

Transactional accounts aimed at low-income customers

IFC supports the development of meaningful product offerings for low-income individuals to be distributed through the mobile channel



CLIENT PROFILE

Banco AV Villas is a Colombian bank founded in 1972. The bank has demonstrated a strong commitment to serve low income clients. The bank has implemented a mobile banking platform to provide mobile banking services to its current clients - it is now piloting the payment of government subsidies to low income beneficiaries.

Banco AV Villas has evolved from being focused exclusively on housing loans in 2002, to a universal bank through a network of 286 offices, 571 ATMs, 8,174 banking correspondents and an advanced mobile banking platform. It also serves its customers through a newly expanded sales force, enterprise business centers and instant credit, known as "OCI" where customers are notified the status of their credit application within two hours.

Banco AV Villas is part of Grupo Aval, Colombia's largest financial conglomerate, which also owns Banco de Bogotá, Banco de Occidente and Banco Popular.

BACKGROUND

Mobile financial services have seen a boom in recent years in Colombia. There is a wide range of product possibilities that can be bundled and delivered via mobile channels, that helps enhance profitability. With over 55 percent of the adult population unbanked and a 123 percent mobile penetration rate (2017), Colombia is well positioned to leverage digital solutions to close the financial access gap.

A preliminary market research reveals the need for transactional accounts for clients to deposit and save money but also for accessing credit. Banco AV Villas developed a tailored product offering for low-income individuals for distribution through mobile channels. Such an offering would grow transaction volume through existing agents. The bank has already implemented a mobile banking platform to provide mobile banking services to its current clients and is piloting the payment of government subsidies to low income beneficiaries.

IFC ROLE

In 2012, IFC supported Banco AV Villas in product design for mobile banking users, focusing on low-income customers. The products included savings, credit, and micro insurance.

The project included:

- Product specifications for a service each for savings, insurance and credit for internal validation captured: (i) product description, (ii) cost/benefit analysis for each product, (iii) detailed customer experience, interaction and transaction history, (iv) requirements for audit, control and regulatory compliance, (v) interface with existing Banco AV Villas systems/processes, and (vi) implementation requirements and plan as well as assessment methodology for credit risk levels for low-income individuals to be distributed through mobile channels.
- Recommendations to assess credit risk levels of low-income individuals
- Validation of final product concepts through market tests and support in the design of expansion planning
- Support in the preparation of a marketing strategy that takes into account barriers to technology uptake, and targets early-adopters who can help make the campaign go viral.
- Support to develop a financial education strategy that facilitates the adoption of new products.

In addition, following the project, IFC supported Banco AV Villas in establishing risk management capacity to roll out the credit products.

IMPACT AND RESULTS

The digital transaction account service was created and piloted in 2011. It was linked to the opening of a mobile phone account and could be activated at the same time a mobile phone account was opened. The digital transaction account allowed for multiple, separate saving accounts that allowed customers to have several “pots of money” reflecting their savings goals. The cost of administering these separate accounts was low due to rules, where taking cash in and out was not allowed. The main features of the credit product are small amounts, short repayment periods, use of cash collateral, offered only to clients who have actively been using the transactional and savings account for at least six months.

KEY FACTS

Colombia | Banco AV Villas

123,000
Total Clients



4,468
Employees



8,174
Agents



USD 3.6M
Loan Portfolio



USD 350
Average Loan



Source: IFC

Facilitating distribution of government subsidies and fostering the use of formal channels could become a point of entry for low-income people to the financial system. Banco AV Villas aims at creating a transactional environment and an ecosystem where mobile payments and agent-based banking can become an important access point for customers, thereby improving access to financial services for the poor.

KEY LESSONS

- Banco AV Villas conducts credit risk assessment and loan approval over mobile channels. New credit products require credit risk assessment tools.
- It is important not to expect a return on investment too soon in cases where mobile channels are not adequately resourced.
- Conducting intensive market research and designing a product that addressed the needs and demand of the target segment is fundamental to success.
- Banco AV Villas is reliant on outside service providers such as agent networks. Significant upfront investment in agent network and marketing is required to achieve scale.
- It is critical to ensure that deployed products are fully compliant with applicable regulation and integrated into the bank's risk management system.

DIGITAL FINANCIAL SERVICES IN IFC

Digital Financial Services, or DFS, uses technology to provide financial services to customers with limited access to traditional branch-based banking. Technology-enabled financial services enable customers and retail outlets to connect to financial service providers using tools such as mobile phones, payment cards, and online banking.

Globally, over 2 billion people – about 40 percent of the world's adult population – are excluded from financial services. IFC's experience has shown that DFS can dramatically narrow the financial inclusion gap in emerging economies, making it an important tool for reducing poverty.

In support of the World Bank Group's commitment to universal access to finance, IFC is working with its network of partner financial institutions to reach 600 million people by 2020. DFS is at the core of IFC's strategy to achieve this goal.

For more information about IFC's Global DFS Team, visit www.ifc.org/dfs.

