

IFC Mobile Money Scoping Country Report: Colombia

September 05, 2011



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Federal Department of Economic Affairs,
Education and Research EAER
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Colombia Summary

Overall Mobile Money Readiness	4 (Excellent)
Current Mobile Money Solution	DDDedo (2009) and Daviplata (2011)
Population	44.7 million (Relatively High)
Mobile Penetration	95% (Very High)
Banked Population	62% (High)
Remittance % of GDP	1.8% (Low)
Percent under poverty line	45.5% (High)
Economically Active population	48.7% (High)
Adult Literacy	90% (High)
Main banks	Bancolombia (20%), Banco de Bogota (14.3%), Banco Davivienda (12.3%), Banco de Occidente (7%), Banco Agrario (6.2%)
Mobile Network Operators	Comcel (67%), Movistar (23%) and Tigo (10%)
Ease of doing business	39 th out of 183
Comments	Several players (banks, financial institutions, 3 rd parties...) are interested in starting mobile banking or mobile money businesses. Banks are very profitable, and as a result are not moving aggressively into the mobile money space. According to the regulations, MNOs are not able to enter the mobile money business but they can keep the cost high for everyone else: the two big operators are charging \$0.05 per SMS, even on a bulk basis.

Mobile Money readiness (1-5)	
Regulation	4
Financial Sector	3
Telecom Sector	4
Distribution Channel	3
Market Demand	4

- Macro-economic Overview
- Regulations
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Macro-Economic Overview

Key Country Statistics

- Population: 44,725,543 (July 2011, density 39.17ppl/sqm)
- Age distribution:(2011 est.)
 - 0-14 years: 26.7%
 - 15-64 years: 67.2%
 - 65 years and over: 6.1%
- Urban/rural split: 75/25 (1.7% urbanization rate 2010-2015)
- GDP (PPP):US\$ 435.4Bn in 2010
- GDP per capita (PPP): US\$9,800
- Literacy rate: 90.4%
- Banking penetration: 62%
- Mobile phone penetration: 95%
- Remittance (% of GDP): 1.8% (inflows)

Insights

- Actual potential market size of around 30m people makes Colombia one of the largest market in the LAC region in terms of volume
- A relatively good banking penetration in Colombia, though not equally distributed in the territory. With their dominant position, banks should play an important role in the mobile money industry in Colombia
- High literacy rate and relatively young population can help foster quick adoption of elaborate Mobile Money technology
- International remittance volumes are among the largest in the LAC region and shows opportunity
- Relatively high urbanization rate, and generally strong domestic migration (to the cities, coffee growing regions...) make domestic transfer and m-B2C markets to consider

