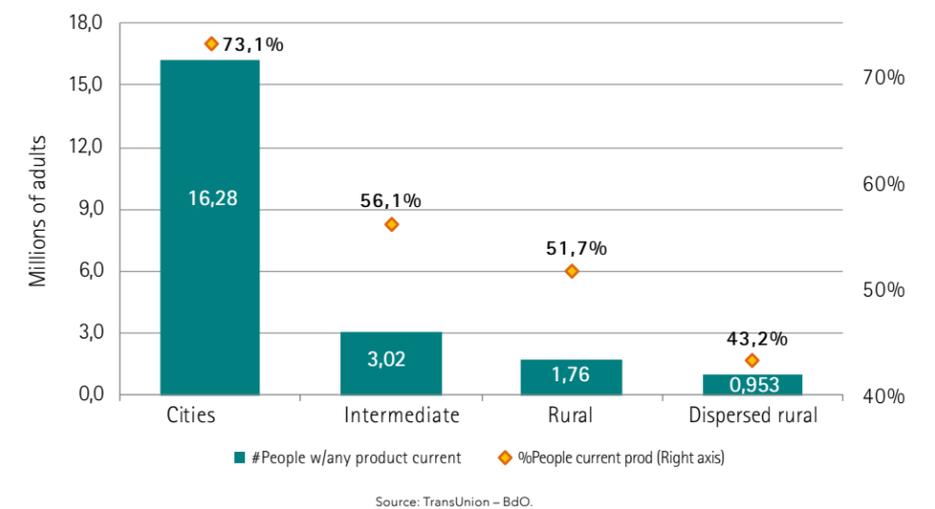
Active users of financial products

At the end of the year 2016⁴¹, 22 million people had any financial product current or in force, that is, 66,3% of the people in the country.

By rurality level⁴²one finds that the greatest share of people with any active financial product live in cities⁴³, where the percentage of people with any active financial product was 73,1%, followed by intermediate, rural and dispersed rural municipalities, with 56,1%, 51,7%, and 43,2%, respectively. Thus, the share of people with any active financial product in cities is 1,7 times that estimated for dispersed rural municipalities.

This situation suggests a double goal for the formal financial sector, given that in rural zones there is not only greater formal financial exclusion, but also the adult population living in those areas is lower, accumulating 17% of the country's total adult population. In order to reach out to this population it is necessary to develop different service channels and products adapted to the characteristics and needs of this population.

Chart 31: Number and percentage of people with any active financial product by rurality level – 2016



40 This section will analyze the active holding of financial products, that is, that the indicators shown refer to the percentage of people with any financial product current or in force.

41 The analysis of this section is concentrated in the year 2016. Information from prior years is not included because the quality of the information has been strengthened over time, and therefore, the information at municipal level available at the end of 2016, is not comparable with the municipal databases that were in hand in 2014 and 2015.

42 The classification in four rurality levels stems from a methodology developed by the Departamento Nacional de Planeación (DNP), that characterizes the country's municipalities as cities and agglomerations, intermediate municipalities, rural municipalities and dispersed rural municipalities; taking into account variables such as: i) population concentration, ii) degree of connectivity between municipalities, iii) main economic activities, iv) land vocation and use, and v) diverse forms of land relationships (indigenous reservations, collective territories, among others). This classification is updated annually by the DNP and its methodological details can be viewed at: <https://colaboracion.dnp.gov.co/CDT/Estudios%20Economicos/2015ago6%20documento%20de%20Ruralidad%20-%20DDRS-MTC.pdf>.

43 The determination of the municipality associated with each adult replies to the application of a series of criteria defined jointly between Banca de las Oportunidades and the information clearinghouse, which are applied in the following order of priority: i) the product holder's address is searched on the database, ii) in the event the address is not available, a search is done for the office of the last active product the holder had, and iii) as a final instance, in the event information for the two previous criteria is not available, a search is performed for the place where the holder's identification document was issued.

44 The group of the 13 main cities is comprised of: Barranquilla, Bogotá, Bucaramanga, Cali, Cartagena, Cucuta, Ibague, Manizales, Medellín, Montería, Pasto, Pereira and Villavicencio.

Upon analyzing the financial inclusion indicator by department and for the 13 main municipalities in the country⁴⁴we find that half of the country's departments (16) have a financial inclusion indicator that is similar to the national average (66,3%). Included in this group (in the lower side) are departments such as

Boyaca (61,4%), including departments such as Huila (70%), Meta (70,1%), Risaralda (71,5%), Santander (73,8%), Casanare (78,9%) and Bogota (82,4%)⁴⁵.

The rest of the departments exhibit financial inclusion indicator below 60%. Those with the lowest levels of financial inclusion correspond to Vaupes (17%), Vichada (29,1%) and La Guajira (34,7%).

For their part, the 13 main cities, with the exception of Cartagena (65,8%) and Pasto (63,7%) have financial inclusion indicators above the national average (66,3%). Levels above 80%; Bucaramanga (89%), Bogota (82,4%), Medellin (80,7%) and Pereira (80,6%) stand out.

Chart 32: %People w/any product active by department - 2016

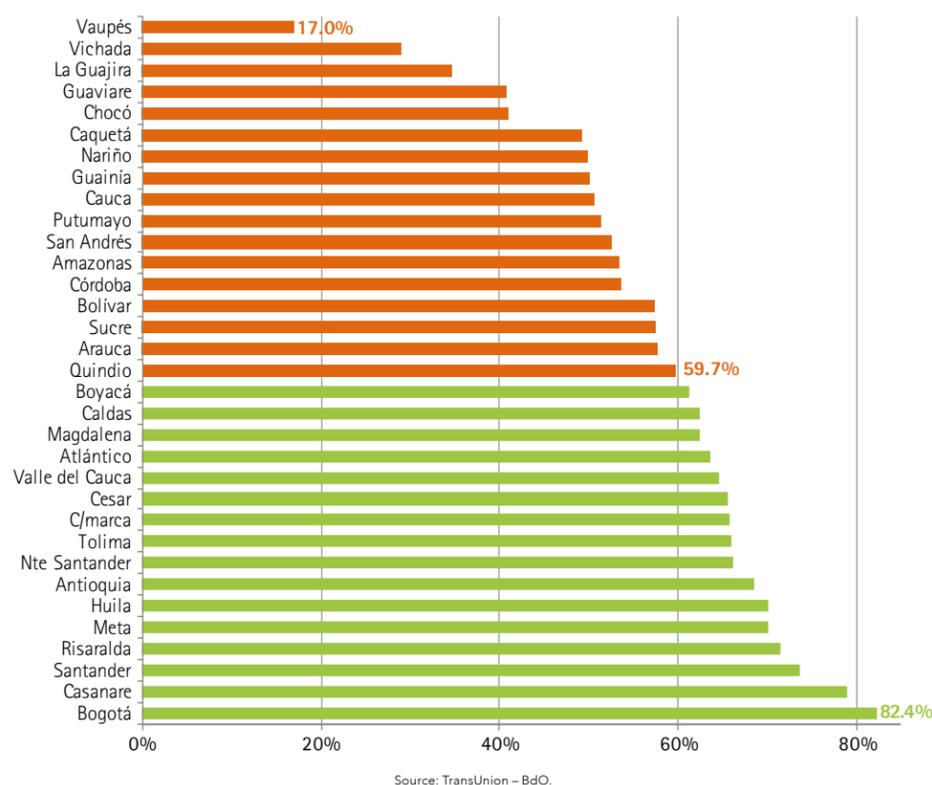
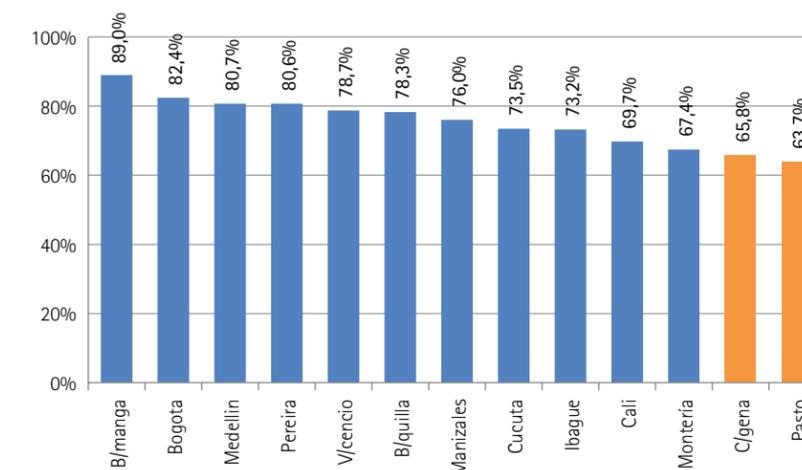


Chart 33: %People w/any product active - 13 cities - 2016



At the product level, to December 2016, 17 million people had any active savings account, that is 51,1% of people in the country, and the majority of these holders were located in cities (12,7 million people).

By rurality level, the percentage of people with active savings accounts was 56,8% in cities, 42,3% in intermediates, 39,3% in rural and 33,2% in dispersed rural. Similar to that noted in the case of the general indicator for financial inclusion, in cities, the percentage of people with active savings accounts is almost double the share observed in dispersed rural municipalities.

At departmental level, 14 departments have shares of people with savings accounts similar to the national average data (51,1%)⁴⁶. This group includes department such as Atlantico (46,1%) up to departments such as Casanare (61,7%) and Bogota (65,9%), with percentages above 60%.

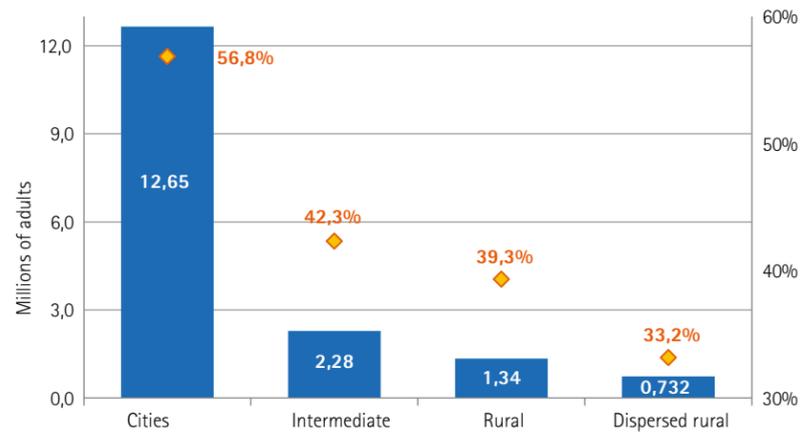
When comparing percentage of people with savings accounts with the percentage of people with any financial product, the data are very similar, with the exception of Boyaca department, which although having a financial inclusion indicator of 61,4% (similar to the national average), has a low percentage of people with active savings accounts at 44,6%.

Of the 17 million people with active savings accounts, 8,5 million (50%) live in the 13 main cities. All these, with the exception of Cartagena (50,3%) and Pasto (44,8%), have a share of people with any active savings account above the national average level (51,1%).

⁴⁵ his last, although not a real department, is considered independently because of its importance nationwide in terms of population and economic activity

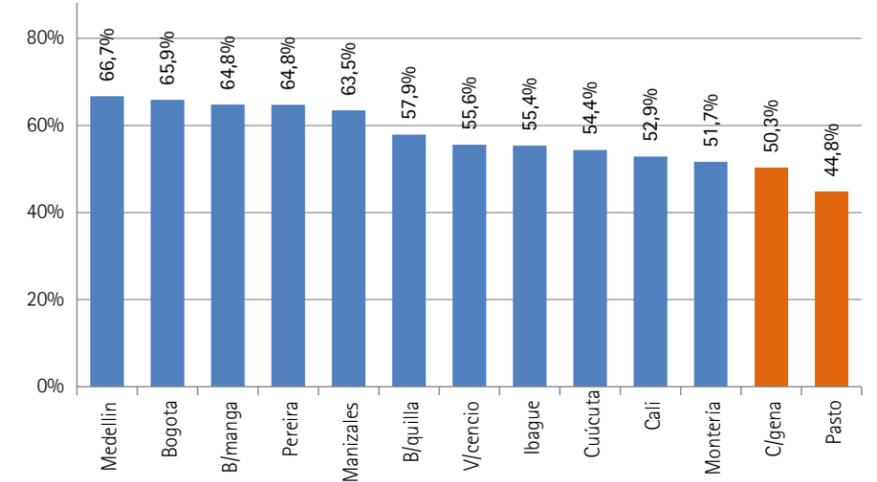
⁴⁶ For the effects of the analysis in this chapter, indicators are considered to have similar levels to the national average when the difference with the average data point is 5% above or below the average national indicator.

Chart 34: Number and percentage of people with an active savings account – 2016



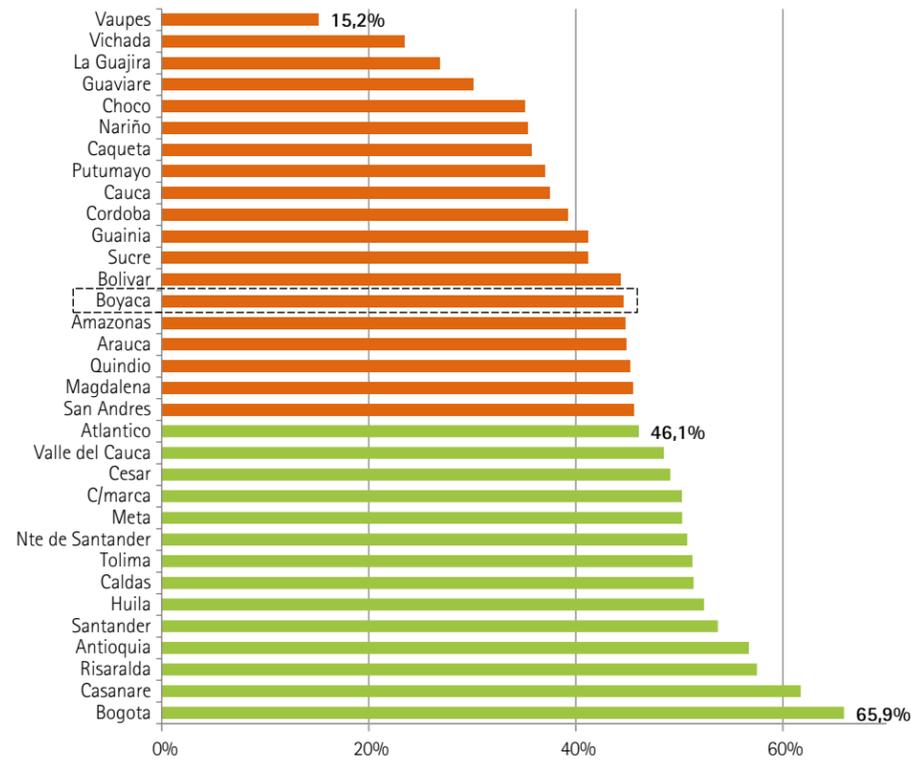
Source: TransUnion – BdO.

Chart 36: %People w/savings acct active – 13 cities – 2016



Source: TransUnion – BdO.

Chart 35: %People w/savings acct active by department – 2016



Source: TransUnion – BdO.

With respect to micro lending, to December 2016 there were 3 million people with this type of current credit, representing 9,1% of the people in the country. Contrary to what occurs with the general indicator of financial inclusion and the active holding of savings accounts, micro lending exhibits more homogenous penetration (less concentrated) in the diverse types of municipalities and higher in intermediate and rural municipalities in comparison with the cities.

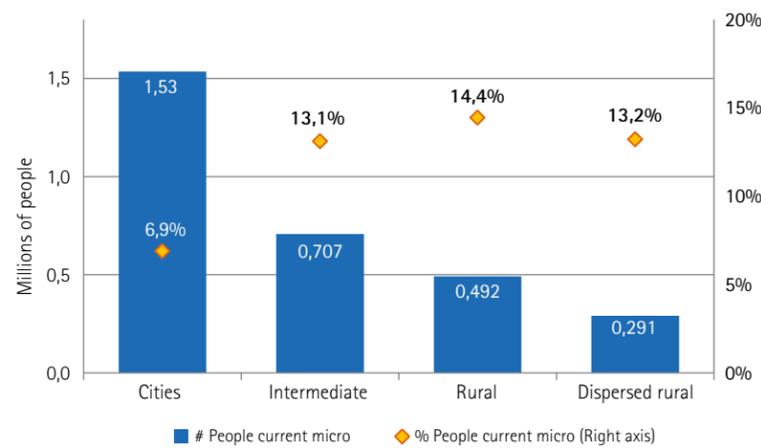
While in cities the percentage of people with current microloans was 6,9%, this percentage increases to 13,1% in intermediate municipalities, 14,4% in rural and 13,2% in dispersed rural.

At departmental level, 17 departments have percentages of their adult population with current microloans similar to the data for the national average (9,1%). On the lower side of this group are Caldas (8,6%) and the percentage increases in others such as Nariño (16,7%) and Huila (21%).

When comparing the percentage of people with current microloans by department with the general indicator for financial inclusion, it is seen that there are departments like Risaralda, Atlantico, Valle del Cauca, Antioquia and Bogota, that, while having a financial inclusion indicator similar or above the national average, exhibit relatively low penetration of micro lending, below the national average for this type of credit.

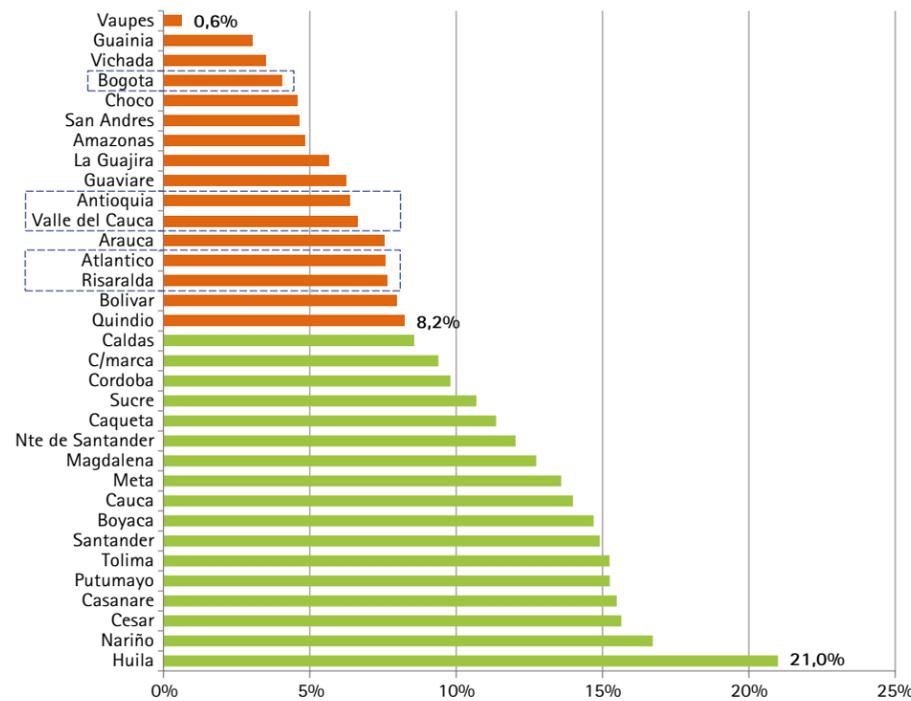
The low penetration of micro lending in certain important urban centers is ratified upon observing the indicators for the 13 main cities. Of the 3 million people with current microloans, 816.651 (27%) live in these cities. For example, Barranquilla (7,2%), Cartagena (6,5%), Pereira (6,3%), Cali (5,3%), Medellin (4,9%), Manizales (4,6%) y Bogota (4,1%), have a percentage of people with current microloans below the national average data for this product. This reveals an opportunity for the financial sector to exploit these markets more.

Chart 37: Number and percentage of people with current microloans - 2016



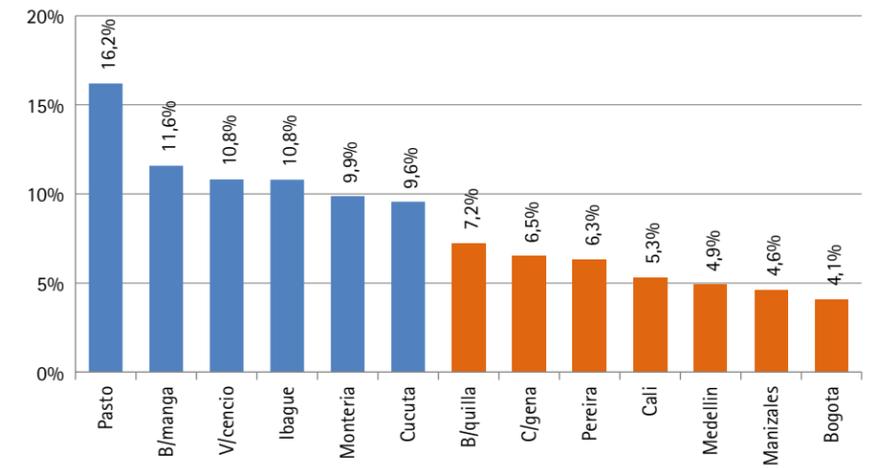
Source: TransUnion - BdO.

Chart 38: People with microloans current by department - 2016



Source: TransUnion - BdO.

Chart 39: %People with microloans current -13 cities - 2016



Source: TransUnion - BdO.

With regard to consumption credit (including credit cards) it is seen that this is the credit product with greatest penetration among Colombians. To December 2016, 16,4 million people had any current consumption loan, that is, 49,4% of the people in the country.

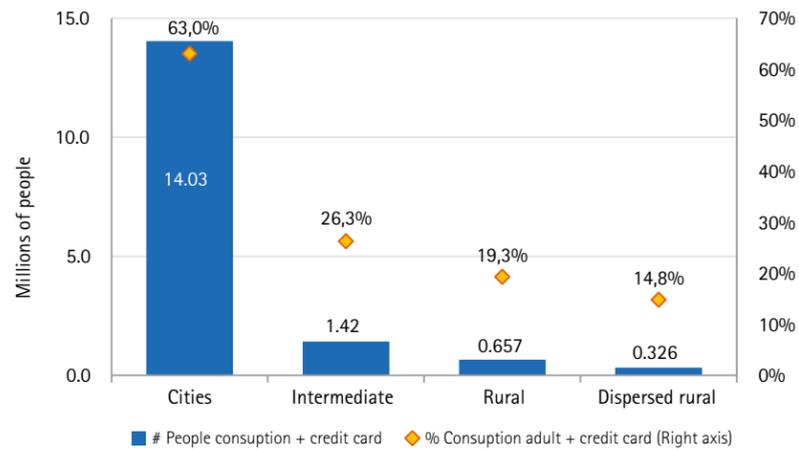
This type of credit is one of those exhibiting the greatest geographic concentration to the extent that the majority of the population with these products live in cities: while in cities the percentage of people with current consumption loans is 63%, this percentage is reduced to 26,3% in intermediates, 19,3% in rural and 14,8% in dispersed rural. This means that the percentage of people with consumption credit in cities is 2,4 times, 3,3 times, and 4,3 times, the levels observed in intermediate, rural and dispersed rural municipalities, respectively.

At departmental level, 10 departments have percentages of their adult population with access to consumption credit similar to the data for the national average (49,4%). The others have percentages of people with consumption credit below 40%. For their part, Vichada (15,7%), Choco (14,2%) y Vaupes (6,8%), have the lowest percentages of people with this type of credit.

Additionally, departments such as Tolima, Norte de Santander, Caldas, Boyaca, Cesar and Magdalena, have a financial inclusion indicator that is similar or higher than the national average. Notwithstanding, they exhibit low percentages of people with current consumption loans.

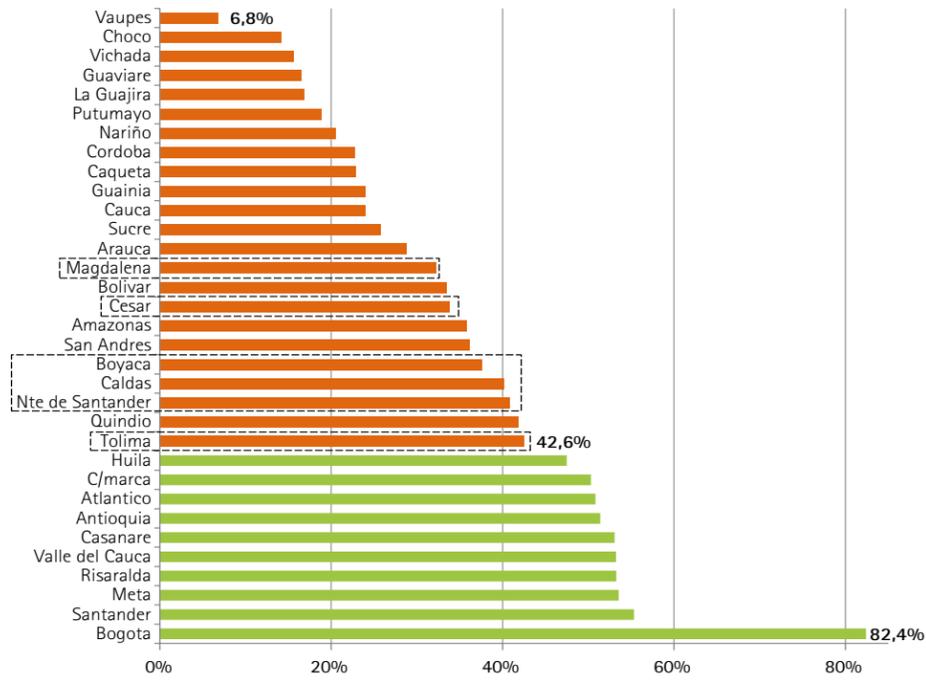
The 13 main cities in the country concentrate 9,93 million people with current consumption loans, representing 60,4% of the population with this type of credit. All these cities, with the exception of Monteria (40,8%), and Pasto (40,1%), have a percentage of people with consumption credit above the percentage of the national average (49,4%)

Chart 40: Number and percentage of people with consumption credit + current credit cards - 2016



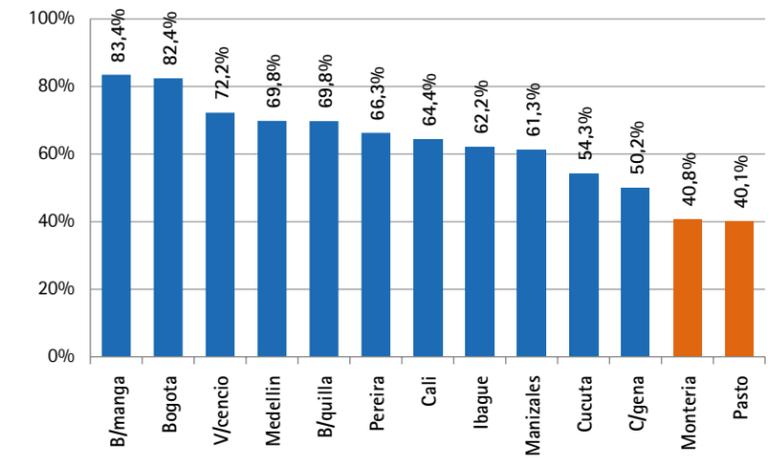
Source: TransUnion - BdO.

Chart 41: %People w/consumption + Credit Card current by department - 2016



Source: TransUnion - BdO.

Chart 42: %People w/consumption + Credit Card current -13 cities - 2016



Source: TransUnion - BdO.

All other deposit products and mortgage loans, have lower penetration among the Colombian population. At the end of 2016, there were 2,5 million active users of electronic savings accounts, that is, 7,4% of people. This type of accounts has a greater share of users in intermediate and rural municipalities. Thus, the percentage of people with this type of accounts was 5,5% in cities, 10,7% in intermediate municipalities, 12,7% in rural and 10,8% in dispersed rural.

The products that are handled by cell phone, such as simplified procedure savings accounts (CATS accounts) and electronic deposits, reached 2,8 million active users (of which 96,4% were users of electronic deposits).

Jointly, the active users of these two products represent 8,3% of the country's people and the percentage of people with active products are very similar in the various rurality levels: 8% in cities, 9,1% in intermediates, 9,1% in rural and 8,7% in dispersed rural⁴⁷.

In regard to mortgage loans, this is the product with the lowest penetration in the country and the active users mostly live in cities. To December 2016, there were 1,1 million people with current mortgage loans, representing 3,4% of the people in the country. In cities, 4,6% of people have a mortgage loan. A Percentage that is lower to 1% in the other types of municipalities.

The 13 main cities concentrate 756.204 mortgage debtors, 68% of the total active users of this type of credit. Cucuta (3,3%), Barranquilla (3,2%), Pasto

47 The assignment of a municipality for users of products handled by cell phone is done as a function of the holder's information. First, identifying the holder's address from the database and if unavailable, identifying the address of the financial office of the last active financial product where there is a record on the holder.

(3,1%), Cartagena (2,1%) y Monteria (2%), have percentages of adult population with mortgage loans below the national average (3,4%).

People entering the financial system for the first time

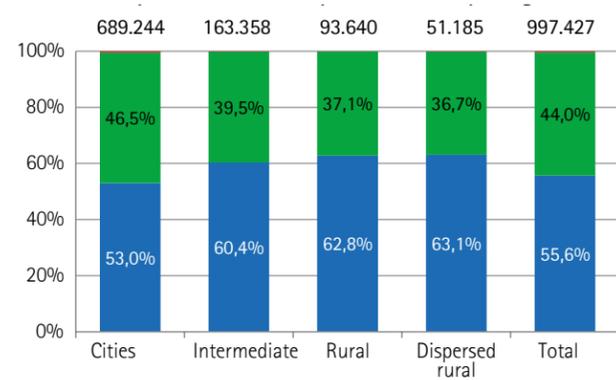
People who entered the financial system for the first time in 2016 were mostly men (55,6% of the total). This difference in gender in favor of men, which is not clear in cities, is observed in intermediate, rural and dispersed rural municipalities and becomes more pronounced as municipalities are more rural.

For example, during 2016, in intermediate municipalities 163.358 people entered for the first time, of which 60,4% were men. In rural areas, of 93.640 first-time people, 62,8% were men and in dispersed rural out of 51.185, 63,1% were men. This behavior evidences the need to not only look for innovative options to deliver formal financial services to rural populations, but also, to implement gender-focused rural financial inclusion strategies.

In regard to the age of users that enroll for the first time in the financial system, the majority concentrate around the younger age ranges. The composition of the new population in the financial system at the average national level was 43,9% between 18 and 25 years old, 27,2% between 26 and 40 years old, 22,1% between 41 and 65 years old and 4,7% over 65 years old. No clear differences are observed in the composition by age of new users in the various types of municipalities.

Of the total number of people who entered for the first time in 2016, 80% were concentrated in 14 departments. Of this group, five departments (including Bogota) accounted for 53,4% of the total; Bogota (17,7%), Antioquia (14,1%), Valle del Cauca (10,7%), Cundinamarca (5,9%) and Atlantico (5%).

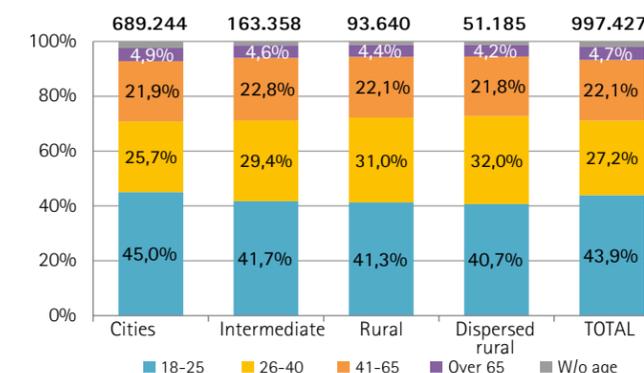
Chart 43: #People 1st time in the system by rurality and gender ⁴⁸ - 2016



Source: TransUnion - BdO.

⁴⁸ Information at the municipal level exhibits small differences compared to the information nationwide. This occurs because at municipal level there are certain records (1.760 or 0,2% of the total base) that do not have information of the specific municipality and, therefore, cannot be attributed to a rurality level or department in particular.

Chart 44: #People 1st time in the system by rurality and age ranges - 2016



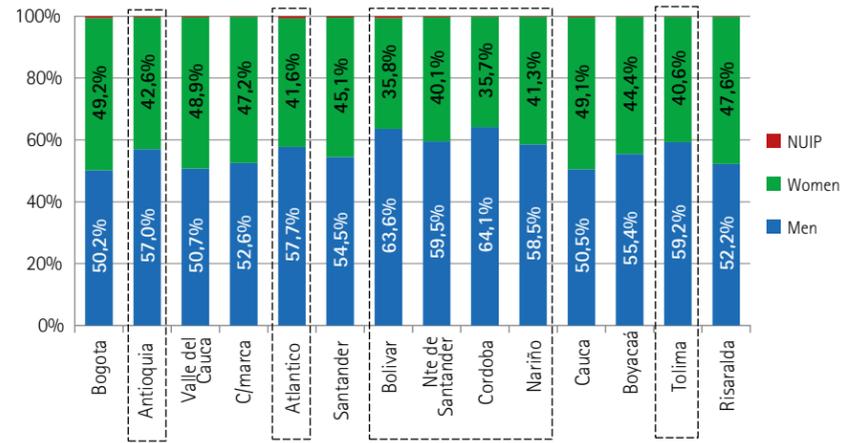
Source: TransUnion - BdO.

Departments such as Antioquia (57%), Atlantico (57,7%), Bolivar (63,6%), Norte de Santander (59,5%), Cordoba (64,1%), Nariño (58,5%) and Tolima (59,2%), show that most of those who entered the financial system for the first time in 2016 were men. In all the other departments with the greatest inflows, no clear difference is observed in regard to gender because the distribution of the new users is similar to that observed for the total adult population of the country (48,6% men and 52,4% women).

In the 13 main cities in the country 439.902 people entered the financial system in 2016, for the first time, which represented 44% of the total number of people engaged for the first time during that year.

At the gender level, no clear differences are observed in the composition of the new users of financial services in the 13 main cities, with the exception of Cartagena (57,4%) and Monteria (61,3%), where the majority of the people entering for the first time in 2016 were men.

Chart 45: #People 1st time in the system by department and gender - 2016



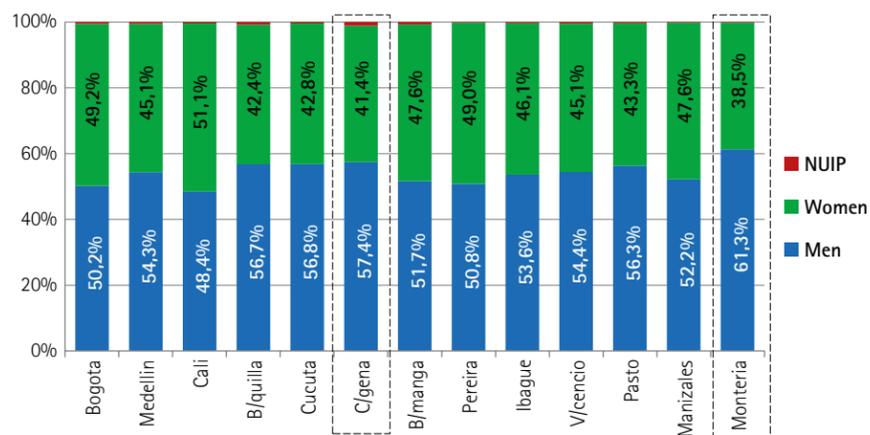
Source: TransUnion - BdO.

Table 6: People 1st time in the system by department and gender - 2016

Department	Men	Women	NUIP	Total	Part %	Part % cumulative
Bogota	88.802	87.151	1.036	176.989	17,7%	17,7%
Antioquia	80.107	59.884	547	140.538	14,1%	31,8%
Valle del Cauca	54.062	52.165	342	106.569	10,7%	42,4%
C/marca	31.162	27.993	115	59.270	5,9%	48,4%
Atlantico	28.810	20.770	324	49.904	5,0%	53,4%
Santander	24.103	19.963	184	44.250	4,4%	57,8%
Bolivar	22.594	12.729	225	35.548	3,6%	61,4%
Nte de Santander	19.073	12.848	118	32.039	3,2%	64,6%
Cordoba	20.405	11.358	53	31.816	3,2%	67,7%
Nariño	16.881	11.902	59	28.842	2,9%	70,6%
Cauca	14.319	13.929	92	28.340	2,8%	73,5%
Boyaca	15.579	12.482	46	28.107	2,8%	76,3%
Tolima	15.919	10.898	56	26.873	2,7%	79,0%
Risaralda	12.626	11.495	52	24.173	2,4%	81,4%

Source: TransUnion - BdO.

Chart 46: #People 1st time in the system 13 cities according to gender - 2016



Source: TransUnion - BdO.

Table 7: #People 1st time in the system 13 cities according to gender - 2016

City	Men	Women	NUIP	Total	Part %	Part % cumulative
Bogota	88.802	87.151	1.036	176.989	40,2%	40,2%
Medellin	36.474	30.278	358	67.110	15,3%	55,5%
Cali	26.562	28.043	244	54.849	12,5%	68,0%
B/quilla	16.300	12.190	234	28.724	6,5%	74,5%
Cucuta	10.386	7.826	80	18.292	4,2%	78,6%
C/gena	10.300	7.430	211	17.941	4,1%	82,7%
B/manga	6.817	6.280	98	13.195	3,0%	85,7%
Pereira	6.687	6.451	32	13.170	3,0%	88,7%
Ibague	5.928	5.098	37	11.063	2,5%	91,2%
V/cencio	5.582	4.627	50	10.259	2,3%	93,6%
Pasto	5.470	4.203	36	9.709	2,2%	95,8%
Manizales	5.030	4.589	24	9.643	2,2%	98,0%
Monteria	5.493	3.446	19	8.958	2,0%	100,0%
Total 13 cities	229.831	207.612	2.459	439.902		

Source: TransUnion - BdO.

COMPANIES⁴⁹

National Analysis

Companies with financial products

The information on the number of companies with financial products in financial intermediaries is available from the year 2008, while the information about companies with financial products in other types of entities is in hand from December of 2014.

Between December 2008 and December 2016, the number of companies with any financial product in financial intermediaries increased by 279.687 companies, going from 471.386 to 751.073. This increase corresponds to an average annual growth of 6,3%, during the period.

From December 2014, when details by type of entity have been available, there is evidence that the supply of financial services to companies by cooperatives with financial activity supervised by Supersolidaria and NGOs is marginal. Of the information reported, the majority of companies with financial products are engaged with some type of financial intermediary⁵⁰.

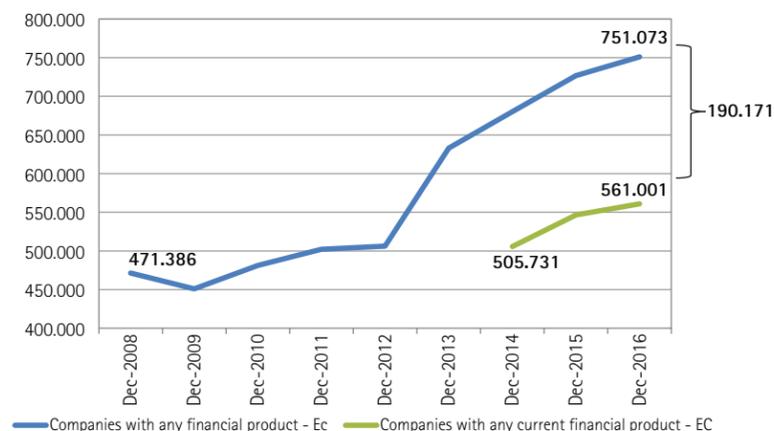
To December 2016, for the total number of financial entities, there were 751.851 and 561.680 companies with any financial product and with any active financial

⁴⁹ This section presents the information on the number of companies (legal persons) who have any financial product according to the Information Clearinghouse. This information is not available in segmented fashion by company size.

⁵⁰ To December 2016, of a total 561.680 companies with current products, 561.001 were engaged by a financial intermediary, 2.221 in a cooperative of some sort with financial activity supervised by Supersolidaria SES and 359 to an NGO.

product, respectively. This means, that of the total number of companies, there were 190.171 that did not have current or dormant financial products at the end of the year 2016.

Chart 47: Number of companies with financial products in financial intermediaries



Source: TransUnion – BdO.

Table 8: Number of companies with financial products by type of entity

Date	FI		SES coop		NGO		Total entities	
	#Companies with any prod	#Companies with any current prod	#Companies with any prod	#Companies with any current prod	#Companies with any prod	#Companies with any current prod	#Companies with any prod	#Companies with any current prod
Dec-2014	680.167	505.731	2.892	1.333	482	300	680.850	506.110
Dec-2015	726.775	546.477	3.605	1.876	546	321	727.492	547.027
Dec-2016	751.073	561.001	3.956	2.221	590	359	751.851	561.680

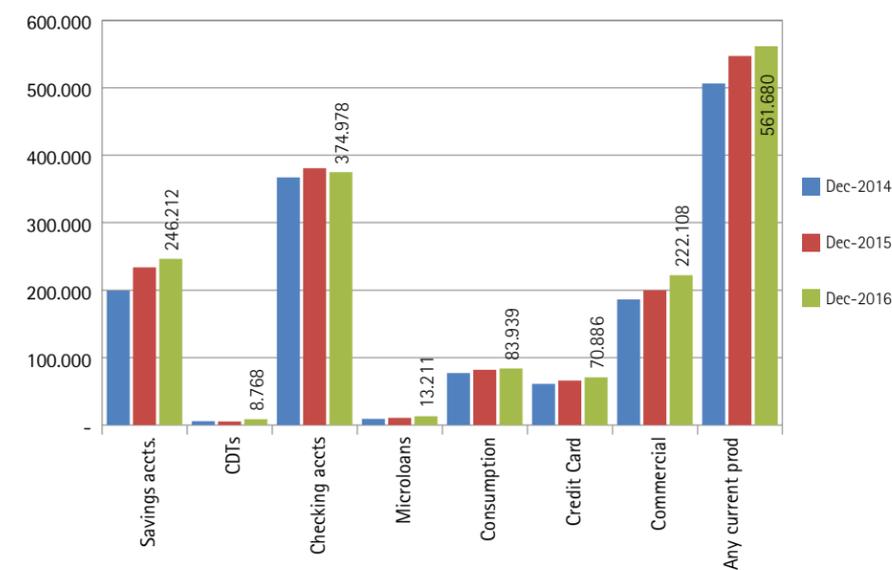
Source: TransUnion – BdO.

The table above details the number of companies with any financial product and with any active financial product by type of entity. What stands out here is that for the majority of the companies for which information reports are in hand, their financial products are with a financial intermediary.

The financial products with the greatest penetration among the companies tracked correspond, in order, to checking accounts (374.978 companies), savings accounts (246.212 companies) and commercial credit (22.108 companies).

On average, between December 2014 and December 2016, the number of companies with any active product increased by 5,4%, especially through a greater number of companies with products such as any active product, commercial credit, microloans and CDs.

Chart 48: Number of companies with active financial products by product



Source: TransUnion – BdO.

Companies entering the financial system for the first time

According to available statistics, from December 2014, around 30.000 companies enroll in the formal financial system for the first time each year⁵¹.

In 2016, 31.420 companies entered the financial system for the first time, 20% less than the companies that entered the system during 2015 (39.298 companies). This reduction is mainly explained by the decrease in the number of companies that engaged for the first time through savings accounts and checking accounts⁵²

The number of companies enrolling for the first time in the financial system is in contrast with the number of companies created each year.

According to Confecamaras⁵³, during 2016, 76.794 firms were created as bodies corporate; this number does not include firms which were created as single proprietorships, which totaled 222.838 in 2016.

When listing the number of companies entering the financial system for the first time (31.420 in 2016), these represent 41% of the total number of firms created as bodies corporate in the same year (76.794). This low share suggests questions regarding the reasons that would explain the low number of firms engaging with the formal financial system each year vis-à-vis statistics for new firm creation which are almost double that of the former.

51 The companies are assumed to engage for the first time with the financial system when the information clearinghouse PLS READ finds no prior records or hits on its databases of historical records for their tax identification numbers (NIT).

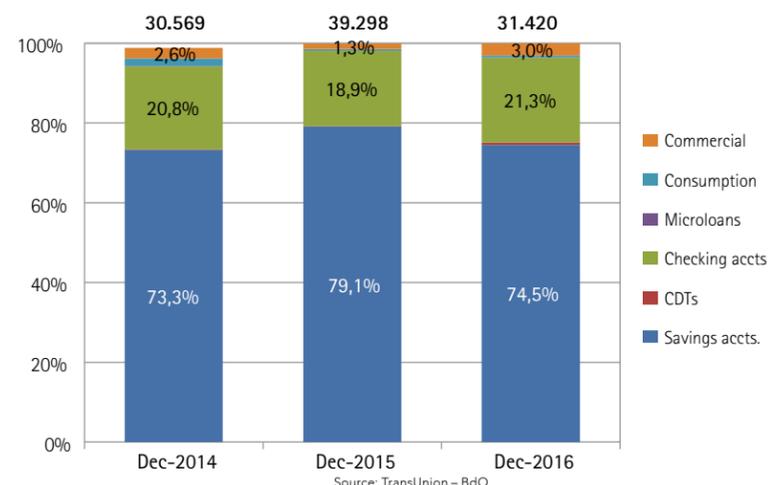
52 A variety of analyses have identified a reduction in the use of checking accounts in recent years. According to Semana Económica #1081 for March 2017, checks (which are the payment method associated to checking accounts) are being used less. Citing the Payments Systems Report prepared by Banco de la República, between the years 2010 and 2015, the number of checks settled (inter and intra bank) was reduced 36% and the amount transacted through these was reduced 29% over the same period. The reference publication can be viewed through the following link: <http://www.asobancaria.com/2017/03/13/edicion-1081-las-transferencias-electronicas-un-sustituto-perfecto-para-muchas-de-las-transacciones-economicas-que-se-hacen-en-efectivo/>

53 The statistics for annual creation of new companies is reported by Confecamaras in "El informe de Dinámica Empresarial – 2016", which can be viewed through the following link: http://www.confecamaras.org.co/phocadownload/2017/Informe_din%C3%A1mica_empresarial/Informe_de_Din%C3%A1mica_Empresarial_2016.pdf.

Some of the reasons that could be associated to this difference include possible underreporting by financial entities to the Information Clearinghouse of the numbers of firms with financial products and exceptional situations where certain bodies corporate do not open accounts or other products in the course of their incorporation.

The main products for entry on the part of companies correspond in order to savings accounts (74,5%), checking accounts (21,3%) and commercial credit (3%), products which coincide with those with the greatest penetration among Colombian companies.

Chart 49: Number of companies that enroll for the first time in the financial system by product – total entities



Conclusions

The information on holding of financial products in the country has been strengthened over the past three years. Today, there is information about users of financial services of a wider set of financial intermediaries and the databases with information about these persons have been populated and their quality has been improved in matters such as the geographic location of the holders and socio-demographic information such as gender and age.

