Laying the Foundation

A Case Study on Colombia's Landmark 2014 Financial Inclusion Law

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"The banks and the MNOs did not want to marry one another, so instead we created their child."

Ana Fernanda Maiguashca Olano

On 21 October 2014, following three years of intense debate, the Colombian government enacted Law 1735, the Financial Inclusion Law. The bill was formally presented to Congress in April 2014 and passed on 30 September 2014, with 83% of the Chamber voting in favor. The Law aims to improve access to financial services for the unbanked, reduce the cost of payments, simplify financial regulatory requirements, and ensure the security and convenience of moving money through digital channels. The law established Sociedades Especializadas en Depósitos y Pagos Electrónicos (SEDPEs), a completely new category of financial institution, with the financial license to receive and send small deposits electronically. Intended as a low-cost alternative to banks, SEDPEs are designed to reduce the cost of domestic financial transfers and remittances and thus enable the formal financial participation of the millions of Colombians who are financially excluded. The law is considered the culmination of more than ten years of regulation aimed at encouraging financial inclusion—the broader participation by all Colombians in the formal financial sector.

FINANCIAL INCLUSION IN COLOMBIA

From 2003 to 2016 Colombia's GDP grew at an average annual rate of 4.7%, slowing only during the global economic downturn of 2008-09.[1] It is the third-largest economy in Latin America behind Mexico and Brazil, with growth driven by its transition from a primarily commodities-based economy into the services and technology sectors. The country's middle class grew by 50% from 2002 to 2012[2], and the nation's security improved dramatically as the government has managed its longtime armed conflict and reached peace agreements with domestic terrorist groups.

Despite Colombia's significant economic growth, more than a quarter of the country's population lives below the poverty line, with a poverty headcount ratio of 28.5%.[3] And bank account ownership rates remain low. 113% of the population has a mobile phone subscription, while only 39% of adults over the age of 15 have an account at a financial institution.[4]

Financial account ownership diverges significantly across income segments: 24% of adults in the

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bottom 40% of the earnings distribution own an account, while account ownership is 49% for adults in the top 60% of the income distribution. However, consistent and repeated use of these accounts is low, and cash is still used for the majority of routine payments. Over 90% of the population uses cash to pay school fees and utilities, 40% to receive domestic remittances, and 29% to send remittances.[5]

The regulation of financial institutions in Colombia is shared across four government agencies within the Ministry of Finance (MoF) and the Central Bank: the Ministry of Finance proper, the Central Bank, as well as the MoF's Colombian Financial Regulation Agency (URF), Fondo de Garantías de Instituciones Financieras (Fogafin), and the Superintendence of Finance (SFC). To ensure coordination and joint oversight, representatives from each agency sit on the Financial System Coordination Committee (FSCC). (See table 1 for more on key regulatory bodies.)

LAYING THE FOUNDATION: ENABLING REGULATION & INSTITUTIONS

In Colombia, the government plays a strong role in financial inclusion, often prescribing modality priorities as well as mechanisms for key financial inclusion goals. This active role reflects a history of and comfort with active government regulation—particularly during periods of insecurity—as well as a desire to overcome resistance on the part of the banking sector to adapt its business models to accommodate low-income clients. As such, the 2014 law was the result of nearly a decade of government initiatives to make financial services accessible and affordable for all segments of the population. Key developments towards that goal are explored in this section.