Sources: IOM world, Wikipedia , 2010 CIA WORLD FACTBOOK, GSMA

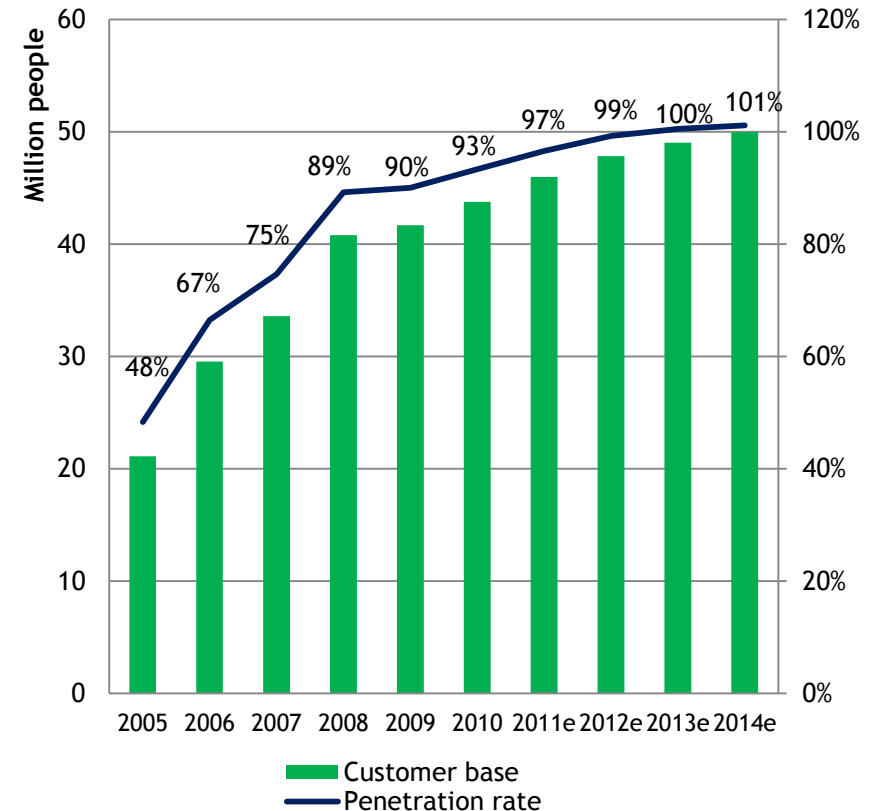
Mobile & Banking Penetrations

Several factors limit banking growth

1. Banking infrastructure availability is relatively good in Colombia, slightly above the average for the region:
 - 11.35 bank branches / 100,000 hab.
 - 19.83ATMs / 100,000 hab.
 - 287.82 PoS terminals / 100,000 hab.
2. But cultural factors, low savings rates, limited availability of long-term financing options, high costs of services, and other barriers to the entrance of customers will keep the size of Colombia's financial services sector relatively small, despite growth

Whereas mobile penetration has increased steadily

Mobile penetration rate evolution in Colombia



Sources: IOM world, Wikipedia , 2010 CIA WORLD FACTBOOK, GSMA, Economist Intelligence Unit

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Regulatory Bodies

Superintendencia
Financiera de
Colombia (SFC)

Comisión de
Regulación de
Comunicaciones
(CRC)

Banca de las
Oportunidades
(BDO)