This has allowed having greater clarity regarding the status and progress of financial inclusion indicators in Colombia and has allowed identifying certain gaps between holding of products versus active holding, the gender composition of holders and new users of financial services and the degree of inclusion nationwide versus at territorial level.

This chapter presented the recent evolution of the financial inclusion indicator, which, though positive, highlights the existence of an 11% gap in holding and active holding.

Certain characteristics of active users of financial products were identified as well as their peculiarities by type of entity and by type of product. Upon incorporating variables such as gender and age of the active users of financial services, certain challenges were identified that need to be approached in order to deepen financial inclusion in certain segments of the population, such as men with fixed term savings products or women with regard to access to products such as consumption credit.

Likewise, the importance of carrying out focused actions is revealed with regard to youths (between 18 and 25 years old) and people over 65 years old, given they are segments whose relative importance within the total population with active financial products is low.

At municipal level, the fact that there is greater financial inclusion in urban areas vis-à-vis rural is ratified once again, and therefore, innovative channels and products need to be sought out to allow delivering formal financial services to the country's remotest and most dispersed areas.

While the national average financial inclusion indicator (active holding) was 66,3% at the end of 2016, this indicator was 73,1% in cities, 56,1% in intermediaries, 51,7% in rural and 43,2% in dispersed rural. Thus, the Percentage of financial inclusion in cities is 1,7 times that of dispersed rural municipalities.

At departmental level, the lowest financial inclusion indicators are seen in Vaupes (17%), Vichada (29,1%) and La Guajira (34,7%).

The 13 main cities, with the exception of Cartagena (65,8%) and Pasto (63,7%) have financial inclusion indicators that are similar or above the national average. The greatest levels of financial inclusion are Bucaramanga (89%), Bogota (82,4%), Medellin (80,7%) and Pereira (80,6%).

A series of annexes are included below of maps with geo-referenced information on the main financial inclusion indicators at municipal level.



Transactional Analysis

Transactional Analysis

In recent years, the progress achieved in the use of transactional services has made it possible to show how financial consumers are migrating from the use of face-to-face channels to non-face-to-face channels such as the internet and mobile phones.

To this end, understanding the need to facilitate the incorporation of technological innovation when offering financial services that promote greater transactionality, Colombia has advanced initiatives led to driving the use of mobile financial services as an instrument to reach the population excluded from the financial system.

In line with the above, at international level it is evident there is great potential for implementing synergies with technological developments that allow more efficient transactions, with flexible hours, and greater knowledge of user purchasing and payment habits, so that products are offered under better terms and a new relationship is created with consumers. This will promote more sustainable financial inclusion and greater use of products.

Today, Colombia is internationally known for having created a regulatory environment conducive to inclusion. The Brookings Institution's 2016 Financial and Digital Inclusion Project⁵⁴ highlighted that Colombia has made significant progress in three areas: 1) the country's commitment, 2) mobile capacity, and 3) regulatory environment, in which national participation in international organizations or networks of financial inclusion is highlighted, as well as performing the Demand Survey for financial inclusion, the existence of an entity dedicated to financial inclusion within the public sector and of a financial consumer protection framework in relation to financial services, market penetration with respect to its subscriptions, availability of invoice payments, remittances and commercial payments through mobile money services and electronic money regulations, among others.

As a result of these advances, the study placed the country on the second place among the 26, with 79 points out of 100⁵⁵, followed by Kenya who scored with 84 points.

Within the restrictions on financial inclusion, the study mentions that Colombia's informal economy is a structural restriction for the expansion of online transactions, in addition to other factors such as limited internet access, especially in rural municipalities, high costs of internet services and mobile devices, as well as relatively slow internet speeds compared to the region, which limit the development of electronic transactions.

Additionally, the lack of consumer confidence in the use of mobile phones for online purchases reflects a relatively underdeveloped electronic commerce environment with low penetration of mobile money accounts among low-income people and among women.

To track the evolution of the use of the various channels, this chapter collects trends from 2016 from the main transactional indicators in number and amount transacted, also highlighting the analysis of product holding indicators and number of financial transactions per 100.000 -people.

Total number of transactions and amount transacted

During 2016, total financial transactions⁵⁶ exhibited a positive trend compared to the previous year. At the close of the year, the total number rose to 4.926 million transactions and \$7.057 billion were moved, which is equal to annual growth of 14% and 5%, respectively.

The Internet channel continued to have the greatest share in number of transactions, going from representing 44% in 2015 to 47% with 2.295 million transactions in 2016, and was second in movement of resources with an amount transacted of 33% with \$2.314 billion over the total. This indicates that this channel continues to be a fundamental instrument for financial inclusion because of its potential in streamlining and reducing service delivery costs.

When analyzing the evolution of the amount of transactions, offices were found to be the channel that mobilized the largest volume in terms of amount (47%) and third in terms of number of transactions (13%). The trend through this channel exhibited a decrease between 2012 and 2016, given that the share over the total amount transacted during 2012 was 55% over the total amount transacted.

⁵⁵ This score is the average of the four dimensions evaluated, in which we find: i) country commitment, ii) mobile capacity, iii) regulatory environment, and iv) adoption. In the last dimension there is a lag vis-à-vis the others, given the lower scores are concentrated in the penetration of the mobile money account among low income adults and women, as well as the mobile phone used to receive salary and/or make utility payments.

⁵⁶ Includes information on the transactions performed through the distribution channels provided by the supervised entities. This has been defined by means of nine channels: offices, banking agents (BA), automatic tellers (ATMs), Points of Sale (POS), audio response systems (IVR), automatic payments, electronic transfers (ACH), Internet and mobile phones.

⁵⁴ Brookings Institution (2016), Financial and Digital Inclusion Project

Automatic tellers and points of sale maintained a substantial share in number of transactions compared to 2015 with 15% and 10% over the total, respectively, but lower in amounts, contributing 3% and 1,3% of the amount mobilized.

On the other hand, it is interesting to see that although the electronic transfers channel (ACH) has a low share in number of transactions (2,3%), upon analyzing it in terms of the amount, one can see that it participates with (14%) over the total. This leads to concluding that the trust and convenience perceived of it among financial consumers has been strengthened

Chart 50: Share of transactional channels⁵⁷
Total number of transactions

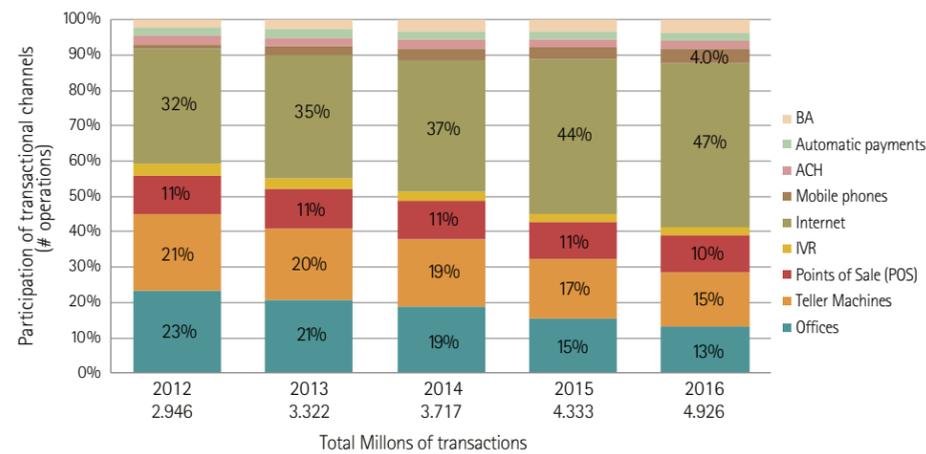
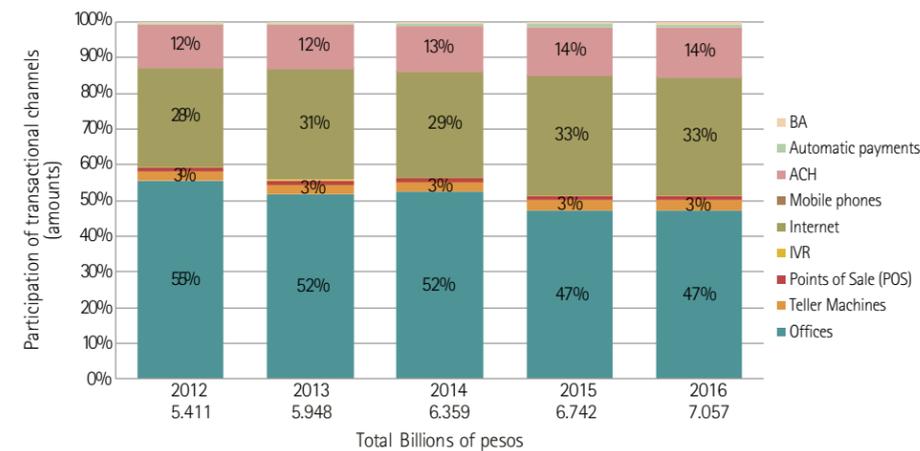


Chart 51: Share of transactional channels
Total amount transacted



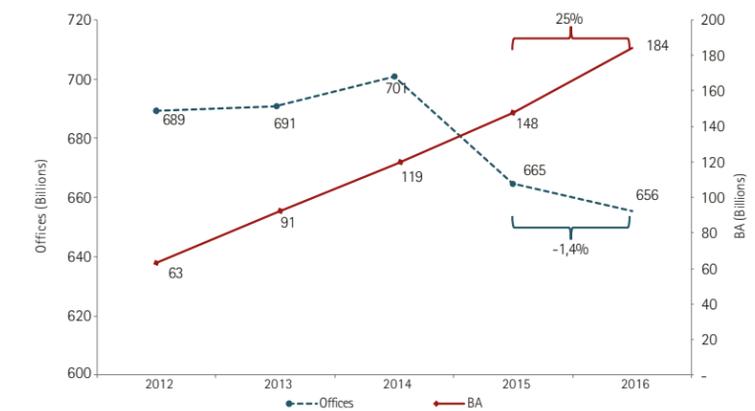
Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria.

⁵⁷The figures presented in this chapter are taken from Templates 444 and 398 of the SFC. In the case of banking agents, the information on Cooperatives from the Superintendencia de Economía Solidaria "agents template" is taken into account BdO.

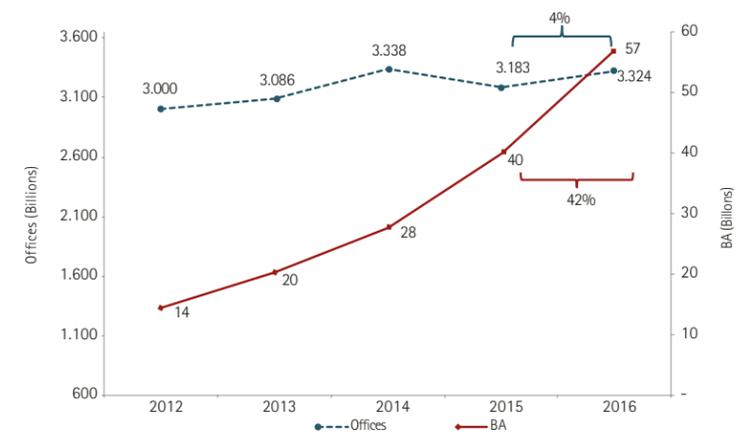
It is worthwhile highlighting the case of the offices channel that, as mentioned, despite offering the widest portfolio of financial services, its share both in number of transactions decreased 1,4% and the amount transacted increased 4,4%, between 2015 and 2016.

This proves that the other channels absorbed the burden of the offices by facilitating access to the population, particularly in the case of banking agents, which, both in number of operations as well as in the amount transacted (25% and 42%, respectively) and in number of points of access (as highlighted in the penetration chapter), has been increasing in recent years.

Chart 52: Transactions through the network of offices and banking agents
Total number of transactions



Total amount transacted



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

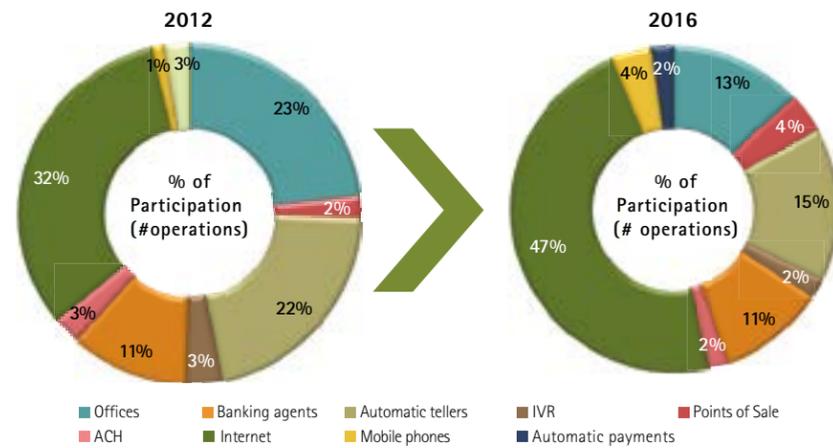
Compared to what was recorded in 2012, the highest growth in number of transactions and amount transacted was recorded by mobile phone channels, banking agents and the internet. In terms of number of transactions, the mobile phone channel showed the greatest dynamics between 2012 and 2016 with 503%

growth, going from 33 to 197 million transactions. Along these same lines, the correspondent banking transactions (193%) showed a positive dynamic, moving from 63 to 184 million transactions and internet (141%), moving from 952 to 2,295 million transactions.

Transactionality dynamics by type of channel

In terms of annual growth, between 2015 and 2016, the most dynamic channel at the close of the year was mobile phones, with a 49% compared to the previous year, followed by banking agents and the Internet with 25% and 20%, respectively.

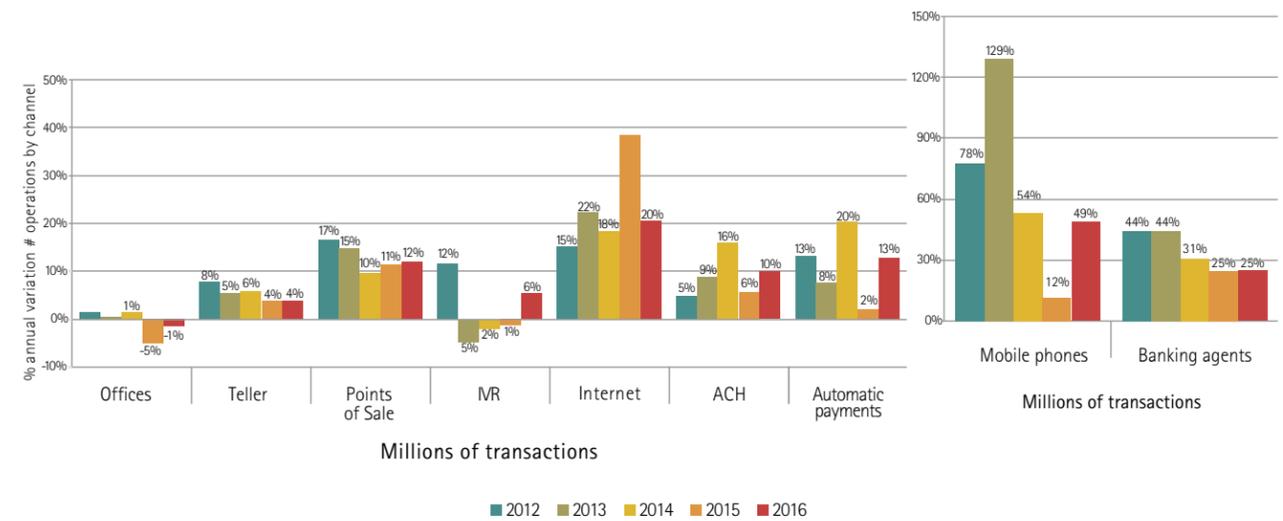
Chart 53: Growth of transactional channels 2012 and 2016
Share in number of transactions



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

Likewise, the mobile phone channel exhibited the highest volume of transactions with growth of 4.430%, from \$ 137 thousand million in 2012 to \$ 6 billion in 2016, followed by the amounts of transactions carried out through agents (294%) and internet (54%), which went from \$14 to \$57 billion and from \$1.508 to \$2.314 billion, respectively, between 2012 and 2016.

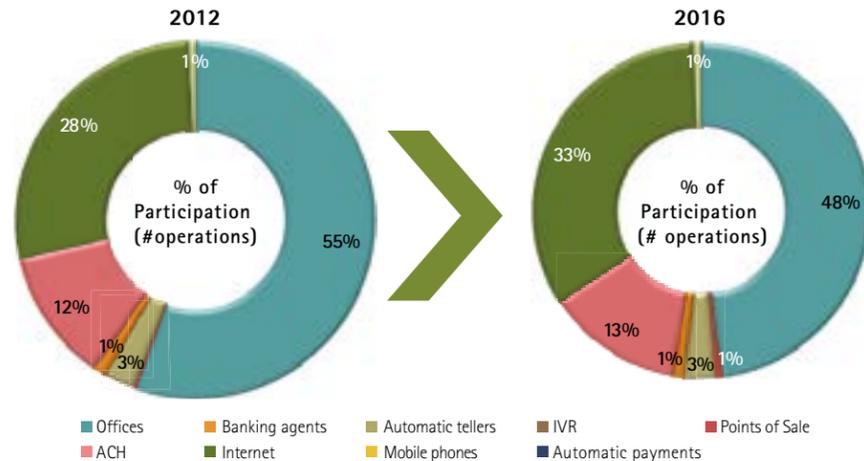
Chart 55: Annual evolution of total number of transactions



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

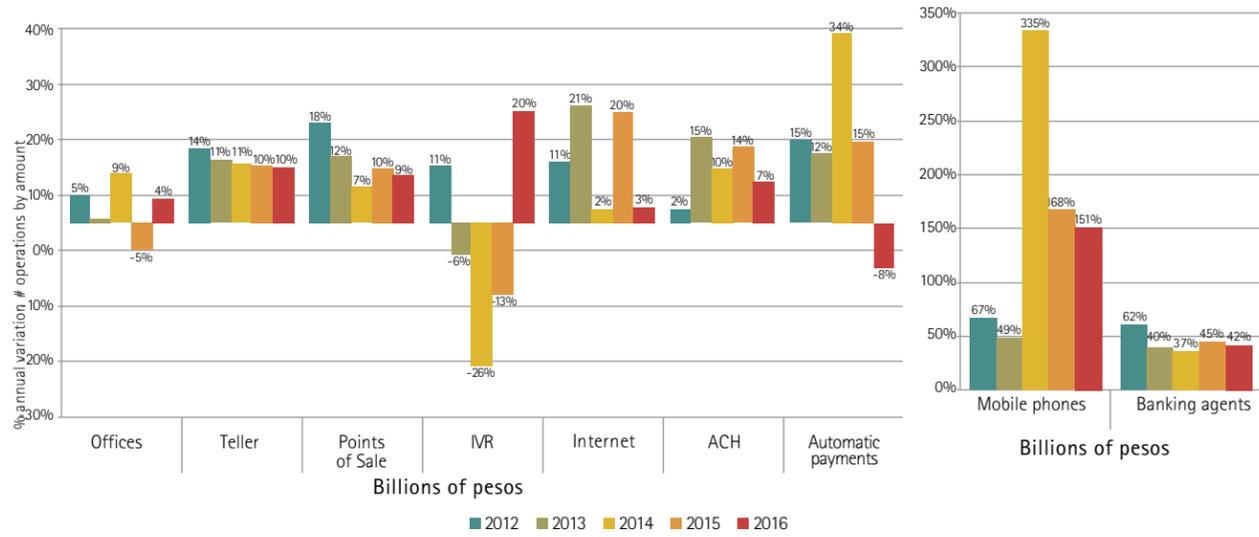
Between 2015 and 2016, the largest growth in terms of amounts was in the mobile phones channel with 151% followed by banking agents at 42% and audio response with 20% (with an increase of 33pp compared to the growth for 2014-2015). Conversely, the automatic payments channel showed a decrease in the amount transacted of 8% compared to 2015.

Chart 54: Growth of transactional channels 2012 and 2016
Share in amount of transactions



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

Chart 56: Annual evolution of total amount of transactions

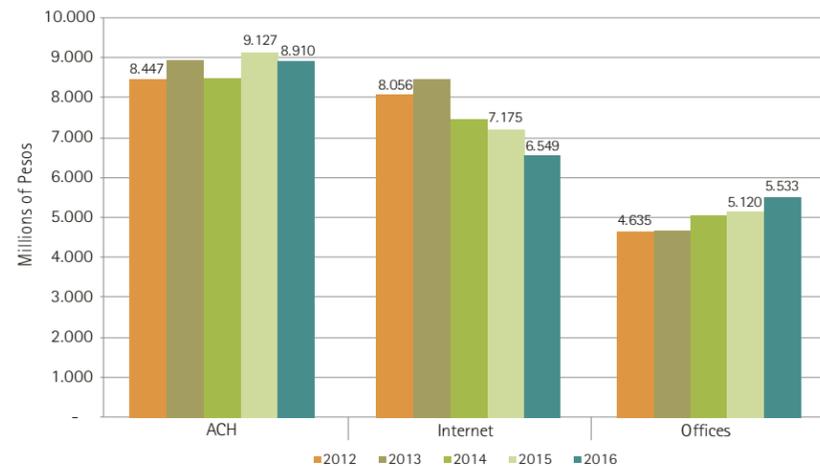


Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria.

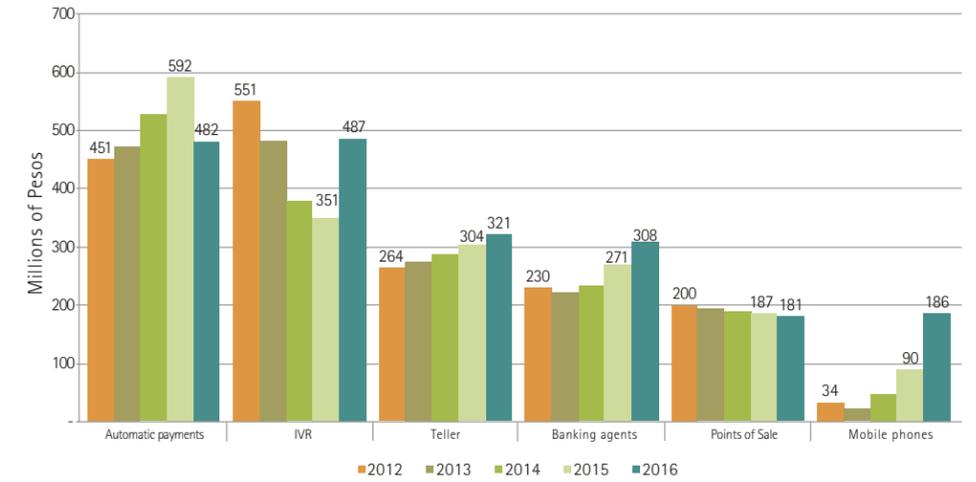
Average amount of transactions per channel

Upon assessing the average amount of transactions by channel that comes from the remainder between the total amount transacted and the number of monetary transactions, it was seen that the highest value in the average transacted corresponds to the ACH channel with \$8,91 million, followed by the Internet channel with \$6,55 million and offices with \$5,53 million.

Chart 57: Average amount of transactions

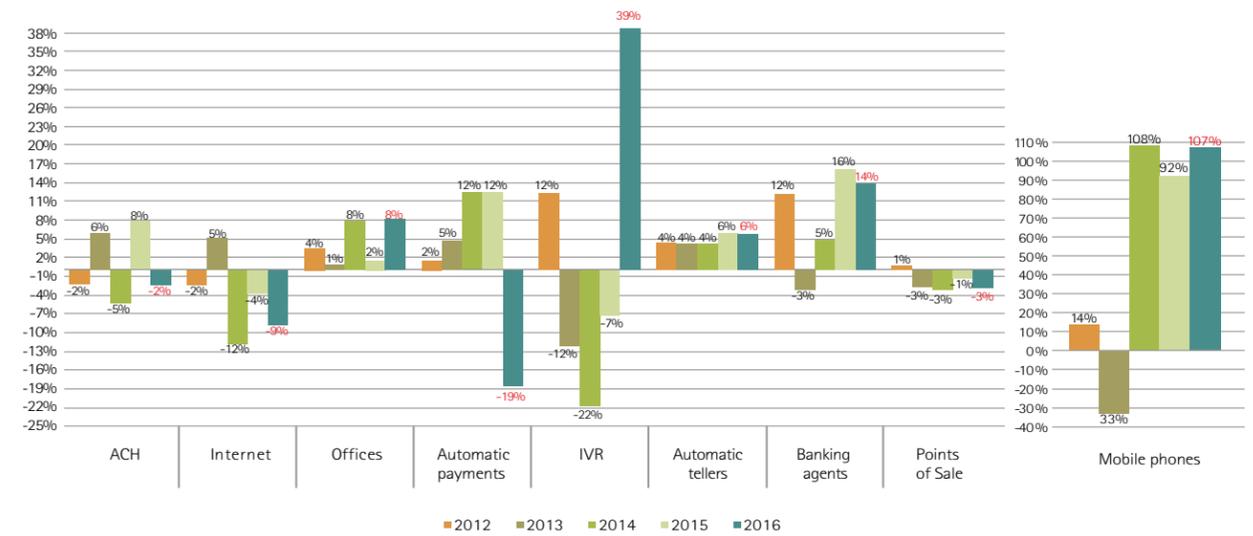


Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria.



The evolution in the average amount of transactions is highlighted in turn. In particular, when comparing 2015 with 2016, the mobile phones channel showed the greatest growth at 107% followed by audio response with 39% and banking agents at 14%. On the contrary, Internet channels and automatic payments stood out for the reduction in the average amount transacted, at 9% and 19%, respectively.

Chart 58: Evolution Average amount of transactions



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

Transactionality by channel and type of transaction

Financial consumers can make use of financial services such as payments, transfers, withdrawals, deposits, international transactions and balance inquiries, among others, through the various transactional channels of the financial system. Offices and banking agents have the capacity to provide a greater number of services, in the specific case of agents, transactions can additionally be made to send and receive money orders, opening a savings account and requesting credits.

The internet, mobile phones and audio response channels showed that during 2016 the highest share corresponded to the balance inquiries (85%, 83% and 95%, respectively). These values increased compared to the previous year, mainly in the case of mobile phones, which increased by 4pp and internet and audio response 1pp, respectively, compared to 2015.

In the case of transactions performed in the offices channel, payments had the greatest share (40%), followed by deposits (32%), withdrawals (15%), and balance inquiries (8%), transfers (3%) international transactions (1%). These transactions did not exhibit a change in composition from 2015, although withdrawals and deposits decreased 2pp and 1pp, respectively, transfers increased 1pp and balance inquiries increased 2pp over the last year.

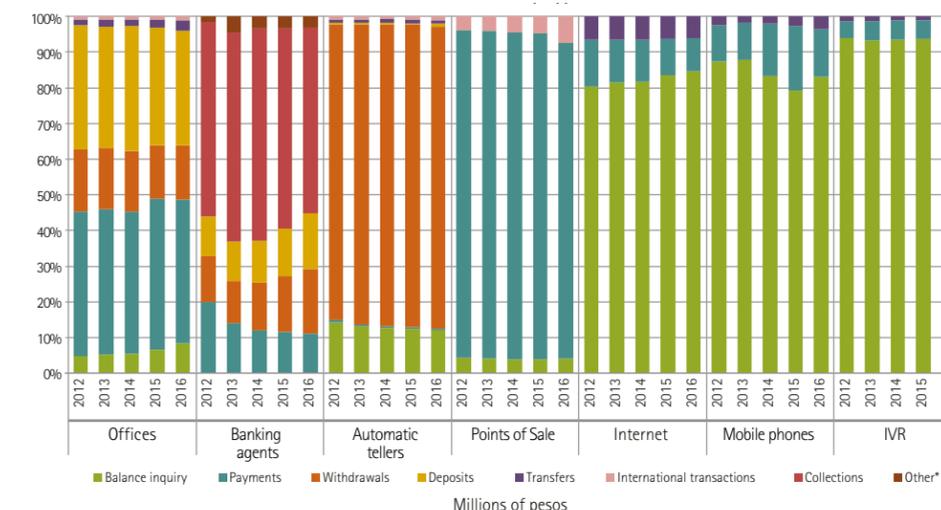
In respect to the banking agents channel, collections were the most frequent type of transactions during 2016 with 52% of the total, followed by withdrawals (18%), deposits (16%), payments (11%), and to a lesser extent, by receipt of drafts (1,8%), funds transfers (1,2%) and sending drafts (0,1%). Although the share of collections decreased 4pp compared to 2015, withdrawals and deposits increased 2pp. To that extent, it is important to further promote the popularization of this channel, especially to drive operations between individuals and businesses.

Regarding ATMs, the most frequent transaction corresponded to withdrawals with 85% of transactions performed and to a lesser extent, balance inquiries (12%), transfers and international transactions (1%), deposits (0.7%) and payments (0.5%). These transactions remained stable behavior over the past five years.

The most representative transaction in Points of Sale were payments and transfers at 88%, and to a lesser extent, international transactions (7,5%) and balance inquiries (4%). It merits noting that the share of payments and transfers

decreased by 3pp compared to 2015, whereas, international transactions increased 3pp.

Chart 59: Share of transactions by type and channel (number)



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

In terms of amounts, the monetary transaction that mobilized the most resources in the internet, mobile phones and audio response channels corresponded to transfers with 66,6%, 67,2% and 70%, respectively, of the total transacted, followed by Payments with 33,4%, 32,8% and 30%, respectively. In the case of internet and mobile phones, payments rose 2,5pp and 1,5pp, respectively, while in the audio response channel they decreased by 2pp. The foregoing shows the potential of these channels to continue enlarging the scope of financial services. For transactions conducted through offices, deposits accounted for 30% of total amount transacted, followed by withdrawals (25%), transfers (23%), payments (13%) and international transactions (8%). Compared to 2015, deposits decreased by 3pp, while transfers increased by 3.3pp.

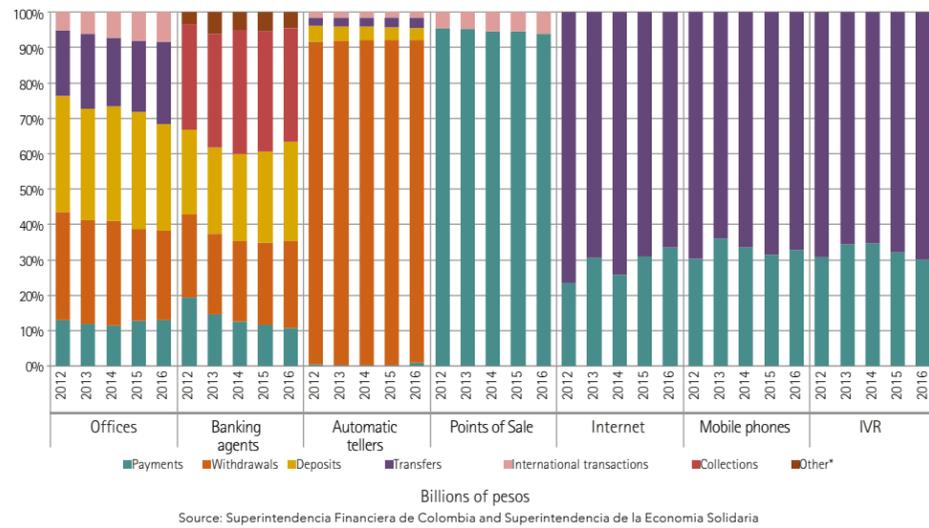
In the case of banking agents, most resources were mobilized through collections (32%), followed by deposits (28%), withdrawals (25%) and payments (11%), and to a lesser extent, by transfers (3%) and receipt of drafts (2%).

With regard to ATMs, the transaction that mobilized the most resources was withdrawals, with 91% of the resources transacted. Other transactions, such as

deposits (3,4%), transfers (3%), international transactions (2%) and payments (0,7%), had a smaller, but steady share over time.

Points of Sale have held steady at the same share over the last five years by amount of transactions made, with payments accounting for 94% and 6% for international transactions.

Chart 60: Type of transactions performed and share (amount)



Analysis of transactions in banking agents (BA) by rurality

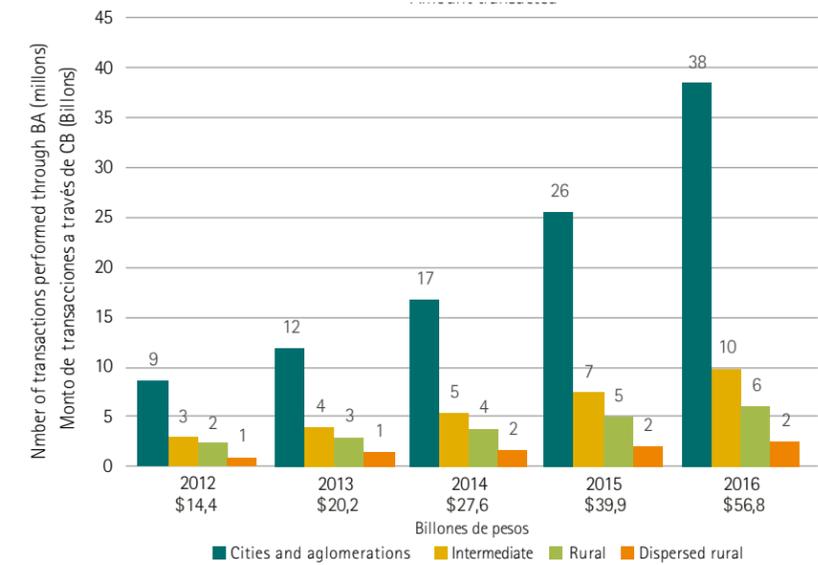
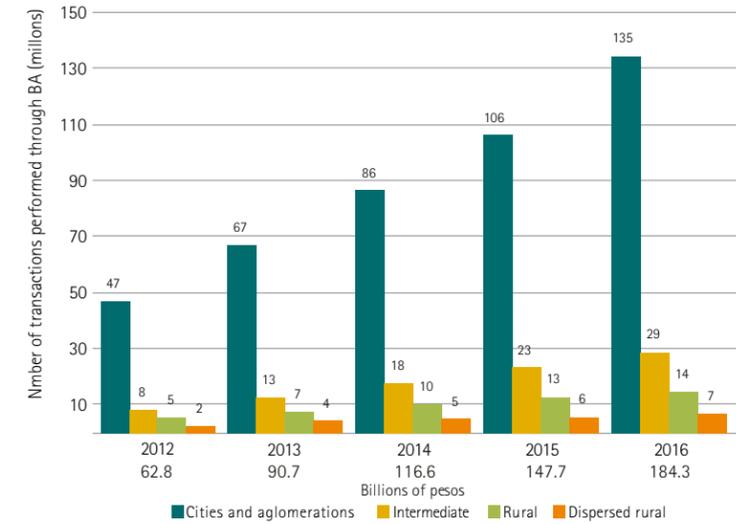
Banking agents are a mechanism through which financial services reach populations that are difficult to reach with traditional access points such as offices. Entities interested in expanding their business reaching out to populations excluded from the financial system do so by hiring third parties to provide certain financial services, helping an entity's customers to perform transactions and payments taking into account their geographical location and basic needs.

In this regard, in Colombia, in the last five years, there has been an increase in transactions in intermediate and rural municipalities ⁵⁸. In 2012, 75% of the number of transactions concentrated in cities and agglomerations, while 13% and 9% were represented by the intermediate and rural municipalities, respectively. On

⁵⁸ It refers to the intermediate municipalities according to the methodology applied by the DNP.

the other hand, in 2016 the figures mainly favored the intermediate municipalities with a share of the transactions of 16%, in the amount transacted the cities and agglomerations accounted for 68% compared to 59% in 2012.

Chart 61: Transactions performed through BA by rurality level

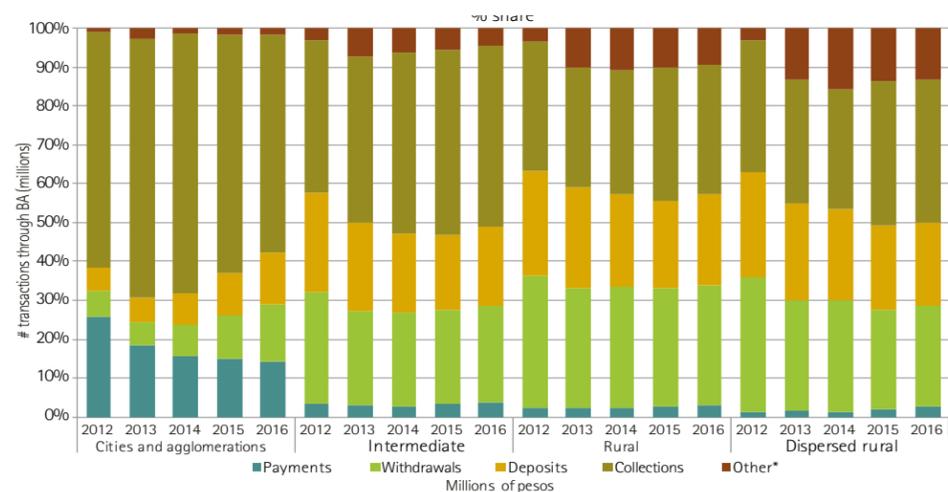
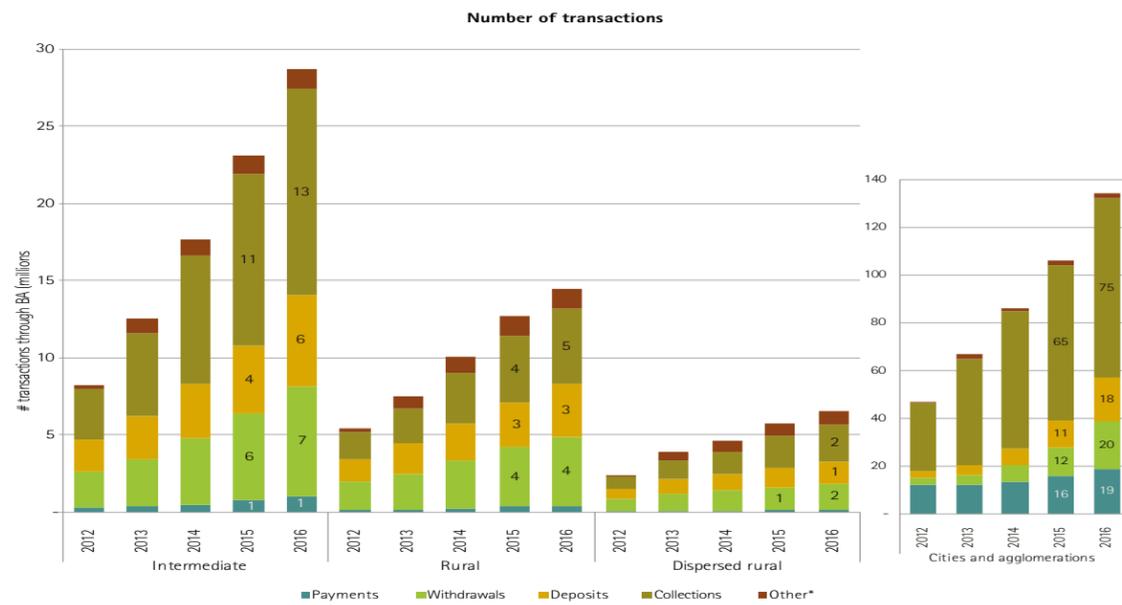


Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria.

As for the type of transactions, collections were the most commonly performed transaction, especially in cities and agglomerations and intermediate municipalities, with 56% and 46%, respectively. Meanwhile, the share of withdrawals and deposits was more frequent in intermediate, rural and dispersed rural municipalities in respect to the total transactions performed in cities and agglomerations, with an average share of deposits of 22% and 27% for withdrawals.

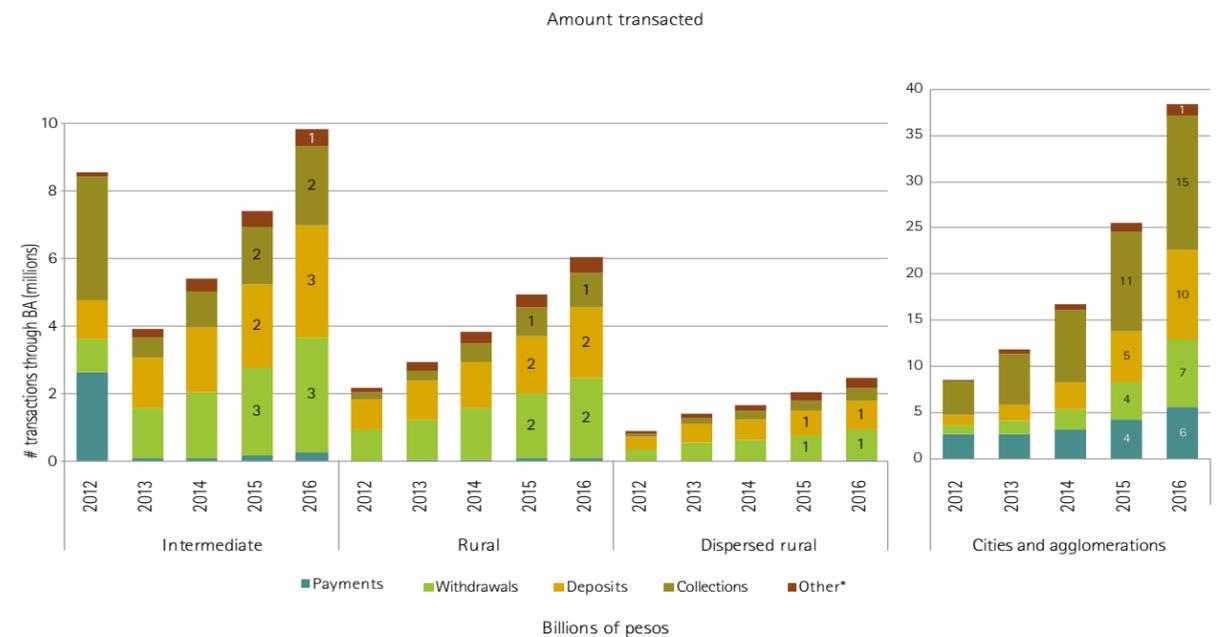
When analyzing amounts transferred, Banking Agents in cities and agglomerations mobilized 68% with \$38 billion transacted, followed by intermediate municipalities at 17% with \$10 billion transacted and in rural and dispersed rural municipalities, 11% and 4%, respectively. Compared with 2015, the amount of transactions in 2016 also showed growth over the previous year, going from 21,0% in 2015 to 21,3% in 2016 in dispersed rural municipalities.

Chart 62: Transactions performed through BA by rurality level



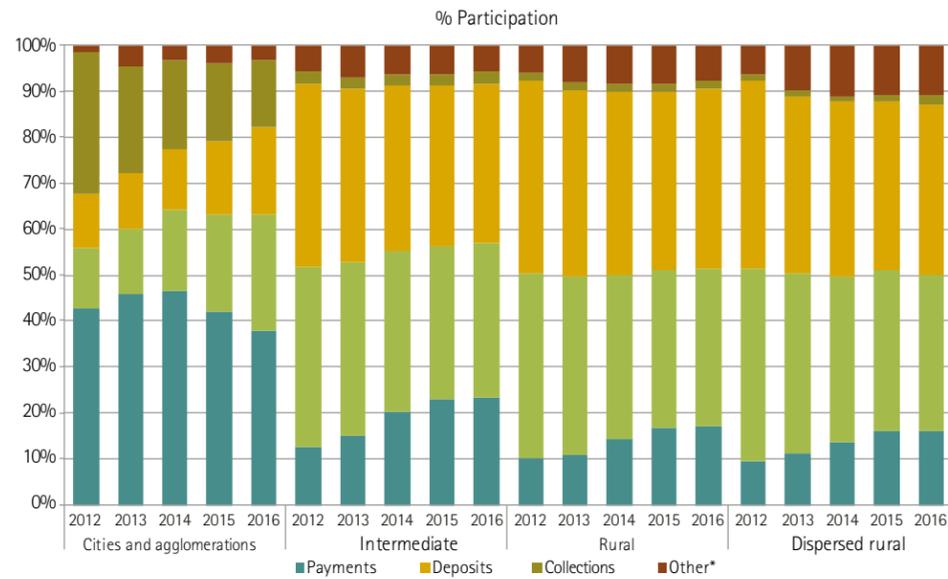
Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria.

Chart 63: Transactions performed through BA by rurality level Amount transacted



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

Chart 63: Transactions performed in other categories through BA by rurality level % share

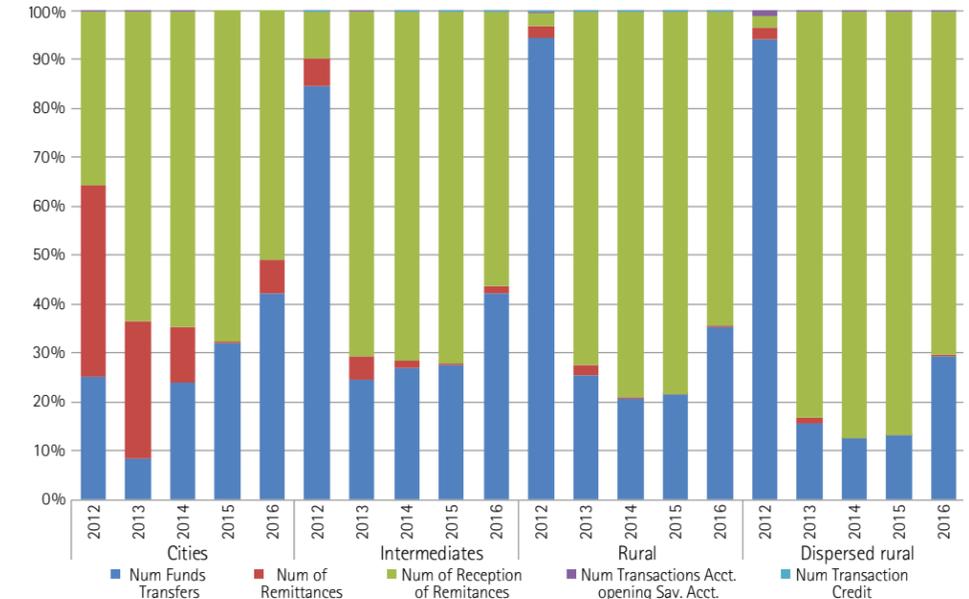


Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria.

As for transactions that are under the category of "other"⁵⁹, the receipt of drafts was the most frequent transaction in all municipal sizes, contributing about 60% of total transactions.

Although, the number by type of transactions of the "other" category has been increasing since 2012, what stood out among them was the increase, both in number of transactions as well as in share, in all population ranges, for the money order receipt transaction, particularly between 2013 and 2016.

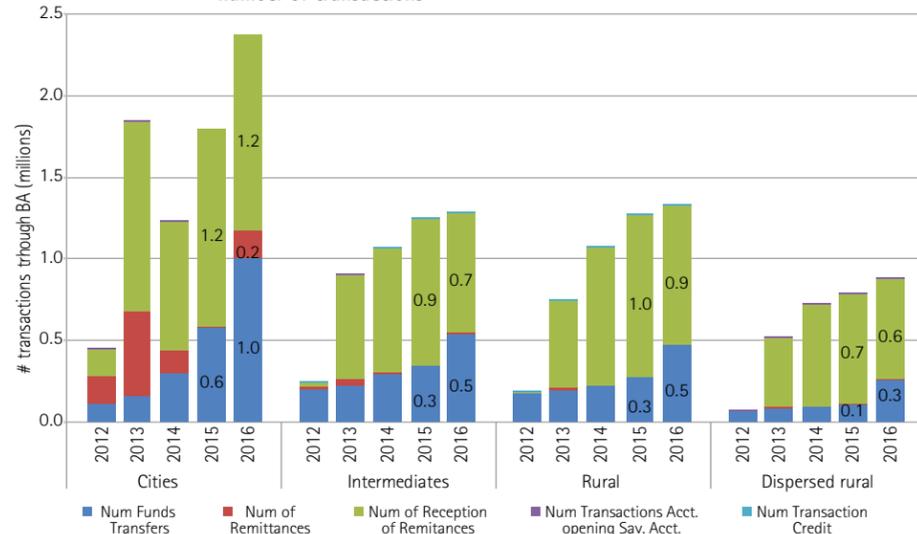
Chart 64: Transactions performed in other categories through BA by rurality level % share



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

Regarding resource mobilization, the most important transaction under this category from 2012 to 2016 corresponded to funds transfers, which for 2016 accounted for about 64% in all population sizes. Meanwhile, receipt of drafts also participated evenly among different population sizes with an average of 35%.

Chart 64: Transactions performed in other categories⁶⁰ through BA by rurality level number of transactions

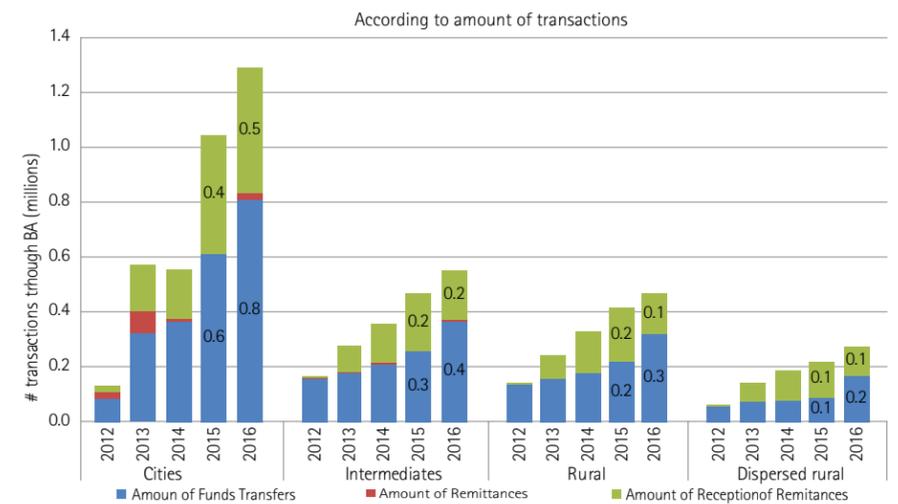


Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria.

59 The "Other" category includes: funds transfers, sending drafts, receipt of drafts, formalities for opening savings accounts and credit applications.
60 Ibid

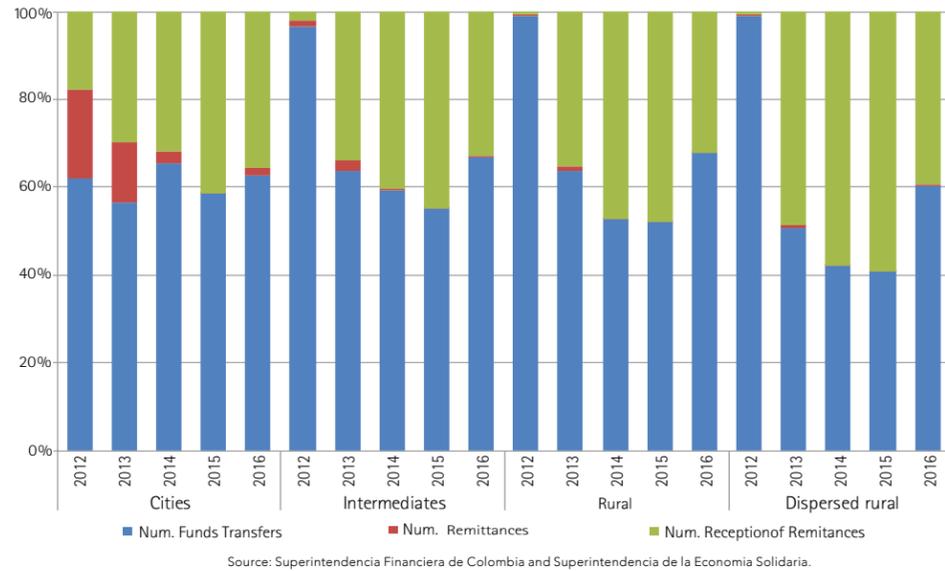
61 Ibid

Chart 65: Transactions performed in other categories⁶¹ through BA by rurality level number of transactions



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

Chart 65: Transactions performed in other categories through BA by rurality level % share

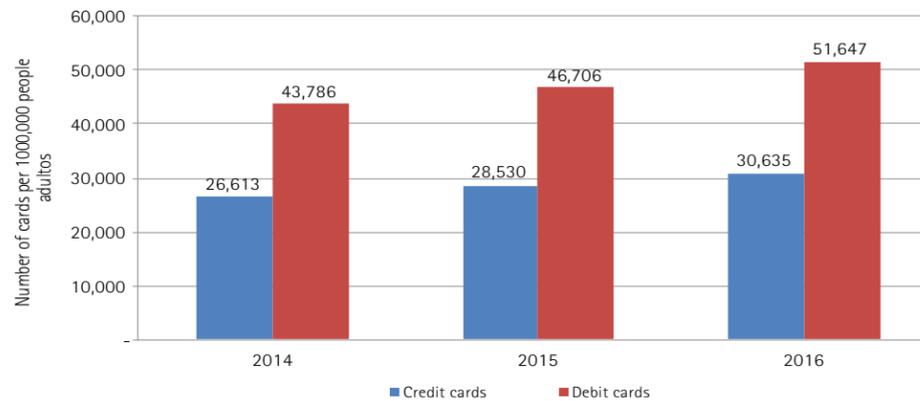


Use of transactional services per 100.000 people

The transactionality dynamics described for each of the channels is replicated when the usage indicators are calculated for transactional services (number of debit and credit cards per 100,000 people), virtual transactions (number of internet and mobile phone transactions per 100,000 people) and cashless transactions (number of internet, mobile phone, debit and credit card transactions per 100,000 people).

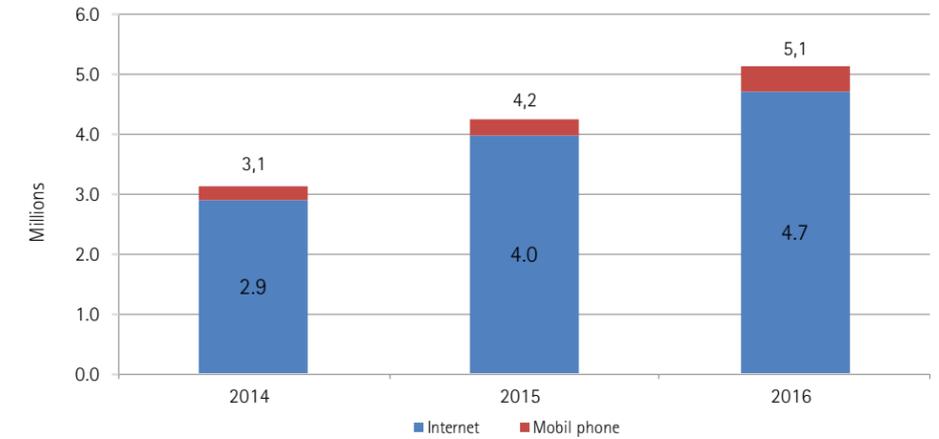
As for the number of debit and credit cards per 100,000 people, in 2016 there were 51.647 debit cards and 30.635 credit cards per 100,000 people, a figure that has been increasing compared to prior years.

Chart 66: Number of debit and credit cards per 100.000 people



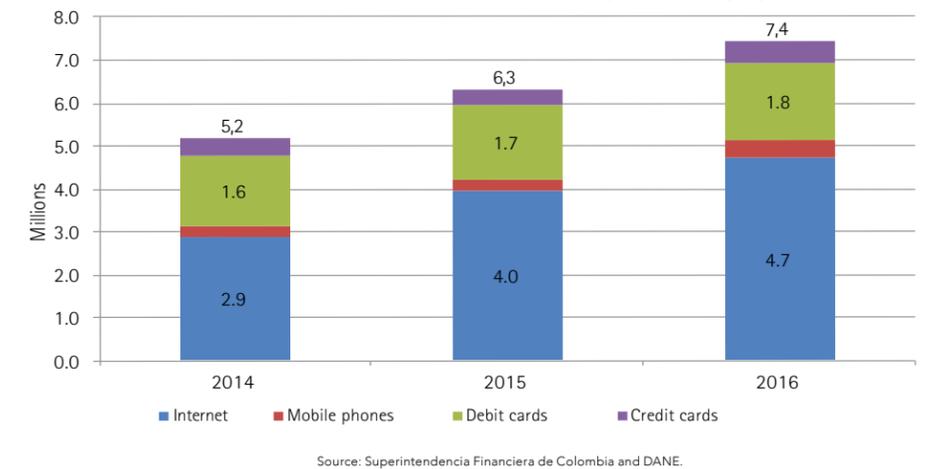
In addition to this, the virtual transactions indicator, which is calculated as the number of internet and mobile phone transactions per 100,000 people, was for the year 2016 about 5,1 million transactions per 100,000 people, who use these channels to perform transactions, exhibiting 21% growth compared to 2015.

Chart 67: Number of virtual transactions per 100.000 people



For its part, the cash-less transactions indicator, obtained by listing the number of Internet, mobile phone, credit and debit card transactions per 100,000 people, shows that per 100,000 people, 7,4 million virtual transactions are carried out, an amount representing annual growth of 17% compared to 2015.

Chart 68: Number of cash-less transactions per 100.000 people



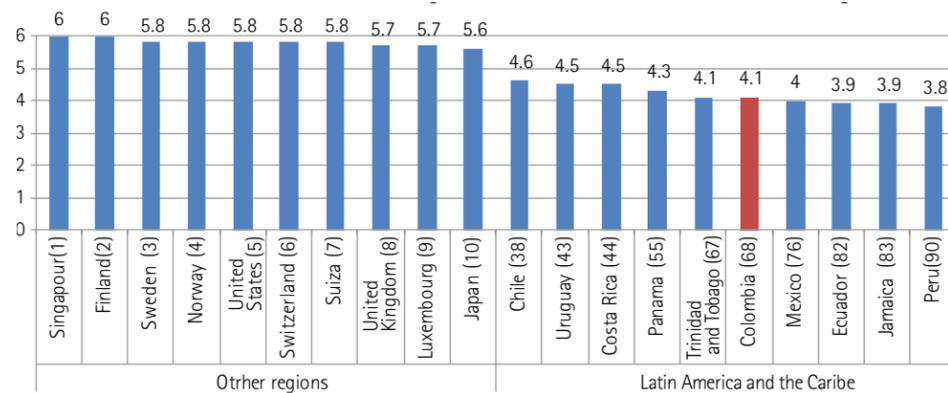
The development of information and communications technologies in Colombia compared to the world

The development of technological infrastructure is a key tool to continue to advance in the area of financial inclusion and international studies show the achievements of Colombia and other countries in technological preparedness.

The World Economic Forum's Global Information Technology Report, presents the Networked Readiness Index for 143 economies measured on a scale of one to six, with one being the value for the least ready countries and six for the readiest. This indicator covers six key aspects or pillars in each of the economies of the sample, including the environment (political, regulatory and for innovation), readiness (infrastructure, costs, skills of the population), usage (individual, business, government) and impacts (economic and social).

When comparing the indices for ten countries in Latin America and the Caribbean with the top ten countries in the world, there is a one-unit difference in the scores and more than 28 units between country number ten (Japan) and the number one country in Latin America (Chile), showing how our region lags the rest of the world. Colombia, for its part, stood in sixth place in Latin America and the Caribbean in 2016, and was ranked 68th worldwide.

Chart 69: Readiness score and ranking of information and communications technologies



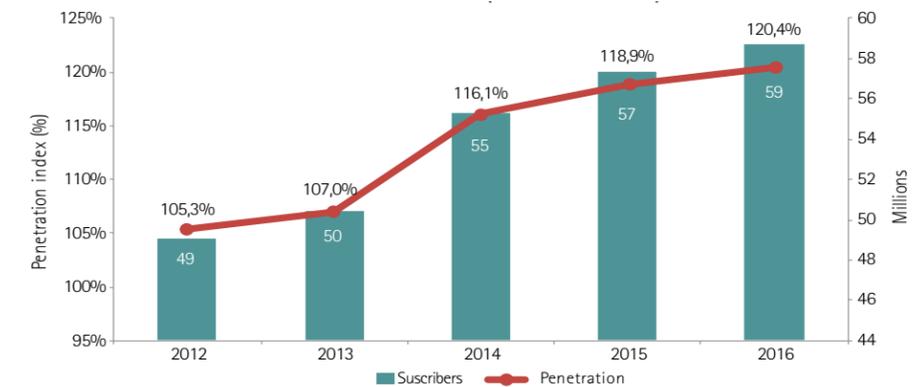
Source: World Economic Forum (2016). Global Information Technology Report

Box 2: Access and use of technologies in Colombia

This box shows the evolution of the technological means by which the population is approaching financial services, especially from the internet and mobile phones side. Here, we analyze the penetration of mobile phones, as well as how efficiently households are making use of these tools.

Based on information from the Ministry of Information and Communications Technologies⁶², we show an access to mobile penetration indicator equal to the ratio between the number of subscriptions per 100 people. In the fourth quarter of 2016, this indicator rose to 120.4%, an increase of 1.5pp compared to 2015.

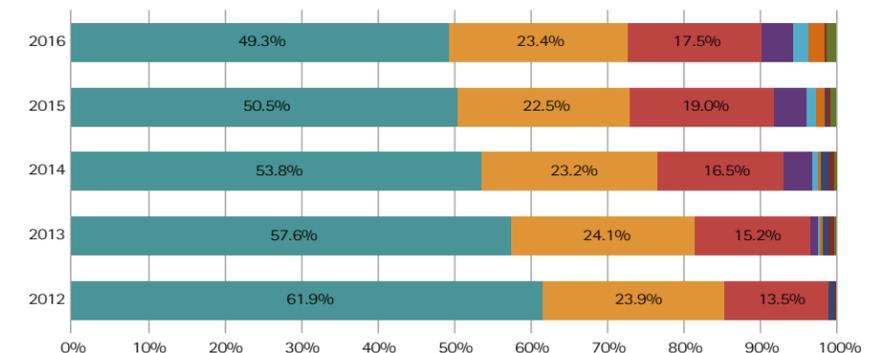
Chart 70: Number of subscribers to mobile phones and service penetration



Source: Ministry of Information and Communications Technologies

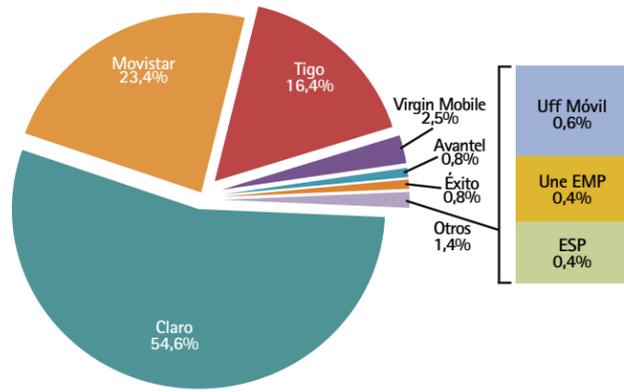
Although the provision of mobile phone services remains concentrated in three large vendors: Claro, Movistar and Tigo, with average penetration over the last five years of the total subscribers of 55%, 23% and 16%, respectively, in Colombia the promotion of these services has been extending out to new competitors

Chart 71: Percentage share of subscribers by mobile phone vendor



Source: Ministry of Information and Communications Technologies

Chart 71: Percentage share of subscribers by mobile phone vendor
% Average share 2012-2016

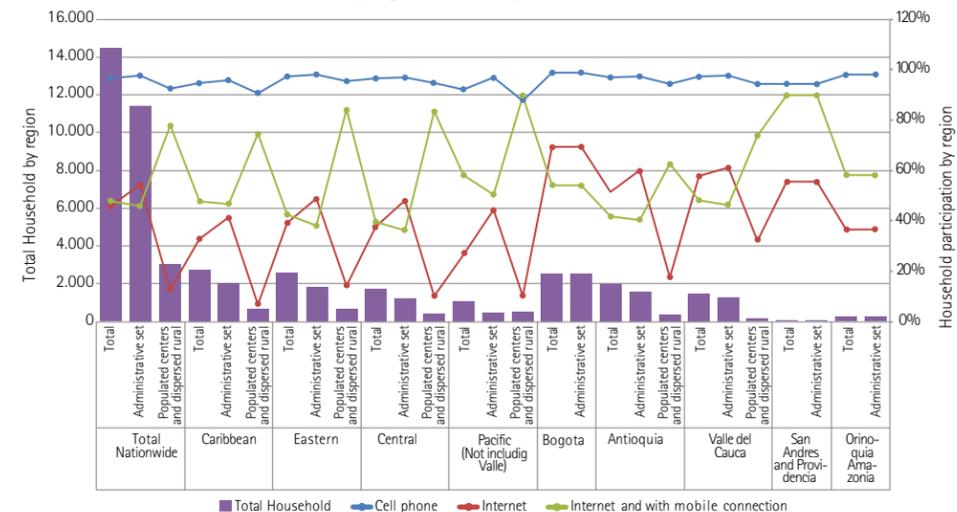


Source: Ministry of Information and Communications Technologies

Nationally, 96% of households reported having a cell phone in 2016, with 98% in the municipal administrative seats and 93% in populated areas and dispersed rural municipalities. As for internet, 46% of households reported having a connection; although the internet has similar behavior to the national average in the municipal administrative seats (55%), the usage gap for this service in populated areas and dispersed rural municipalities is substantial, with 13% of households connected.

In the case of households with internet by type of connection, 48% reported having mobile internet connections. While this behavior is similar in municipal administrative seats, it is different in populated areas and dispersed rural municipalities where the percentage is higher (78%) than the national average.

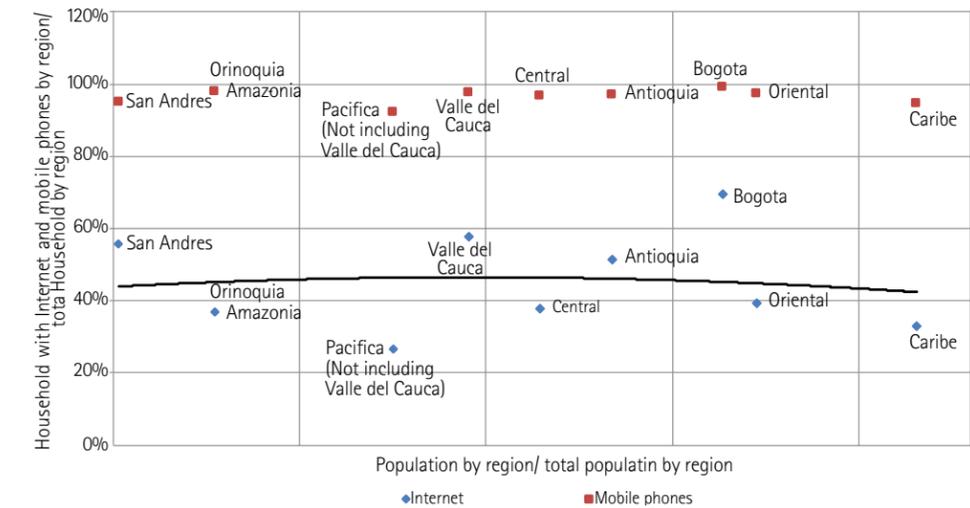
Chart 72: Household share by region with cell phones and Internet 2016



Source: DANE, Quality of Life Survey 2016

The highest internet penetration was recorded by the regions of Bogota, Valle del Cauca, San Andres and Antioquia, with 69%, 58%, 56% and 51%, respectively, and the Pacific region (excluding Valle del Cauca) recorded the lowest percentage with 27%, followed by Caribbean, Orinoquia, Central and Eastern with 33%, 37%, 38%, and 39%, respectively.

Chart 73: Household share by regions 2016



Source: DANE, Quality of Life Survey 2016

Regarding usage by age, the survey concluded that 86% of the population over the age of 5 (38.1 million Colombians) uses cell phones, this behavior being similar in municipal administrative seats, and in the case of populated and dispersed rural areas, we see that the Caribbean region and Antioquia exhibit lower numbers at 17pp and 5pp, respectively.

In the case of internet usage, an estimated 58% (25.8 million Colombians) used it, a behavior that was similar in the municipal administrative seats and populated areas and dispersed rural municipalities, where the average usage figure was 32%.

The data also showed that cell phones are the device through which Colombians most commonly access internet services, with a national average of 70% of households. In regions such as San Andres and Providencia, Bogota and Valle del Cauca, this is more relevant, at 87%, 79% and 77%, respectively.

Chart 74: Internet and cell Phone use by regions and area 2016

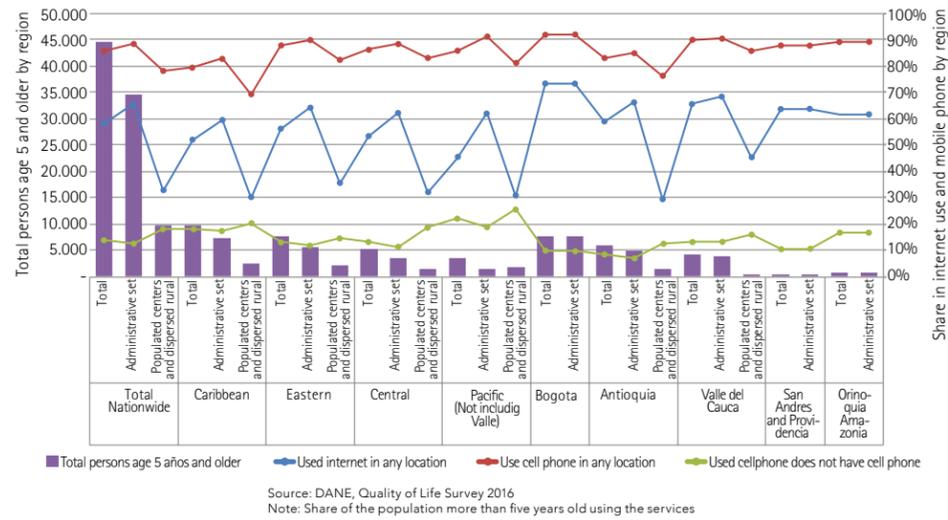
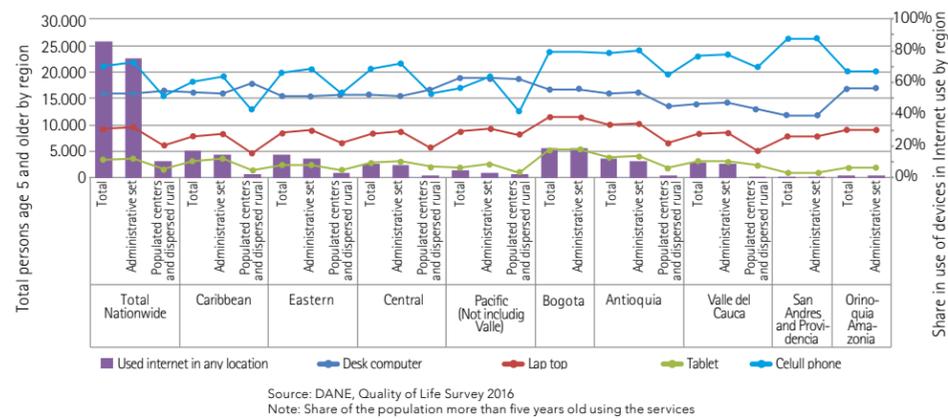


Chart 75: Use of devices to access the Internet, by region and area 2016



Conclusions

- As in previous years, financial transactions recorded positive evolution over the past year. Total transactions through the financial system increased 14% and the amount transacted 5%. This behavior was driven at the level of the number of transactions through the internet channel with a 47% share of the total and at the level of the amount transacted through the offices channel with 47% of the total amount.
- The channel that recorded the greatest positive dynamics at the end of the year was mobile phones, with a 49% increase in number of transactions and 151% by amounts transacted. This channels, however, is becoming a key instrument for financial inclusion because of its potential to further expand the reach of financial services for the population.

- The channels that have been most dynamic over the last five years correspond to mobile phones, banking agents and the internet. These channels recorded an increase in 2016 of 503%, 193% and 141%, respectively, in the number of transactions compared to 2012 and 4.430%, 294% and 54%, respectively, in the amount transacted.

- The analysis of the transactionality of banking agents by rurality level allows concluding that their activity is concentrated in cities and agglomerations, but in the last five years there has been an increase in transactions in intermediate municipalities. In 2012, 75% of the number of transactions was concentrated in cities and agglomerations and 13% in intermediate municipalities. For its part, in 2016 the figures mainly favored the intermediate municipalities with a 16% share. Collections are the most common transaction mobilizing more than half of the resources in all municipalities, while the share of withdrawals and deposits are more common in intermediate, rural and dispersed rural municipalities.

- Financial services, both in Colombia as well as in the world, are in a process of evolution towards digitization. Proof of this is the growing share of total transaction volume and amount transacted for channels such as the internet and Mobile phones.

- The indicator for transactional services per 100.000 people has increased 17% between 2014 and 2016, equal to 11.882 people per 100.000 with debit and credit cards.

- The indicators for virtual transactions and cashless transactions per 100.000 people, have increased 63% and 43%, respectively, between 2014 and 2016. This means that over the past two years, 1.9 million internet and mobile phone transactions and 2.2 million cashless transactions have been carried out.

- Additionally, information on technology usage by people over 5 years old shows that 86% (38,1 million Colombians) use mobile phones and 58% (25,8 million Colombians) use internet.

- So far there has been progress in access and use of information and communications technologies, but the country is still lagging behind other economies. In Colombia, although there is a high level of access and use of technologies such as mobile phones, with a penetration rate of 120,4% and it is additionally estimated that 86% of the population older than five (38,1 million Colombians) use cell phones in both municipal administrative seats as well as populated and dispersed rural areas, there is still a ways to go in terms of moving towards a greater level of access and use of information and communications technologies, which will result in greater financial inclusion.

Box 3: Recent dynamics of cash use in Colombia

The current transformation of payment methods and the use of cash worldwide are undeniable. Generational changes (Millennials and Generation Z)⁶³, globalization that demands immediate responses and the stimulation of financial inclusion, have accelerated the use of new payment instruments and changed the interaction of users with the financial system.

However, cash continues to be the preferred payment method by the population in many countries, including Colombia. Worldwide, 85% of total transactions are made in cash (MasterCard Advisor, 2013) and in Colombia 90% of the high frequency and small value payments are made in cash (Better Than Cash, 2015).

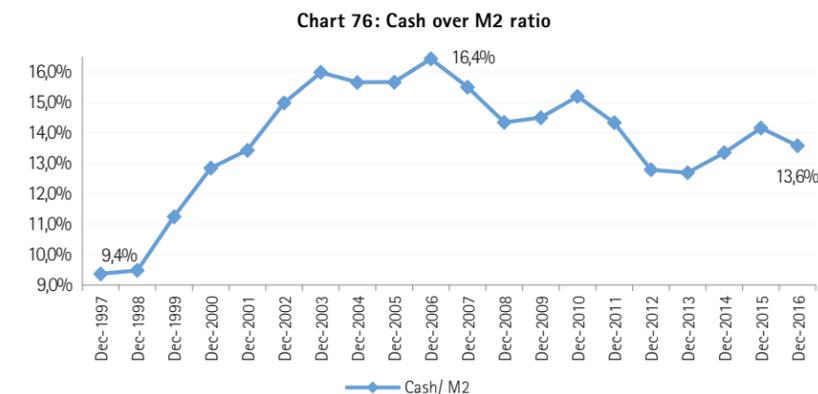
Cash has certain attributes⁶⁴ that make individuals prefer it over other payment methods. Governments, however, recognize the impact of its reduction in the fight against tax fraud, the underground economy and corruption, and it is therefore considered a fundamental part of the financial inclusion policy.

Upon reviewing the relationship between cash and gross national product, the growth trend observed has been proportional in the last 12 years. While in 2013 it was 4,3%, by 2015 it stood at 5,6%, a situation that is not only seen for Colombia, but is similar to countries in Latin America (Banco de la Republica, 2016).

When comparing the percentage distribution of cash in circulation (M0)⁶⁵ in Latin American countries, Colombia, at 8%, is seen to be below countries like Mexico (30%) and Brazil (23%), which is explained by the size of their economies, population size and the geographical extension of these countries, but above that for Peru (6%) and Chile with (4%) (FELABAN, 2017).

The Government, in its National Development Plan (2014 - 2018), set a goal of reducing the cash/M2 ratio⁶⁶ to 8,5% by 2018. However, the behavior of this indicator over the last 20 years reveals that, on average,

the ratio was 13,8%, a value well above the levels seen at the end of the 90s, when the Cash/M2 ratio stood at 9,4%.



Source: Banco de la Republica - Prepared by BdO

Since the year 2000, there has been an increase in the use of cash in Colombia, which coincides with the implementation of the Financial Transactions Tax (GMF)⁶⁷, which restricted the use of savings accounts somewhat due to the higher costs associated with them.

Despite the incorporation of new payment mechanisms, the demand for cash is high due to aspects such as low card penetration (debit and credit), lack of infrastructure for mass acceptance of electronic payments, opportunity costs and cultural factors. Each one of these is described below.

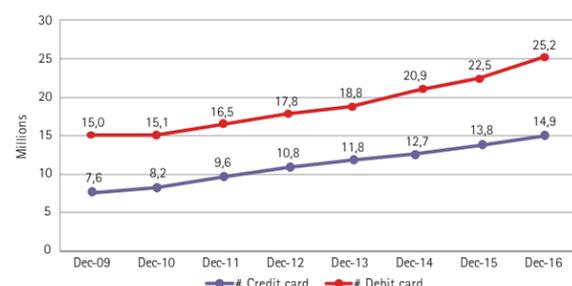
Worldwide, the number of non-cash transactions grew at a rate of 8,9%, mainly due to debit and credit card transactions, which remain the most commonly used instruments for electronic payments with growth rates of 11,8% in 2014⁶⁸. Likewise, the amount of electronic transactions rose to USD \$ 387,3 billion, driven mainly as a result of the growth in Asian markets⁶⁹.

In Colombia, for its part, the growth of instruments such as cards has also been representative. In the last five years, the number of debit cards increased on average by 8,8% and credit cards by 9% (SFC). However, its use is more moderate due in part to cost barriers and the lack of infrastructure for accepting electronic payments in many establishments⁷⁰.

63 Millennials are characterized by technology being a natural tool in their daily lives, their relationships are based on social networks and they are very critical and demanding consumers. Generation Z, for their part, are digital natives, entrepreneurs by nature and prefer to make purchases in digital stores.
 64 Easy-of-use, low cost, wide acceptance, immediate availability and privacy of transactions.
 65 M0 refers to the total money in circulation (bills + coins), plus bank accounts deposited in the Central Banks. In the region (Latin America), cash in circulation amounted to USD 207 thousand million, Felaban (2017).
 66 M2 refers to the sum of M1 (cash plus deposits in checking accounts) + quasi money (savings accounts plus certificates of deposit or CDs).

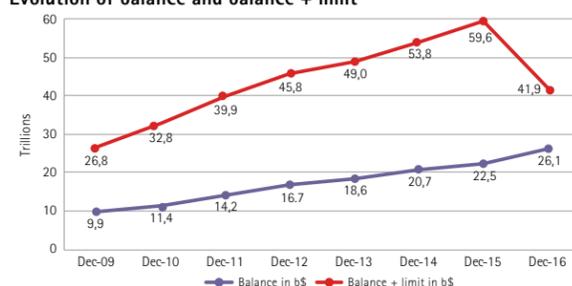
67 Initially known as 'two per thousand', subsequently 'three per thousand' and presently 'four per thousand'.
 68 World Payments Report 2016
 69 has developed e-commerce and social networks platforms (We Chat and Alipay) that integrate a "digital payments ecosystem" leveraged by the creation of new financial services and a strong incentives strategy for individuals and merchants to promote electronic payments.
 70 Some of these results were identified in the Demand study for Financial Inclusion, Banca de las Oportunidades - Superfinanciera (2015) and Proyecto F, Asobancaria, Banco de la Republica and Redeban (2016).

Chart 77: Evolution of the number and the balance plus limits on credit and debit cards
Evolution # debit and credits cards



Source: Superfinanciera de Colombia - Prepared by BdO

Chart 77: Evolution of the number and the balance plus limits on credit and debit cards
Evolution of balance and balance + limit



Source: Superfinanciera de Colombia - Prepared by BdO

Another key determinant in reducing cash usage is associated with the growth of Points of Sale terminals (POS) and the development of new structures to strengthen digital payments.

As of December 2016, the country had 364 thousand Points of Sale at the rate of 1.095,3 per 100.000 people, of which 97% are located in cities. However, per capita electronic payments were 12,1 (in 2015), below those observed in countries of the region such as Chile (44,4), Argentina (33,9) and Peru with (16,7), (Banco de la Republica, 2017).

Extending the infrastructure of Points of Sale POS terminals among retailers is a long process, so the strategy to reduce cash must be accompanied by the promotion of other payment methods such as Internet banking and mobile banking.

Today in Colombia more than 53% of the population has internet access and the percentage of cell phone coverage is 116%⁷¹. Nevertheless, there is a gap identified between knowledge and the use that is given to these channels. Even though between 74% and 80% of people know that they can use cell phones and the Internet to perform financial transactions,

71 National Strategy for Financial Inclusion, PDF document taken from <http://banca-delasoportunidades.gov.co/documentos/ESTRATEGIA%20NACIONAL%20DE%20INCLUSI%C3%93N%20F.pdf>, search date February 2017.

only 20% does so in each case, mainly because of the mistrust these electronic payment methods generate⁷².

On the other hand, the percentage share in number of operations performed by type of channel to December 2016, was led by the Internet with 46,6% while mobile banking was at 4,0%. However, offices continue to be the channel with the highest amounts managed at 47% followed by the internet with 33% and mobile banking with only 0,1%. This means that in this type of channels (internet and mobile banking) non-monetary transactions, such as balance inquiries, are still predominant.

In order to stimulate the increase in electronic payments, through Law 1735 of 2014 and its respective regulations, a new financial license was authorized called Sociedades Especializadas de Deposito y Pagos Electronicos (SEDPE) through which it is hoped will enhance transactional services for the entire population and develop the digital payments ecosystem. However, there is an opportunity to incentivize the acceptance of alternative payment methods instead of cash between small businesses⁷³.

All of the above brings us to state that as long as there are no alternatives that compete with cash in terms of acceptance, costs, ease-of-use, immediacy and other attributes, its widespread use will persist.

Recent literature on the subject highlights five aspects that describe the path to reducing cash use: (i) identification of barriers, (ii) regulatory reforms (if required), (iii) broadening acceptance of electronic payment methods, iv) reducing costs and (v) expanding financial education programs to promote habit change.

There is no doubt that significant efforts have been made in the country for financial inclusion and cash reduction, among which can be highlighted the achievement of 100% coverage of the country's municipalities, the issuance of new regulations⁷⁴and political will to support innovation. Research and pilots have also been developed⁷⁵, that have allowed progress in the identification of barriers and in the targeting of actions.

Notwithstanding, there are still relevant challenges that need to be overcome, such as interoperability, which requires the alignment of

72 Financial Inclusion Demand Study BdO - SFC (2015).

Middle income countries, such as Nigeria and 73 Kenya, have made important public policy adjustments to boost the use of mobile phone transfers, where text messaging technology is leveraged on a platform for all types of transactions, (M-PESA).

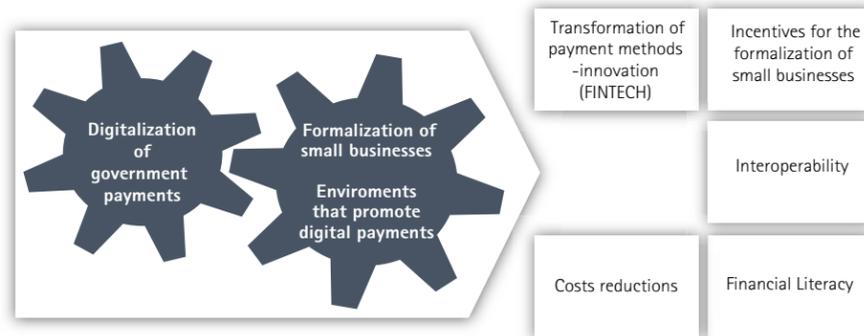
74 Some examples of regulation aimed at promoting electronic payments include Law 1735 of 2014 (authorizing the SEDPE), the single tax system and the one associated with the mass adoption of electronic invoicing.

75 Some examples of pilots include cashless municipalities in Concepcion - Antioquia (2015), support for the development of mobile banking products since 2011, the Demand Study on cash use drivers or Proyecto F (2016) and the Study of Electronic Transactions of Small Businesses, by the IDB, WEF and URF (2016).

interests and the joint efforts of all stakeholders, as was the case in Peru⁷⁶.

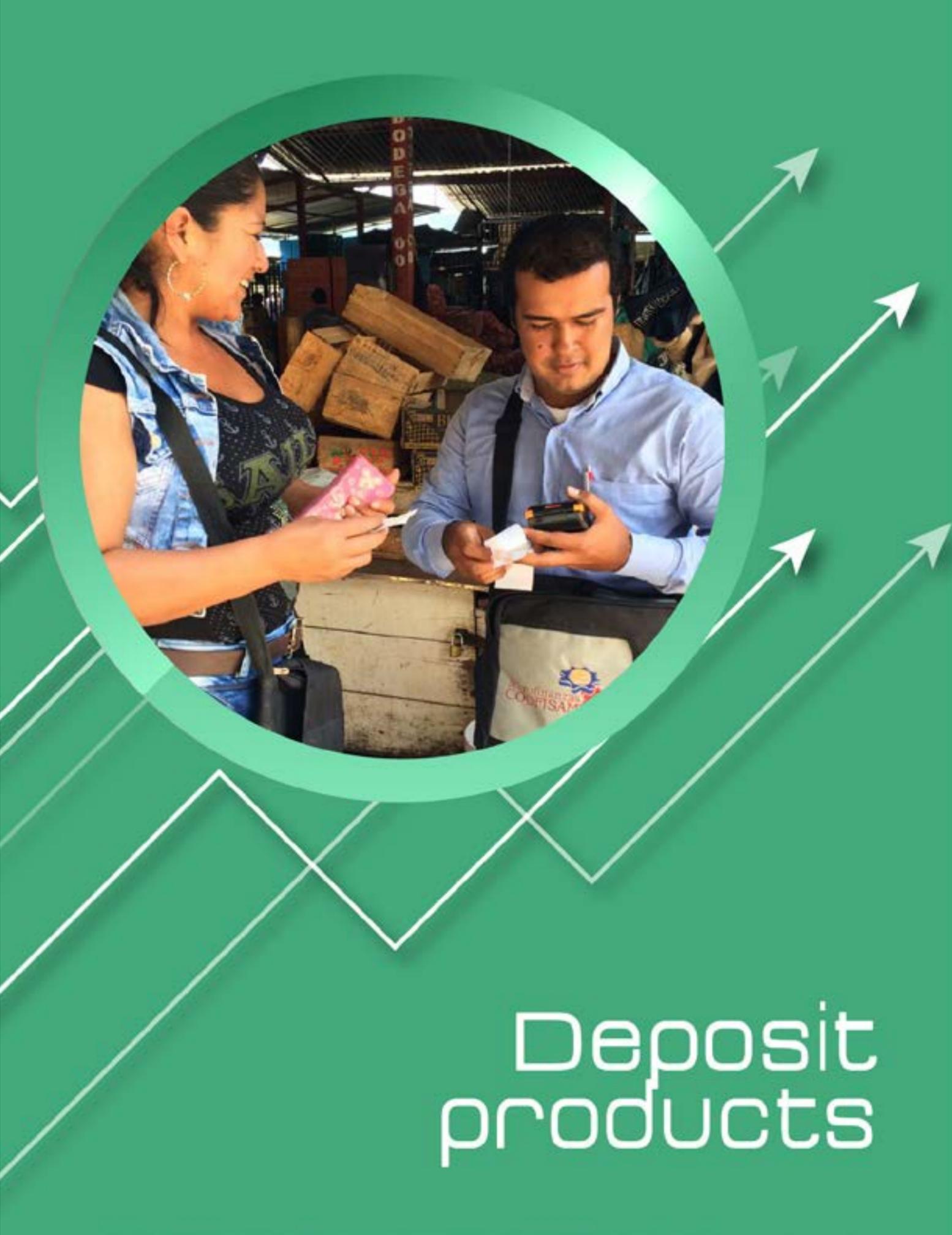
The National Strategy for Financial Inclusion of Colombia proposes two actions aimed at reducing the use of cash: on the one hand, the formalization of small businesses in environments that promote digital payments and, on the other, the digitization of government payments (above all, at local level). From these starting points, other forms of payment that truly compete with cash are expected to be stimulated in the next 5 years.

Chart 78: Stimulation of cash reduction



Source: Superfinanciera de Colombia - Prepared by BdO

Putting the components of this strategy into action seeks to stimulate other payment methods over the medium term with clear benefits for the Government, the economy, merchants and the population.



⁷⁶ In Peru, the BIM Platform recognizes that in order to compete with cash, this digital mechanism needs to comply with two fundamental conditions: affordability and wide acceptability. These two premises need to be the starting point for the development of such actions.

Deposit products

Savings products continue to be the main doorway to the financial system, given that they represent support for future obligations, allow people to access goods and services that improve their quality of life and facilitate achieving goals.

As we have insisted in previous reports, the design and offer of financial products should not only consider the needs of people, but also their ongoing use, in such a way that the customers engaged with the financial system can receive the benefits that spring from being a part of it.

In terms of the use of savings products at the level of gender, priorities differ between men and women according to the products offered by the supervised entities. According to the responses from financial intermediaries to requests for information on financial inclusion⁷⁷, women have a larger share of simplified formality products (simplified formality savings accounts and electronic money deposits) and men have a larger share of traditional savings accounts.

In relation to the activity, electronic deposits and electronic savings accounts show greater activity compared to other deposit products. In the case of traditional savings accounts and simplified formality savings accounts, dormant accounts exceed those that are current.

This chapter summarizes the main results of the use of savings products, taking into account both those corresponding to financial intermediaries supervised by the Superintendencia Financiera de Colombia (SFC) as well as to the savings and loan cooperatives supervised by the Superintendencia de la Economía Solidaria (SES). Likewise, a breakdown of information is provided for the electronic deposit products (ED), traditional savings accounts, electronic savings accounts (CAES) and simplified procedure savings accounts (CATS), by gender and activity.

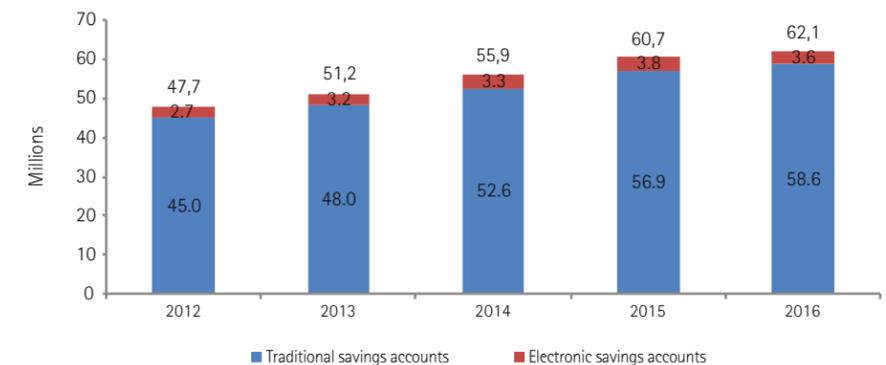
⁷⁷ Requirement for Financial Inclusion 2016, Circular Letter 086 of 2016. Information was requested by gender, as well as whether financial products were current or dormant.

⁷⁸ Includes traditional savings accounts and electronic savings accounts of banks, financial corporations, finance companies, financial cooperatives supervised by the SFC and savings and loan cooperatives supervised by the SES.

1. Savings accounts⁷⁸

As of December 2016, the number of savings accounts rose to 62.1 million, equivalent to annual growth of 2,3%, which was mainly explained by the 2,9% increase in the number of traditional savings accounts. The foregoing means that in the past year there were 1,4 million new accounts, of which 96% were traditional savings accounts. In the past five years, an average of 3,6 million new accounts were created.

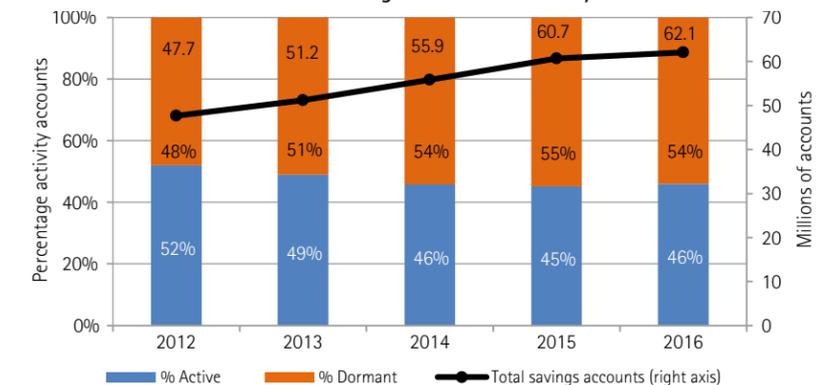
Chart 79: Evolution of the number of savings accounts by type of product



Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria. Includes CAE.

Savings account activity showed that, at the end of 2016, 46% of the accounts remained current, that is, they had made at least one operation in the last six months. That percentage increased by 1pp compared to 2015, which, although a step forward from the previous year, still shows that it is necessary to continue to manage dormant accounts and promote their use, as they still exceed more than 50% of the total.