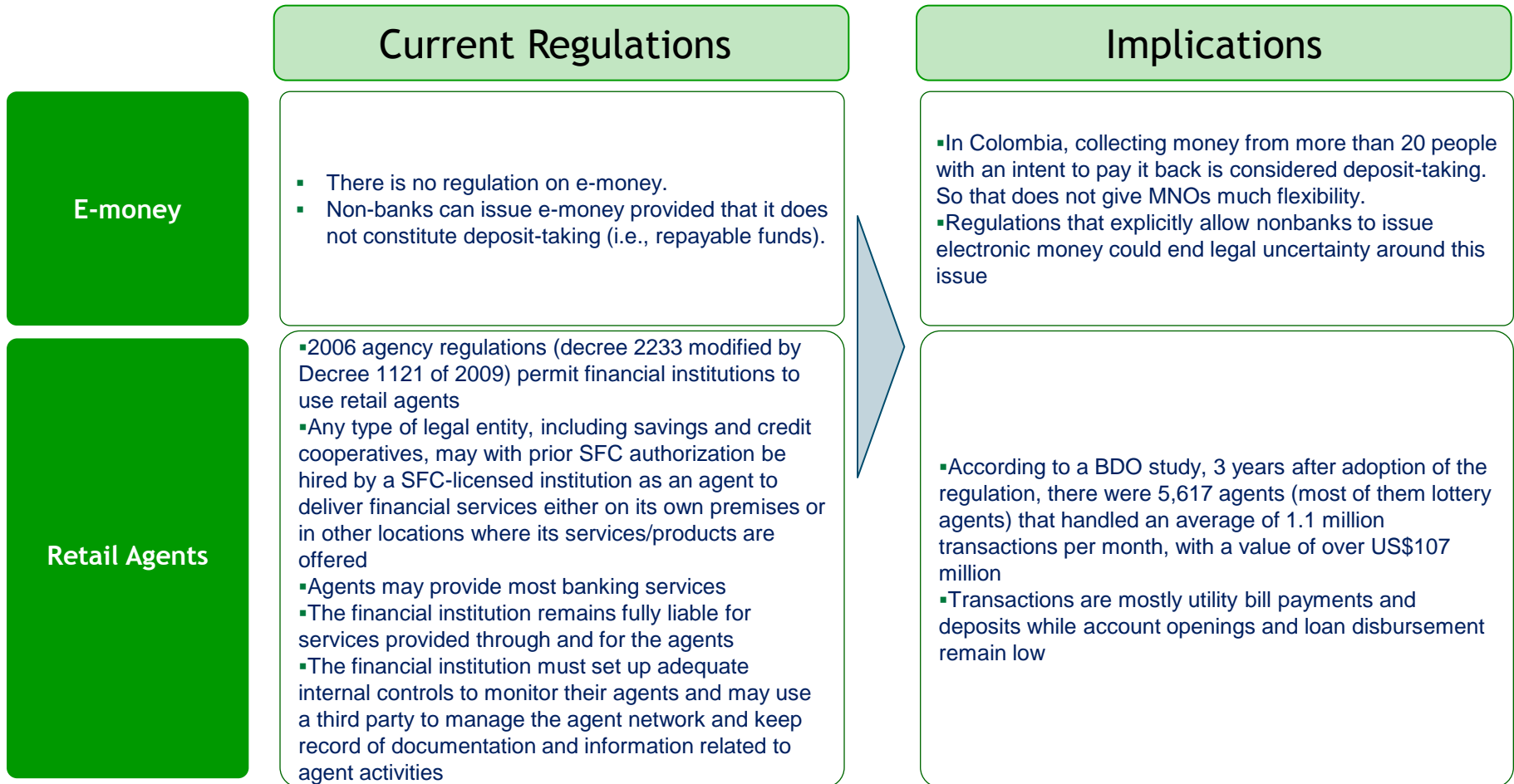
Roles & Responsibilities

- Role: financial, regulatory and supervisory entity of Colombia. It is in charge of maintaining the integrity, efficiency, and transparency of the financial market while protecting its consumers.
- Role: Colombian agency in charge of regulating telecommunications in Colombia
- Role: long-term policy program aimed at expanding access to financial services for adult Colombians. It promotes regulatory changes, coordinates financial capability initiatives, and provides incentives for financial institutions to tap the unmet demand for banking services

Implications

- **Mobile wallet** is not allowed because SFC is concerned about the deposits; there is no deposit insurance. This results in higher risks for the population and a high risk for money laundering.
- Challenge is that it is very difficult to change some of the regulations because of constitutional requirement that says that deposits have to be under the control of the bank.
- **Low balance accounts** have experienced limits in the number of operations, withdrawals and deposits as players could not identify who was eligible
- As a result, “**electronic accounts**” model (which included the mobile) was developed and the initial beneficiaries of these accounts are recipients of government subsidies and displaced persons, etc...

Regulatory Framework & Requirements



Source: CGAP, SFC, BDO

Regulatory Framework & Requirements

KYC/AML Requirements

Current Regulations

- Several laws govern AML/CFT (Law 356/1997, Penal Code (Law 599/2000), Financial System Bylaws (Law 510/1999 amended by Law 795/2003), Law 747/2002, Law 793/2002, Capital Markets Law (Law 964/2005), Law 1121/2006, and Law 1108/2006)
- SFC has regulatory and supervisory authority over financial entities regarding AML/CFT, including payment service providers
- KYC procedures for account opening and one-time transactions include obtaining customer information through an application form and verifying such information
- **Transaction verification & thresholds:** Financial Institutions have to report the Financial Intelligence Unit (FIU):
 - Cash transactions above US\$5,000 (exchange houses must report transactions above US\$500) except payments to MNOs, public utilities, and government; provided that the financial institution must report information monthly on all exempt transactions;
 - Transactions using foreign-issued credit or debit cards, if the monthly total is more than US\$5,000;
 - Foreign exchange over the equivalent of US\$200

Implications

- 2 new types of accounts have been created with lower KYC requirements:
 - CATS (Cuentas de Ahorro de Trámite Simplificado) (Circular externa 053 de 2009/11 27) with account balance and transaction limits, exempt from the 0.4% tax on financial transactions. For the most part targets low-income people that cannot afford high transaction costs of typical accounts.
 - CAE (Electronic bank Account (Cuenta de Ahorro Electronica) have been created especially for the people from the level 1 of the SISBEN (Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales) and displaced persons. (Circular Externa 008 de 25-03-2009)
- Banco AV Villas started offering such CATS and CAE on a mobile phone since July 2011

Source: CGAP, SFC, BDO

Additional Regulatory Considerations

Current Regulations

Customer Protection

- The Colombian Consumer Protection Code applies to all customer-provider relationships, including financial services, and is enforced by the Superintendencia de Industria y Comercio (SIC).
- The code sets general principles for disclosure, fairness, and quality of services, as well as sanctions in the case of noncompliance. Draft laws also intend to give powers to SIC to regulate bank and credit card fees.