Chart 80: Number of savings accounts and activity

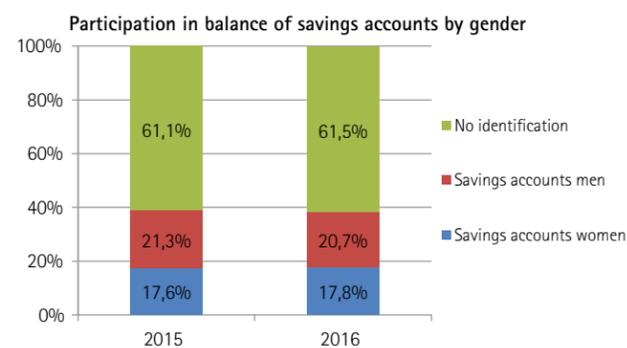
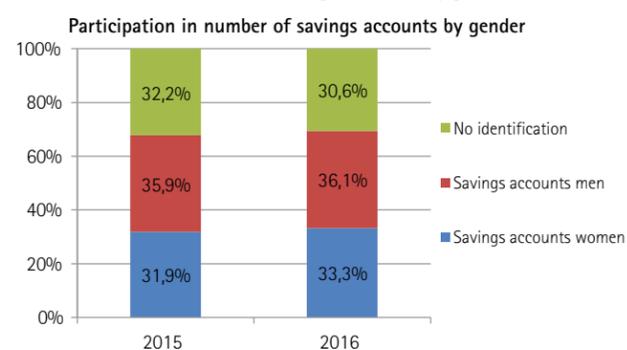


Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria. Includes CAE.

When analyzing the number of savings accounts by gender, between 2015 and 2016 the first thing to highlight is that an average 31,4% in number and 61,3% in the balance of the accounts that are reported by entities is not broken down by gender.

Based on the information available in 2016, it should be noted that for the total number of savings accounts, the share of men is higher (36,1%) than the share of women (33,3%). The same happens with the balance on account, where the accounts of men represent 20,7% compared to women with 17,8%.

Chart 81: Share in the number of savings accounts by gender



Source: Superintendencia Financiera de Colombia.

At the end of 2016, the number of accounts per 10,000 people showed an upward trend, reaching a ratio of 18.670, which indicates that on average there are about 1,9 savings accounts per adult.

User preferences regarding the use of cash and informal savings are still some of the barriers to encouraging the use of formal products, as well as ignorance about the existence of accounts that are no longer used and the lack of management efforts on the part of financial entities in regard to these products.

Chart 82: Total and active savings accounts per 10.000 people



Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria. Includes CAE.

Following the trend of previous years, the savings accounts of banking establishments - which accumulate most of all accounts - increased 2,2% over the previous year. However, it was in financing companies where the greatest growth was evidenced recording a variation of 17,8%.

TABLE 9: Evolution in number of savings accounts by type of institution

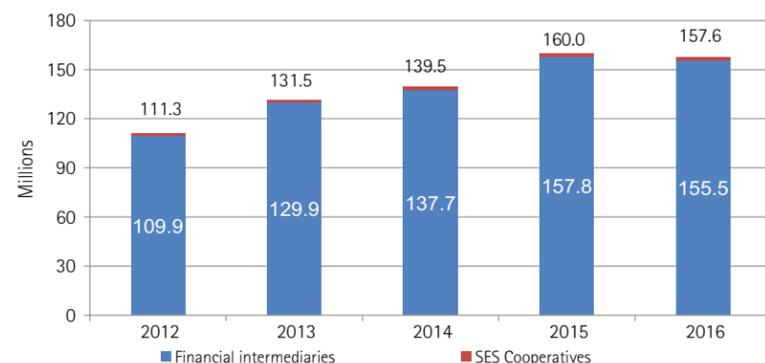
Savings accounts	2012	2013	2014	2015	2016	Participation 2016
Banks	44.796.786	48.051.382	52.338.535	57.218.150	58.470.351	94,15%
Financial Corporations	174	347	405	415	433	0,00%
Financial Companies	379.353	515.654	700.054	316.288	372.467	0,60%
Finance Cooperatives-SFC	713.482	703.698	711.074	759.343	808.744	1,30%
Cooperatives-SES	1.803.032	1.951.527	2.110.773	2.427.180	2.454.443	3,95%
Total savings accounts	47.692.827	51.222.608	55.860.841	60.721.376	62.106.438	

Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria. Includes CAE

With regard to the balance of savings accounts, at the end of 2016, this amounted to \$ 157,6 billion, showing a decrease of 1.4% compared with 2015. Financial intermediaries⁷⁹ monitored by the SFC concentrated 98,6% of the total balance, led by banks and followed by savings and loan cooperatives supervised by the SES.

⁷⁹ Includes: banks, financing companies, financial corporations and financial cooperatives supervised by the SFC.

Chart 83: Evolution of balances on accounts



Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria. Includes CAE.

During 2016 it was evident that balances on savings accounts in banks exhibited a decrease of \$2,1 billion, equal to an actual annual decrease of -6,71%. However, financial corporations are where the highest real annual decrease (-30,68%) was observed, followed by finance companies (-12,26%), SES cooperatives (-5,95%) and SFC Cooperatives (-5,24%).

TABLE 10: Evolution of Balances in Savings Accounts by institution (millions of pesos)

Entity	2012	2013	2014	2015	2016	Participation 2016
Banks	108.948.058	128.940.674	136.757.666	156.257.544	154.158.010	97,80%
Financial Corporations	373.597	394.197	214.356	795.236	582.972	0,37%
Financial Companies	125.320	160.802	268.998	250.347	232.274	0,15%
Finance Cooperatives-SFC	432.835	447.105	416.101	478.003	478.994	0,30%
Cooperatives-SES	1.438.474	1.596.772	1.834.147	2.188.484	2.176.676	1,38%
Total savings accounts balance	111.318.284	131.539.550	139.491.267	159.969.614	157.628.927	

Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria. Includes CAE.

By type of institution, between 2015 and 2016, the average balance of the accounts of finance companies was \$167.905 lower than in the previous year, with a real annual variation of -25,5%, while in SFC cooperatives and SES cooperatives it was \$37.226 and \$14.826 lower, respectively, with real annual variation of -7% and -11%. For its part, the average balance in savings accounts was \$94.393 lower, presenting a real annual variation of -8,7%.

TABLE 11: Average balance in savings accounts by type of institution

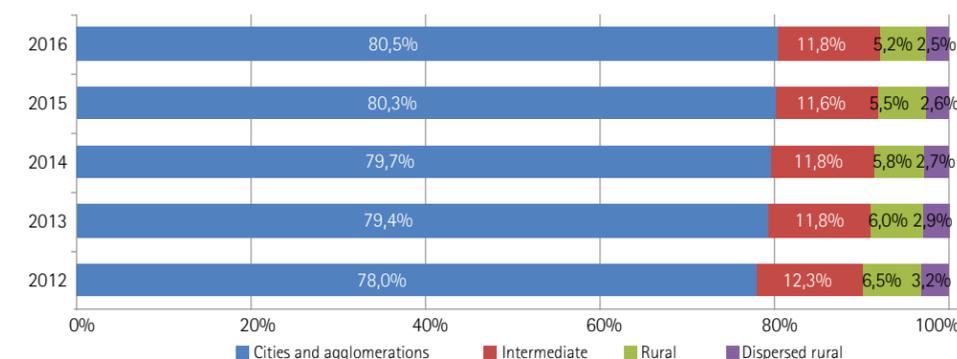
Balance savings accounts	2012	2013	2014	2015	2016
Financial Companies	\$330.351	\$311.841	\$384.253	\$791.515	\$623.610
Cooperatives-SES	\$797.808	\$818.217	\$868.946	\$901.657	\$886.831
Finance Cooperatives-SFC	\$606.652	\$635.365	\$585.173	\$629.495	\$592.269
Banks	\$2.432.051	\$2.683.392	\$2.612.944	\$2.730.909	\$2.636.516
Financial Corporations	\$2.147.107.718	\$1.136.014.983	\$529.273.630	\$1.916.231.361	\$1.346.355.621

Source: Superintendencia Financiera de Colombia and Superintendencia de la Economía Solidaria. Includes CAE.

1.1 Analysis by rurality level

Upon analyzing the distribution of accounts by type of municipality, we found in 2016 that 92% were concentrated in cities and intermediate municipalities, a share that has been increasing over the past five years. With regard to the rural and dispersed rural segment, the number of accounts decreased 2,3% and 0,4% respectively over the last year.

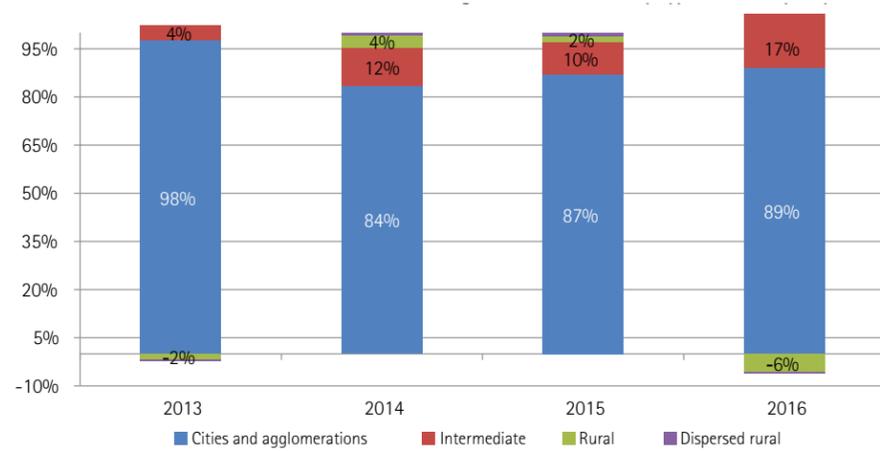
Chart 84: Share of savings accounts by type of municipality



Source: Superintendencia Financiera de Colombia, Banca de las Oportunidades and Superintendencia de la Economía Solidaria. Includes CAE.

When analyzing the evolution of the contribution to the growth of savings accounts by rurality level, we found that cities contributed most of the overall growth in savings accounts, explaining 89% of total growth. Meanwhile, intermediate municipalities accounted for 17% of growth in savings accounts during 2016, while rural and dispersed rural municipalities had a smaller contribution to total growth of 5,6% and 0,4%, respectively.

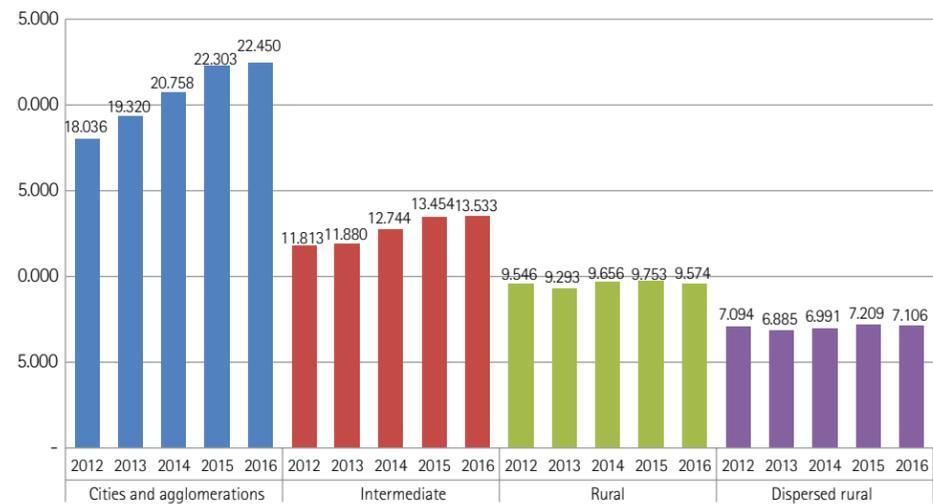
Chart 85: Evolution of the contribution to growth of accounts by type of municipality



Source: Superintendencia Financiera de Colombia, Banca de las Oportunidades and Superintendencia de la Economía Solidaria. Includes CAE.

As for the number of accounts per 10,000 people and by rurality level, during 2016, 22.450 savings accounts were registered in cities and agglomerations, 13.533 in intermediate municipalities, 9.574 in rural municipalities and 7,106 in dispersed rural municipalities. In the case of cities and agglomerations, they showed increases of 0,7% and 0,6%, respectively, during the last year.

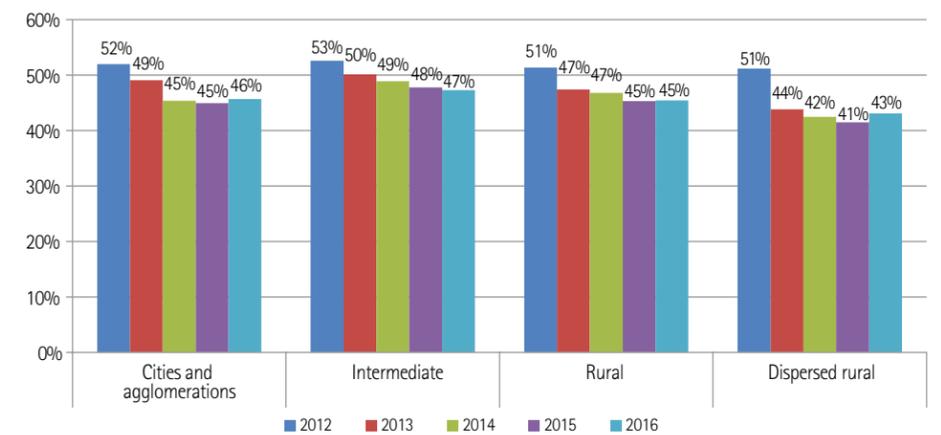
Chart 86: savings accounts per 10,000 people and by rurality



Source: Superintendencia Financiera de Colombia, Banca de las Oportunidades and Superintendencia de la Economía Solidaria. Includes CAE

In regard to the activity of accounts by rurality level, cities, agglomerations and dispersed rural municipalities showed a growth of 1pp and 2pp, respectively, compared to that reached in 2015.

Chart 87: Percentage of active savings accounts by type of municipality



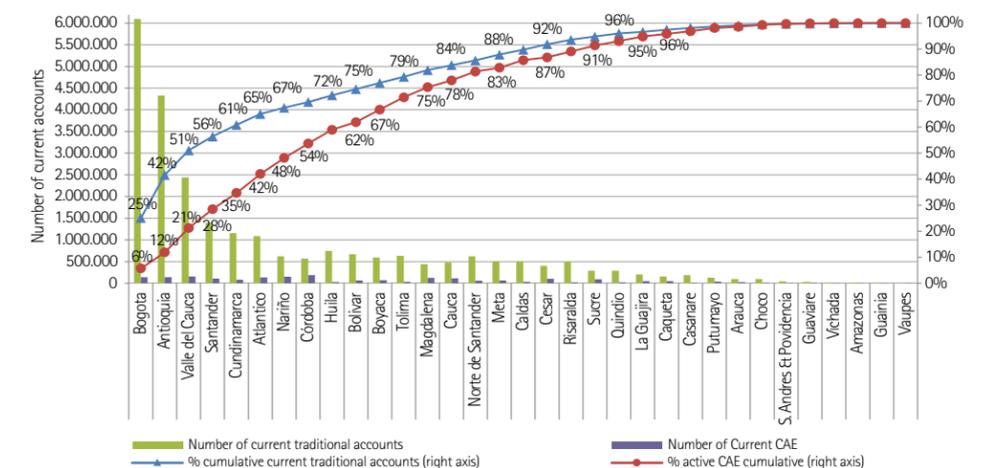
Source: Superintendencia Financiera de Colombia, Banca de las Oportunidades and Superintendencia de la Economía Solidaria. Includes CAE.

1.2 Analysis by department

The geographical distribution of traditional savings accounts reflected that 75% of the checking accounts were concentrated in ten departments, including Bogota D.C., Antioquia and Valle del Cauca, which together accounted for 51% of the national total. In these departments the number of checking accounts amounted to 13.5 million, 630 thousand more than in 2015, representing a growth of 5%.

In analyzing the CAE at departmental level, 42% of checking accounts are concentrated in Valle del Cauca, Atlantico, Santander, Cundinamarca, Antioquia and Nariño, with 842.000 accounts, equal to growth of 11% over the previous year.

Chart 88: Checking accounts by department (December 2016)



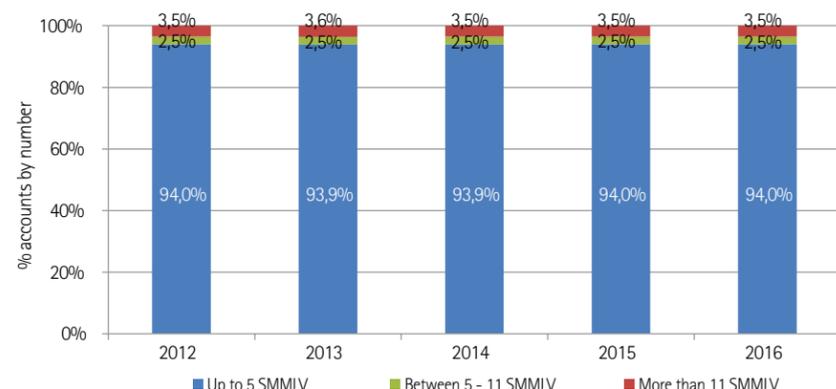
Source: Superintendencia Financiera de Colombia, Banca de las Oportunidades and Superintendencia de Economía Solidaria. Includes CAE

2. Breakdown by type of savings account

2.1 Traditional savings accounts⁸⁰

When analyzing the distribution of traditional savings accounts by SMMLV balance ranges of credit institutions, it is evident that, from 56.1 million accounts, 94% concentrated in ranges of up to 5 SMMLV with 52.7 million accounts. This behavior has remained constant during the last five years.

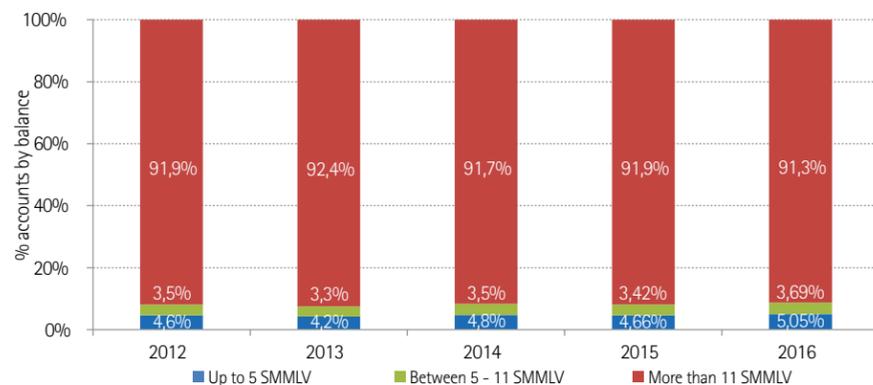
Chart 89: Distribution of the number of traditional savings accounts by balance range



Source: Superintendencia Financiera de Colombia

When analyzing the accounts of up to 5 SMMLV, they accounted for 5.1% of the total resources captured through this product. By contrast, accounts with a balance greater than 11 SMMLV accumulated 91.3% of total deposits, following the trend of previous years.

Chart 90: Distribution of balance in savings accounts by range of balance



Source: Superintendencia Financiera de Colombia

80 Not including electronic savings accounts

The average balance of savings accounts by rank shows that in accounts with a range of up to 5 SMMLV, the average amounted to \$148.932 higher at \$5.607 than presented a year ago. It should be noted that in the range of more than 11 SMMLV a reduction of more than \$ 4.000.000 on average during the last year was evidenced.

TABLE 12: Evolution of average balances in savings accounts

Type of entity	2012	2013	2014	2015	2016
Up to 5 SMMLV	124.728	127.463	138.158	143.325	148.932
Between 5 y 11 SMMLV	3.544.988	3.682.039	3.815.315	4.028.877	4.063.046
More than 11 SMMLV	66.899.264	72.897.311	70.692.230	75.788.312	71.766.839

Source: Superintendencia Financiera de Colombia. Does not include SES or CAE savings and credit accounts.

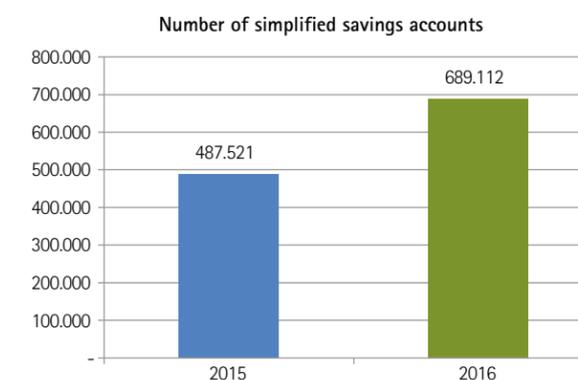
2.2 Simplified savings accounts (CATS):

The simplification of procedures for opening accounts has significantly contributed to financial inclusion in the country, making the procedures for sign-up of clients more flexible without losing sight of risk management to which the supervised entities are exposed.

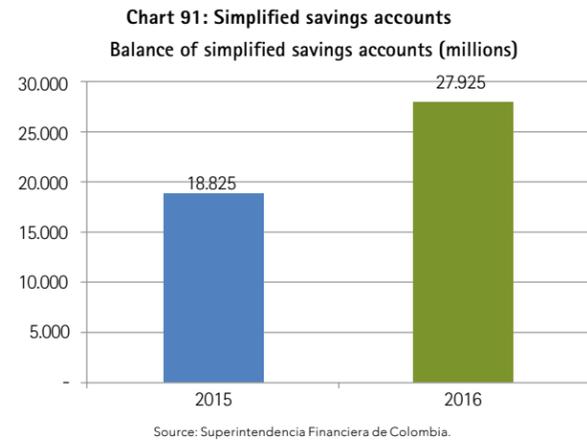
Between December 2015 and 2016, the number of CATS increased from 487.521 in 2015 to 689.112 in 2016, with an increase of 41%, that is, during 2016, 201.591 CATS were opened.

In regard to balances on CATS, these increased by \$9.100 million between 2015 and 2016, going from \$18.825 to \$27.925 million, an increase of 48%.

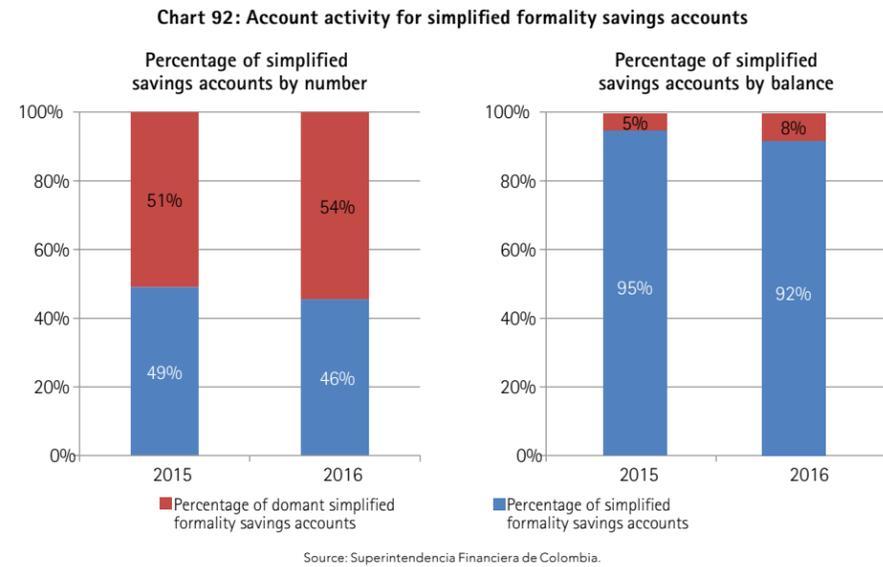
Chart 91: Simplified savings accounts



Source: Superintendencia Financiera de Colombia



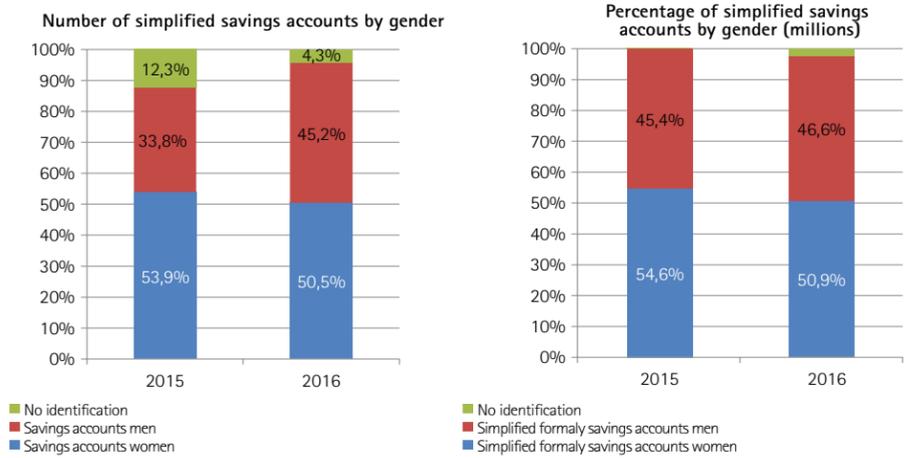
In terms of CATS activity, during the year 2016, it was reported that around 54% of the accounts were dormant, compared with 46% of checking accounts. Comparing with 2015 the percentage of checking accounts decreased by 4pp. The opposite occurs in the balance of these accounts, where the share of the balance of checking accounts over the total is 92%, lower by 3pp than in the previous year.



According to the share of CATS by gender, in reviewing the numbers, accounts showed in 2016 a greater share of women with 50,5% compared to 45,2% of men. However, this share decreased between 2015 and 2016 by 3,4pp in women and increased by 11,4pp in men.

Although in regard to balance on account, the share is higher in women, at 50,9% in 2016, the share was reduced by 3,7pp compared to 2015. The share for men, in contrast, increased by 1,2pp, from 45,4% in 2015 to 46,6% in 2016.

Chart 93: Share in the number of simplified formality savings accounts by gender

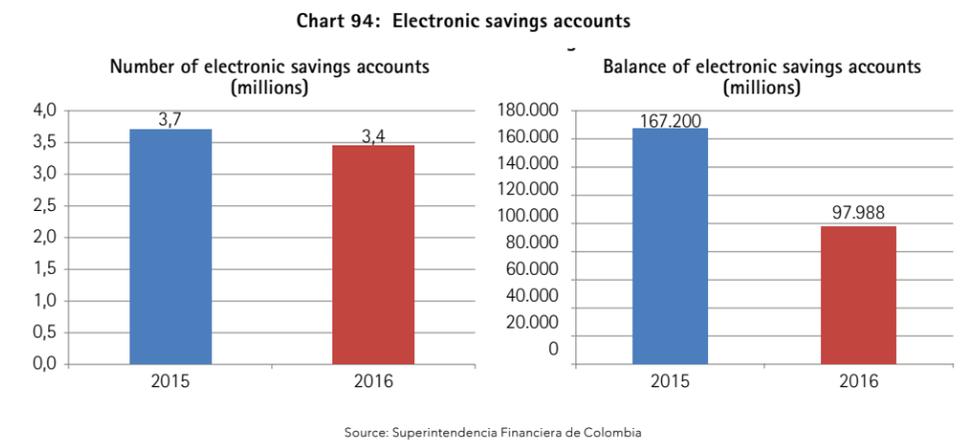


2.3 Electronic savings accounts (CAE):

Electronic savings accounts show significant variations compared to other savings products because they are used by National Government programs for the dispersion of subsidies, as is the case of Mas Familias en Accion.

Between December 2015 and 2016, the CAE number went from 3,7 million in 2015 to 3,4 million in 2016, with a decrease of 7%. That is, 266.322 accounts were closed during 2016.

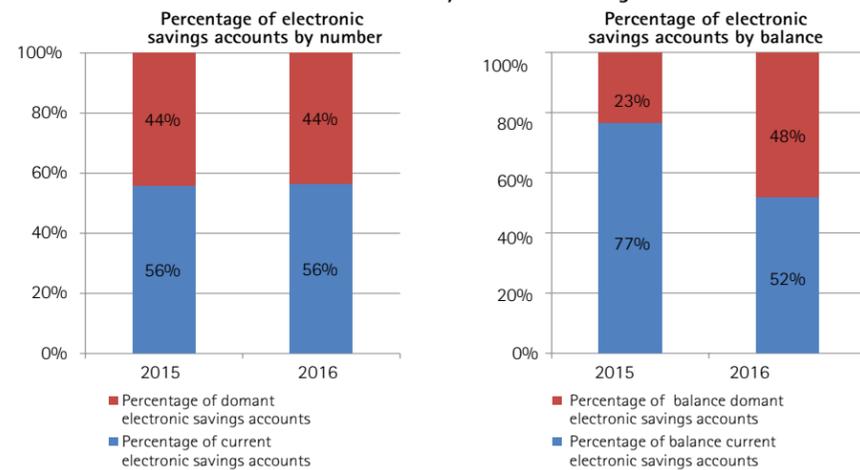
In relation to balances in CAE, these decreased \$69.212 million between 2015 and 2016, going from \$167.200 to \$97.988 million, showing a decrease of 41%.



During 2015 and 2016, the CAES did not show changes in their share of accounts, the percentage of checking accounts remained at 56% and dormant accounts at 44%.

In contrast, the percentage of activity in the balance on accounts showed a significant variation over the past year, going from 77% in 2015 to 52% in 2016, with a decrease of 25pp.

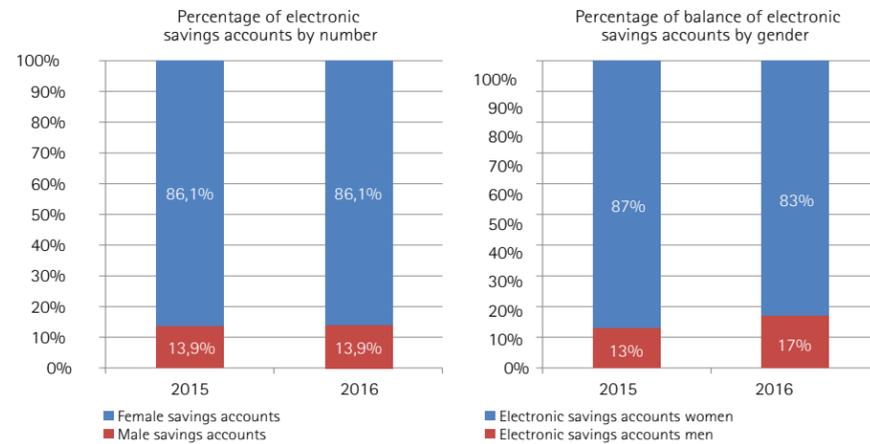
Chart 95: Account activity in electronic savings accounts



Source: Superintendencia Financiera de Colombia

In the case of the share in the number and balance of electronic savings accounts by gender, the highest share corresponded to women with 86% and 83%, respectively. This is mainly explained because many of the current users of these products are recipients of government transfers.

Chart 96: Share in the number of electronic savings accounts by gender



Source: Superintendencia Financiera de Colombia

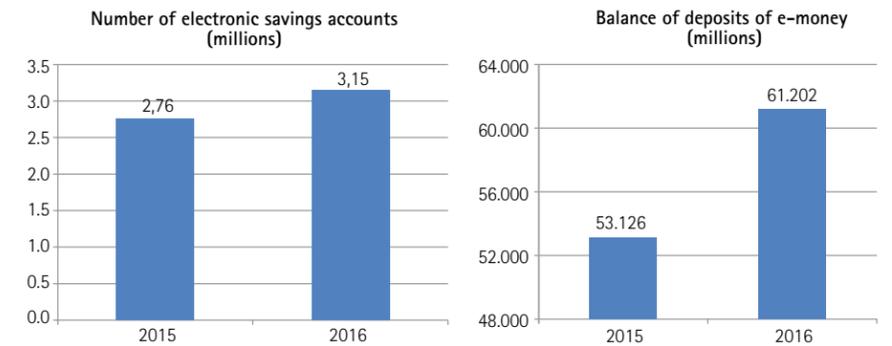
3. Electronic deposits (ED)

Electronic deposits are demand deposits different from savings and checking accounts. They have a simplified account opening process that establishes transaction and balance limits (3 SMMLV for monthly transactions and 3 SMMLV for total balance). Additionally, the sign-up process is simpler since only the information contained in a citizen's I.D. is required, facilitating electronic and remote opening of accounts. For electronic deposits that do not comply with the limits that apply under the simplified account opening procedure, the normal know-your-customer procedure needs to take place.

Between December 2015 and 2016, the number of electronic deposits increased from 2,76 million in 2015 to 3,15 million in 2016, with an increase of 14,1%. In other words, 393.443 electronic deposits were opened during 2016.

In regard to balances on electronic deposits, these increased by \$8.076 million at the end of 2016, going from \$53.126 to \$61.202 million, an increase of 15%.

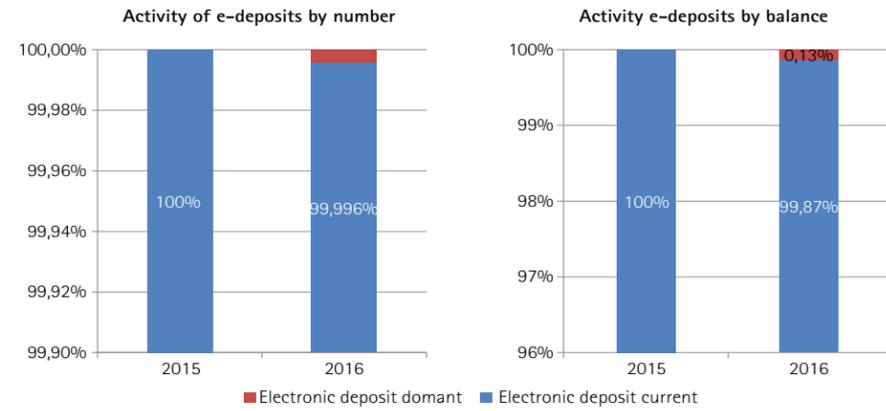
Chart 97: Electronic deposits



Source: Superintendencia Financiera de Colombia

During 2015 and 2016, EDs showed changes in number and balance, decreasing 133 in deposits and \$78 million when compared to the previous year. The share in the balance decreased by 13bps.

Chart 98: Electronic deposit activity

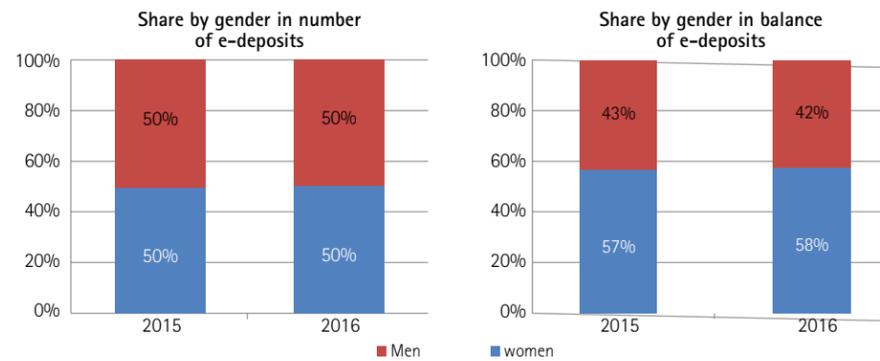


Source: Superintendencia Financiera de Colombia

According to the gender distribution in ED holding, the highest share of EDs is with women at 50,3%. Comparing with 2015 women gained 0,8 pp in 2016.

On the account's balances, the average share between 2015 and 2016 has been higher in women with 57%, compared with 43% in men. This behavior has been maintained in recent years.

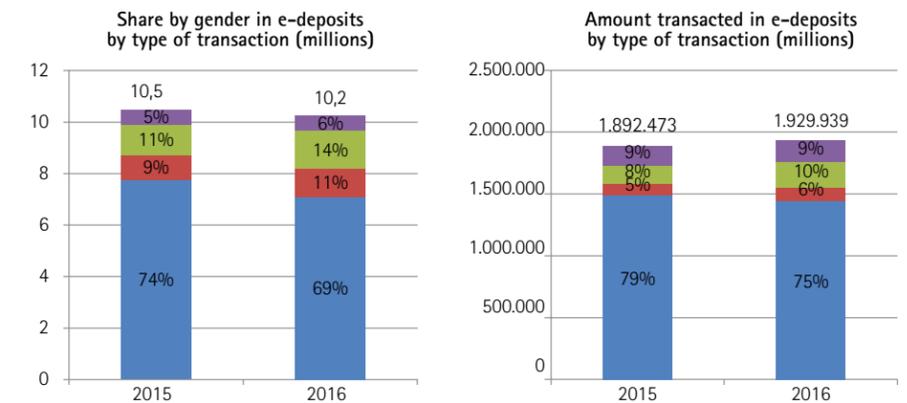
Chart 99: Share of electronic deposits by gender



Source: Superintendencia Financiera de Colombia

When analyzing the financial transactions carried out with ED by type of operation, withdrawals were found to represent 69% in numbers and 75% in amounts. Compared to 2015, this share has been declining, given that they represented 74% and 79%, respectively, in 2015. On the other hand, transfers received have increased their share by 3pp in both numbers and amounts, reaching 14% and 10%, respectively.

Chart 100: Transactions with electronic deposits by type of transaction



Source: Superintendencia Financiera de Colombia

Conclusions

- As for the use of savings products, the priorities of men and women differ according to the products offered by the entities supervised. Women have a greater share in simplified products, such as CAE, CATS and ED both in numbers and balance. In the case of men, the largest share is recorded in traditional savings accounts with 36,1% in number and 20,7% in amount, without taking into account the percentage of unidentified accounts.

- When analyzing products that are active or dormant, it was found that ED and the CAE show higher activity than dormancy, both in numbers, at 99,9% and 56%, respectively, as well as amount, at 99,9% and 52%, respectively. The opposite occurs with traditional savings accounts and simplified formality savings accounts, where dormant accounts exceed those that are active at 55% and 54%, respectively.

- As in previous years, the vast majority of existing savings accounts corresponded to those with the lowest average balances. According to the distribution of the number of accounts, 94% had balances of less than 5 SMMLV and accounted for 5,1% of total funds attracted through this product. In the opposite case, accounts with more than 11 SMMLV, the number of accounts is 3,52% and they concentrate 91,3% of the total resources.

- The use of savings accounts exhibited substantial differences as a function of the rurality level. In cities and agglomerations and dispersed rural areas there was an increase of 1pp and 2pp, respectively, compared to 2015.



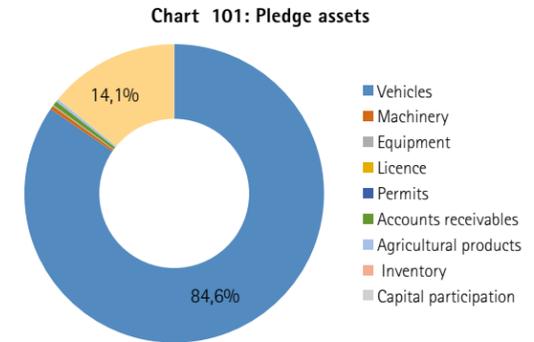
CREDIT

Credit

Being able to secure economic opportunities is fundamental for companies, households and individuals to develop economic and productive activities and generate inclusive economic growth. However, inclusion in the financial system via credit products with inadequate awarding practices can lead to financial instability and over-indebtedness. Therefore, inclusion through credit products or expansion requires a great deal of responsibility on the part of bidders, consumers, regulation and supervision.

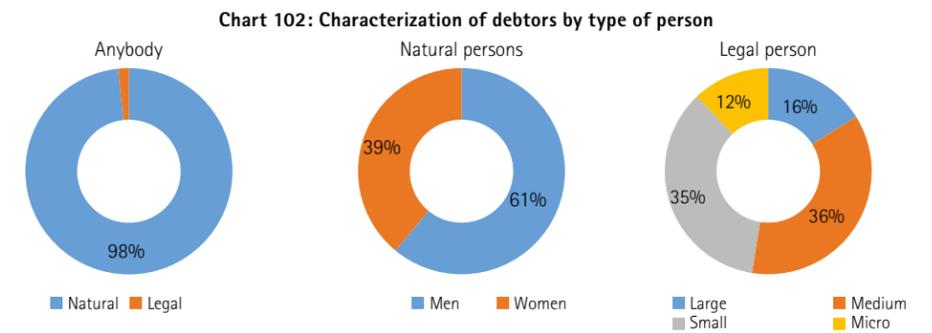
In order to promote access to credit in Colombia, different measures have been implemented in the last three years that facilitate access either through low-value credit products or by empowering consumers with greater collateral eligibility within the appropriate credit risk management requirements. To begin with, Law 1676 of 2013, regulated by Decree 1835 of 2015, modernized the system of secured transactions on movable property, expanding the quantity and diversity of assets that can be constituted as collateral (which can be valued in a pecuniary way) and creating a centralized and public registry of the information on the Guarantees and more efficient enforcement mechanisms.

The results of this regulation have been positive. Prior to the issuance of the Law, there were a total of 812.622 records of security interests on movable property. Including registrations in force before 2014, the total number of registrations as of March 31, 2017 was 1.499.148, of which 84,6% (1.267.743) relate to guarantees on vehicles⁸¹. The remaining percentage is distributed in guarantees on machinery, equipment, licenses, permits, capital contributions, accounts receivable, agricultural products, inventories and others.



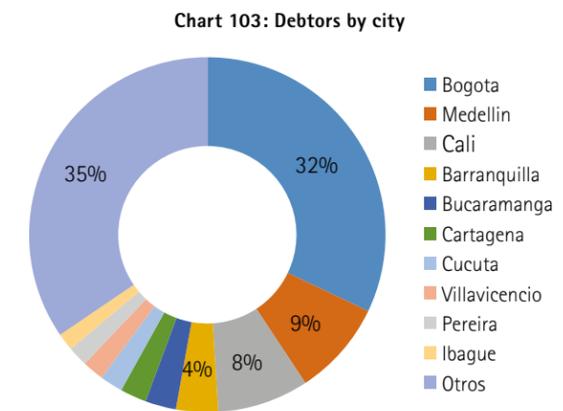
Source: Confecámaras

Of the total of debtor registries, 98% relate to natural persons, of which 61% are men. Of the portion of debtors that relate to legal persons, most are Small and Medium Enterprises (SMEs), which together account for 71% of the total debtor companies. Of the remaining percentage, 16% of debtors were large companies and 12% were micro-entrepreneurs.



Source: Confecámaras

As for the distribution by city of the debtors with records of security interests on movable property, a significant portion is located in Bogota, with 32% of the total, followed by Medellin with 9%, Cali with 8% and Barranquilla with 4%.



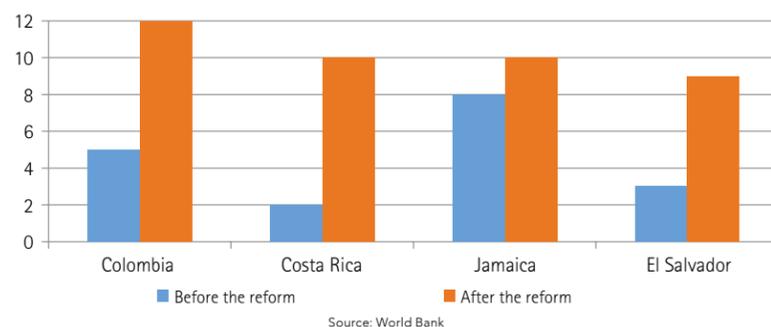
Source: Confecámaras

81 Confecámaras (2017), Register of security interests on movable property, Statistical Report to March 31, 2017.

The issuance of Law 1676 of 2013, internationally recognized as a regulatory border practice for access to credit for individuals and especially SMEs, allowed the country to advance in international environmental measurements to do business, specifically in the World Bank’s Doing Business study. This study includes ten indicators that measure different aspects that facilitate the emergence and business development, within which is access to credit and more specifically, the legal rights to have access⁸².

Overall, in the latest version of this study Colombia reached number 53 among 190 economies and the second in Latin America after Mexico, which occupies the 47th position. Specifically regarding the access to credit component, Colombia ranks second after New Zealand, since the regulations around the current system of security interests on movable property allowed it to go from five to twelve points in the legal rights sub-indicator, which is the maximum score to get.

Chart 104: Advance in score in reforms of legal rights during 2015 and 2016 for access to credit of countries of the region



In addition, Decree 2654 was issued in 2014, which issued instructions related to low-denomination consumption credit that, due to its characteristics, provides greater ease of access. In this sense, this type of credit is available for natural persons, with a maximum amount of up to 2 SMMLV and a maximum payment period of 36 months. Likewise, the regulation establishes that the credits cannot be of a revolving nature nor be offered by credit cards, although the entities that offer it can use plastic cards at no additional cost to the financial consumer.

As a complement to the aforementioned initiatives to promote access to credit through regulated and supervised financial intermediary, in recent years the supply of credit products has been complemented by new players representing an opportunity to continue advancing in financial inclusion by developing business models (such as crowdfunding) that allow them to offer beneficial access conditions for people in terms of identification, procedures, fees and costs.

However, these new business models can be exercised under asymmetric consumer protection and granting standards as opposed to practices that are implemented by traditional financial market players. This is currently a challenge for regulators and supervisors, taking into account the benefits that a greater number and variety of suppliers and products other than the traditional ones bring to the consumer, but also the impact that new forms of awarding have on the financial system in general.

This chapter of the Financial Inclusion Report briefly describes the evolution during 2016 of the credit and loan disbursement portfolio of financial intermediaries supervised by the SFC, savings and loan cooperatives supervised by the Superintendencia de la Economía Solidaria and micro lending NGOs.

Evolution of credit and disbursements portfolio

Portfolio

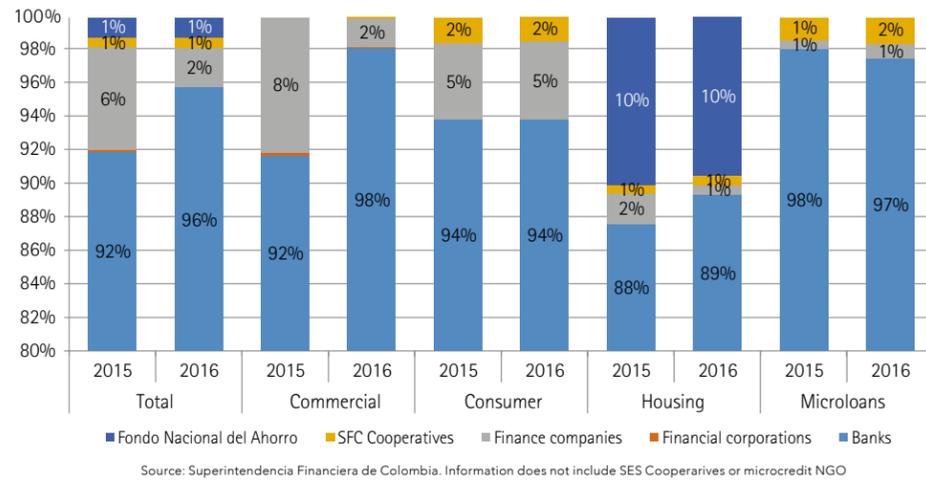
During 2016, the loan portfolio registered a lower growth compared to previous periods, with a real annual variation of 1,85% and nominal of 7,7% to reach 412,2 billion at the end of the year. This behavior was mainly due to the adjustment of the portfolio to the dynamics of the economy, which was reflected mainly in the commercial portfolio and registered a decrease of 1,51% real and a nominal increase of 4,2% compared to 2015.

As for the composition of the credit portfolio by intermediary, as well as in 2015, in 2016 the majority (96%) of the total portfolio was concentrated in banking establishments. This value increased over the last two years due to the conversion of two finance companies into banks⁸³ and the voluntary wind-up of another entity of the same type⁸⁴ in 2015, as well as the merger of two of these same entities with banking establishments in 2016⁸⁵, a situation that was especially reflected in the commercial portfolio, in which the participation of banking establishments went from 92% in 2015 to 98% in 2016.

⁸² World Bank (2017), Doing Business: Equal Opportunity for All

⁸³ Macrofinanciera S.A to Multibank S.A and Finamerica to Bancompartir S.A
⁸⁴ Mi Plata S.A
⁸⁵ Leasing Bolívar S.A with Banco Davivienda S.A and Leasing Bancolombia S.A with Banco-lombia

Chart 105: Portfolio by modality and intermediate

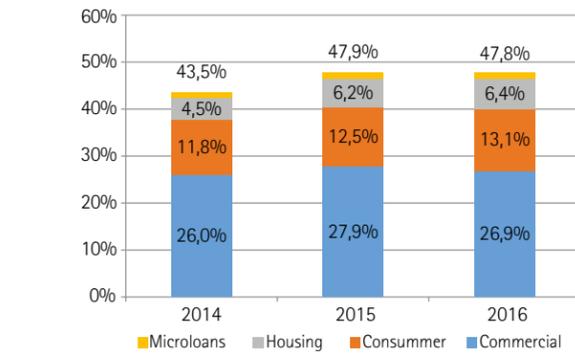


Although a greater financial depth is not a guarantee of greater financial inclusion, it shows the capacity of the financial system to offer financial products and services for the productive and economic activities of companies and individuals.

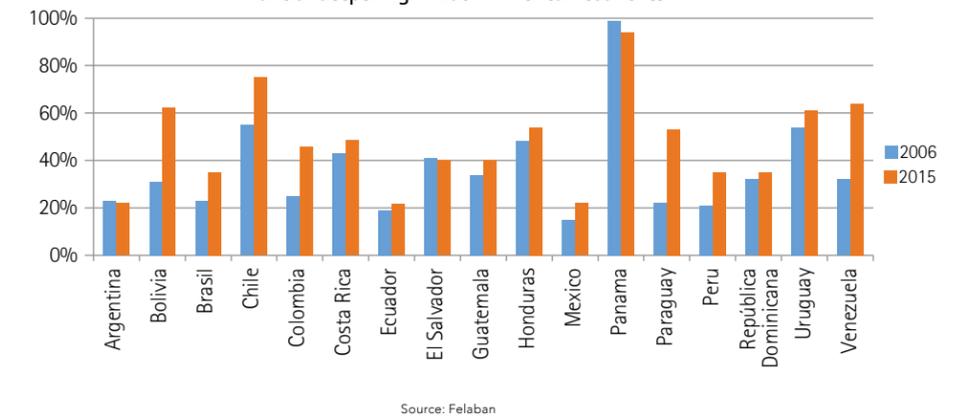
In the last ten years, financial deepening in Colombia, measured as the gross portfolio as a proportion of the Gross National Product, has increased, from around 25% in 2006 to 47,8% in 2016. This increase in the level of financial deepening in Colombia is remarkable compared to countries in the region, which together with Bolivia, Chile and Venezuela showed positive results between 2006 and 2015, going from 31% to 62,5%, 55% to 75% and 32% to 64%, respectively.

However, between 2015 and 2016, financial deepening registered similar results in both years, going from 47,9% in 2015 to 47,8% in 2016. This is due to the slowdown in the Colombian economy during the last year, which led to lower growth in the credit portfolios.

Chart 106: Deepening
Gross portfolio / Gross National Product



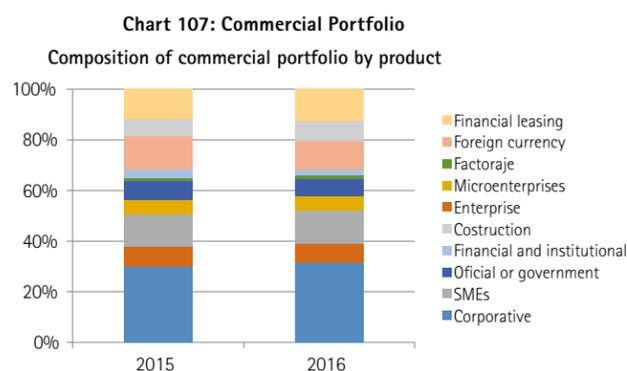
Financial deepening in Latin American countries



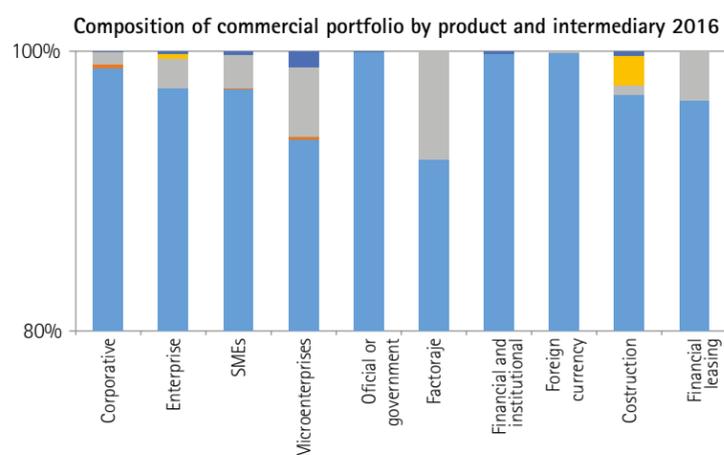
Commercial portfolio

When analyzing the composition of the commercial portfolio by product, the largest share in 2016 was obtained by the corporate sector portfolio with 31% of the total. Between 2015 and 2016, credits for construction, factoring, financial leasing, corporate, Small and Medium Enterprises (SMEs) and microenterprises showed positive results, increasing its by balance 23%, 15%, 11%, 9%, 5% and 5%, respectively. Of the above, it is worth highlighting the case of microenterprise and SMEs portfolio, which it is necessary to continue promoting so that they have adequate financing tools at each stage of development.

At the intermediary level, banks accumulated the majority of the share, except for the microenterprise and factoring portfolio balances, in which financing companies recorded a significant share.



Source: Superintendencia Financiera de Colombia. Information does not include SES Cooperarives or microcredit NGO

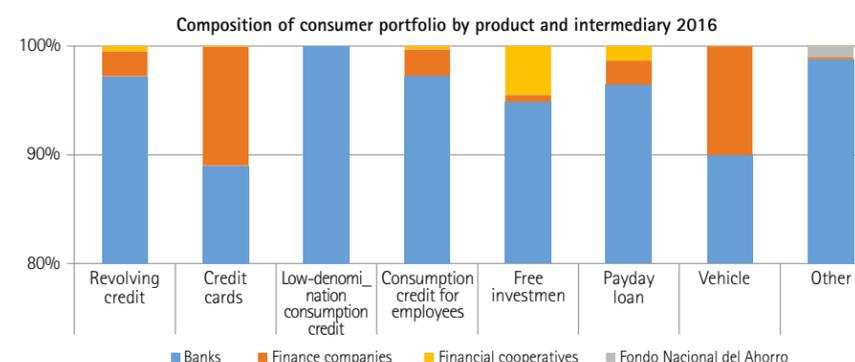
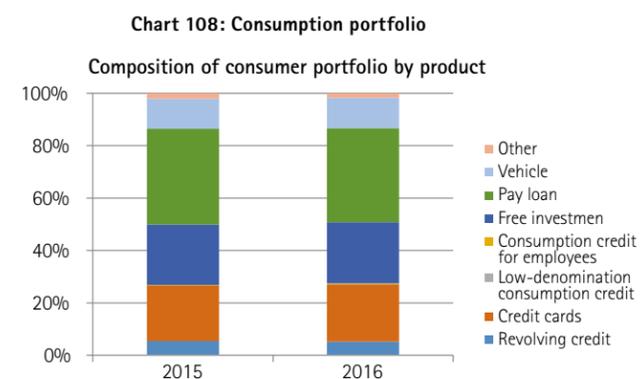


Source: Superintendencia Financiera de Colombia. Information does not include SES Cooperarives or microcredit NGO

Consumer portfolio

As for the consumption portfolio, payroll deduction loans accounted for 36% of total the balance and 12% of the annual growth in 2016. As in 2015, credit cards continued to participate with 22% of the total consumption portfolio and had a nominal annual growth of 16%. On a smaller scale of participation, the balance of loans to employees and low-denomination consumption increased 70% and 17% during the past year, respectively.

Regarding institutions, banks held a majority share in all products. However, finance companies contributed 10% of the portfolio in credit cards and vehicle lending and the financial cooperatives had a share close to 5% in the portfolio of non-earmarked credit.



Source: Superintendencia Financiera de Colombia. Information does not include SES Cooperarives or microcredit NGO

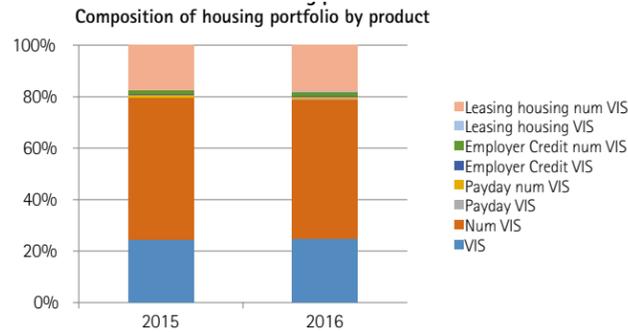
Housing portfolio

The composition of the housing portfolio by product and intermediary during 2016 exhibited similar behavior compared to the previous year, with a higher share of the non-VIS⁸⁶ housing portfolio with 54% of the total and a 13% increase compared to 2015. The VIS portfolio, with a 25% share of the total, showed nominal increases of close to 14% during the past year and leasing housing, with 18% of share, increased 17%. On a smaller scale, VIS lending to employees decreased 50% over the past year.

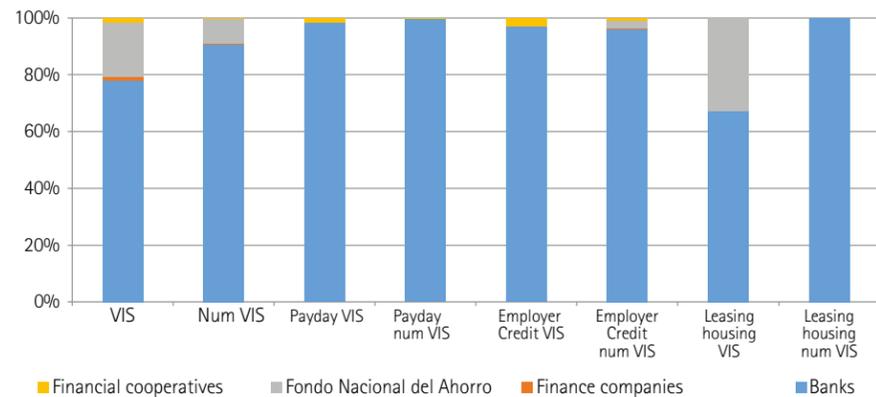
As for the share by intermediary, in 2016 in the majority of products, financial intermediaries concentrated a large part of the portfolio except for the portfolio of VIS, non-VIS and leasing housing in which the Fondo Nacional del Ahorro participated with 19%, 9% and 33%, respectively.

86 VIS refers to Social Interest Housing

Chart 109: Housing portfolio



Composition of housing portfolio by product and intermediary 2016



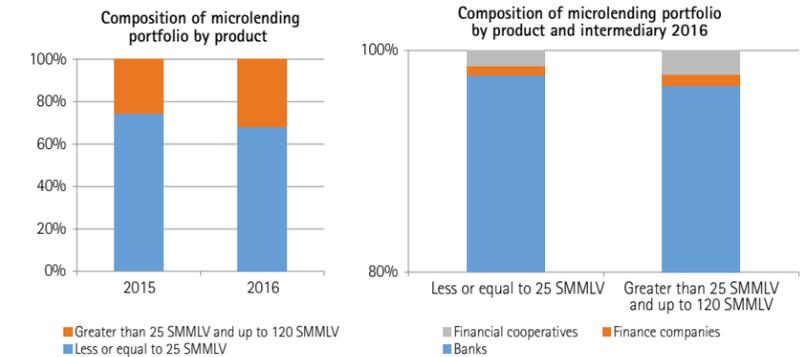
Source: Superintendencia Financiera de Colombia. Information does not include SES Cooperarives or microcredit NGO

Microcredit portfolio

The analysis of the microcredit portfolio by ranges showed an increase in 2016 in both the share and the total balance of microloans above 25 SMMLV and less than 120 SMMLV, accumulating 32% of the total and nominally increasing 32% during the past year. The microloan portfolio of balances equal to or less than 25 SMMLV decreased 2% in the past year, representing 68% of the total of this modality of portfolio in 2016.

At the intermediary level, finance companies had a greater share in the microloan portfolio greater than 25 SMMLV in 2016. However, banks continued to accrue most of the portfolio for both ranges of microlending.

Chart 110: Micro lending portfolio



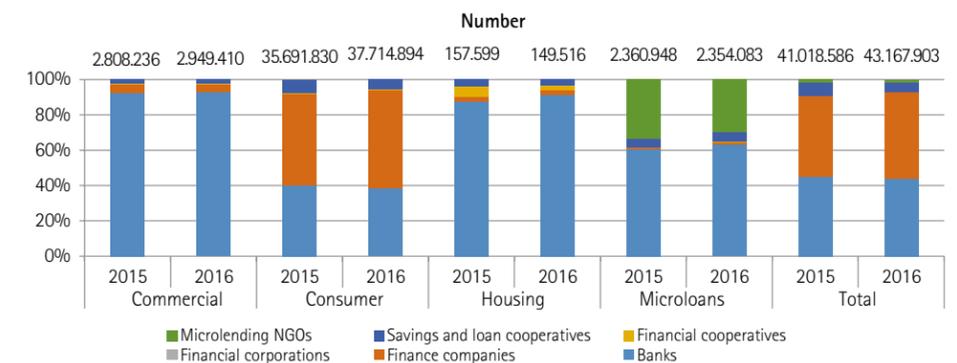
Source: Superintendencia Financiera de Colombia. Information does not include SES Cooperarives or microcredit NGO

Credit disbursements

The analysis of the number of disbursements by modality and intermediary shows a decrease in disbursements of housing loans and microloans between 2015 and 2016, from 5% and 0,3%, respectively. In terms of the composition of disbursements in their different modalities, housing and commercial loans were mostly contributed by banks, while those for consumption recorded a significant share (close to 60%) of financial companies and microcredit disbusments of microcredit NGOs (30%).

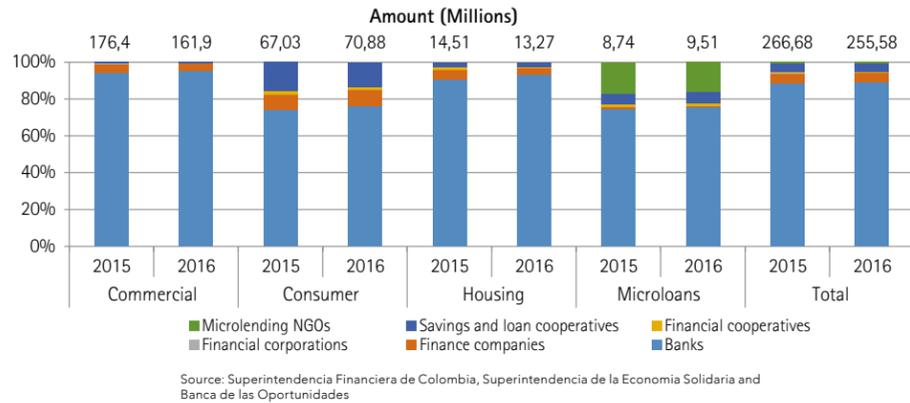
On the amounts disbursed, the results differ since the majority of the amounts disbursed, for all credit modalities, was concentrated on banks. However, in the amounts of consumption credit disbursed, the savings and loan cooperatives participated with a value close to 13% and in microcredit NGOs had 16%.

Chart 111: Disbursements by modality and intermediate



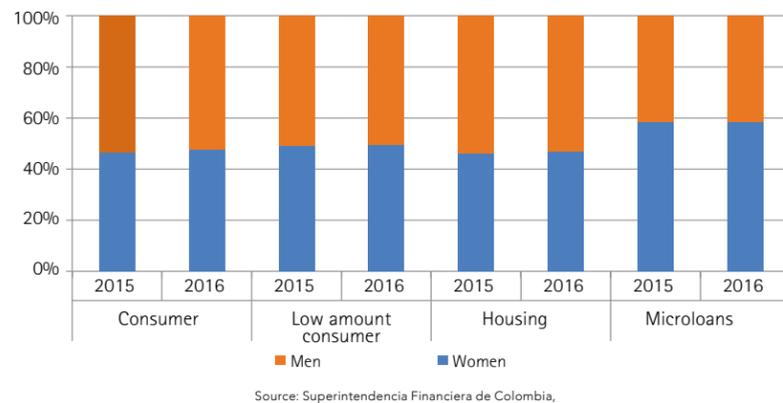
Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and Banca de las Oportunidades

Chart 111: Disbursements by modality and intermediate



When analyzing the share of the number of disbursements by modality and by gender, it is evident that only in microcredit disbursements there was a significant difference in the gender of the people who had access to the product, because from the total, both in 2015 and in 2016 around 59% of the disbursements were made to women.

Chart 112: Number of disbursements of credits by modality and gender



Disbursements at regional level

Commercial

In regard to rurality, between 2015 and 2016, the deceleration of the commercial portfolio had a greater impact on disbursements in intermediate, rural and dispersed rural municipalities, exhibiting reductions in the number of disbursements per 100.000 people of 24%, 5% and 12 %, respectively. In these types of municipalities, the disbursements granted by savings and loan cooperatives contributed a significant portion of the total, specifically in the case of rural municipalities, where this type of entity had a greater than 50% share of total disbursements.

This indicates that although there was a deceleration of this modality of portfolio, the savings and loan cooperatives maintained disbursements in rural municipalities while banks decreased the number of disbursements in all types of municipalities except in cities and agglomerations.

In terms of amounts disbursed in commercial credit, banks continued to contribute most of this amount, although in intermediate, rural and dispersed rural municipalities, savings and loan cooperatives had a share ranging between 7% and 20% of the total amount disbursed for this modality.

Chart 113: Disbursements of commercial credit by intermediate and rurality level
Number of Disbursements per 100.000 adults

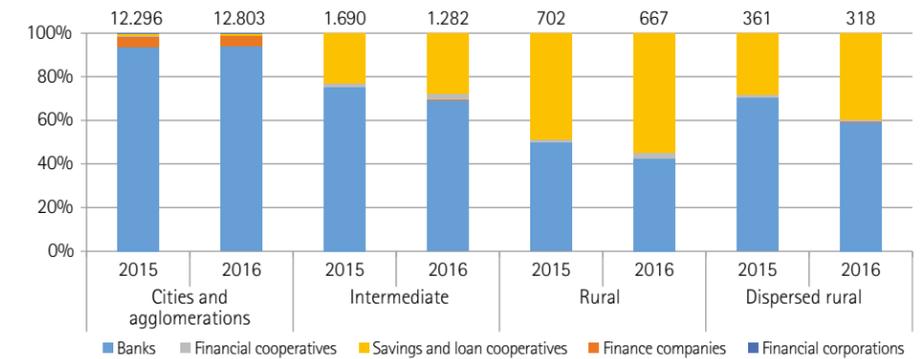
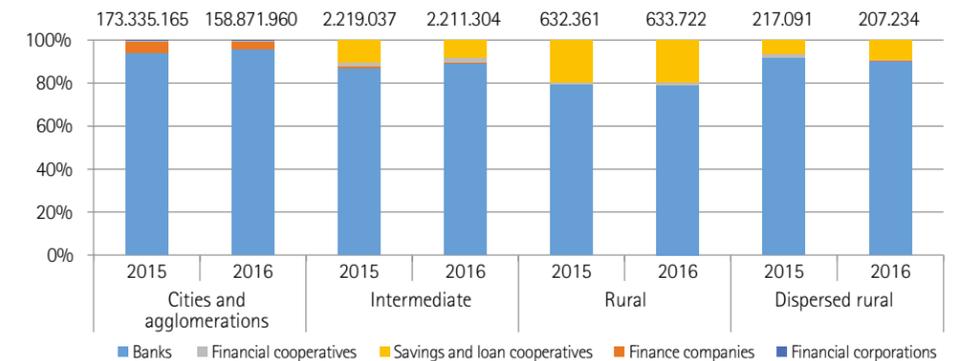


Chart 113B: Disbursements of commercial credit by intermediate and rurality level
Number of Disbursements (Millions)



Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and Banca de las Oportunidades

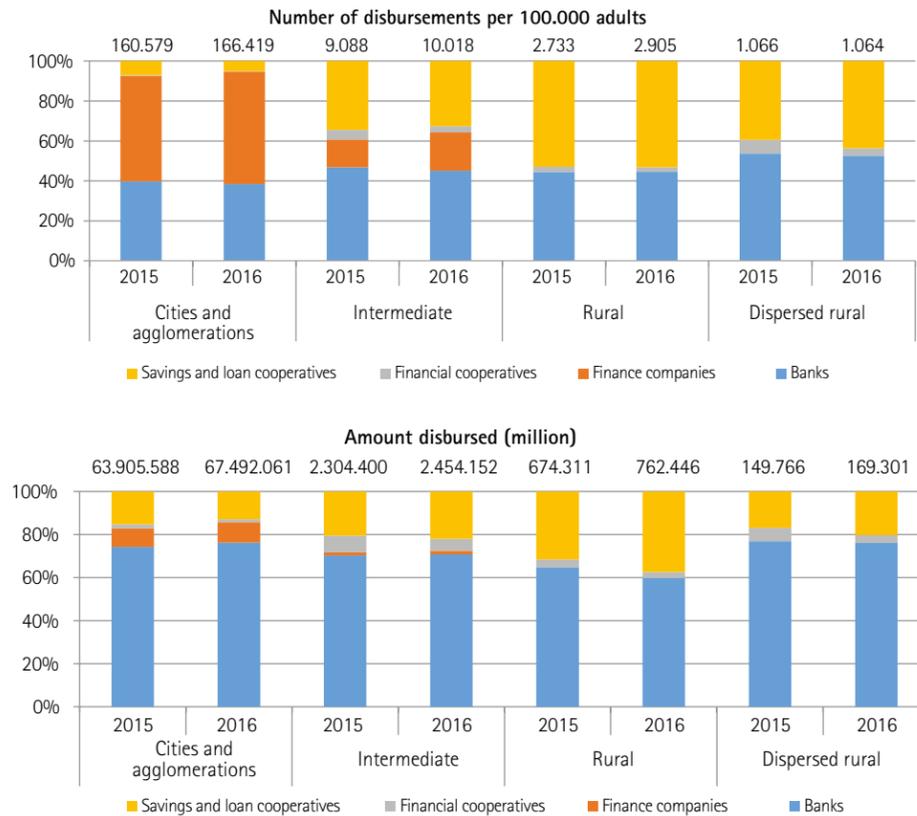
Consumption

Regarding consumption credit disbursements, there was a general increase in operations in all population ranges between 2015 and 2016, with disbursements in intermediate municipalities standing out, with an increase in number per 100.000 people of 10% between 2015 and 2016. As in the case of commercial

credit disbursements, in the case of consumption disbursements, savings and loan cooperatives showed a significant presence in the total disbursements in intermediate, rural and dispersed rural municipalities in 2016, providing values close to 35% in the case of intermediate municipalities, 55% in rural municipalities and 45% in dispersed rural. In cities and agglomerations, finance companies had a share close to 55% of total disbursements and banks had 40% during the two years analyzed.

In the case of disbursed amounts for consumption credit, these increased for all population ranges, with amounts disbursed in rural and dispersed rural municipalities standing out, where the amount disbursed increased 13% in each of them.

Chart 114: Disbursements of consumption credit by intermediary and rurality level



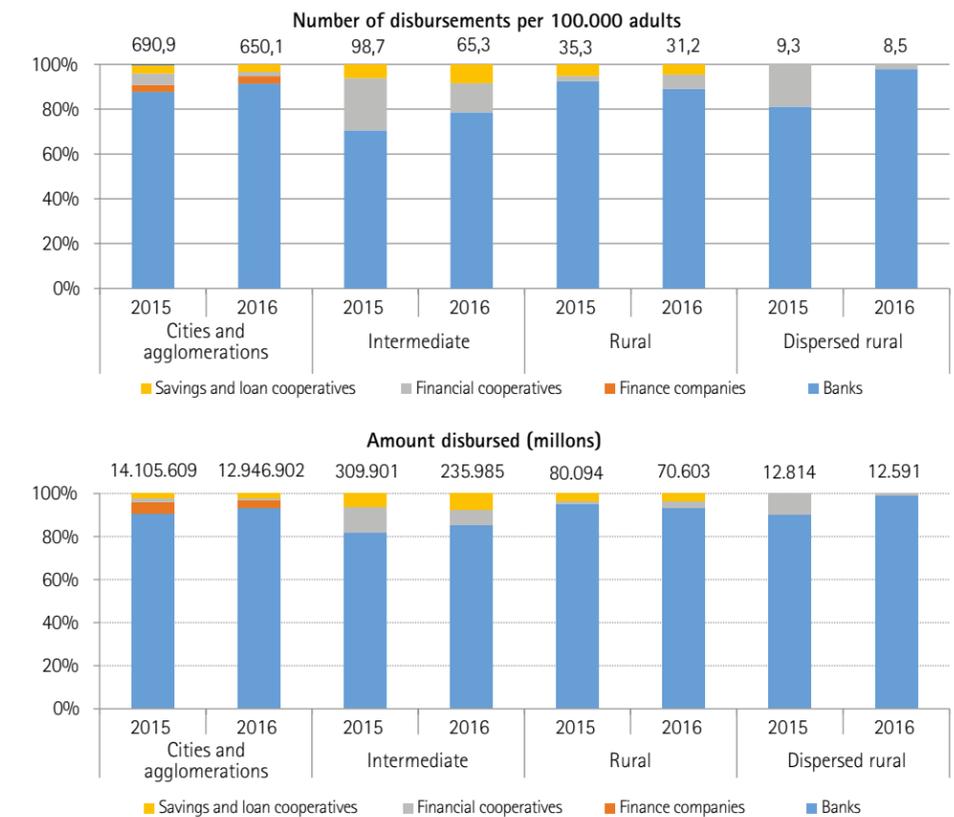
Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and Banca de las Oportunidades

Housing

Between 2015 and 2016, disbursements of housing loans were the modality that slowed the most, with reductions in all types of municipality. As for the number of disbursements per 100.000 people, this reduction had a greater impact on the intermediate and rural municipalities, which registered decreases of 34% and 12%, respectively, in the last two years. Although banks accounted for more than 80% of disbursements in most rural areas, in 2015 financial cooperatives registered a share of close to 20% in intermediate and dispersed-rural municipalities. However, last year this share was reduced in both types of municipalities.

This same behavior was evidenced in the amount disbursed, especially in the case of financial cooperatives, which reduced their share in cities and agglomerations, intermediate and dispersed-rural municipalities, decreasing the amount disbursed in these municipalities by 55%, 55% and 90%, respectively, compared to 2015. However, in rural municipalities the amount disbursed by this type of entities increased 126%.

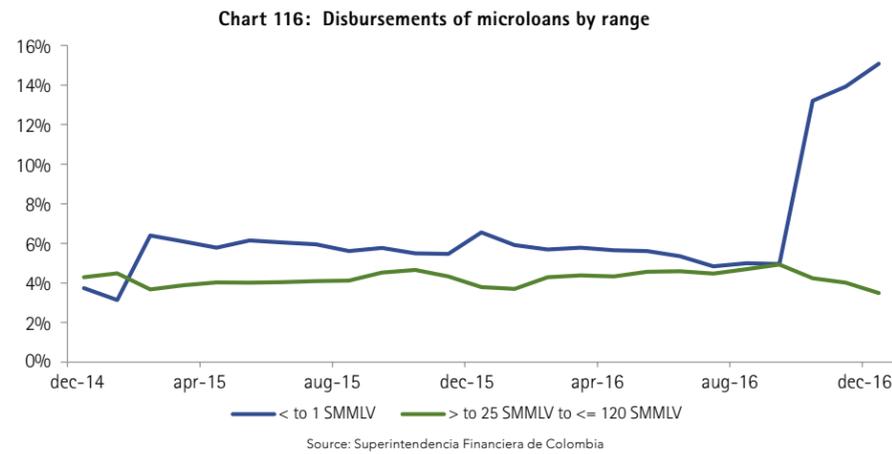
Chart 115: Disbursements of housing loans by intermediary and rurality level



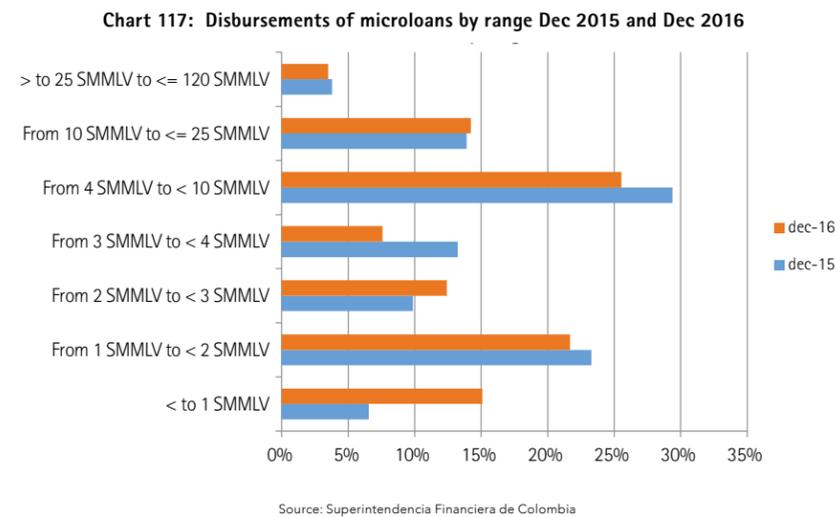
Source: Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and Banca de las Oportunidades

Microcredit

When analyzing microcredit disbursements by the range of the amount disbursed, it is evident that in the last months of 2016 there was an expansion of microloan disbursements for amounts lower than 1 SMMLV, going from a share of the total close to 5% in August to 15% in December 2016 and a decrease in the share of disbursements between 25 and 120 SMMLV. This behavior may indicate greater access to funds in the financial system by new or small companies.

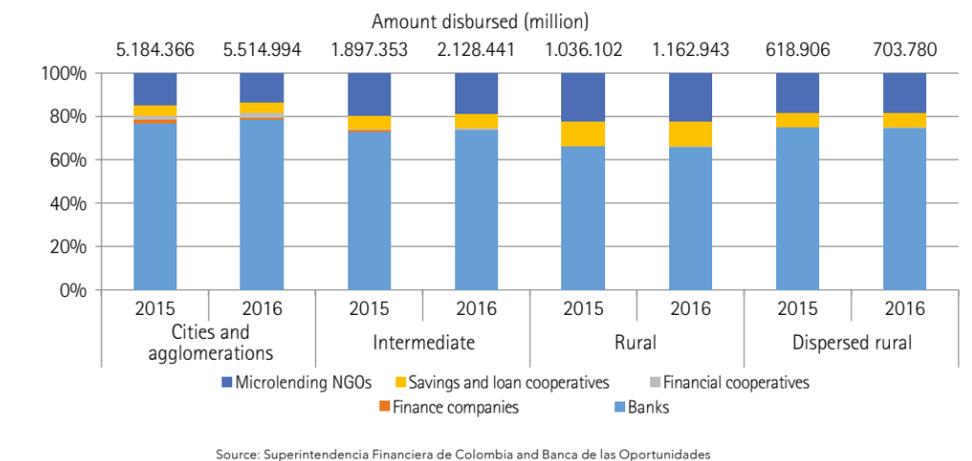
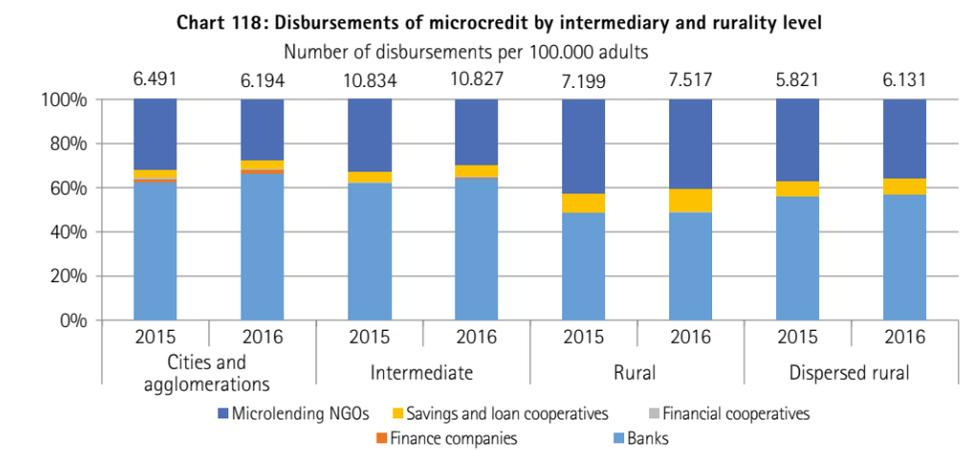


Similar behavior is evidenced by a larger number of disbursements by range; while in December 2015 40% of them were below 3 SMMLV, by the end of 2016 49% of the total were within this same range.



The number of microcredit disbursements per 100.000 people showed reductions in cities and agglomerations and, to a lesser extent, in intermediate municipalities of 5% and 0,1%, respectively. About 60% of the disbursements in cities and agglomerations, dispersed intermediate and rural municipalities were provided by banking establishments. The rest of the composition of the disbursements was provided by microlending NGOs with a share between 30% and 40% in all rurality levels and with disbursements targeted at rural municipalities standing out.

With regard to the amount disbursed in microcredits, although the share between institutions was homogeneous at all rurality levels, banks recorded a greater share in amounts rather than in the number of disbursements. Nonetheless, microlending NGOs contributed about 20% of the amount disbursed, with a greater share in rural municipalities.



Conclusions

- Colombia has developed different initiatives in order to promote access to credit for individuals and companies. At the international level, the reform of the system of security interests on movable property reached with Law 1676 of 2013, the respective regulatory framework has been internationally recognized because of its importance for financial inclusion and business development at the international level. Notwithstanding the above, until now the admission of vehicle guarantees has proliferated to a greater extent, showing that there is an opportunity for financial intermediaries to accept a wider diversity of assets.
- During 2016 the credit portfolio had less dynamic behavior compared to previous years due to its adjustment to the dynamics of the economy and which was reflected mainly in the commercial portfolio, which showed a real decrease of 1,51% and a nominal increase of 4,2% compared to 2015.
- Although the levels of financial deepening have been increasing in recent years, in 2016 there was a slight decrease compared to 2015 as a result of the economic slowdown, going from 47,9% in 2015 to 47,8% in 2016. However, compared to other countries in the region, Colombia showed a positive evolution between 2006 and 2015 in this area, standing out together with Bolivia, Chile and Venezuela.
- The composition of the credit portfolio by product and intermediary has remained stable in the last two years. Particularly in the case of the microloans portfolio, in 2016 there was an increase in the balance of the portfolio of values between 25 and 120 SMMLV, with a 36% share. In the case of microloan disbursements, during 2016 there was a significant increase in disbursements of amounts smaller than 1 SMMLV. Likewise, while in 2012 disbursements below 3 SMMLV accounted for 30% of the total disbursed, in 2016 this figure was 49%.
- While total credit disbursements increased between 2015 and 2016, housing and credit portfolios showed a negative evolution vis-à-vis commercial and consumption credits. As for the commercial portfolio, the increase in the number of disbursements was mainly in cities and agglomerations. Disbursements in other municipal classifications decreased compared to the previous year. In terms of amount, disbursements decreased in all types of municipalities except in rural areas, where they increased by 0,21%.

- As for the consumer modality, it registered a positive evolution in terms of the number of disbursements and the amount disbursed, especially in intermediate and rural municipalities. For their part, disbursements of housing loans were the modality with greater deceleration, especially impacting intermediate and dispersed-rural municipalities. On the microcredit side, disbursements showed more stable behavior compared to other modalities, despite exhibiting reductions in the number of disbursements in cities and agglomerations.





INSURANCE

Insurance

In recent years, the Colombian insurance industry has shown a vibrant level of growth and product development, placing the country at an intermediate stage in the evolution towards a diversified and competitive insurance market, offering products of greater complexity within an adequate consumer protection framework, which generates greater added value to consumers.

The Colombian regulatory and institutional framework has been transformed to streamline the supply of insurance products, facilitate access, strengthen financial education and promote the adoption of new business models. The regulatory change has originated as a result of the emergence of new technologies and the development of new marketing channels, which warrant the development of other ways to protect consumers. Along these lines, during 2016, the SFC issued External Circular 49 of 2016 in furthering the provisions in Decree 2555 of 2010, giving insurance companies the possibility to market insurance through agents.

The agency mechanism is already being used by credit institutions, which have been able to increase their capillarity throughout the country through them. Thus, with the issuance of the aforementioned Circular, entities today can sign contracts with any natural or legal person in order to offer and market their insurance products that meet the criteria of simplicity, universality and standardization established in Decree 2555 of 2010.

Among other aspects, regulation includes factors related to the suitability that agents should have for the marketing of insurance and the minimum conditions that the policy should have and established the modalities that can be commercialized through the agent model, among them: Mandatory Third Party Liability Vehicle Insurance (SOAT), funeral, unemployment,

individual life, personal accidents, agricultural, household, fire and theft.

Additionally, taking into account the difficulties noted for the sale of insurance and the need to promote the proper consumer protection and financial advice, certain instructions were also issued to be followed by insurers in order to carry out these activities. We highlight, for example, that insurers need to train their agents on the work they are to carry out, ensuring that they have sufficient knowledge about the process of signing an insurance contract and the role they must play in each of the stages of this process. The establishment of detailed instructions is also highlighted with regard to the manner in which insurance policies marketed through agents are supposed to be drafted. This emphasizes that specific exclusions cannot be used indiscriminately to make the products too complex.

External Circular 049 of 2016 is therefore an important step on the road to greater financial inclusion as it expands the scope for insurance companies to reach sectors traditionally marginalized from insurance products and the scenario is generated so that insurers develop simple and easy-to-understand products and sell insurance for traditionally excluded sectors. In this way, in addition to the sale with the use of a network of supervised institutions, the possibility was opened for insurers to gain access to remote niches, with the need to manage low complexity risks, whose solutions are susceptible to widespread and standardized adoption.

Likewise, the SFC issued External Circular 055 of 2016, which amended the instructions regarding the management of money laundering and terrorist financing risk, in order to increase the proportional knowledge requirements of the client, with respect to the risks taken on by the entities when marketing their products.

This search for greater proportionality contributes to products that favor financial inclusion in insurance, have a more favorable scenario for its development, without neglecting the management of the aforementioned risks. A relevant amendment of this circular for the development of inclusive products is the authorization that was granted to supply, through innovative mechanisms, the know-your-customer requirements, completion of the template and the execution of the interview. In this way, the door was opened to the development of products that can be commercialized by



means of new technologies, as long as the regulatory minimums in terms of customer identification are safeguarded.

The aforementioned regulatory initiatives are aligned with the National Financial Inclusion Strategy that has been underway within the framework of the Inter-Sector Commission on Financial Inclusion, which emphasizes insurance products given the impact they may have on smoothing consumption and reduction of vulnerability.

This chapter of the Financial Inclusion Report aims to provide an overview of the insurance industry in relation to financial inclusion in Colombia. Finally, we present and analyze the main figures concerning the penetration of insurance, the evolution of the various premium lines written, the distribution of the risks insured and distribution by lines, among others.

Insurance Trends In Colombia

During 2016, the SFC conducted a survey of insurers in order to learn of the innovations that are being developed in the market. The responses were classified according to the number of times some holdings were mentioned and a ranking of the main practices in expansion within the Colombian insurance sector was performed.

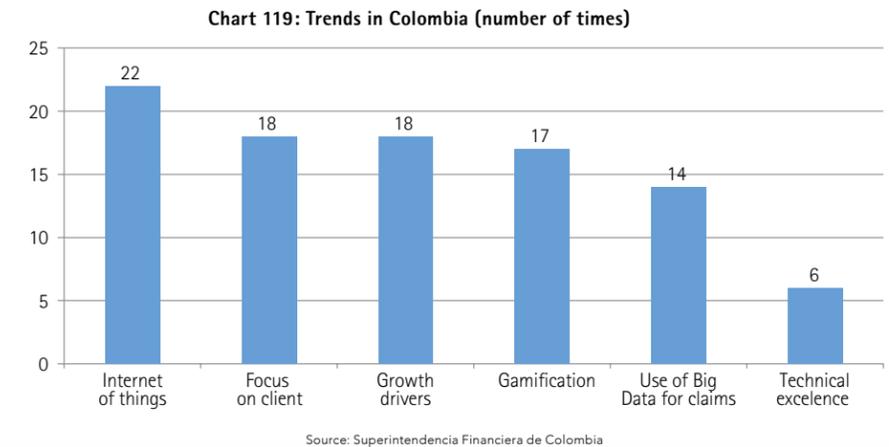
As it can be seen, the "Internet of Things" (or the interconnection of articles of daily use with devices that facilitate the exchange of data through the Internet) is the industry-leading practice in line with the international insurance market. Also identified were three new trends different from international ones, which are the "customer focus", "growth drivers" and "technical excellence".

The first one refers to the establishment of the insurance client or consumer as the center of everything, that is, the entities recognize the superior value of the client and aim to focus their processes and services in order to improve the consumer experience.

The trend called "growth drivers" refers to the development and diversification of new lines of business or the changes made to the current models by insurance companies. This category includes both the development of complex and simple

products which require an investment in the technological infrastructure of the companies.

Finally, the "technical excellence" category is related to the training and attraction of the best human talent, recognizing a superior value to employees. It also refers to the strengthening of corporate governance and risk systems



Box 4: Main international trends in the mass adoption of insurance products ⁸⁷

The technological revolution of the last decade has affected to a greater or lesser extent all financial institutions and the insurance market has not been the exception. Trends such as insurance between groups of people with the same insurable interest that are covered without financial intermediaries (peer to peer), commercialization of insurance by digital means, the use of aerial and digital images and the specific applications for the processes of underwriting and claims, among others, will have a greater impact in the near future

The main trends in the insurance sector seek to empower consumers through technology, turning their preferences and needs into the center of gravity of financial innovation.

Below, the main trends currently in the international insurance market are listed:

- The generation of user-interfaces in products with the application of artificial intelligence, in order to simplify the interaction between entities, the insured and employees.

⁸⁷ Accenture (2017), Insurance Technology Vision

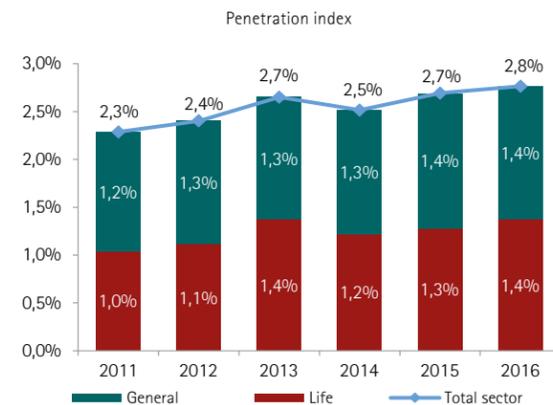
- Generation of ecosystems between insurers and digital service providers that help them maintain their competitive advantages in a highly competitive environment.
- Consolidation of on-demand labor platforms and online management solutions are being consolidated as the characteristics of a new labor market.
- Adapting technology to human behaviors to improve their way of life.
- Using technologies such as blockchain, which allow generating an environment with equal conditions for all participants in terms of product use information.

Main figures of the insurance industry

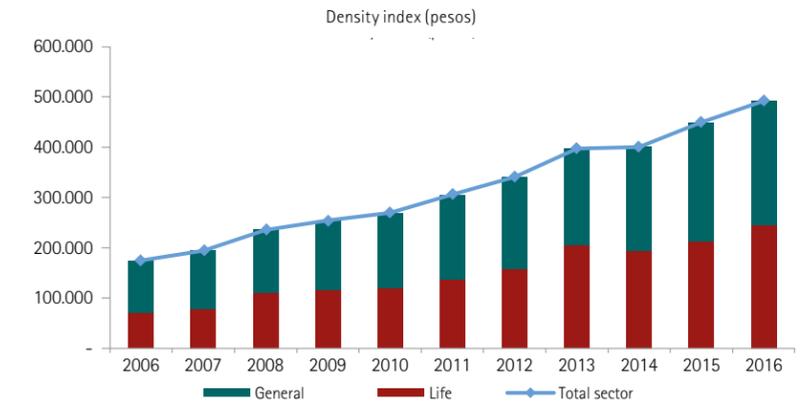
In 2016 the insurance industry saw a steady growth in the value of premiums written, given that the penetration rate, as measured by the value of premiums written to GDP, stood at 2,8% corresponding to an increase of 1bps compared to the level observed a year ago. In particular, the penetration rates for casualty insurance⁸⁸ and persons accounted for 1,4% in each case in 2016, compared with indicators of 1,4% and 1,3% in 2015, respectively.

Similarly, there has been an increase in the monthly average insurance spending per individual measured through the density index (premiums written/total population). In 2016, the average expenditure per individual on insurance was \$492.021, up 9,6% in nominal terms compared to the value recorded a year ago. Specifically, individual spending on life stood at \$244.181 and the average expenditure per individual on non-life was \$247,839.

Chart 120: Insurance industry indices



88 General insurance.

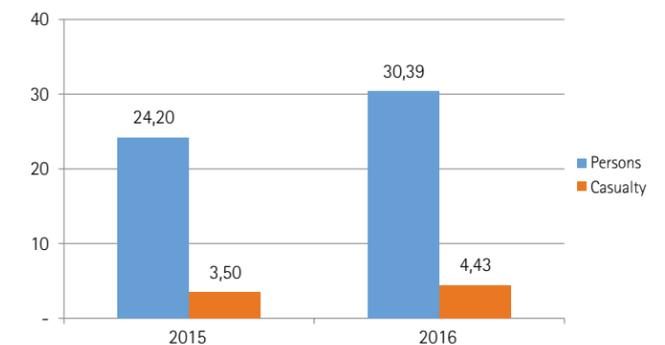


Source: Superintendencia Financiera de Colombia.