Interoperability

- The retail payment system is comprised of 2 open interbank clearing and settlement systems, 3 bank switches and clearinghouses, 3 major ATM networks, and one check clearinghouse. The systems are interconnected and partially interoperable

Taxation

- “Cuatro por mil” tax on financial transactions for debits over US\$3,500 from savings accounts and withdrawals from checking accounts

Implications

- Consumer protection in mobile phone services is shared between SIC and CRT. Based on regulation from 2007, CRT requires MNOs to disclose the phone number and address of their customer care units in statements sent to the user.
- Consumers may file complaints both with CRT and SIC.

- Banks understand that the importance of interoperability across the banks and MNOs

- The existence of the “cuatro por mil” tax is believed to discourage individuals from using formal financial services, since many customers are not aware of the exemptions.

Source: CGAP, SFC, BDO

Additional Regulatory Considerations

Current Regulations

Implications

International Remittances / Domestic Transfers

- There is no regulatory definition of money transfer as a payment service
- International remittances are considered exchange transactions
- BRC issues the foreign exchange regulation and licenses entities to operate in this market, while SFC supervises them
- Domestic money transfers are a legal monopoly of the National Postal Service

- The reach of remittance distribution networks is limited due to regulatory obstacles
- International money transferors offer remittances in partnership with SFC-licensed institutions, most of which are exchange houses

E-commerce

- Uncitral Model Law on Electronic Commerce
- Law 527/1999, partially regulated by Decree 1747/2000 provides for adequate recognition of electronic documents and creates the root certification authority within a public key infrastructure
- A digital signature will have legal value and binding force only if it incorporates the attributes dictated by international best practices

- Supervised institutions by SFC are required to design and implement electronic security policies and contingency plans.
- SFC establishes minimum requirements for security and quality of information transmitted through electronic channels

Payment System

- BRC supervises and regulates payment systems
- A variety of nonbanks (such as public utilities) have access to the large-value payment system (which is a real-time gross settlement system) operated by BRC
- SFC regulates, licenses, and supervises low-value payment system managers
- For prepaid cards that are issued by nonbanks and that can be used abroad, BRC requires the issuers to partner with a deposit-taking institution abroad

- Access is not open to all types of institutions

Source: CGAP, SFC, BDO

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Financial Infrastructure

Banks	
Commercial Banks	18
Compañías de Financiamiento Comercial	26
Corporaciones Financieras	3
Financial co-operatives	8
Branches	
ATMs	8,872
POS terminals	128,731
Credit cards	6.3m
Debit cards	17.2m
Microfinance Institutions	
> 100,000 customers	6-7
20,000 to 100,000 customers	8-9
< 20,000 customers	19

Facts:

- The two leading conglomerates (Grupo Aval and Grupo Empresarial Antioqueño) control more than 50% of banking assets and the top five banks control over 65%, but this is lower than in many other Latin American countries
- One of the most dynamic microfinance market in the LAC region with US\$ 3.9bn microcredit portfolio in 2009 and 2.2m active borrowers (-US\$ 1772 average loan)

Source: SFC, 2011

Clearing and Settling
Cenit •Ownership: Banco de la República •Used mainly for low-value payments of the public sector
ACH Colombia •Used essentially for recurrent payments by individuals and for corporate payments. It operates on a private network and it settles multilateral net balances at the central bank.
Bank switches and clearinghouses
Redeban Multicolor •Associated with MasterCard •Stockholders are 12 of the 18 banks currently chartered in Colombia
Credibanco •Associated with VISA
Credit Bureaus
Computec – Data Credito •Ownership: Experian since 2011
CIFIN •Ownership: Asociación Bancaria y de Entidades Financieras de Colombia (Asobancaria)

Bank Snapshot

Bancolombia	• 19% of total deposits	• 850 agents
Banco de Bogotá	• 15.5% of total deposits	• 20 agents
Banco Davivienda	• 11.7% of total deposits	• 0 agents
BBVA	• 9.3% of total deposits	• 125 agents
Banco de Occidente	• 7.3% of total deposits	• 5 agents
Banco Agrario	• 6.0% of total deposits	• 292 agents
AV Villas	• 3.4% of total deposits	• 3,680 agents

Source: Banca de las Oportunidades.