Number of policyholders

According to the results of the insurance financial inclusion survey conducted by the SFC during 2016⁸⁹, the number of current policyholders increased for the two insurance lines; in the case of personal insurance, these increased 26% compared to 2015, totaling 30,39 million. For their part, policyholders in casualty insurance increased 27% in the last year, registering a total of 4,43 million policyholders by the end of 2016.

Chart 121: Number of policyholders in personal insurance and property and casualty (million)



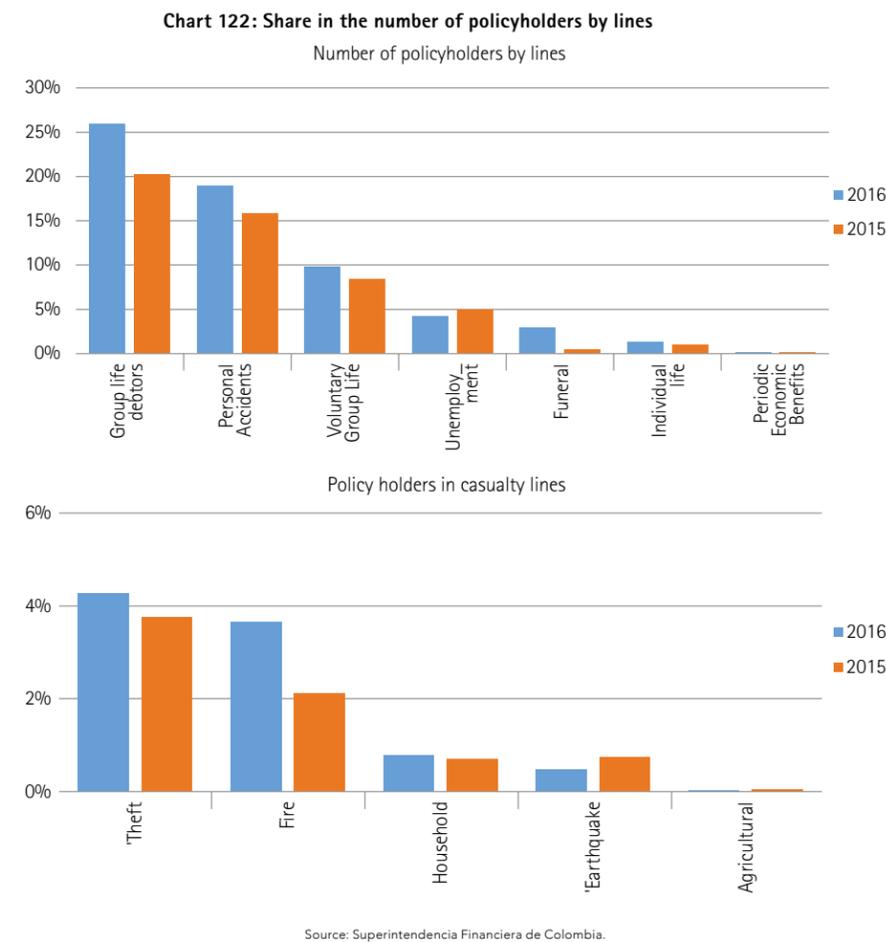
Source: Superintendencia Financiera de Colombia.

During 2016 personal insurance registered a greater share in the market. The number of policyholders in the group life debtors line corresponded to 25,8% of the total population, increasing 5,7pp compared with 2015, followed by the personal accidents line with an 18,9% share. In terms of casualty insurance, theft and fire insurance registered a number of policyholders corresponding to 4,3% and 3,6% of the total population of Colombia in 2016.

89 This survey was conducted in 2016 and compiled information for 2015 and 2016 under the methodology established in Circular Letter 01 of 2017 of the SFC.

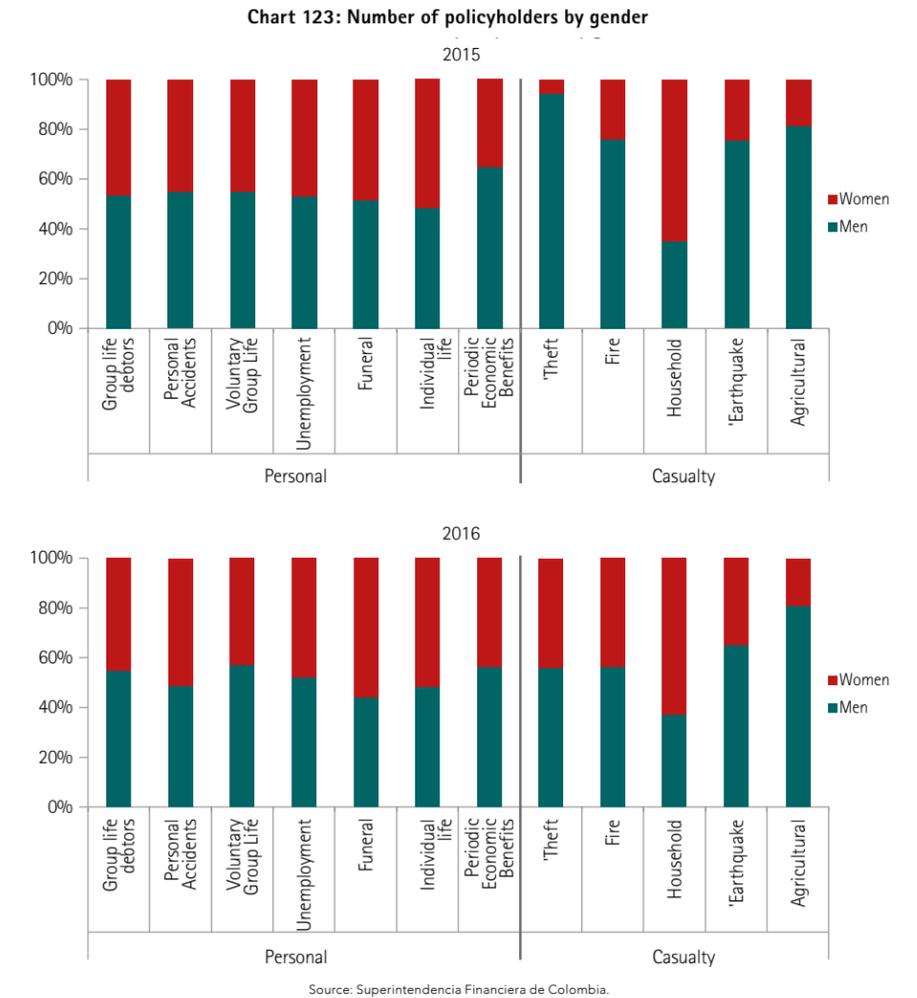
The greater participation of policyholders in the debtors group life sector was supported in part by the lower costs offered by this line by insuring several people within the same group. The total number of current policyholders was mainly concentrated in those premiums issued paid monthly by the policyholders for less than \$10,000. Compared to 2015, this line recorded an increase of 7.7pp.

In casualty insurance, the largest share was recorded by theft insurance, a line that exhibited an annual increase in share of 4,1pp. In particular, the total number of current policyholders was mainly concentrated in premiums written and paid monthly by the policyholders for an amount between \$10,000 and \$20,000.



In 2016, the increase in the share of women was 47%, 2pp higher when compared to the previous year. At the line level, it was observed that in the two years studied there was a greater share of women, especially in the theft and fire lines.

In the case of agricultural insurance, the greater share continues to be of men, with a representation of more than 80%.



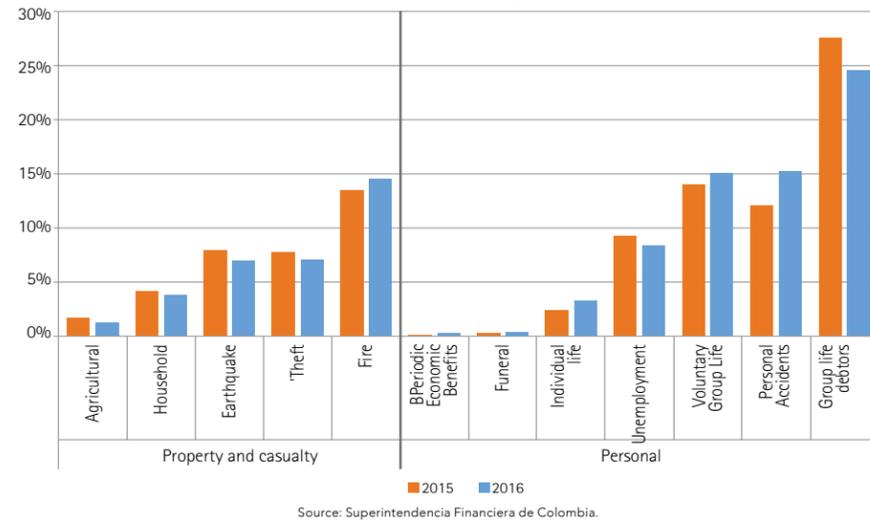
Premiums written

The total value of cumulative premiums written at the end of 2016 amounted to \$ 3,7b⁹⁰ for the lines included⁹¹ in the financial inclusion survey, where personal insurance concentrated most of the cumulative premiums written after recording a total value of \$ 2,5b. The line for group life debtors represented around 25% of the total cumulative premiums written presented in this chapter, a value lower than the one recorded a year ago. For its part, the personal accidents line increased the most in share, going from 11,9% in 2015 to 15,2% in 2016.

90 The total value of premiums written for all lines was \$ 23,9b at the end of 2016.
91 Personal insurance: Funerals, personal accident, voluntary group life, group life debtors, individual life and Periodic Economic Benefits (BEPs) and unemployment. Property and casualty insurance: Fire, earthquake, theft, household and agriculture.

The property and casualty lines included in the survey recorded a cumulative premium value of \$ 1,2b, where fire insurance accounted for 14,5% of the cumulative total premiums written, higher than the previous year when they had a share of 13,5% %. The cumulative premiums written for theft that recorded a share of 7,0% in 2016, decreased compared to 2015 to 7%.

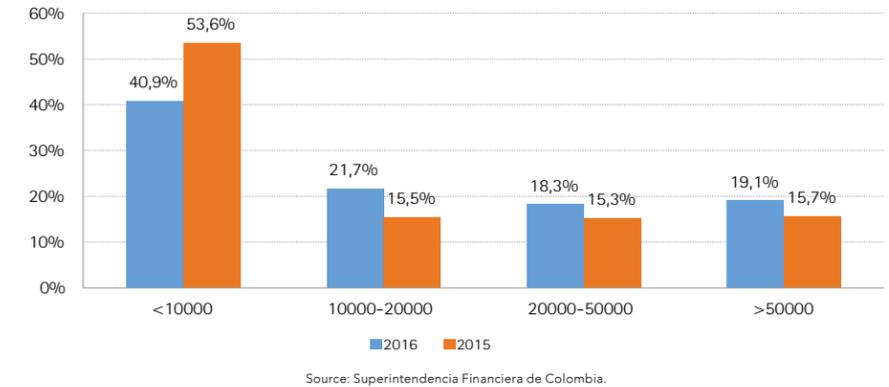
Chart 124: Cumulative share of premiums written



Value of monthly premiums written

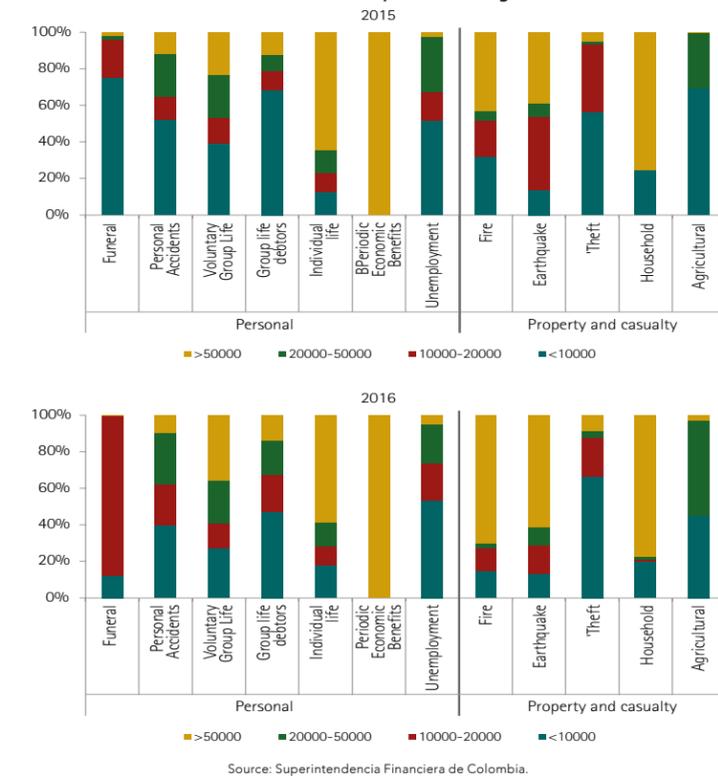
The value of insurance premiums is one of the most important components for fostering the financial inclusion of insurance, since it is a limiting factor especially for people with lower incomes. In 2016, the value of premiums written paid monthly by policyholders was mainly focused on those with a value under \$10.000, after representing 40,9%. This figure decreased compared to 2015, when they contributed 53,6% of total premiums written paid. For their part, premiums written in higher values increased, especially those at values between \$10.000 to \$ 20.000, going from a 15,5% share in 2015 to 21,7% in 2016.

Chart 125: Risks insured by monthly premium range



As in 2015, in 2016 in personal insurance, the unemployment line stood out with a 53,3% share of monthly premiums paid under \$10.000, followed by the group life debtors line with 47,0%, which decreased its share compared to 2015 of premiums in this range to 68,2% during that year. In contrast, in property and casualty insurance, the home, fire and earthquake lines made a significant contribution to the number of policyholders who paid a premium value of more than \$50.000 per month, after exhibiting shares of 77,3%, 70,1% and 61,4%, in order, during 2016, values that increased compared to the shares of 2015.

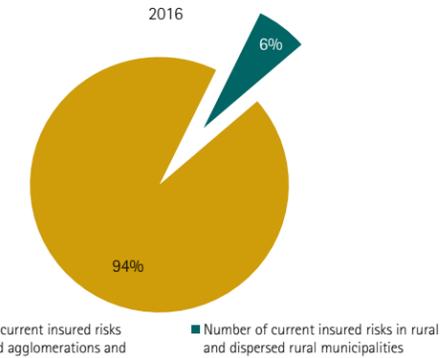
Chart 126: Risks insured by line and range



Current risks insured by zone

The number of current insured risks located in cities and agglomerations and intermediate municipalities represented in 2016 most of the policyholders for each of the lines, with the exception of agricultural insurance given the nature of its risks is located in rural areas. Over the past year, there was a decrease in the use of insurance in rural areas, because at the end of 2016, the number of risks insured in rural areas corresponded to 808.855 risks, compared to 849.009 in 2015, equal to an annual reduction of 5%.

By line and as in 2015, in 2016 we observed that the greatest number of risks insured in cities, agglomerations and intermediate municipalities was that of group life debtors and funerals, after recording a share of 97,8% and 99%, respectively, in the past year.



Source: Superintendencia Financiera de Colombia.

Insurance distribution channels

The production marketed through the network of entities supervised by the SFC was positioned as the most representative distribution mechanism for the marketing of insurance in Colombia. In particular, of the total number of policyholders per channel, 49,4% corresponded to network use, followed by insurance intermediaries (20,1%) and own salesforce (17,7%), the other distribution channels contributed to a lesser extent.

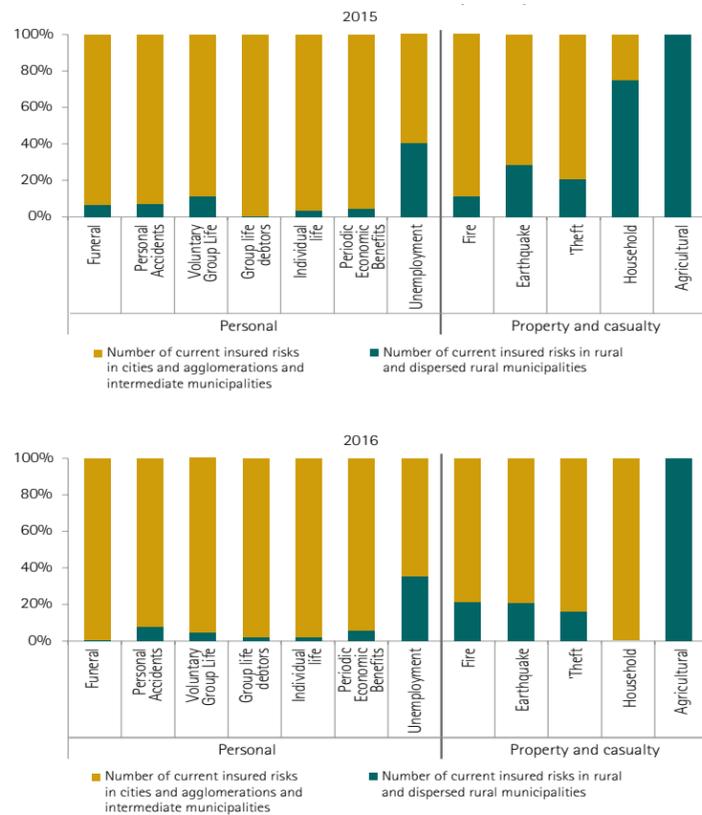
In 2016, group life debtors, individual life, unemployment, fire, theft and household were the main lines acquired through the use of networks, with an increase in the share of this channel compared to 2015, especially in the case of the fire line, whose commercialization through network use went from a 20% to 55% share in the past year. For its part, own salesforce was the most widely used means of offering the lines of voluntary group life, earthquakes and funerals in 2016, in all cases increasing their share compared to 2015.

In the meantime, agricultural insurance and personal accident insurance stood out because they were marketed by insurance intermediaries because of the greater complexity of these types of products. In the first case, compared to 2015, these insurance products were sold in greater proportion through the use of networks and microfinance institutions, which shows that these channels have the capacity to reach rural and dispersed-rural areas.

For its part, and due to its particular conditions, the insurance associated with the BEPS used direct sign-up through Colpensiones as the only means to offer this line during the two years.

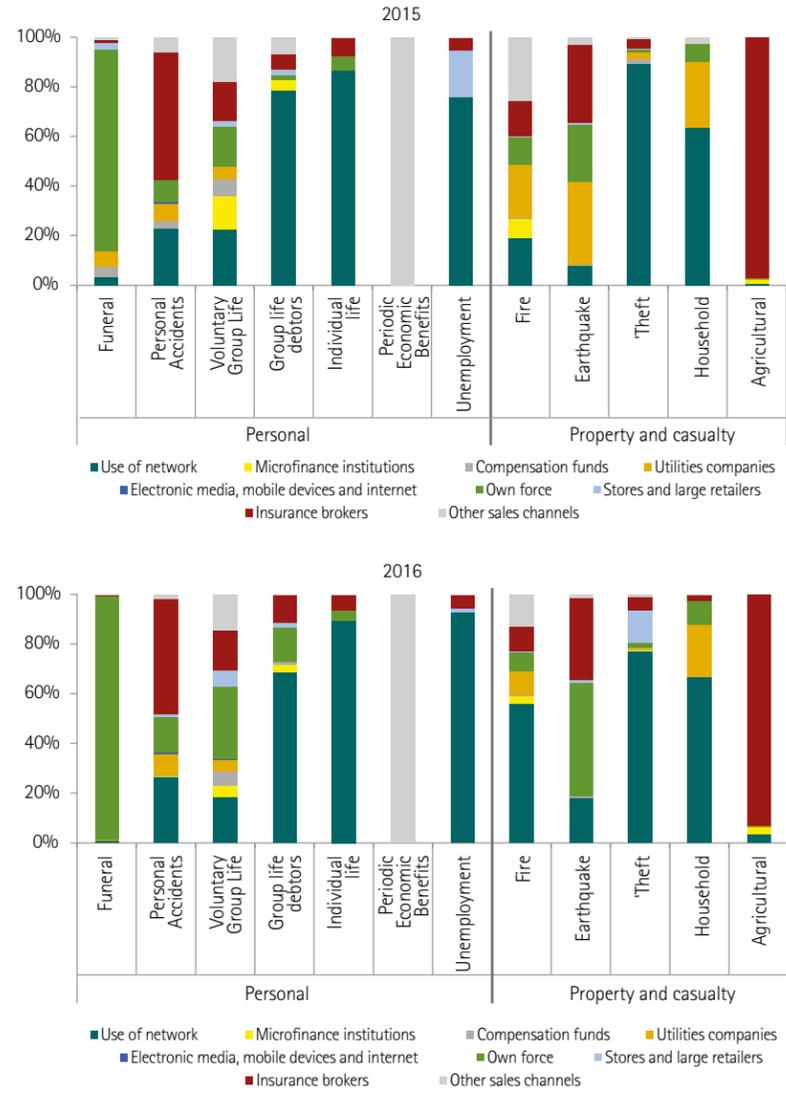
It is worth noting that during the last few years insurance marketing through the electronic media channel, mobile devices and the internet was minimal, which

Chart 127: Current insured risks by rurality



represents an opportunity for insurance companies to take advantage of these means to reach a wide share of the population.

Chart 128: Policyholders by line and channel

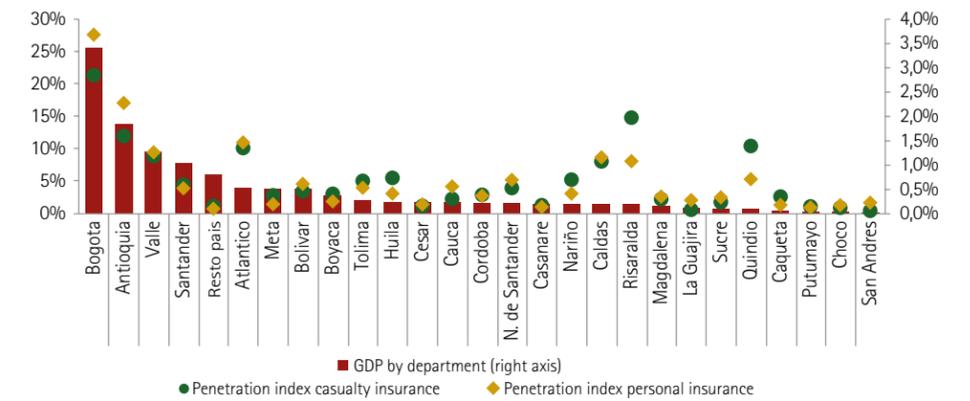


Source: Superintendencia Financiera de Colombia.

Financial deepening of insurance by department

The greater penetration of insurance in Colombia was driven mainly by the economic activity of each of the departments. In particular, Bogota, D.C., which contributes with a 25,6% of the national GDP, exhibited the highest penetration rate at the regional level with an indicator for personal insurance of 3,7% and for casualty of 2,9%. In contrast, departments such as Atlantico, Risaralda and Quindio, which had a low share of national GDP of 4,1%, 1,5% and 0,8%, respectively, were some of the exceptions that showed a level of penetration above local economic performance

Chart 129: Penetration index by department



Source: Fasescolda and DANE. In-house calculations. Due to the availability of information, GDP by department was included at the close of December 2015.

The personal insurance group excelled in achieving a penetration indicator higher than that observed in casualty insurance in most departments. This behavior was supported in large part by the positive dynamics of the occupational risk, group life, pension, and health lines, among others.

Regarding the share of total premiums written by department, Bogota D.C. accumulated on average 55,9% between personal insurance and casualty. Meanwhile, Antioquia averaged 17,9% of premiums written. In aggregate, these two departments accounted for 73,8% of the total premiums issued in the country. In contrast, regions such as San Andres and Putumayo recorded a minimum share of total premiums, due to population distribution.

Main insurance indicators in financial inclusion

Although a variety of insurance is observed with differing characteristics, an attempt was made to develop certain indicators to standardize and compare services between each other.

In particular, within personal insurance group, the line that registered a higher loss rate⁹² in 2016 it was individual life after exhibiting a level of 62,74%. For its part, in casualty insurance the greatest loss rates were from agricultural insurance, given its nature, with a value of 140,3%.

With respect to objections and cancellations, the highest rate of objections, that is, when the insurer in the event of the claim for payment of the loss indicates that it is not obliged to indemnify for circumstances that exclude them from their liability, happened in the unemployment insurance (31,4%), followed by objections to individual life and group life debtors with rates of 25,8% and 18,1%, respectively. Similarly, the unemployment line had the highest cancellation rate with 35,07%, while theft recorded the highest level with 40,48% in the casualty group.

On the other hand, the ratio of expenses incurred corresponding to the ratio of expenses incurred to the value of accrued earned premiums which showed an average of 8,15%. In personal insurance, unemployment was the line with the highest index recording at 13,61%, while, in casualty, household it was the one that exhibited the highest level at 41,96%. It is worth noting that lines such as funerals, group life debtors and agriculture stood out for presenting the lowest levels.

The largest number of renewals was mainly driven by life-related lines (debtors and voluntary) and personal accidents, after recording 5.262.430 renewed risks.

TABLE 13: Main indicators

	PERSONAL							PROPERTY AND CASUALTY				
	Group Life Debtors	Personal Accidents	Voluntary group life	Unemployment	Individual life	Funeral	Periodic Economic Benefits	Fire	Theft	Earthquake	Household	Agricultural
Gross loss rate	47,26%	24,50%	52,58%	17,03%	62,74%	48,33%	8,09%	32,51%	13,16%	1,47%	15,77%	140,30%
Average value of claims paid	6.650.333	962.005	335,9	988.159	17.342.090	1.801.942	392.683	1.865.047	1.123.709	4.506.753	1.605.980	9.078.787
Frequency	0,03%	0,10%	0,09%	0,08%	0,05%	0,01%	8,33%	0,26%	0,04%	0,20%	0,20%	7,20%
Objection rate	18,15%	5,18%	0,00%	31,36%	25,78%	3,02%	0,00%	3,28%	17,57%	11,95%	6,24%	4,20%
Cancellation rate	14,81%	19,52%	29,63%	35,07%	8,15%	1,53%	1,78%	2,7%	4,859,13%	9,4%	12,81%	6,6%
Number of renewed risks	3.027.268	3.123.232	2.235.162	1.394.168	351.266	83.122	1.741	147.533	1.344.074	120.674	306.364	99
Index of incurred expenses	1,65%	3,68%	6,95%	13,61%	3,36%	0,08%	N/A	4,98%	7,58%	3,98%	41,96%	1,86%

Incurring Expenses: Refer to the sum of subscription, management and personal expenses

Conclusions

- In 2016, the number of current policyholders showed a positive trend. In the case of personal insurance, these increased 26% compared to 2015, reaching 30,39 million. For their part, policyholders in casualty increased 27% in the past year, recording a total of 4,43 million policyholders.
- In the past year, the lines with the highest share according to the financial inclusion survey carried out by the SFC corresponded to those associated with personal insurance, especially the group life debtors line, which recording the largest number of policyholders.
- In particular, the total number of current policyholders was mainly concentrated in premiums written and paid monthly by the policyholders for an amount under \$10.000. However, this value decreased compared to 2015, after recording a share of 53,6% in that year.
- At the gender level, there was an increase in the share of women among the total number of policyholders. Especially in the theft and fire lines.
- The network of entities supervised by the SFC, other than insurance companies, was established as the main channel for insurance marketing. In this case, the enablement of the use of agents by insurers constitutes a great opportunity to continue bringing insurance products to the population of all areas of the country.
- It is worth noting that, during the last few years, insurance marketing through the electronic media channel, mobile devices and the internet was minimal, which represents an opportunity for insurance companies to take advantage of these means to reach a wide share of the population.

⁹² This refers to the ratio between premiums written by the insurance company and what it has to pay out in respect of claims paid.

- The number of current insured risks located in cities and agglomerations and intermediate municipalities represented most of the policyholders for each of the lines, with the exception of agricultural insurance given its very nature.
- The share of Bogota D.C. over national GDP significantly influenced the deepening of insurance in Colombia. 25% of the national GDP was recorded in Bogota, D.C., which favored the deepening of the level of insurance after exhibiting the highest penetration rate in the country (6,53%), 3,68% corresponded to personal insurance and 2,85% to casualty.
- With respect to objections and cancellations, the highest rate of objections was seen in the unemployment line and the theft line recorded the highest level in the cancellation rate.

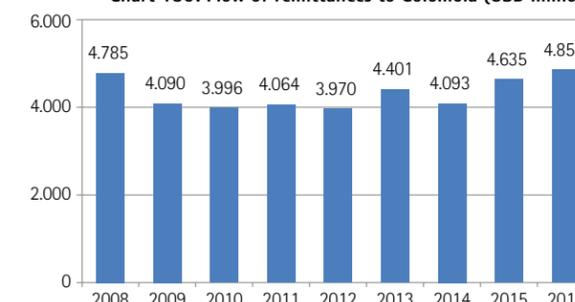
Box 5: Remittances

During 2016, USD 575,2 billion were mobilized globally in remittances, an amount 1,2% lower compared with that of 2015. Remittance flows to Latin America and Caribbean, however, increased 6,9% compared to 2015 standing at USD 73 billion, driven partly by the improvement in the economy and in the United States labor market⁹³.

Last year, USD 4.858 million were received in Colombia, with an increase of 4,8% compared to 2015 and a recovery compared to the last eight years by exceeding the values transacted, even in 2008, before the international financial crisis impacted the economy of migrant households. As in prior years, the main remittance issuer country remains the United States, with 46% of the total transferred in 2016⁹⁴.

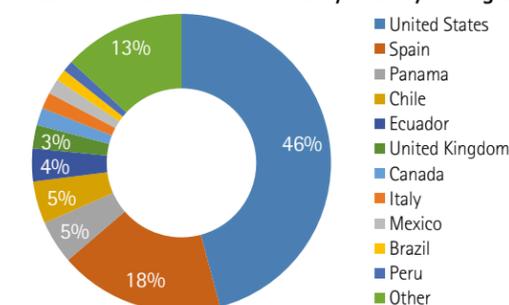
⁹³ World Bank (2017), Migration and Remittances Brief 27
⁹⁴ Banco de la República

Chart 130: Flow of remittances to Colombia (USD million)



Source: Banco de la República

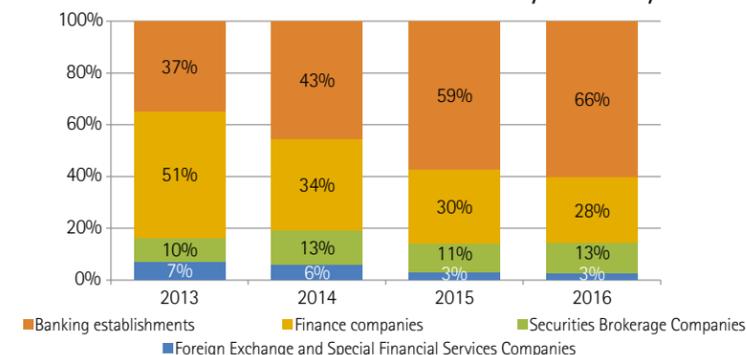
Chart 130B: Remittances to Colombia by country of origin



Source: World bank

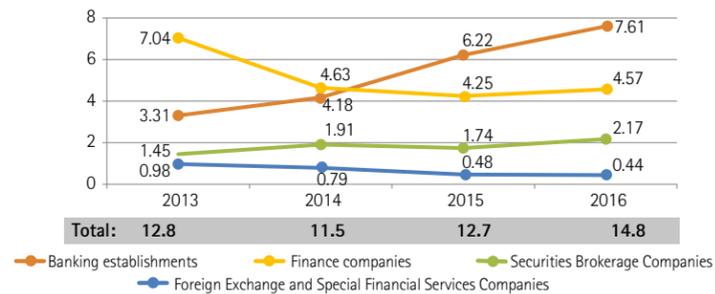
As in prior years, in 2016 the majority of income from remittances in Colombia were channeled through banking establishments with 66% of the total amount and 7,61 million operations, amounts that increased 7pp and 22%, respectively, between 2015 and 2016. For their part, Finance Companies and Securities Brokerage Companies recorded positive growth between 2015 and 2016 in their number of operations with increases of 8% and 25%, respectively, between 2015 and 2016.

Chart 131: Share of total amount of remittances by intermediary



Source: World bank

Chart 131B: Number of remittances operations by intermediary (million)



Source: Superintendencia Financiera de Colombia. Includes amount transacted and annual operations of worker remittances and remittances of workers for purchases of housing

As for payment methods used to receive funds from remittances, electronic money transfers paid over the counter continue to have a great share with 72,7% of the total, increasing 0,6pp compared with 2015. The foregoing is the opposite of the trend that had been occurring in prior years, when the share of drafts deposited on account had been increasing. This reinforces the need to generate the appropriate savings products for receivers of remittances, fostering the permanence of the funds in the financial system and facilitating access to other products and financial services to receivers.

Chart 132: Remittance payment methods



Source: Banco de la República

The average costs of remittance transfers from the United States and Spain (which jointly represented 64% of the total remittances received in Colombia) during 2016 decreased compared with 2015, standing at 5,7% and 6,3% for the United States and Spain, respectively. As for the costs of payment methods, the receipt of the remittance in a deposit account has proven to be more onerous compared to payment in cash during recent years and, save for the past quarter, it increased on average compared with the values reached in 2015. ⁹⁵Although the costs of transfers to Colombia today are similar or lower than the world average, there is an opportunity to increase the efficiency in international money orders that translates into lower costs of transfers for consumers.

⁹⁵ Banco Mundial, Precios de las remesas a nivel global, disponibles en <http://remittance-prices.worldbank.org>

Chart 133: Cost of sending from the United States and Spain to Colombia (% of value transferred)

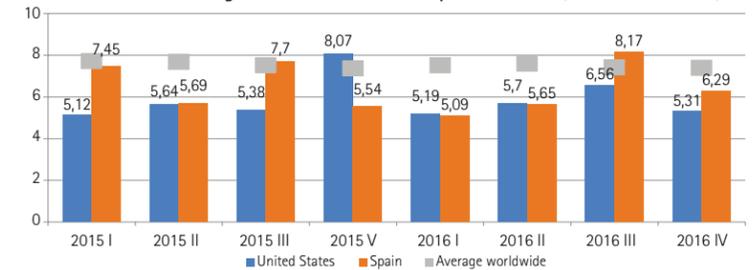
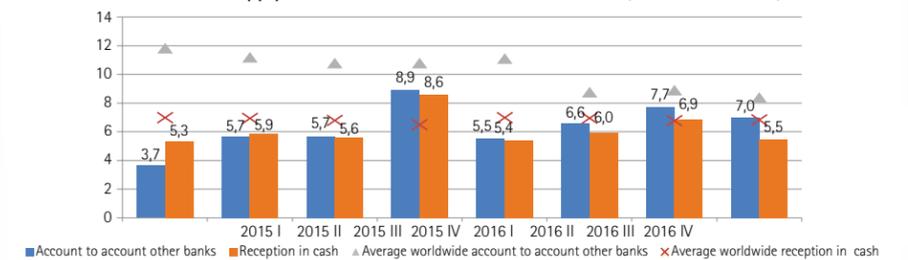


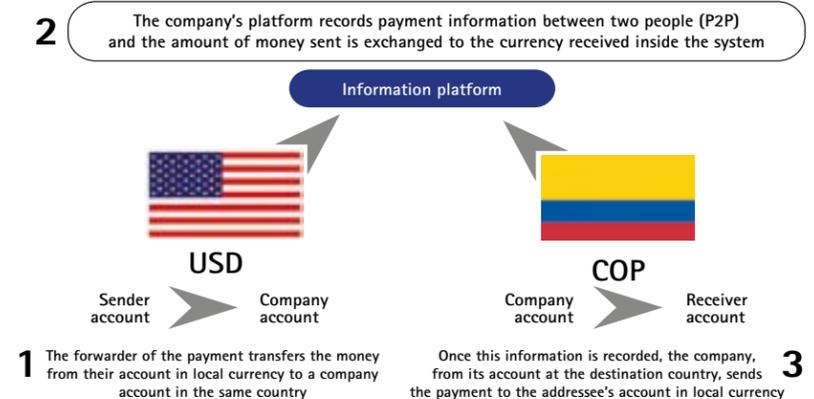
Chart 133B: Cost by payment methods from the United States to Colombia (% of value transferred)



Source: World Bank

As in the case of all financial services, remittance payments are also being impacted by the rise of Fintech sector players who channel funds through methods that differ from those of traditional intermediaries and which, because of their model, increase payments efficiency in such a way that they can offer more competitive prices and rates. These services have proliferated in recent years and they are expected to continue driving the transfers and payments industry in general terms.

Examples of the mechanisms adopted by these players include the development of mobile and internet-based payments, applying models where the payment does not even need to be forwarded internationally, such as the one below⁹⁶:



⁹⁶ Smartup (2016), How Transferwise Disrupts International Payments

This is one of many examples of innovation that can change the manner in which cross-border financial services have been traditionally offered and which potentially have the ability to provide conditions in terms of costs and time that are beneficial to financial consumers. In this case, the use of deposit products constitutes an additional benefit given that they facilitate the permanence of funds and can foster the use of additional financial products and services beyond those for transfers and savings.



Quality
dimension
of financial inclusion:
protection of financial consumers

Quality dimension of financial inclusion: protection of financial consumers

The measurement and monitoring of the quality of financial inclusion allows us to know different aspects of the relationship between consumers and the financial system, including the relevance of financial products and services offered to satisfy people's needs, as well as their experiences and perceptions when accessing and using them⁹⁷.

Today, financial consumers are exposed to a greater amount of information and have different preferences, expectations and perceptions regarding financial products and services. To service these new conditions, the offer has been transformed with the adoption of new technologies that are incorporated into the operational processes of financial institutions, their business models and products and services, even changing the way consumers interact with them. Given this scenario, adequate financial consumer protection is crucial for the generation of quality financial inclusion, i.e., so the supply of products and services generates value for financial consumers.

Faced with the transformation of financial services in a digital age, consumer protection schemes need to be adapted to respond efficiently. This implies, among other things, that supervision needs to generate a balanced environment between financial stability, innovation, security and protection, maximizing consumer benefits, taking into account factors such as new identification mechanisms and sources of credit risk and money laundering, a greater preponderance of operational risk, greater cross-border integration between different financial systems and a greater quantity and variety of information and about financial products and services.

In order to understand how the various financial systems worldwide have been transformed towards greater digitalization of products, services and processes, regulators and supervisors have incorporated in their organizational structure

⁹⁷ Partnership for Financial Inclusion (2010), the measurement of financial inclusion for regulators: Design and Implementation of surveys.

and in their functions, work teams dedicated exclusively to following and promoting financial innovation within a supportive regulatory and supervisory environment.

In Colombia, within the framework of the Financial Inclusion Commission, the Fintech Subcommittee was formed in 2016 to monitor the new initiatives on an ongoing basis and to be able to respond in articulated fashion between different government agencies, including the Ministry of Finance and Public Credit, the Regulatory Design and Financial Regulatory Studies Unit, the Ministry of Information and Communications Technologies, the SFC and private stakeholders.

Along these lines, a group specializing in Fintech was created at the beginning of 2017 and it is expected that it will be a mechanism that allows the entity to be aware of the main trends in financial innovation so that it can exercise supervision promoting developments in a stable and secure environment and ensuring that the products and services offered comply with the Colombian financial consumer protection regulatory framework.

Additionally, with the restructuring of the SFC (regulated by Decrees 1848 and 1849 of 2016), its organizational structure was strengthened through the creation of the Consumer Protection and Transparency Department to fully supervise with greater capacity in aspects related to market conduct, consumer protection and against engaging in illegal financial activity.

This chapter of the 2016 Financial Inclusion Report explores the main results in the quality dimension of financial inclusion in Colombia, with an approximation to regulations on the protection of financial consumers, achievements in financial education, in the exercise of the jurisdictional powers of the SFC and in the attention to complaints filed by financial consumers before supervised entities and defenders of financial consumers.

Regulation

Given the evident need to strengthen global financial consumer protection schemes and their impact on the quality dimension of financial inclusion, new ways have been generated to measure, monitor and compare the state of regulatory frameworks for the protection of consumers of different countries, which allow a better approach



to the quality dimension of financial inclusion. Unlike, the dimensions of access and use of financial inclusion that have been measured in other chapters of this Report, the measurement of the quality dimension has a greater component of qualitative measurement.

Under the Global Partnership for Financial Inclusion (GPFI), G20 countries have proposed different criteria related to market behavior and consumer protection, specifically on disclosure requirements and dispute resolution mechanisms⁹⁸. As regards to disclosure requirements, GPFI establishes five aspects to be taken into account in regulation, including: i) use of clear language by financial institutions and prohibition of abusive clauses, ii) use of local language, (iii) adoption of a single template for the disclosure of information on products and services, (iv) sufficient resources for consumers to exercise their rights, and (v) information on the total fee paid for a loan, including commissions, insurance, taxes and other surcharges .

In the Colombian case, Law 1328 of 2009 established a unique and specific regulatory framework for consumers in the financial system, which covers almost all of the criteria considered by GPFI. This Law established the SFC as the body responsible for ensuring the protection of consumers of its supervised entities and it has, in the course of its efforts, issued different instructions. Specifically, on the GPFI criteria regarding the quality dimension of financial inclusion, the instructions have been given through Decree 2555 of 2010 (Sole Decree of the Financial System) and Chapters I and II of Title III of Part I of the Basic Legal Circular.

Regarding information disclosure requirements, Chapter I "Access and information for financial consumers" of Title III of Part I of the aforementioned circular covers aspects regarding the use of clear language by financial institutions and the prohibition of unfair terms, sufficient resources so that consumers can exercise their rights and information on the total rate paid for a credit, including commissions, insurance, taxes and other surcharges, establishing the following:

Use of clear language by financial institutions and prohibition of unfair terms: (i) that the information provided on different financial products and services, including the existence of deposit insurance, should be clear, sufficient and timely to facilitate informed decision-making and to enable them to choose the best options on the market in accordance with their needs and (ii) prohibiting the use of unfair terms in contracts between consumers and monitored entities and abusive practices and a list thereof is provided.

Adoption of a single template for the dissemination of information on products and services: that the monitored entities need to provide consumers

with an Annual Report of Total Costs that must consolidate the information of the products contracted by consumers, specifically on administration and/or management fees, fees for operations performed by the different channels, in favor of third parties and tax withholdings, among others. However, this report is in the post-contractual stage and does not require the use of a sole template with information in the pre-contractual stage.

Enough resources to enable consumers to exercise their rights: that supervised institutions need to provide information on the existence of a financial consumer advocate and on the Financial Consumer Care System that must be implemented by the supervised entities so that (i) a culture of care, respect and service to financial consumers is consolidated; (ii) systems are in place to provide adequate information; (iii) procedures for handling complaints, petitions and claims are strengthened; and (iv) protection of financial consumer rights and education is encourage (CBJ, Chapter II, Title III, part I).

Information about the total rate paid for a loan, including commissions, insurance, taxes and other surcharges: that financial intermediaries and the Specialized Deposit and Electronic Payments Companies (SEDPE)⁹⁹ need to give to the financial consumer (customer or potential customer) prior to signing the contract a Total Unified Value of passive and active products, which represents the value actually paid by the product, including all fees, commissions, fees, premiums, etc. Its value must be expressed in percentage terms and in Colombian pesos.

Regarding the use of local language, the regulation is given through Decree 2744 of 1989, stating that the names of the products of companies established in the country must be expressed in the Castilian or Spanish language, and that in the case of products, explanations that are printed for consumer information in instruction sheets should be in Spanish, but translations in other languages may be added.

Regarding dispute resolution mechanisms GPFI raises two criteria to be considered in the measurement of the quality of financial inclusion: i) internal mechanisms for resolving complaints of entities and ii) external mechanisms for resolving complaints. In these aspects the regulation establishes the following:

Internal mechanisms for resolution of complaints in entities: according to the aforementioned Law and Chapter II "Instances of consumer attention in supervised entities", of Title III of Part I of the Basic Legal Circular, supervised entities must implement a Financial Consumer Attention System to generate an environment of Protection and respect for financial consumers, including, within its elements, procedures for the effective attention of petitions, complaints or claims made by

⁹⁸ GPFI (2016), G20 Financial Inclusion Indicators

⁹⁹ Created by Law 1735 of 2014



financial consumers.

External mechanisms for resolution of complaints: in addition to what is mentioned in the previous paragraph, the same regulation and Decree 2555 of 2010 establishes that credit institutions; financial services companies; insurance companies; insurance brokers; capitalization companies, social security institutions managing the average contribution defined benefit pension scheme; members of the exchanges for goods and agricultural, agro-industrial and other commodities; brokerage companies; independent securities brokers and investment management companies, need to implement an external financial consumer advocate in order to complement the complaints procedure.

Likewise, the SFC, as the body responsible for protecting the financial consumer, develops procedures to deal with complaints and claims brought before it and has the capacity to exercise as a judge in the contractual relationship between consumers and entities by jurisdictional powers which were granted through Law 1480 of 2011, ruling on the lawsuits filed with the Superintendency against the supervised entities.

Regarding the regulatory advances achieved during 2016, both the National Government and the SFC issued different regulations in order to continue strengthening the conditions of protection to the financial consumer in Colombia, including:

Aspect of protection of financial consumers	Regulation	Content
Economic, social and ecological emergency resulting from the overflow of the Mocoa, Mulato and Sancoyaco rivers in the municipality of Mocoa	External Circular 009 of 2017	<ul style="list-style-type: none"> ● Continuity of service delivery in the city. ● Implementation of speedy mechanisms for receiving, analyzing and approving financial products and making up for information deficiencies. ● Not requesting documentation under more rigid conditions than usual. ● Specific mechanisms of analysis for the granting of credits. ● Preservation of scoring of current loans, execution of payment agreements according to the debtor's situation and suspension of interest accrual during grace periods.
Financial costs	Law 1793 of 2016	<ul style="list-style-type: none"> ● Disposition of all resources in electronic savings and deposits accounts. ● Prohibition of making charges on dormant accounts.
Interruption in the rendering of services	External Circular 53 of 2016	<ul style="list-style-type: none"> ● Information to consumers when technical changes are made that may affect the service and affected channels, as well as provisions against payment of obligations and interest on arrears.
Duty to advise on transfer between pension schemes	External Circulars 16 and 51 of 2016	<ul style="list-style-type: none"> ● Obligation of Managers of the General Pensions System to provide advice from representatives from both regimes prior to transfer to members who wish to move between pension schemes.
Consumer protection conditions for Specialized Deposit and Electronic Payments Companies	External Circular 50 of 2016	<ul style="list-style-type: none"> ● Conditions of information, publicity, statements, abusive practices and clauses, Financial Consumer Service System and the financial consumer defender.
Conditions for rendering of services through agents of insurance companies	External Circular 49 of 2016	<ul style="list-style-type: none"> ● Training of officials for the adequate provision of the service. ● Delivery of contractual documents at agent sites.
Unfair practices and terms	External Circular 48 of 2016	<ul style="list-style-type: none"> ● Update of the list of practices and unfair terms to be taken into account by the entities in their relationship with the financial consumer.
Total Unified Value (VTU) of cash-in and cash-out operations	External Circular 23 of 2016	<ul style="list-style-type: none"> ● Mandatory calculation and delivery of the VTU of cash-in and cash-out operations, concept for calculation and forecasts.
Information to debtors on interest rate coverage for housing financing	External Circular 7 of 2016	<ul style="list-style-type: none"> ● Entities under obligation to inform debtors about the benefit of conditioned interest rate coverage through verifiable means and with clear and sufficient information.

In conclusion, Colombian regulatory developments have created a framework for protecting financial consumers adjusted to the criteria necessary to generate financial inclusion that responds to the needs and expectations of the population. However, while progress has been made in implementing measures that allow consumers to obtain certain, adequate, timely and comparable information on financial products and services, there is an opportunity to strengthen the conditions under which consumer information is presented at the pre-contractual stage, for example, through sole templates.

Financial education

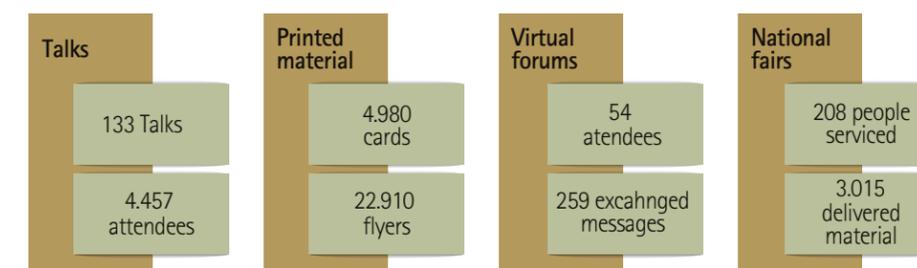
One of the objectives of the initiatives that promote financial inclusion is to improve the quality of life of households and individuals through financial products and services that encourage the permanence of the financial system. The efforts of industry, regulation and supervision to generate this form of inclusion have greater impact if the consumer (client or potential customer) is in the capacity to understand the conditions of the products and services offered and thus to form an opinion so as to allow maintaining a relationship with the financial system that generates value. In this sense, it is essential that consumers not only receive information on products and services, but also effective mechanisms to interpret it through financial education programs.

Notwithstanding the above, and although it is the responsibility of regulations and supervision to ensure the stability of the financial system and consumer protection, including the activities of dissemination of financial education information to the population, it is also the responsibility of the consumer to stay informed and attentive to the conditions of the products and services, so that they can access them and use them for their best and responsible benefit.

Since 2015 the SFC has participated as a member of the Inter-sectoral Commission on Economic and Financial Education, an instance within which different government entities articulate and socialize the efforts developed on the matter. During 2016, the Superintendency participated in the process of consolidating the Economic and Financial Education Strategy that would be implemented in an articulated manner over the next years by the members of the Commission and includes guidelines to strengthen financial education in formal education, vulnerable population, provision for retirement and protection of old age, micro-

entrepreneurs, the population in the active stage and factors of measurement and evaluation of implementation of the strategy.

For its part, the SFC continued to develop the program that it created to provide financial education to consumers called "Learn with the Super: Sowing Culture for Prevention" in order to train them on the functions of consumer protection of the SFC, their rights and duties and on different topics related to financial products and services. The program is developed through different strategies, including: i) talks, ii) printed and distributed material, iii) virtual forums (with text messages exchanged with SFC officials) and iv) national citizen service fairs. During 2016, progress in each of the strategies was as follows:



Source: Superintendencia Financiera de Colombia

Finally, the SFC continued to implement the campaign against illegal deposit acquisition called "A fool and his money are soon parted," giving recommendations to the population about companies that engage in this activity, alerting about firms that are not authorized to raise money from the public and that falsely declare they are supervised by the SFC and on the entities that are supervised and are authorized to acquire deposits.

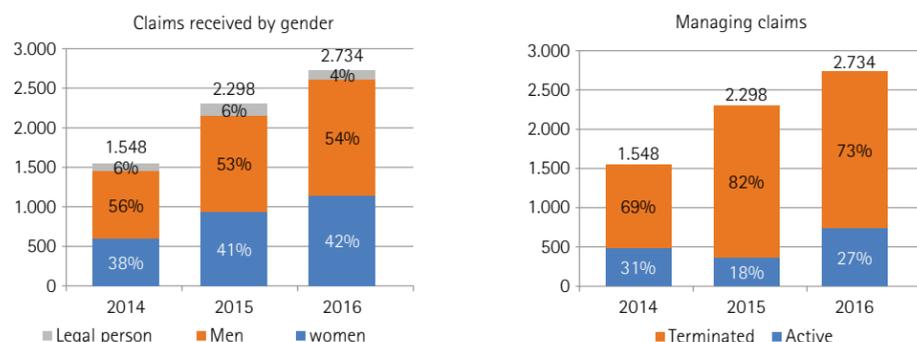
During 2016 a total of 30 alerts were made to the population on the identification of false supervised entities and pyramid schemes through press releases.

Exercise of Jurisdictional Powers

In 2016 the SFC, in exercising the powers granted by Law 1480 of 2011, handled the claims received through the Delegate for Jurisdictional Functions, accumulating a total of 7,599 lawsuits received since April 2012. During 2016, 2,733 lawsuits were received, a 19% increase over the previous year. Of this total, 54% were interposed by men, 42% by women and 4% by legal entities, a trend that has been similar in recent years.

As for the management by the SFC during the last year of the lawsuits received, at the end of the year 73% of the total had been finalized.

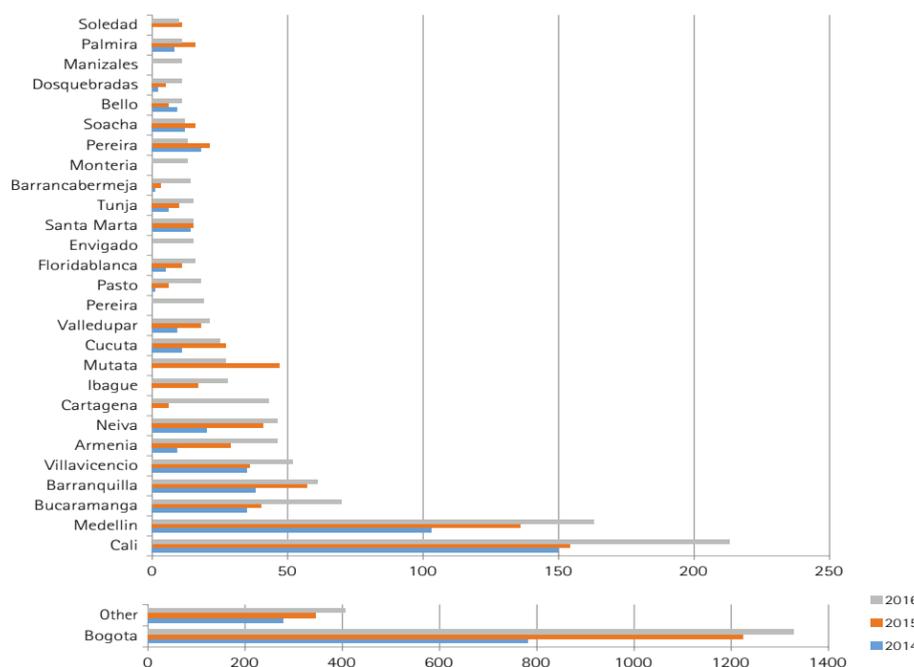
Chart 134: Lawsuits received and management



Source: Superintendencia Financiera de Colombia

Since the implementation of the jurisdictional powers of the SFC, different channels have been made available to the public to allow financial consumers to file lawsuits from any city. During 2016, lawsuits were filed in about 200 different cities and although most of the lawsuits continue to be filed in Bogota, the share of the total number of lawsuits received from other cities continues to increase, and some where this mechanism had not been available for years, did so, among them Manizales, Monteria, Envigado and Pereira.

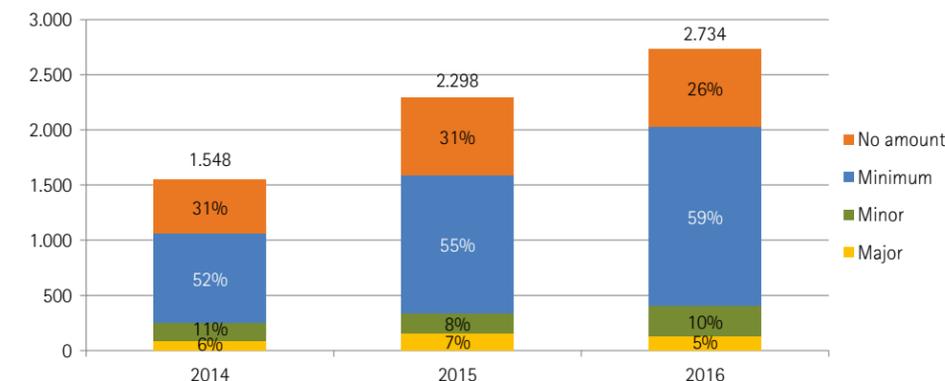
Chart 135: Lawsuits received by cities



Source: Superintendencia Financiera de Colombia

Analyzing the evolution of lawsuits by amount, during 2016 the share of minimum claims increased by 4pp, standing at 59% and reaching 1.620 lawsuits¹⁰¹. The possibility of filing such claims verbally and without the need for an attorney-in-fact, facilitates and expedites the process for consumers.

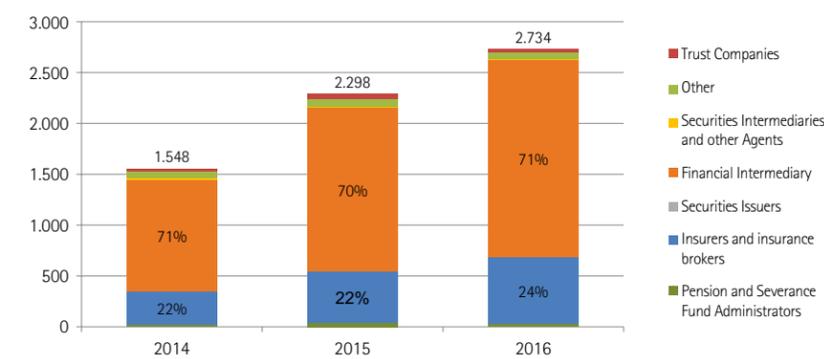
Chart 136: Lawsuits received by amount



Source: Superintendencia Financiera de Colombia

Consequently, given the mass distribution of the products offered, as well as in prior years, most of the lawsuits in 2016 were filed against financial intermediaries, concentrating 71% of the total and 1.938 number, which increased 21% compared with claims last year. For its part, the insurance sector accounts for 24% of total lawsuits and accumulated 662 claims in the past year, increasing 30% compared to 2015.

Chart 137: Lawsuits received by sector



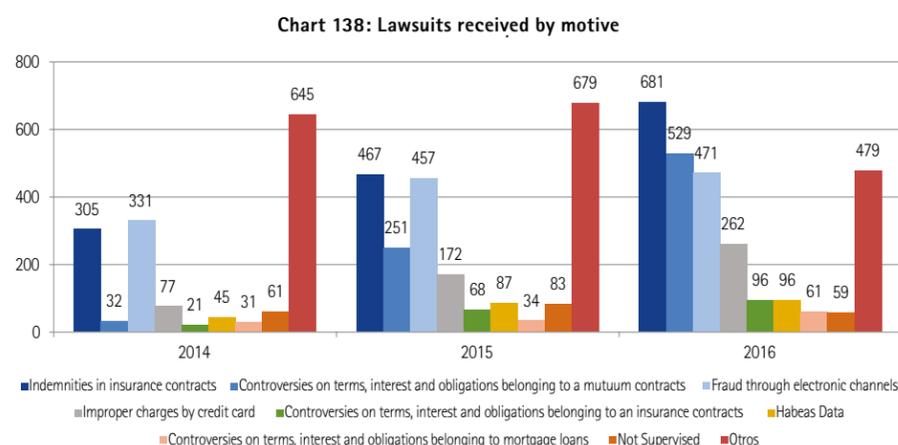
Source: Superintendencia Financiera de Colombia

¹⁰¹ Minimum amount claims are those whose value is less than 40 SMMLV, do not require a lawyer to submit them and can be interposed verbally. Small claims are between 40 and 150 SMMLV and large claims are over 150 SMMLV and in both cases the claim must be filed in written form.

The analysis of the classification of claims by grounds shows that the most frequent grounds for consumer dissatisfaction is related to the insurance contract indemnity process, with 25% (681) of total claims and increasing 46% compared to last year. Unlike 2015, where the second reason for lawsuits was fraud through

electronic channels, in 2016 disputes on terms, interest and obligations of the contract itself ranked second with 19% (529) of the total claims and a 111% growth compared to 2015, driven by financial intermediaries. Meanwhile, fraud through electronic channels went from first place to the third place grounds for claims between 2014 and 2016, accumulating 17% (471) of the claims in the last year.

On a smaller scale, the grounds associated with payday loans filed claims for the first time in the last three years, with 45 claims in 2016.



Source: Superintendencia Financiera de Colombia

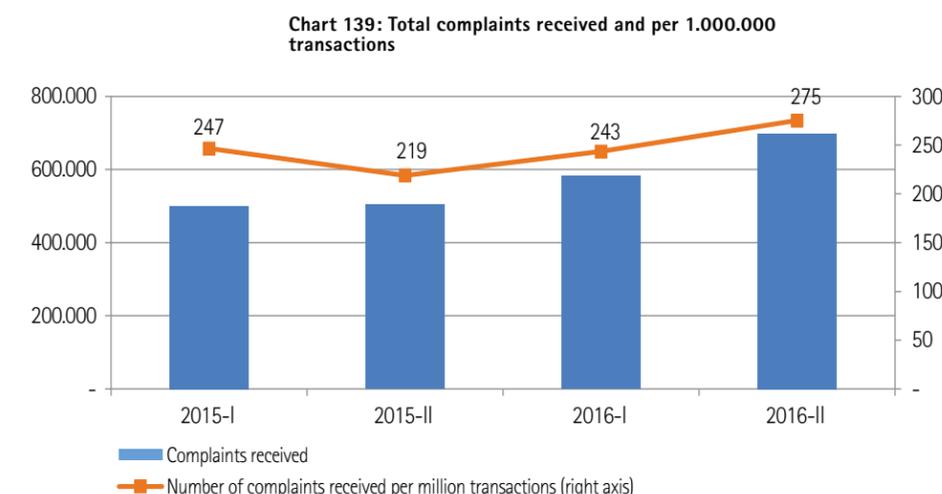
Complaint management

Consumers have at their disposal different instances for filing claims that arise from the controversies they have in their relationship with the financial institutions supervised by the SFC: the same entities, the defenders of financial consumers and the SFC. The duties and responsibilities of supervised institutions and financial consumer protection ombudsmen include, not only to deal with the complaints received in timely fashion, but also to offer for their filing an "express claims" procedure, which is a mechanism established by the SFC since 2015 to optimize the response times for financial consumers for claims that, due to their characteristics, can be dealt with in the shortest possible time, including those that are recurring events, are filed by persons under special protection status, are considered small claims or are filed on grounds of breach of the right of habeas data. Complaints handled under the express complaints mechanism have a term of five business days¹⁰².

¹⁰² Basic Legal Circular, Part I, Title IV, Chapter III

On a quarterly basis, the SFC receives and consolidates the information of the claims filed with the entities and before defenders through standardized templates, which allow tracking the evolution of consumer dissatisfaction with the products and services offered. During 2016, 1.280.094 claims were received jointly between supervised entities and financial consumer defenders, up 27% from 2015 when they were 1.004.782.

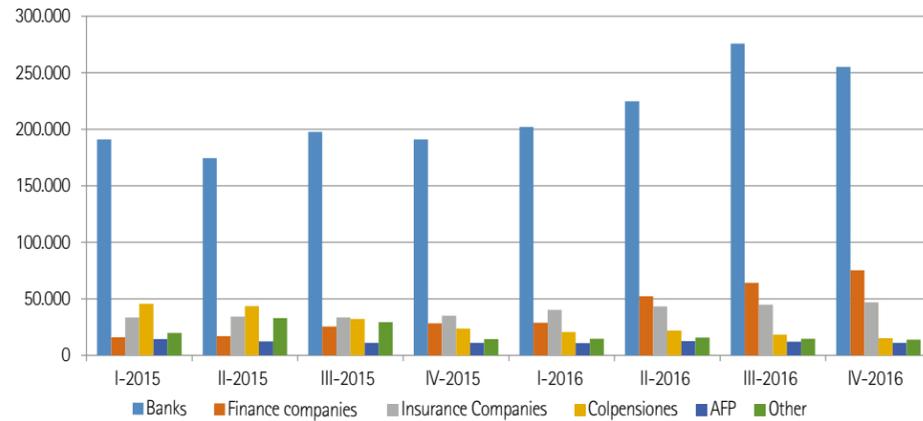
Analyzing the number of complaints received per million transactions carried out through all channels of the financial system (both monetary and non-monetary), it is possible to see that between the second half of 2015 and 2016, the indicator exhibited a positive trend, reaching by the last half year 275 claims per million transactions. This indicates that the number of claims received increased in the face of the expansion in the use of the various channels of the financial system and therefore, there was greater discontent on the part of financial consumers with the products and services offered.



Source: Superintendencia Financiera de Colombia

Taking into account the total number of complaints pending settlement, i.e., the sum of the complaints received with those pending during the previous period, during 2016, the majority were concentrated in banks with 62% of the total. Unlike 2015, in 2016, the second type of institution with the largest number of complaints pending settlement, particularly from the second quarter of the year, were finance companies because their complaints increased 134% compared to 2015 and was at 181.539 in 2016. This behavior was mainly due to an entity whose complaints received increased 174% between the two years and represented 80% of the total number of complaints received against finance companies in 2016.

Chart 140: Complaints pending settlement by type of entity

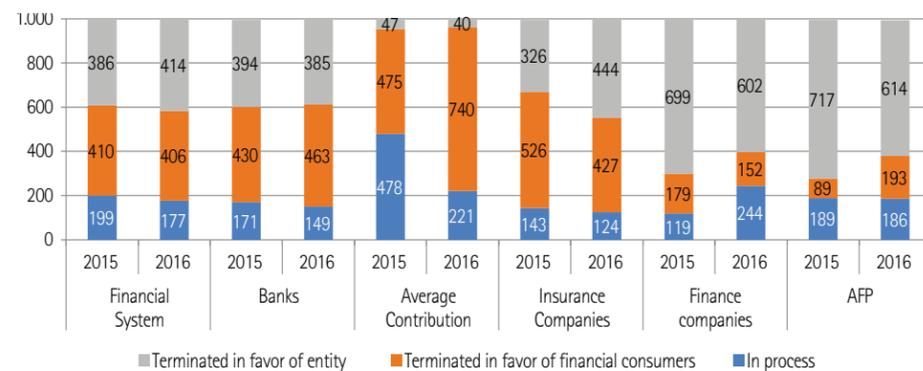


Source: Superintendencia Financiera de Colombia

With regard to the handling of complaints by financial institutions and financial consumer protection ombudsmen in 2016, the quarterly average number of complaints settled per 1.000 pending settlement increased between 2015 and 2016, especially for banks (going from 824 to 848 complaints settled) and Colpensiones (going from 522 to 780), showing greater efficiency in handling the process.

Regarding decisions in favor of consumers in closing complaints, the banks, Colpensiones and the Pension and Severance Fund Administrators increased the number of complaints closed, from 430 to 463, 475 to 740 and 89 to 193, respectively, between 2015 and 2016. For their part, complaints closed by insurers in favor of consumers decreased, from 526 to 427 per 1.000 pending settlement.

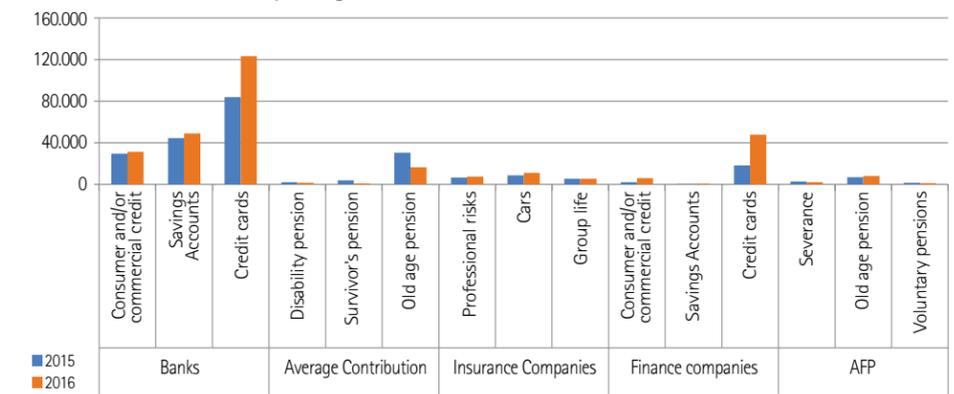
Chart 141: Complaints closed per 1.000 pending settlement by type of entity (Quarterly average)



Source: Superintendencia Financiera de Colombia

The analysis of the quarterly average of the number of complaints pending settlement by entity and product, makes it possible to show that, in the case of banks, as well as in 2015 the majority of complaints were associated with credit cards and, to a lesser extent, savings accounts and commercial and/or consumption credit. In the first case, the average number of complaints pending settlement per quarter increased by 39.433 between 2015 and 2016. This behavior was also seen in the case of financing companies, where the number of complaints involving credit cards increased by 29.381 in the same period.

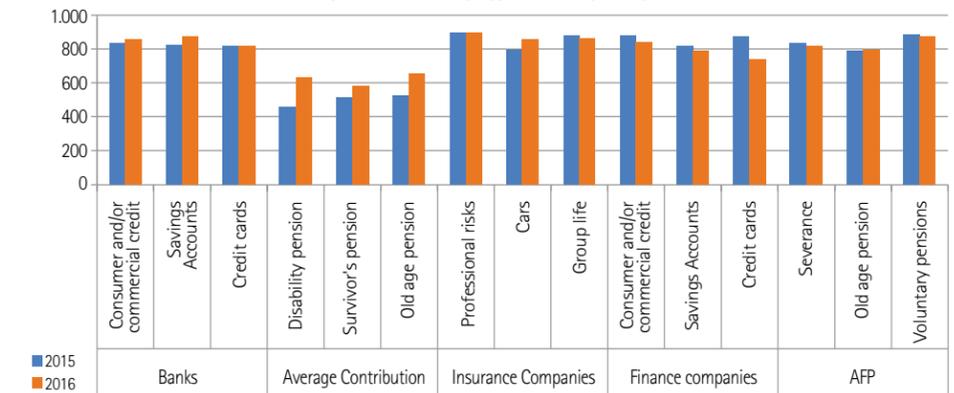
Chart 142: Complaints pending settlement of main products by type of entity (Quarterly average)



Source: Superintendencia Financiera de Colombia

Although the number of complaints pending settlement increased significantly in the case of banks, their efforts in closing complaints were increased in the case of their three main products, with the closing of complaints related to credit cards being especially noteworthy. Also noteworthy is the positive performance of Colpensiones in showing better numbers closing complaints per 1.000 pending settlement related to disability and survivor's pensions.

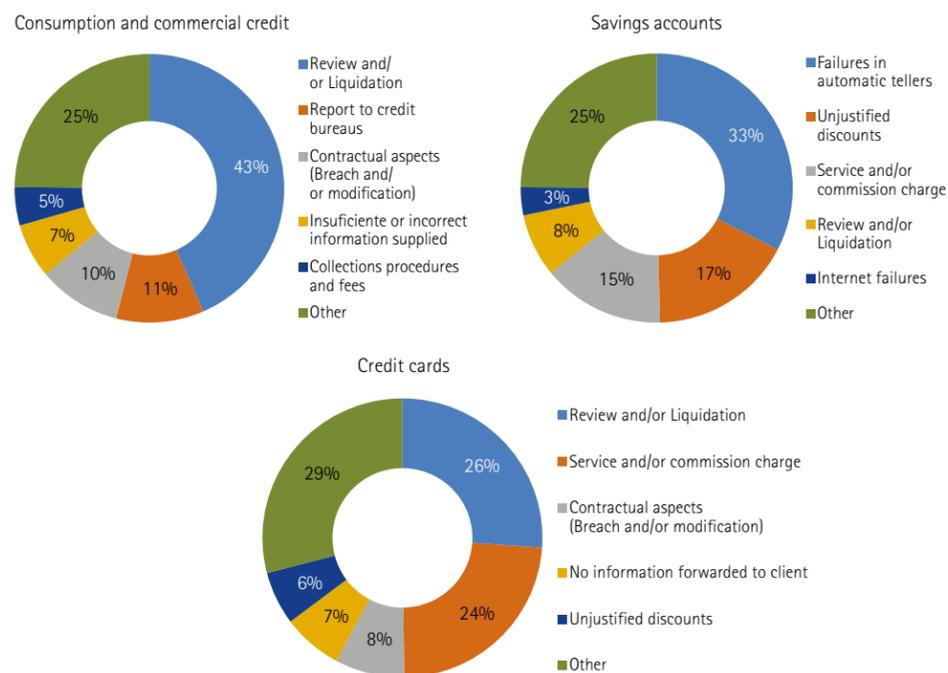
Chart 143: Complaints closed by type of entity and product



Source: Superintendencia Financiera de Colombia

Delving further into the grounds for complaints in the most important products within the total number of complaints pending settlement, for consumption credit the most frequent complaint was due to issues involving product review and/ liquidation (43%), followed by reports in credit bureaus (11%) and breach and/ or modification of contractual matters (10%). In the case of savings accounts, the most significant number of complaints was related to ATM failures (33%), followed by unjustified discounts (17%) and fees and commissions (15%). Finally, in the case of credit cards and similar to consumption credit and/ or commercial credit, the most frequent complaint was the review and/ or liquidation of product terms (26%), in this case followed by charges for fees and/ or commissions (24%) and for breach and/ or modification of contractual matters (8%).

Chart 144: Grounds for complaints for main products in 2016



Source: Superintendencia Financiera de Colombia

Conclusions

• Changes in financial product and service offerings as a result of the evolution of the financial system and changes in consumer preferences produce challenges from regulation and supervision, to financial consumer protection, requiring adjusting to these new market conditions. Colombian regulation and supervision is being strengthened to respond to the digitization of the financial system.

• During 2016, different advances were made on the regulatory front of consumer protection, including the establishment of conditions applicable to Specialized Deposit and Electronic Payments Companies, obligations to be complied with by the entities supervised vis-à-vis consumers in the event of interruptions in the rendering of financial services and instructions on the obligation to provide information to consumers on the Total Unified Value of cash-in and cash-out products, so that they can easily compare between different products and entities.

• At the international level, Colombia is recognized for generating a single regulatory framework for the protection of consumers in the financial sector. These advances are reflected in the comparison of current regulation with the criteria of measurement of international indicators of financial inclusion in their quality dimension, where the country performs satisfactorily. However, there is an opportunity to continue to strengthen the dissemination of consumer information through unique templates that allow them to compare relevant information between products in a pre-contractual stage.

• In terms of financial education, its relevance is highlighted in generating financial inclusion that produces added value for consumers. This, however, needs to be accompanied by proactive consumers who can best profit from product information in such a way that it generates a financial capability enabling them to make financial decisions that are sound and to their best benefit.

• The SFC continued to develop financial education programs through its four strategies (lectures, printed materials, virtual forums and national fairs) and in its campaign against illegal deposit taking. It also participated, jointly with other entities of the National Government, in the creation of the National Strategy for Economic and Financial Education within the framework of the Inter-Sector Commission on Economic and Financial Education.

• In regard to the exercise of its jurisdictional powers, the SFC continued to resolve the lawsuits filed by consumers, which, as in previous years, increased in 2016 compared to 2015 and amounted to 2.734 lawsuits in the last year. On this occasion it was possible to break down the figures of claims received at the level of the gender of the complainant, showing a greater share of men claims over those from women and legal persons, with 54% of the total. Financial intermediaries continue to group the largest number of claims, at 74% and 1.938 claims in 2016.

- Regarding complaints filed on supervised institutions and financial consumer protection ombudsmen, 2016 was characterized by a significant increase in the number of complaints received, driven by financial intermediaries and financing companies. This behavior was mainly due to complaints arising from issues in the rendering of credit card services after failures experienced with technological platforms of two entities.

Box 6: National Strategy for Economic and Financial Education of Colombia (EEF)

Mid-year in 2017, the Colombian Government presented the National strategy for Economic and Financial Education (EEF) as a result of a joint effort between the various public instances that comprise the Inter-Sector Commission on Economic and Financial Education¹⁰³, with the technical support of the World Bank and the participation of the Consultative Sub-Commission¹⁰⁴.

A roadmap was defined through the National EEF Strategy with clear goals and lines of action that are expected to allow the coordinated and efficient increase in knowledge, capabilities and skills of Colombians in regard to aspects related with economic and financial issues that provide tools to manage personal finances better, manage the risks they face and make informed decisions.

The need to develop a National EEF Strategy was made evident, among other things, as a consequence of a number of diagnostics from which it was concluded that Colombians exhibited low indicators in regard to their economic and financial knowledge and skills, despite the existence of numerous public and private initiatives focused on strengthening these issues¹⁰⁵.

The World Bank's diagnosis (2012) stands out among the efforts carried out in this regard and concluded that there are differences between the expected and the actual behavior of Colombians. By way of example, while 94% of respondents stated they prepare budgets, only 23% clearly knew the value of their expenses. Similarly, while 88% of respondents were concerned about their financial situation in old age, only 41% were carrying out concrete actions to protect themselves in that phase of life.

¹⁰³ This Commission was created through Decree 457 of 2014, as an instance for the generation of guidelines, work methodologies and management and coordination mechanisms between the various public and private entities that deal with public policy on economic and financial education. It is comprised of 8 sub-commissions, which are: i) technical, ii) population in formal education, iii) population in active productive phase, iv) vulnerable population, v) micro entrepreneurs, vi) social security for retirement and protection in old age, vii) measurement and assessment and viii) consultative sub-commission, this last as an instance for articulation of the Inter-Sector Commission on Economic and Financial Education with the private sector.

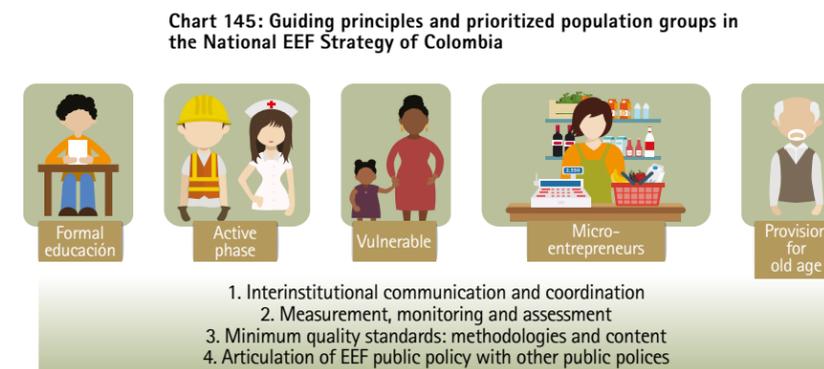
¹⁰⁴ The Consultative Sub-Commission is comprised of representatives from the private sector and its purpose is to provide feedback and suggestions to the Inter-sector Commission on a variety of issues related with the implementation of the National Strategy for Economic and Financial Education.

¹⁰⁵ According to the most recent mapping performed by Banco de la Republica (2013), there are some 113 institutions carrying out 290 economic and financial education initiatives in Colombia. This mapping identified certain common weaknesses in the various programs underway, such as: i) few partnerships, ii) deficient technical advisory and iii) little or no assessment and monitoring of initiatives. y monitoreo de las iniciativas.

For its part, the Study performed by Corporacion Andina de Fomento - CAF and Banco de la Republica (2013) highlighted that, although Colombians get high scores in respect to economic and financial concepts, they perform poorly at the level of financial capabilities. This was assessed when respondents were asked to perform specific calculations such as for interest rates.

Similarly, from the results obtained by Colombian students who participated in the PISA international tests (2012), it was concluded that students in middle and secondary education obtained lower scores compared with other countries with a similar level of development and vis-à-vis the results of students from OECD countries.

In line with these diagnostics and following the recommendations of the OECD, Colombia's National EEF Strategy was proposed under basic drivers and segmenting the population into five groups as described in the following schematic:



Source: National Strategy for Economic and Financial Education of Colombia, prepared by Bdo.

An action plan was defined for each prioritized population segment, which is complemented by a set of cross-cutting actions and with the set-up of a measurement, assessment and monitoring system of the initiatives that are carried out within the framework of the Strategy.

Below, we present two schemes, one which summarizes cross-cutting actions and another which enunciates the main aspects to be performed in work plans defined for each population group. As will become evident, a number of issues in the work plans for each of the prioritized population groups are common and closely related to the general guiding principles defined in Colombia's EEF Strategy

Chart 146: Cross-cutting actions



Source: National strategy for Economic and Financial Education of Colombia, prepared by BdO

In line with the cross-cutting actions, each sub-commission in charge of leading the Implementation of the EEF Strategy in the various population groups defined an action plan whose building blocks are summarized in the following schematic.

Action Plans of the National EEF Strategy by population segment				
Formal education	Active phase	Vulnerable	Micro-entrepreneurs	Social security and old age
Measurement of capabilities	Development of digital strategy with support from the "Pesospensados" website.	Measurement and assessment of initiatives	Public - private cooperation and articulation	Identification of existing programs for social security issues
Development of support material	Assessment of digital strategy	Public - private cooperation and articulation	Development of methodologies and content	Development of alliances
Definition of pedagogical guidelines		Communications channels of the Strategy, including digital	Definition and compliance with quality standards	Dissemination of the Periodic Economic Benefits - BEPS scheme
Mobilization of educational institutions for the implementation of the Strategy		Development of methodologies and content	Training of trainers	Development of joint strategy with the Ministry of Labor
		Training of trainers	Methodologies focused on rural micro-entrepreneurs	Training of teachers to impact all the population, starting with children and youths
				Development of pedagogical material

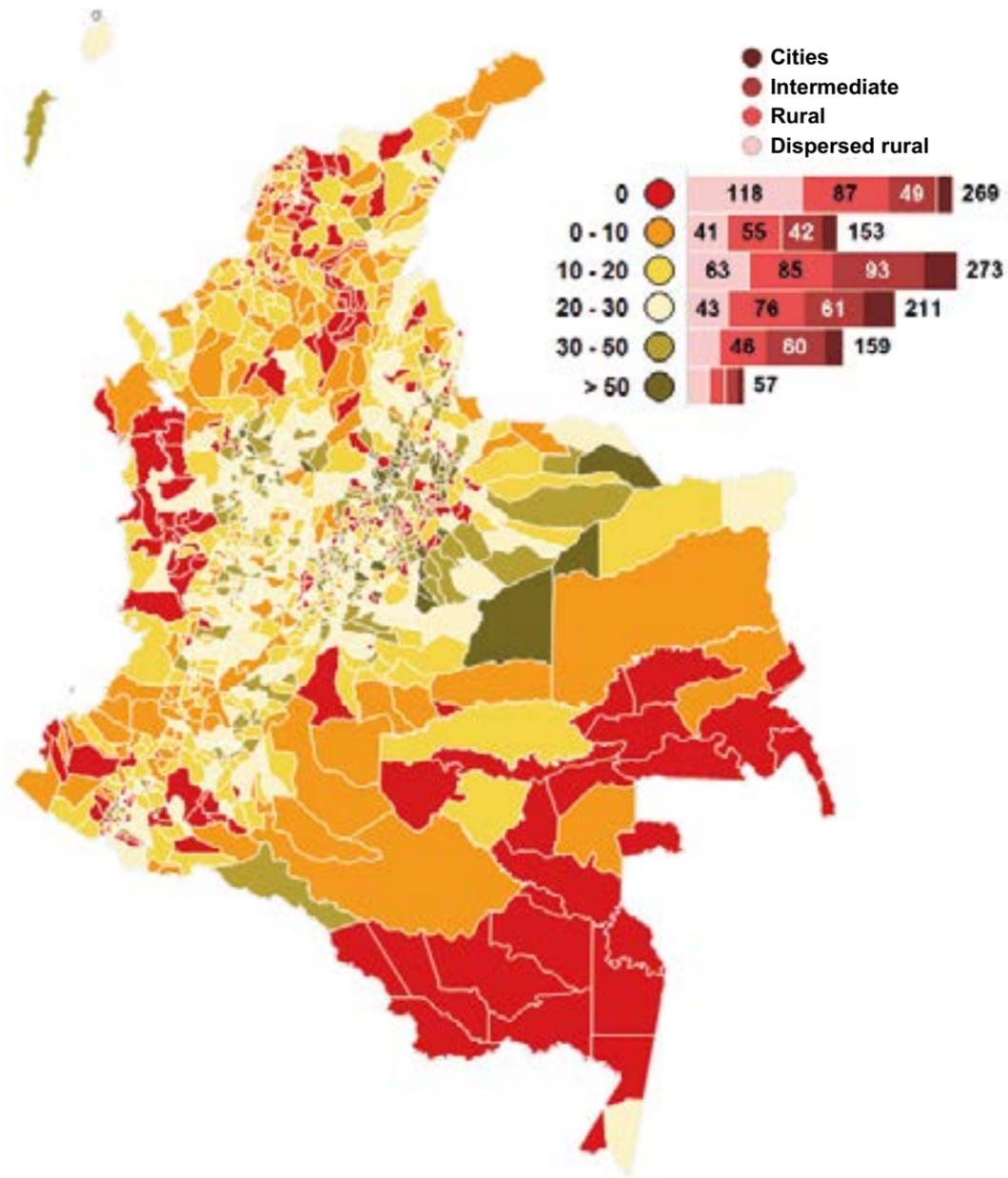
Source: National strategy for Economic and Financial Education of Colombia, prepared by BdO

As a cross-cutting action to those mentioned already, the strategy is expecting Banco de la Republica to lead the measurement, monitoring and assessment process, a mechanism that will become essential in the activities for documentation, generation of indicators and tracking of goals suggested by the Strategy as a whole.

Annexes

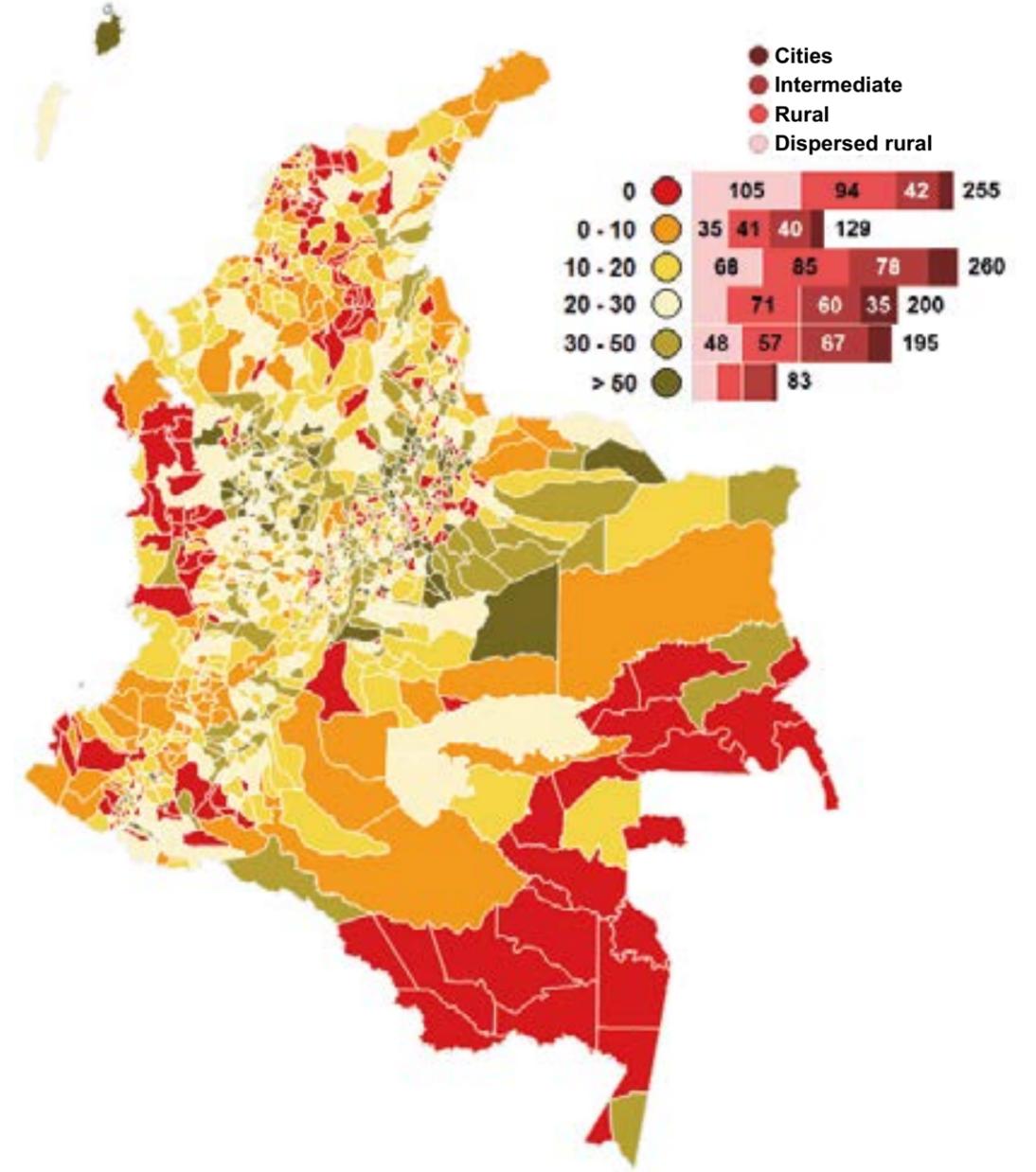
Annexes Chapter 1

Annex 1: Offices per 100.000 people – year 2012



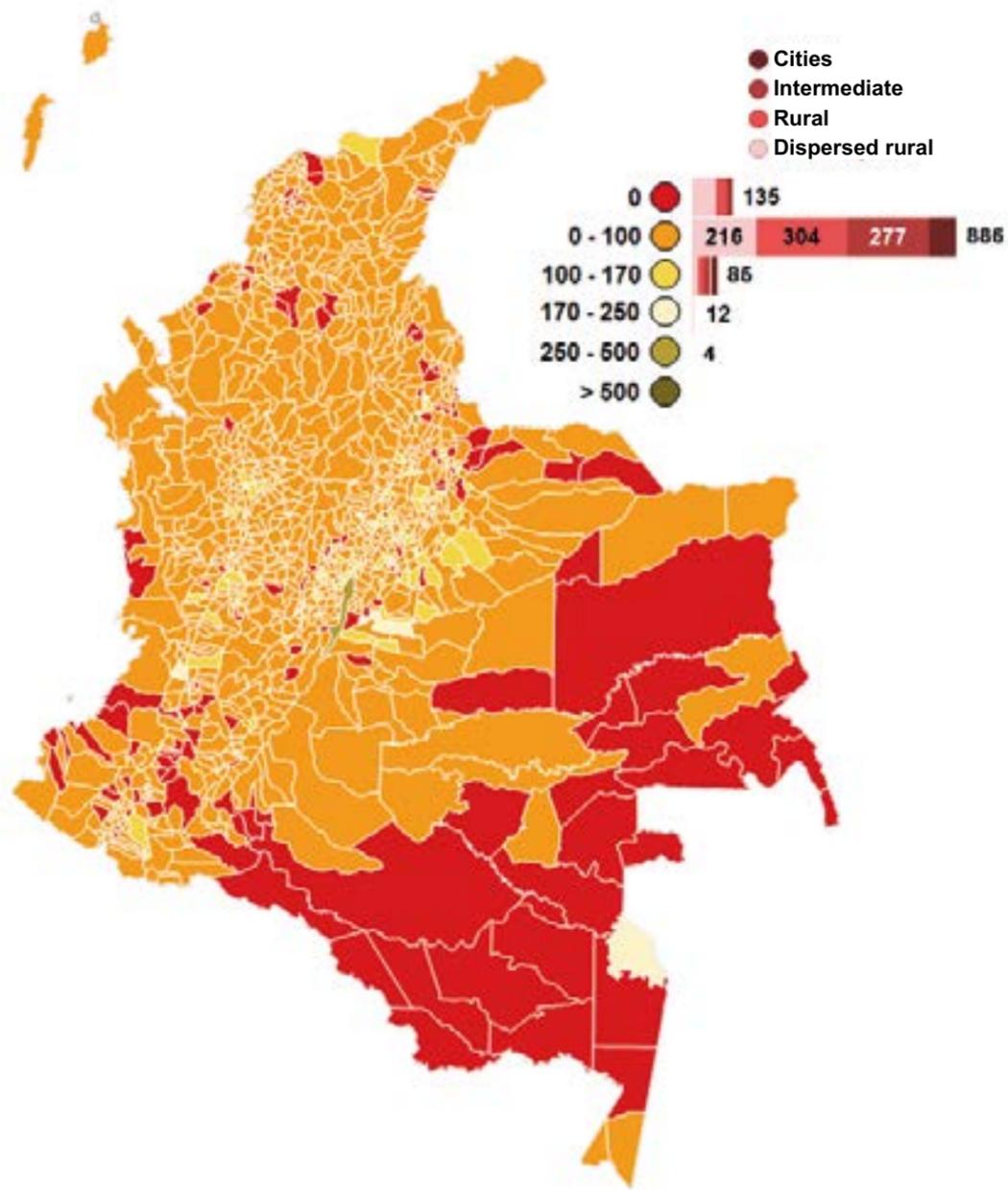
Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs - prepared by Banca de las Oportunidades.