MFI Snapshot

BCSC	• N/A	• US\$ 2,542,152,385
Bancamía	• 341,100 active borrowers ¹	• US\$ 366,582,008
WWB Cali	• 203,723 active borrowers	• US\$ 282,241,351
Comultrasan	• 78,726 active borrowers	• US\$ 282,100,504
FMM Popayán	• 352,592 active borrowers	• US\$ 274,993,053
FinAmérica	• 61,880 active borrowers ¹	• US\$ 188,690,641
Confiar	• 43,773 active borrowers	• US\$ 168,586,945

Source: Mixmarket, 2011

1. Numbers for year end 2010.

Mobile Payment Service Provider Snapshot

Yellow Pepper
(Since 2008 in
Colombia)

- Services offered: SMS solution with card
- Type of Technology: SMS

DDDedo
(2006)




- Services offered : Top-ups, pre-paid long distance calling, pre-paid internet, and pre-paid legal advice and corresponsalia with AV Villas in some access points (Red Cerca)- currently bill payments.
- Banking partners: Banco AV Villas
- Type of technology: Java.

Gemalto

- Services offered: m-banking service through Sim cards
- Banking partners: 7 banks (including Bancolombia, AV Villas, BBVA Colombia, and Davivienda)
- MNO partners: all
- Type of technology: SMS

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Mobile Network Operators

	<ul style="list-style-type: none">• 99.4% América Móvil	<ul style="list-style-type: none">• 28.38 M subs (2010)• 67.5% Market share	<ul style="list-style-type: none">• Started pilots in partnership with banks• Currently has a m-banking app. through SIM for partner banks
	<ul style="list-style-type: none">• 100% Telefonica	<ul style="list-style-type: none">• 9.70 M subs (2008)• 23.1% Market share	<ul style="list-style-type: none">• Started pilots in partnership with banks• Currently has a m-banking app. through SIM for partner banks
	<ul style="list-style-type: none">• 50% (+1 share) MIC• Empresas Publicas de Medellin and ETB	<ul style="list-style-type: none">• 3.33 M subs (2009)• 7.9% Market share	<ul style="list-style-type: none">• Offers an e-wallet to provide domestic money transfer and bill payments.

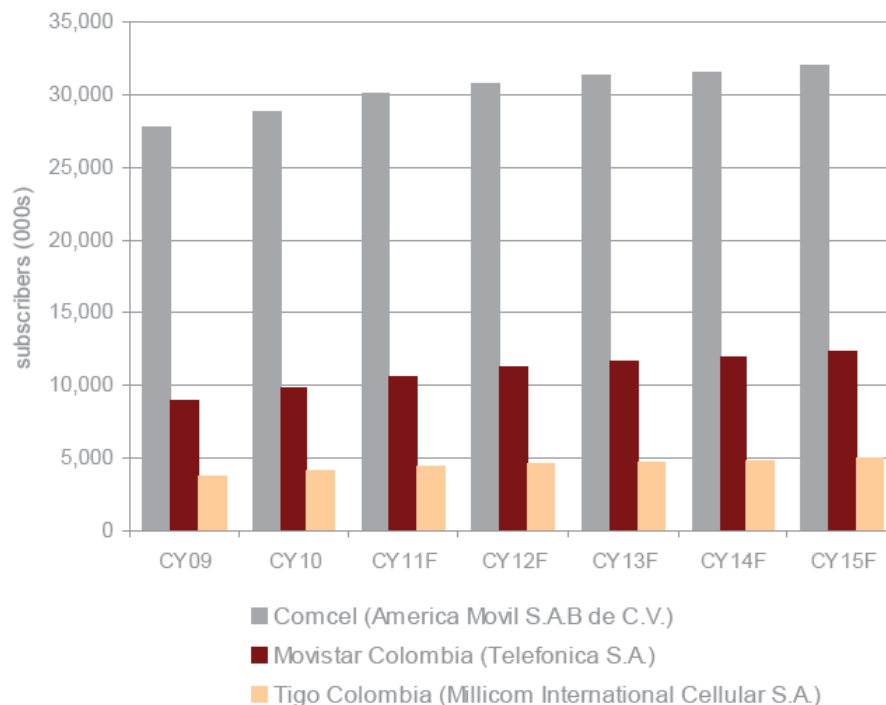
Sources: Wikipedia, interviews with partners, Amarante Analysis

Mobile Outlook - a Dynamic Market

Key Learnings

- Mobile phone penetration is very high: approximately 92-95% of the population has a mobile phone subscription
- Three MNOs cover approximately 90% of the territory and 100% of the municipalities
- Comcel is the market leader with a 67.5% market share followed by Movistar (23%) and Tigo (8%)
- Forecast estimates that Comcel will continue to hold a dominant position but Movistar and Tigo will be growing steadily to respectively reach a 25% and 10.2% market share in 2015
- Subscribers' growth rate of 6.5% in 4Q2010 demonstrate dynamism of the mobile market in Colombia. Among the operators, subscriber growth at Tigo (+14%) is higher than that of Comcel and Movistar

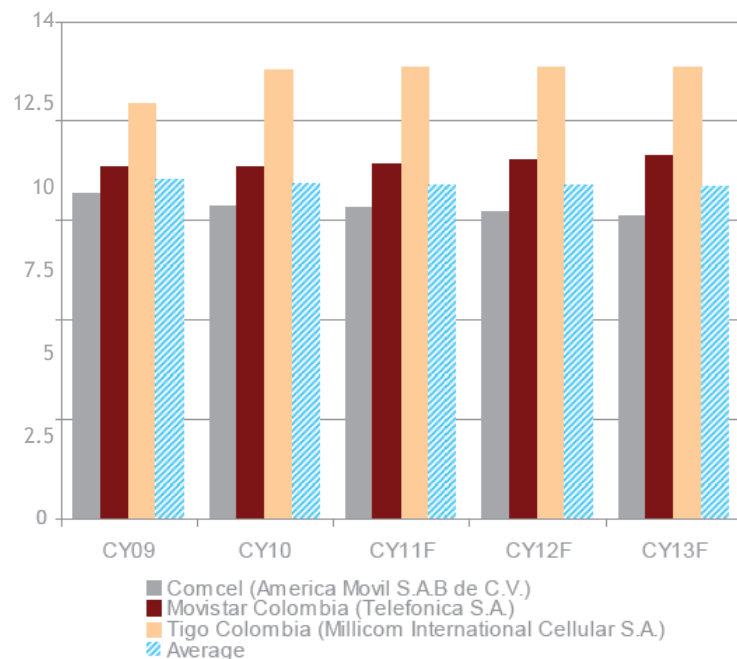
Subscribers by operator (2009 - 2015)



Source: 2011 IE Market Research

Mobile Outlook - ARPU Trend

ARPU/Operator (\$US equivalent)



Source: 2011 IE Market Research

Key learnings and conclusions

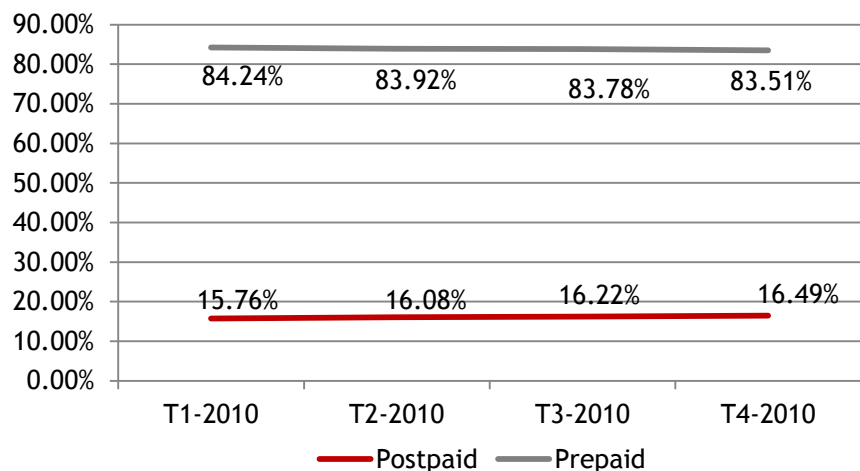
- **ARPU is predicted to be around US\$ 9.4 in 2011**, one of the lowest in the region
- ARPU level should remain stable over the next two years
- Comcel's ARPU is lower than those of Movistar and Tigo and it should continue to be the case over the forecast period
- Tigo's ARPU is and will continue to be the highest among operators at about US\$ 12.7
- **Consequence**
 - A set of differential services can help provide new revenue stream and eventually reverse the current trend