Annex 2: Offices per 100.000 people – year 2016



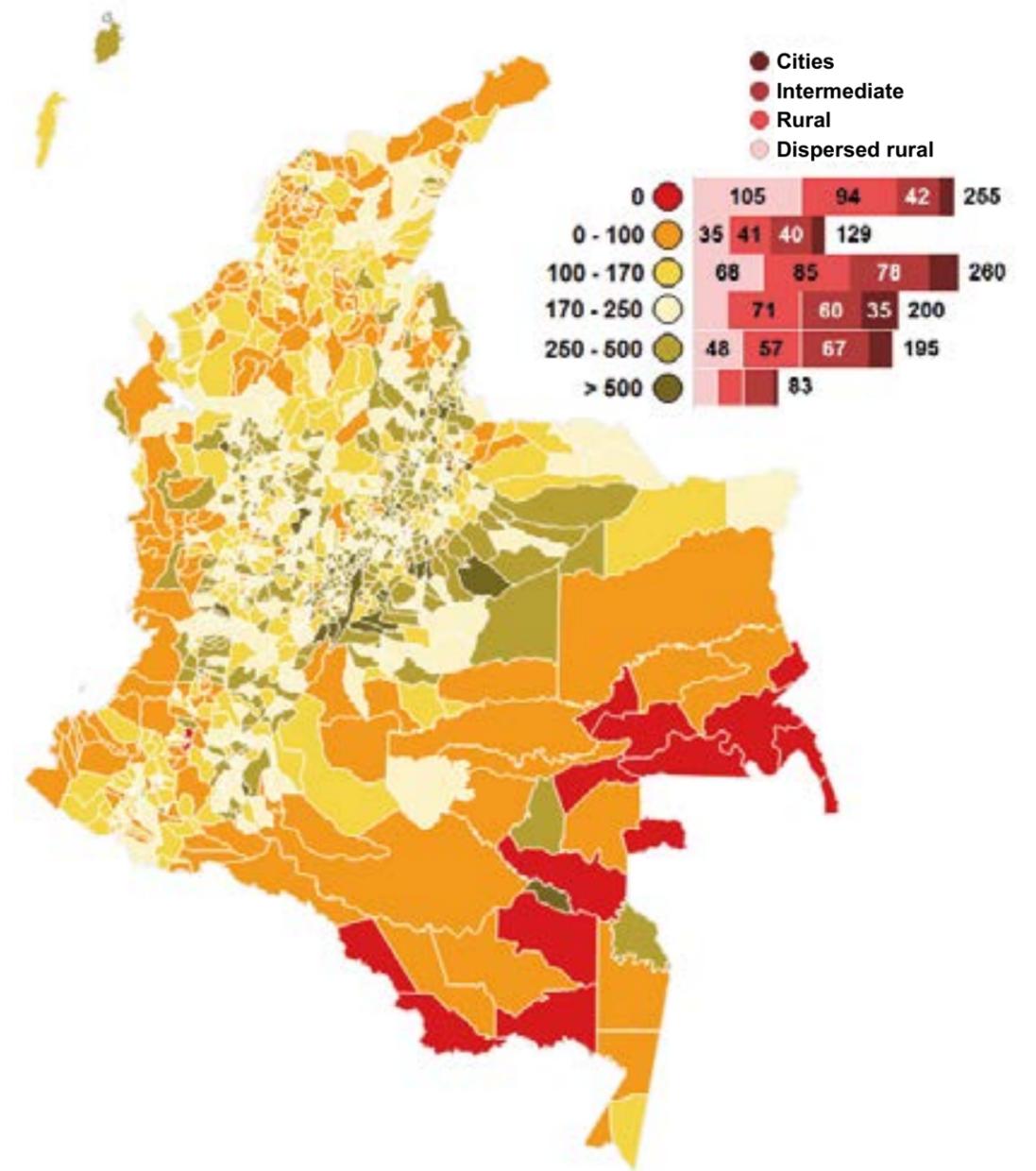
Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs - prepared by Banca de las Oportunidades.

Annex 3: Agents per 100.000 people - year 2012



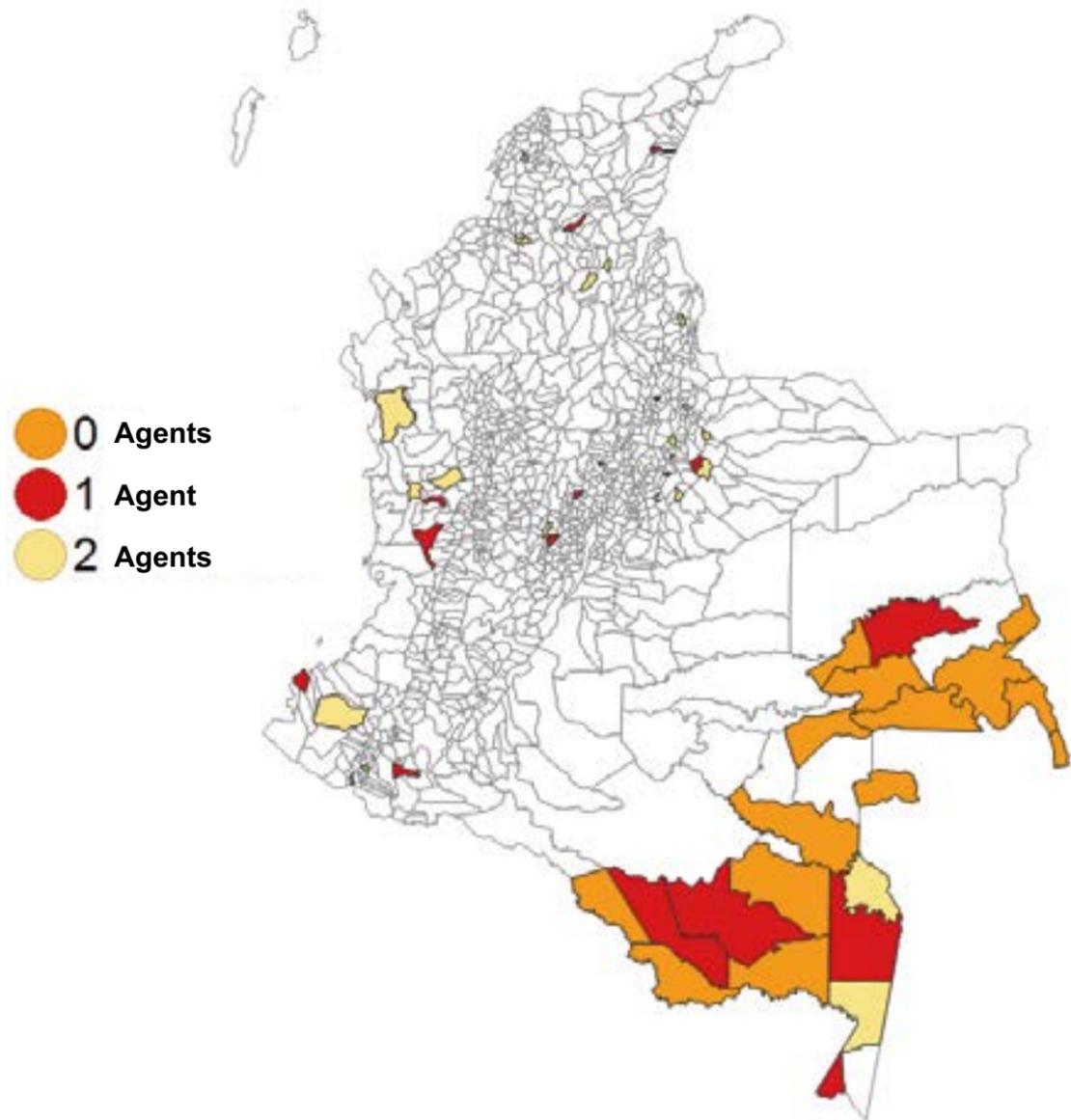
Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs - prepared by Banca de las Oportunidades.

Annex 4: Agents per 100.000 people - year 2016



Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs - prepared by Banca de las Oportunidades.

Annex 5: Fragile financial penetration¹⁰⁶ – year 2016



Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs - prepared by Banca de las Oportunidades.

¹⁰⁶ For effects of this annex, municipalities with fragile financial penetration are those whose only point of access to the financial system consists in one or two agents with no financial offices present.

Annex 6: Detail of municipalities with fragile financial penetration to Dec-2016

At the end of the year, 38 municipalities were cataloged as having fragile penetration: 3 intermediate, 10 rural municipalities and 25 dispersed rural municipalities.

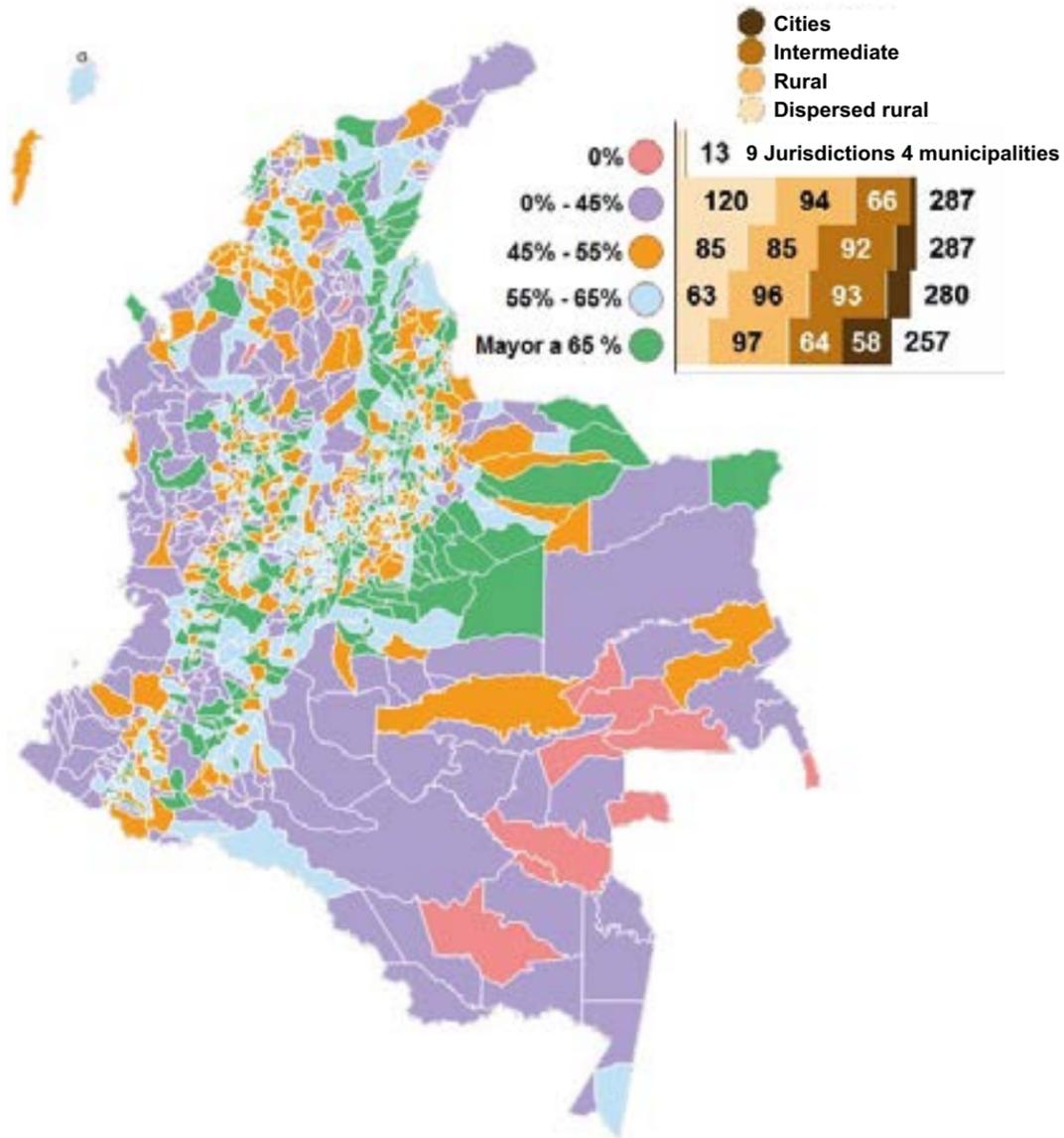
Annex 6: Detail of municipalities with fragile financial penetration to Dec-2016

Classification of rurality	Department	Municipality	Adult population	# BAs
Intermediate	Bolívar	Regidor	6.103	2
		Soplaviento	5.805	2
	Sucre	El Roble	6.765	2
Rural	Nariño	Aldana	4.362	2
		Imues	4.272	2
	Bolívar	Mosquera	8.952	1
		Norosi	2.868	2
	Boyaca	Busbanza	849	1
	Choco	El Canton del San Pablo	4.858	2
	La Guajira	La Jagua	2.179	1
	N. de Santander	Santiago	1.858	2
	Casanare	Recetor	2.516	2
Putumayo	Santiago	6.722	1	
Dispersed rural	Boyaca	Berbeo	1.137	2
		Cuitiva	1.295	1
		Paya	1.728	2
		Pisba	873	1
		Tunungua	1.250	2
		Tutaza	1.402	2
	Cundinamarca	Beltran	1.491	2
		El Peñon	3.469	1
		Jerusalen	1.672	1
	Choco	Bagado	4.473	2
		Bojaya	5.612	2
		Río Iro	5.509	1
		Sipí	2.284	1
	Magdalena	San Zenon	5.472	1
	Nariño	Magüi	13.107	2
	Santander	Jordan	765	1
		San Miguel	1.650	2
	Casanare	La Salina	893	2
		La Chorrera	2.086	1
	Amazonas	La Pedrera	2.541	1
Puerto Nariño		4.120	1	
Puerto Santander		1.589	1	
Tarapaca		2.096	2	
Guainía	Barranco Minas	2.686	1	
Vaupés	Taraira	424	2	

Sources: DANE, DNP, Superintendencia Financiera de Colombia, Superintendencia de la Economía Solidaria and micro lending NGOs - prepared by Banca de las Oportunidades.

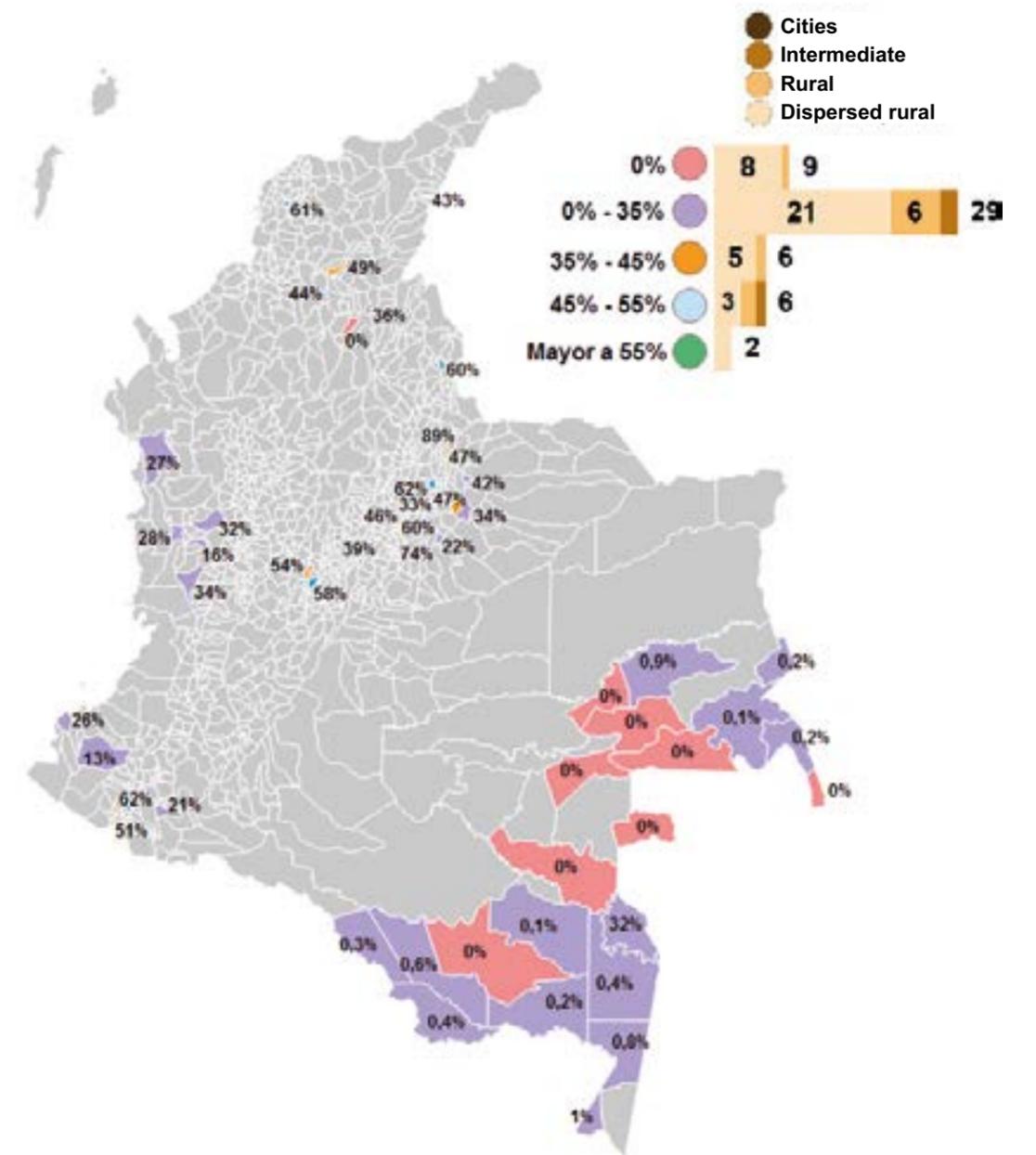
Annexes Chapter 2

Annex 7: %People w/any active product



Source: TransUnion – prepared by BdO.

Annex 8: %People with any active product in municipalities with fragile financial penetration¹⁰⁷



Source: TransUnion – prepared by BdO.

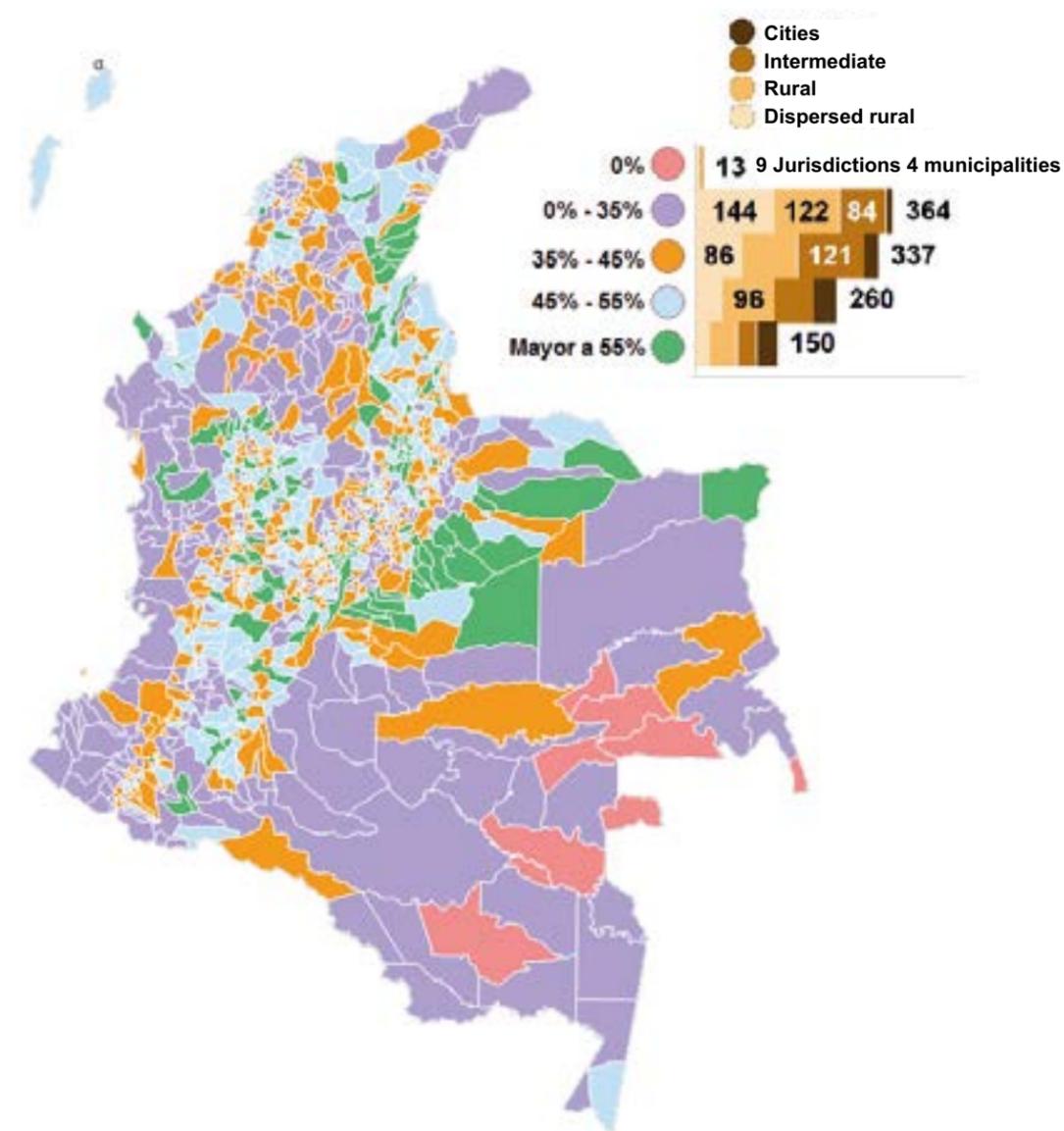
¹⁰⁷ Municipalities with fragile financial penetration are understood as those having 1 or 2 agents as sole points of access to the financial system.

Annex 9: Municipalities with fragile financial penetration - Detail

Department	Municipality	Rurality	#People	% People w/ any product current
Amazonas	Mirí - Parana	Dispersed rural	808	0,1%
Amazonas	Puerto Alegría	Dispersed rural	929	0,3%
Amazonas	Puerto Arica	Dispersed rural	610	0,2%
Amazonas	Tarapaca	Dispersed rural	2.096	0,8%
Amazonas	Puerto Nariño	Dispersed rural	4.120	1,0%
Amazonas	El Encanto	Dispersed rural	2.534	0,4%
Amazonas	La Pedrera	Dispersed rural	2.541	0,4%
Amazonas	La Chorrera	Dispersed rural	2.086	0,6%
Amazonas	Puerto Santander	Dispersed rural	1.589	0,0%
Bolívar	Regidor	Intermediate	6.103	36,1%
Bolívar	Soplaviento	Intermediate	5.805	61,1%
Bolívar	Norosi	Rural	2.868	0,0%
Boyacá	Berbeo	Dispersed rural	1.137	73,7%
Boyacá	Paya	Dispersed rural	1.728	34,1%
Boyacá	Busbanza	Rural	849	33,0%
Boyacá	Tunungua	Dispersed rural	1.250	45,9%
Boyacá	Tutaza	Dispersed rural	1.402	61,6%
Boyacá	Pisba	Dispersed rural	873	47,4%
Boyacá	Cúltiva	Dispersed rural	1.295	59,5%
Casanare	La Salina	Dispersed rural	893	41,9%
Casanare	Recetor	Rural	2.516	22,4%
Chocó	Bojaya	Dispersed rural	5.612	26,6%
Chocó	Bagado	Dispersed rural	4.473	31,7%
Chocó	El Cantón Del San Pablo	Rural	4.858	28,3%
Chocó	Río Iro	Dispersed rural	5.509	15,9%
Chocó	Sipi	Dispersed rural	2.284	34,3%
Cundinamarca	Beltrán	Dispersed rural	1.491	54,4%
Cundinamarca	El Peñón	Dispersed rural	3.469	38,9%
Cundinamarca	Jerusalén	Dispersed rural	1.672	58,0%
Guainía	San Felipe	Dispersed rural	1.295	0,2%
Guainía	Puerto Colombia	Dispersed rural	2.863	0,1%
Guainía	Cacahual	Dispersed rural	1.326	0,2%
Guainía	Barranco Minas	Dispersed rural	2.686	0,9%
Guainía	Mapiripán	Dispersed rural	1.541	0,0%
Guainía	La Guadalupe	Dispersed rural	197	0,0%
Guainía	Pana Pana	Dispersed rural	1.578	0,0%
Guainía	Morichal	Dispersed rural	672	0,0%
La Guajira	La Jagua Del Pilar	Rural	2.179	42,8%
Magdalena	San Zenón	Dispersed rural	5.472	48,8%
Nariño	Mosquera	Rural	8.952	26,1%
Nariño	Magüí	Dispersed rural	13.107	13,4%
Nariño	Imues	Rural	4.272	62,4%
Nariño	Aldana	Rural	4.362	51,5%
Norte de Santander	Santiago	Rural	1.858	59,8%
Putumayo	Santiago	Rural	6.722	21,2%
Santander	Jordan	Dispersed rural	765	89,4%
Santander	San Miguel	Dispersed rural	1.650	47,3%
Sucre	El Roble	Intermediate	6.765	44,1%
Vaupés	Taraira	Dispersed rural	424	32,3%
Vaupés	Pacoa	Dispersed rural	3.251	0,0%
Vaupés	Papunaua	Dispersed rural	454	0,0%
Vaupés	Yavarate	Dispersed rural	664	0,0%

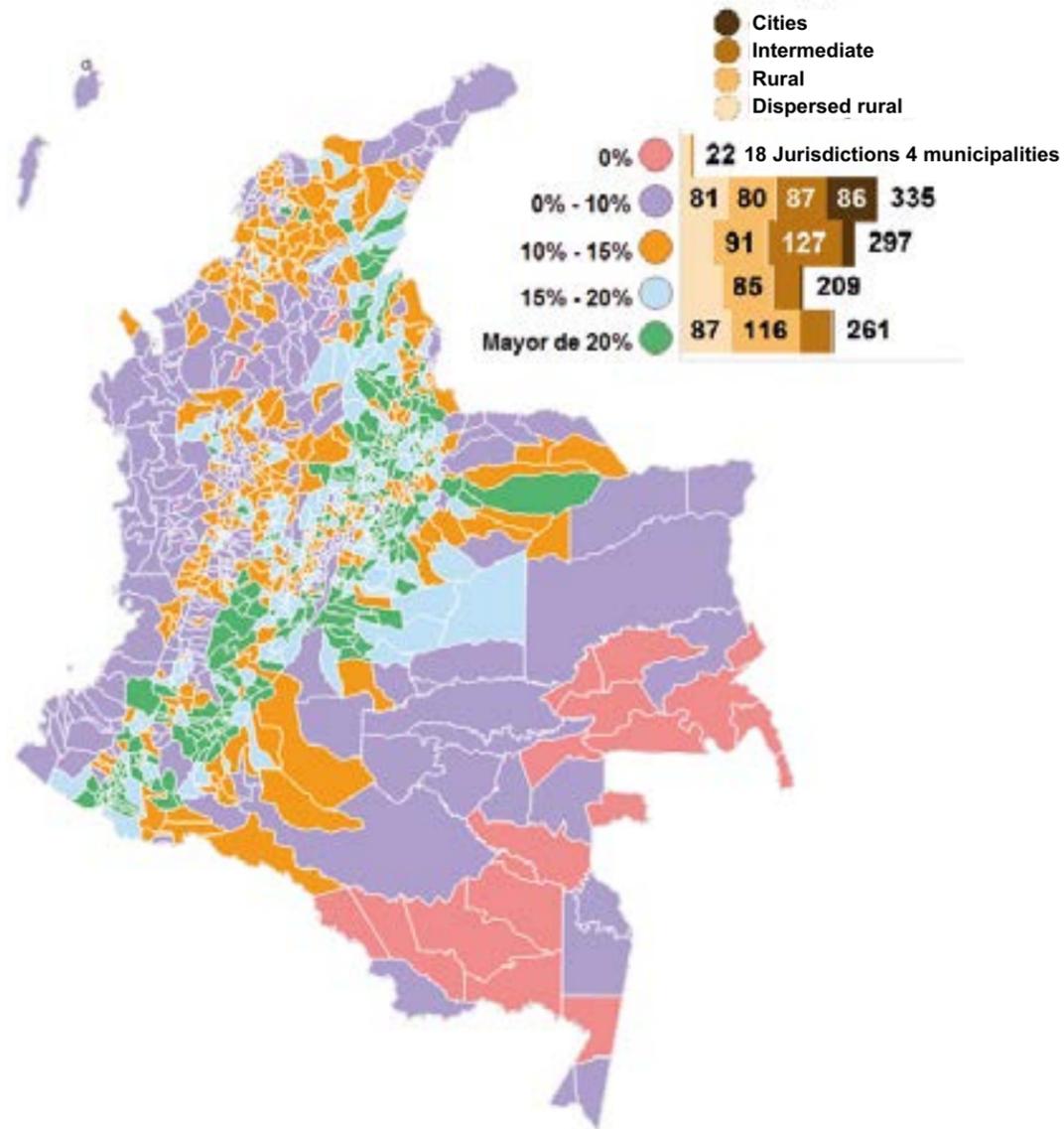
Source: DANE, DNP, TransUnion – prepared by BdO.

Annex 10: %People with an active savings account



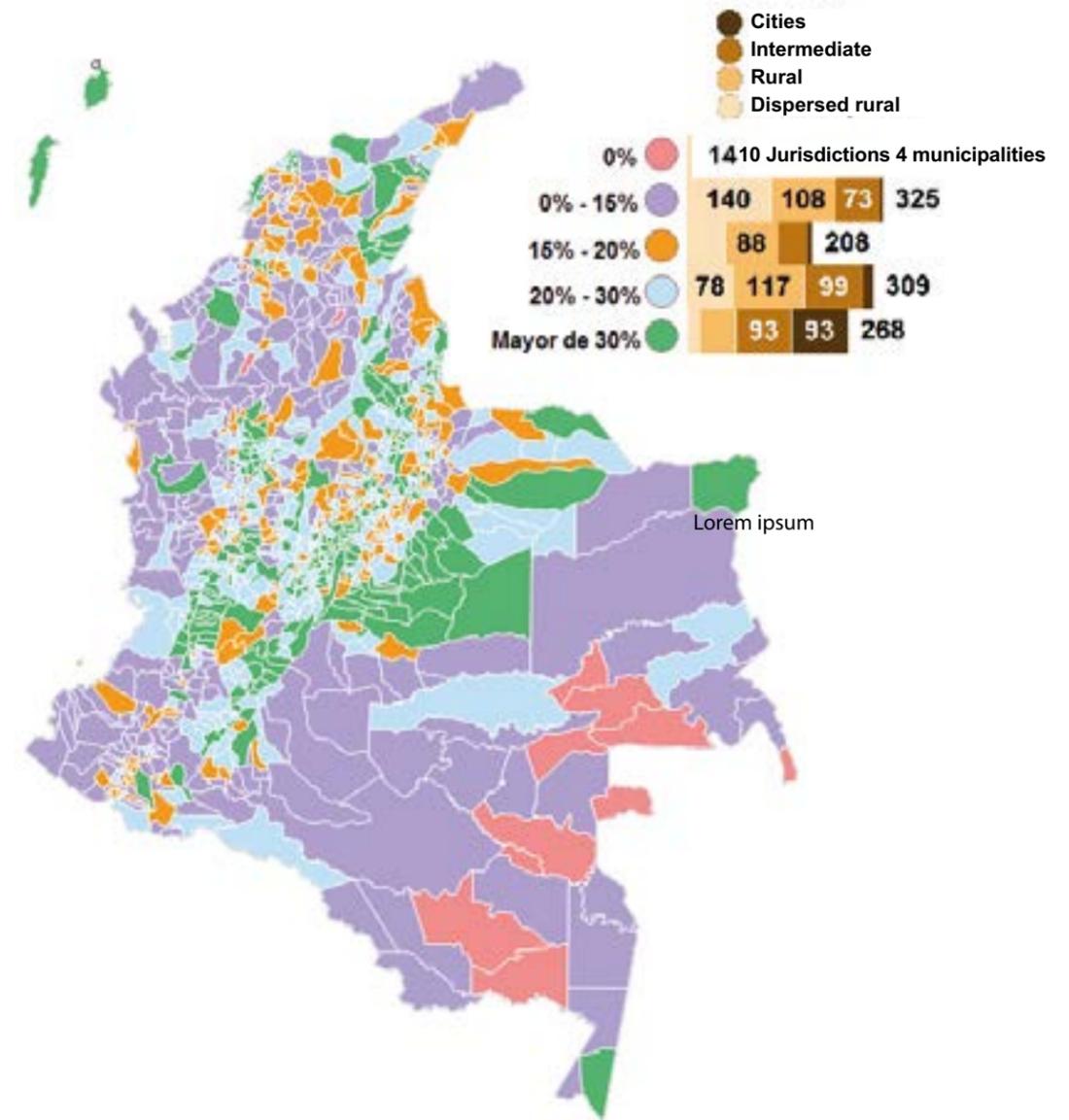
Source: TransUnion – prepared by BdO.

Annex 11: %People with current microloans



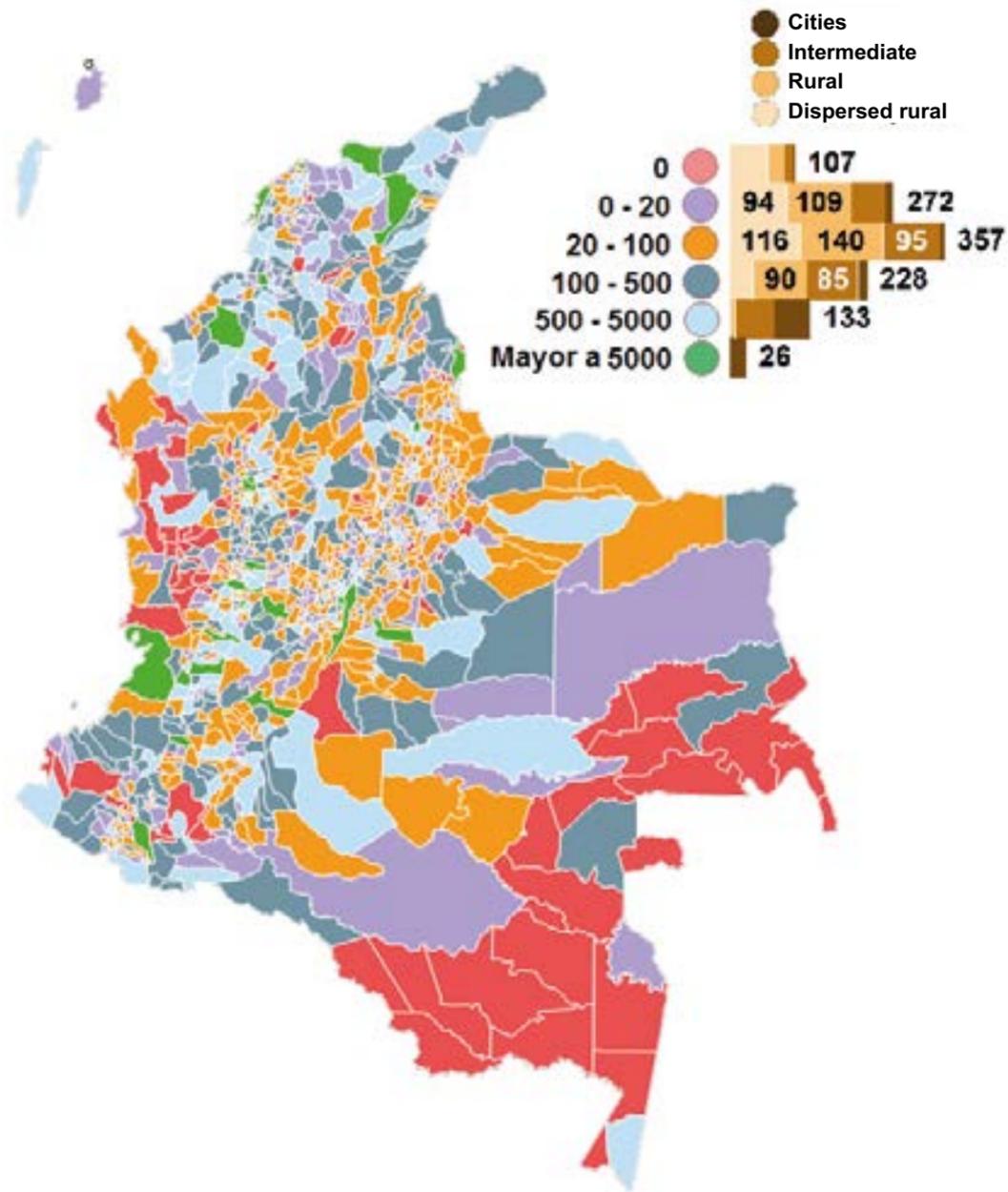
Source: TransUnion – prepared by BdO.

Annex 12: %People with consumption credit (consumption + Credit Card) active



Source: TransUnion – prepared by BdO.

Annex 13: Number of people who entered the financial system for the first time in 2016



Source: TransUnion – prepared by BdO.

Index 1

PAGE	CHART
23	Chart 1: Evolution in the number of financial points of access
25	Chart 2: Evolution of points of access per 100.000 people
26	Chart 3: Evolution of points of access per 1.000 km2
27	Chart 4: Evolution of number of offices by type of entity
28	Chart 5: Composition of offices by type of entity 2012 vs 2016
29	Chart 6: Evolution of the number of agents by type of entity
30	Chart 7: Composition of agents by type of entity 2012 vs 2016
31	Chart 8: Evolution in the number of ATMs and Points of Sale (2012 - 2016)
31	Chart 9: Distribution of points of access by rurality level - 2016
32	Chart 10: Evolution in number of offices by rurality level 2012 - 2016
34	Chart 11: Number of offices per 100.000 people by department
35	Chart 12: Evolution in number of agents by rurality level 2012 - 2016
37	Chart 13: Number of agents per 100.000 people by department
38	Chart 14: Mobile advisors by rurality level for NGOs
39	Chart 15: Evolution in the number of Points of Sale by rurality level between 2015 and 2016
40	Chart 16: Number of Points of Sale per 100.000 people by department
40	Chart 17: Number of Points of Sale per 100.000 people in the 13 main cities
41	Chart 18: Number of Offices and Banking Agents per 100.000 people comparative 2013 to 2015
42	Chart 19: Number of Offices and Banking Agents per 1.000 km2 comparative 2013 to 2015
43	Chart 20: Total Number of Automatic Tellers (ATMs) per 100.000 people comparative 2013 to 2015
43	Chart 21: Total Number of Automatic Tellers (ATMs) per 1.000 km2 comparative 2013 to 2015
49	Chart 22: Financial inclusion indicator
51	Chart 23: Distribution of people with any active financial product by gender and type of entity - 2016
52	Chart 24: People with deposit products active by gender and product-2016
53	Chart 25: People with credit products active current by gender and product - 2016

- 53** Chart 26: Distribution of people with any active financial product by age range and type of entity - 2016
- 55** Chart 27: People with deposit products current by age and product - 2016
- 55** Chart 28: People with credit products current by age and product - 2016
- 56** Chart 29: People entering for the first time to the financial system
- 56** Chart 30: Products for entry to financial system
- 57** Chart 31: Number and percentage of people with any active financial product by rurality level - 2016
- 58** Chart 32: %People w/any product active by department - 2016
- 59** Chart 33: %People w/any product active -13 cities - 2016
- 60** Chart 34: Number and percentage of people with an active savings account - 2016
- 60** Chart 35: %People w/savings acct active by department - 2016
- 61** Chart 36: %People w/savings acct active - 13 cities - 2016
- 62** Chart 37: Number and percentage of people with current microloans - 2016
- 62** Chart 38: People with microloans current by department - 2016
- 63** Chart 39: %People with microloans current -13 cities - 2016
- 64** Chart 40: Number and percentage of people with consumption credit + current credit cards - 2016
- 64** Chart 41: %People w/consumption + Credit Card current by department - 2016
- 65** Chart 42: %People w/consumption + Credit Card current -13 cities - 2016
- 66** Chart 43: #People 1st time in the system by rurality and gender - 2016
- 67** Chart 44: #People 1st time in the system by rurality and age ranges - 2016
- 68** Chart 45: #People 1st time in the system by department and gender - 2016
- 68** Chart 46: #People 1st time in the system 13 cities according to gender - 2016
- 70** Chart A 47: Number of companies with financial products in financial intermediaries
- 71** Chart 48: Number of companies with active financial products by product
- 72** Chart 49: Number of companies that enroll for the first time in the financial system by product - total entities
- 78** Chart 50: PShare of transactional channels Total number of transactions
- 78** Chart 51: Share of transactional channels Total amount transacted
- 79** Chart 52: Transactions through the network of offices and banking agents Total number of transactions
- 80** Chart 53: Growth of transactional channels 2012 and 2016 Share in number of transactions
- 80** Chart 54: Growth of transactional channels 2012 and 2016 Share in amount of transactions
- 81** Chart 55: Annual evolution of total number of transactions
- 82** Chart 56: Annual evolution of total amount of transactions
- 82** Chart 57: Average amount of transactions
- 83** Chart 58: Evolution Average amount of transactions
- 85** Chart 59: Share of transactions by type and channel (number)
- 86** Chart 60: Type of transactions performed and share (amount)
- 87** Chart 61: Transactions performed through BA by rurality level
- 88** Chart 62: Transactions performed through BA by rurality level
- 89** Chart 63: Transactions performed through BA by rurality level Amount transacted / % share
- 90** Chart 64: Transactions performed in other categories 60 through BA by rurality level number of transactions / % share
- 91** Chart 65: Transactions performed in other categories through BA by rurality level number of transactions / % share
- 92** Chart 66: Number of debit and credit cards per 100.000 people
- 93** Chart 67: Number of virtual transactions per 100.000 people
- 93** Chart 68: Number of cash-less transactions per 100.000 people
- 94** Chart 69: Readiness score and ranking of information and communications technologies
- 95** Chart 70: Number of subscribers to mobile phones and service penetration

- 95** Chart 71: Percentage share of subscribers by mobile phone vendor
% Average share 2012-2016
- 96** Chart 72: Household share by region with cell phones and Internet 2016
- 97** Chart 73: Household share by regions 2016
- 98** Chart 74: Internet and cell Phone use by regions and area 2016
- 98** Chart 75: Use of devices to access the Internet, by region and area 2016
- 101** Chart 76: Cash over M2 ratio
- 102** Chart 77: Evolution of the number and the balance plus limits on credit and debit cards / Evolution # debit and credits cards
Chart 77B: Evolution of the number and the balance plus limits on credit and debit cards / Evolution of balance and balance + limit
- 104** Chart 78: Stimulation of cash reduction
- 107** Chart 79: Evolution of the number of savings accounts by type of product
- 107** Chart 80: Number of savings accounts and activity
- 108** Chart 81: Share in the number of savings accounts by gender /Participation in number of savings accounts by gender /Participation in balance of savings accounts by gender
- 109** Chart 82: Total and active savings accounts per 10.000 people
- 110** Chart 83: Evolution of balances on accounts
- 111** Chart 84: Share of savings accounts by type of municipality
- 112** Chart 85: Evolution of the contribution to growth of accounts by type of municipality
- 112** Chart 86: Savings accounts per 10,000 people and by rurality
- 113** Chart 87: Percentage of active savings accounts by type of municipality
- 113** Chart 88: Checking accounts by department (December 2016)
- 114** Chart 89: Distribution of the number of traditional savings accounts by balance range
- 114** Chart 90: Distribution of balance in savings accounts by range of balance
- 115** Chart 91: Simplified savings accounts
Number of simplified savings accounts /
Balance of simplified savings accounts (millions)
- 116** Chart 92: Account activity for simplified formality savings accounts
- 117** Chart 93: Share in the number of simplified formality savings accounts by gender
- 117** Chart 94: Electronic savings accounts
- 118** Chart 95: Account activity in electronic savings accounts
- 118** Chart 96: Share in the number of electronic savings accounts by gender
- 119** Chart 97: Electronic deposits
- 120** Chart 98: Electronic deposit activity
- 120** Chart 99: Share of electronic deposits by gender
- 121** Chart 100: Transactions with electronic deposits by type of transaction
- 125** Chart 101: Pledge assets
- 125** Chart 102: Characterization of debtors by type of person
- 125** Chart 103: Debtors by city
- 126** Chart 104: Advance in score in reforms of legal rights during 2015 and 2016 for access to credit of countries of the region
- 128** Chart 105: Portfolio by modality and intermediate
- 129** Chart 106: Deepening
- 130** Chart 107: Commercial Portfolio
- 131** Chart 108: Consumption portfolio
- 132** Chart 109: Housing portfolio
- 133** Chart 110: Micro lending portfolio
- 133** Chart 111: Disbursements by modality and intermediate
Number / Amount (Millions)
- 134** Chart 112: Number of disbursements of credits by modality and gender
- 135** Chart 113: Disbursements of commercial credit by intermediate and rurality level / Number of Disbursements per 100.000 adults
- 135** Chart 113B: Disbursements of commercial credit by intermediate and rurality level / Number of Disbursements (Millions)
- 136** Chart 114: Disbursements of consumption credit by intermediary and rurality level
- 137** Chart 115: Disbursements of housing loans by intermediary and rurality level
- 138** Chart 116: Disbursements of microloans by range
- 138** Chart 117: Disbursements of microloans by range Dec 2015 and Dec 2016
- 139** Chart 118: Disbursements of microcredit by intermediary and rurality level
- 147** Chart 119: Trends in Colombia (number of times)
- 148** Chart 120: Insurance industry indices
- 149** Chart 121: Number of policyholders in personal insurance and property and casualty (million)

150	Chart 122:	Share in the number of policyholders by lines
151	Chart 123:	Number of policyholders by gender
152	Chart 124:	Cumulative share of premiums written
153	Chart 125:	Risks insured by monthly premium range
153	Chart 126:	Risks insured by line and range
154	Chart 127:	Current insured risks by rurality
156	Chart 128:	Policyholders by line and channel
157	Chart 129:	Penetration index by department
161	Chart 130:	Flow of remittances to Colombia (USD million)
161	Chart 130B:	Remittances to Colombia by country of origen
161	Chart 131:	Share of total amount of remittances by intermediary
162	Chart 131B:	Number of remittances operations by intermediary (million)
162	Chart 132:	Remittance payment methods
163	Chart 133:	Cost of sending from the United States and Spain to Colombia (% of value transfered)
163	Chart 133B:	Cost by payment methods from the United States to Colombia (% of value transfered)
174	Chart 134:	Lawsuits received and management
174	Chart 135:	Lawsuits received by cities
175	Chart 136:	Lawsuits received by amount
175	Chart 137:	Lawsuits received by sector
176	Chart 138:	Lawsuits received by motive
177	Chart 139:	Total complaints received and per 1.000.000 transactions
178	Chart 140:	Complaints pending settlement by type of entity
178	Chart 141:	Complaints closed per 1.000 pending settlement by type of entity (Quarterly average)
179	Chart 142:	Complaints pending settlement of main products by type of entity (Quarterly average)
179	Chart 143:	Complaints closed by type of entity and product
180	Chart 144:	Grounds for complaints for main products in 2016
183	Chart 145:	Guiding principles and prioritized population groups in the National EEF Strategy of Colombia
184	Chart 146:	Cross-cutting actions

Index 2

PAGE	TABLE
33	TABLE 1: Financial offices per 100.000 people by rurality level
33	TABLE 2: Financial offices per 1.000 km2 by rurality level
35	TABLE 3: Agents per 100.000 people by rurality level
36	TABLE 4: Agents per 1,000 km2 by rurality level
50	TABLE 5: Financial inclusion indicator by type of entity
68	TABLE 6: People 1st time in the system by department and gender - 2016
69	TABLE 7: #People 1st time in the system 13 cities according to gender - 2016
70	TABLE 8: Number of companies with financial products by type of entity
109	TABLE 9: Evolution in number of savings accounts by type of institution
110	TABLE 10: Evolution of Balances in Savings Accounts by institution (millions of pesos)
111	TABLE 11: Average balance in savings accounts by type of institution
115	TABLE 12: Evolution of average balances in savings accounts
159	TABLE 13: Main indicators