Need for value creation and new revenue streams beyond traditional voice

Mobile Outlook - Prepaid vs. Postpaid customers, Churn and number portability

Prepaid vs. Postpaid customers (as a %)



Source: Mintic

Key Learning:

- As of 2010, Prepaid customers account for around 84% of total customer base
- Postpaid plan subscription is on the increase and benefits from the increase use of Smartphones and associated services

Number portability and churn rate

Key Learning:

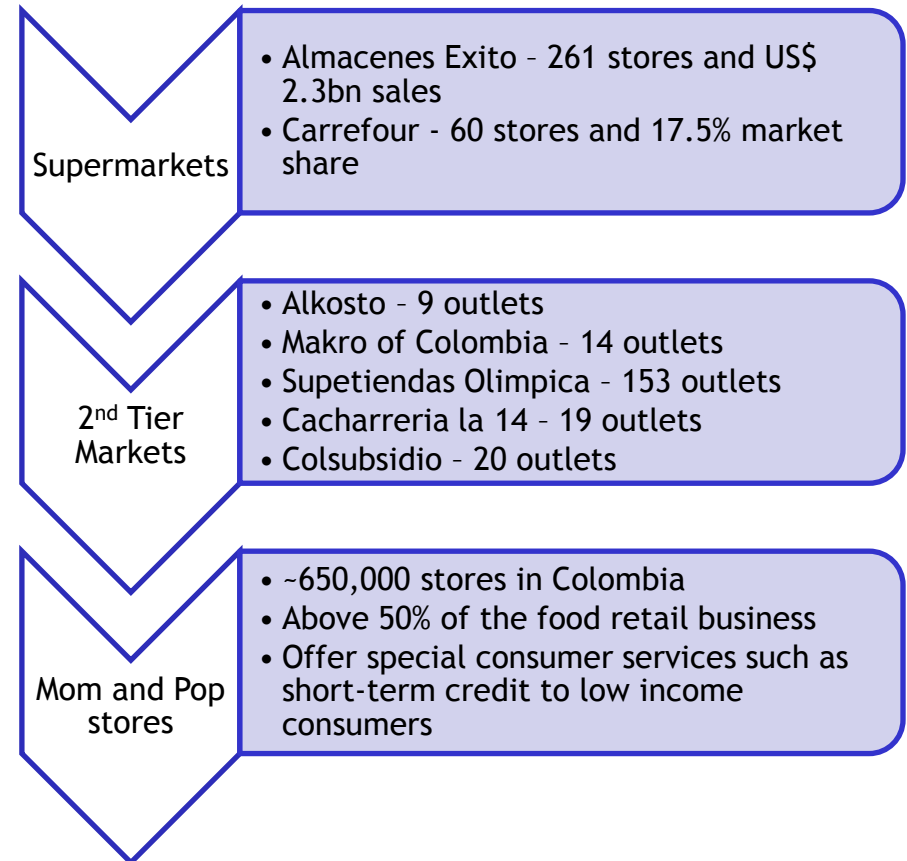
- Decreto 025 de 2002, Number portability law (Ley 1245 de 2008), Ley 1341 de 2009 y la Resolución CRC 2355 de 2010 allow mobile phone users to be owner of their own 10 digits phone number and choose any mobile phone operator that exists in the Colombian market
- This will have significant impact on MNOs' churn rate, especially in a market with close to 100% mobile penetration rate
- However, innovation and new VAS offering can help MNOs reduce churn in a congested market
- User's cell phone number ownership should help recognize the cell phone (the number) as an validate customer identification document for mobile money services

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Distribution Landscape

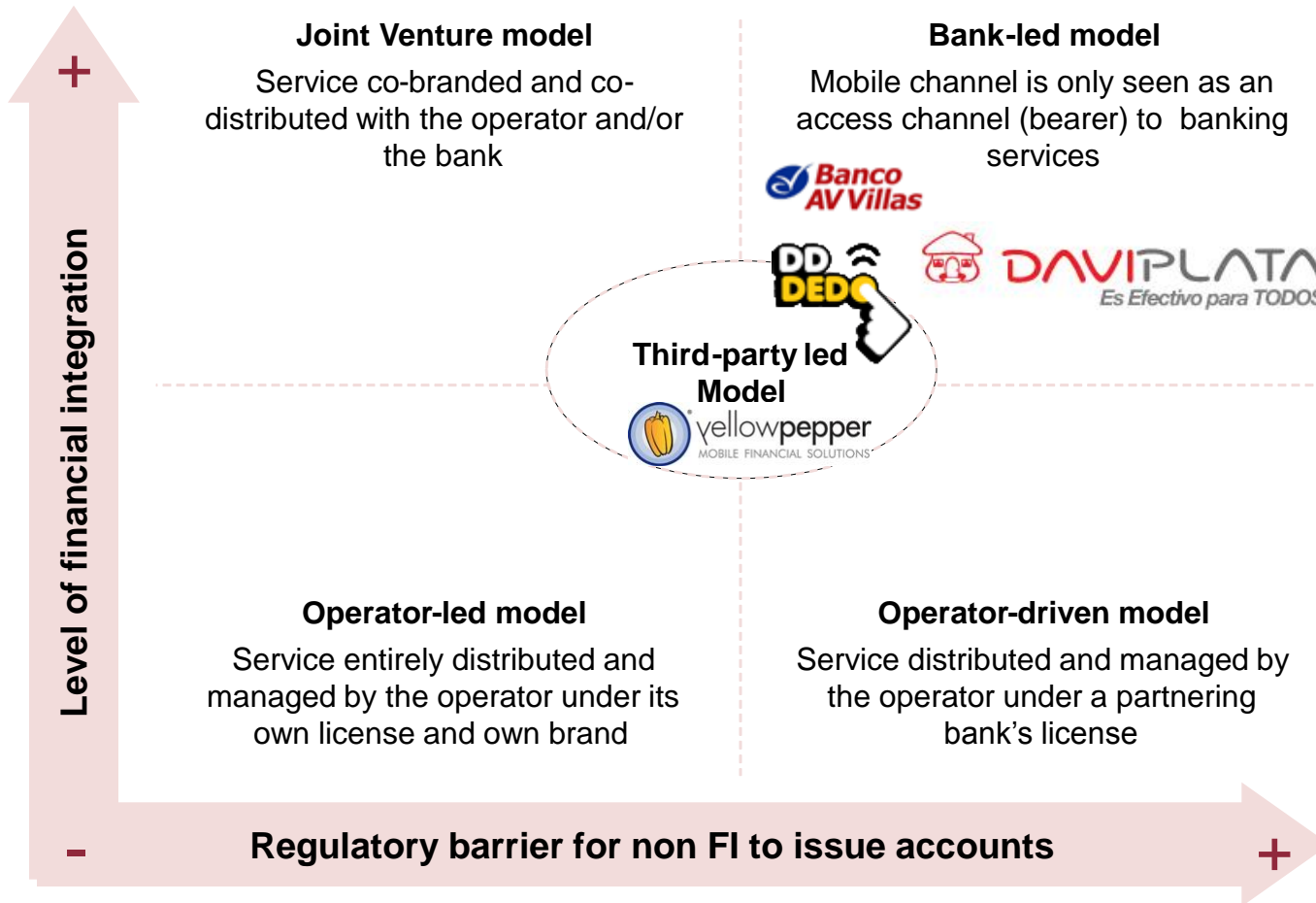
- In Colombia, a person visits a store 1.4 times a day, the average expenditure is about US\$1.40 and they buy 3 items.
- More than 50% of purchases are through stores, of which there are more than 260K
- On average a retailer sells 3.6 million pesos (~US\$ 2,000) worth of merchandise per month. This includes the big stores as well as the smaller stores.

Retail network structure



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Current Mobile Money Initiatives in Colombia



Summary

- Founded in 2006 as a JV between NET1 and the president's family, DDDedo is building an agent network and providing several services to its customers and some in partnership with Banco AV Villas since 2009
- Banco Davivenda recently launched its Mobile Money service

MFS Implementations



(2009)

- Mobile bank accounts and providing various services around their agent network
- Partnership with Banco AV Villas
- Services:
 - Airtime Top Up
 - Bill Payment through AV Villas partnership



(2011)

- Service launched by Banco Davivienda in February 2011 and available to the 4m customers of the banks
- Services: Payment and transfer to any mobile phone
- Recipient does not need to have a bank account but needs to activate his wallet
- Cash-out at the ATM of the bank thanks to a code received on the cellphone
- Only Comcel and Tigo customers can use the service but the plan is to open it to all MNOs
- Target is over 1m users and 1,350 ATMs within 18 months