Banca de las Oportunidades

Banca de las Oportunidades (Opportunity Bank), a government-administered bank which provides affordable banking services to everyday Colombians, is a foundational institution for financial inclusion in Colombia. The bank was established under President Álvaro Uribe Vélez's administration. In his 2006-2010 National Development Plan (NDP), President Uribe elevated the bancarization[6] of low-income Colombians as a top policy priority. In 2006, only half of the population (51.1%) used one or more formal financial products.[7] Low levels of access were seen as a foundational limitation to increased use. Embedded within Bancoldex, the Bank of Foreign Trade, Banca de las Oportunidades was designed to address the gap in access to formal accounts. The bank's mission is to promote access to financial services for households living in poverty, the unbanked, and small enterprises, providing them with access to a suite of formal products and services, including credit.[8] Its creation was a

TABLE 1: Financial Regulatory Bodies and Roles[9]

Superintendence of Finance (SFC)	An independent, technical body, the Superintendence is the overall regulator of the financial sector, providing oversight to regulation of payments, insurance, and securities. The head of the SFC, the Superintendent of Finance, is appointed by the President of Colombia.
Fondo de Garantías de Instituciones Financieras (Fogafin)	Fogafin is the Deposit Guarantee Fund. It provides deposit insurance and assistance to banks and financial institutions as assessed by the SFC.
Colombian Financial Regulation Agency (URF)	Formed in 2013, the URF is an independent agency of the MoF. It is tasked with designing financial regulation and progressing regulatory changes in line with international standards. The URF Governing Council, comprised of the URF Director, Minister of Finance, Superintendent of Finance and two independent members, is responsible for approving all regulatory proposals.
Banco de la República (Central Bank)	The Central Bank determines monetary policy and foreign exchange. It also provides surveillance over the payments system, monitors systemic risks, provides liquidity, and acts as a lender-of last-resort.

Actors Involved

Driven by regulators within the Ministry of Finance's URF, other actors were also central to the development of the 2014 Law. The three other regulatory agencies, Fogafin, the Superintendence of Finance, and the Central Bank co-developed the law as did representatives from Colombia's banking association, Asobancaria, and Colombia's MNO association, Asomoviles. Colombia's leading nonbank correspondent network, Movilred, and the Ministry of Technology and Communication (MINTIC) also became involved in the later stages of the law's development and passage.

key step in Colombia's governmental commitment towards financial inclusion, but changes to the country's financial regulation and traditional banking structures were still required to achieve the levels of financial inclusion desired.[10]

Enabling Regulation

From 2006 to 2011, the country's regulatory framework underwent a considerable evolution, with the government passing multiple decrees to accommodate non-formal bank institutions and electronic payments. This legislation aimed to advance Colombia's financial inclusion agenda. This evolution occurred in three major legislative steps:

1. The establishment of non-bank correspondent networks
2. The creation of simplified bank accounts for low-income individuals with lower Know Your Customer (KYC) requirements
3. The authorization of electronic payments and transfers

First, The Ministry of Finance's 2006 Decree 2233 created non-bank correspondents (NBCs) authorized to provide financial services on the part of banks and formal financial institutions. It outlined that correspondents could perform every action of a bank except for the opening of new accounts.[11] In so doing, rural bank clients who did not have access to local branches could conduct transactions through NBC intermediaries in a more secure and convenient manner. In addition to addressing the challenge of access for low-income clients, the Ministry of Finance (MoF) issued legislation to authorize simplified electronic savings accounts for the lowest income segment of the Colombian population, particularly SISBEN I.[12]

Second, under the MoF's 2008 and 2009 branchless banking Decrees 4590 and 1349, small electronic savings with monthly deposits and debits under three times the current monthly minimum wage (approximately $600) were made exempt from the national "4 Por Mil" financial transaction tax.[13] These decrees widened the potential clientele for banks, as individuals with less money were now able to save and make deposits without being taxed and faced fewer regulatory hurdles when opening new accounts. The Central Bank's 2011 Circular Reglamentaria Externa DCIN-83 outlined the creation of these low-cost, low-KYC "simplified savings accounts"[14] which could now be opened with only a national ID card and less paperwork than was necessary for other types of accounts.[15]

The third key regulatory change came in 2011 with the electronic payments Decree 4687 which authorized electronic deposits by formal financial institutions.[16] This decree established the legality of moving small amounts of assets through mobile channels, setting a regulatory precedent for the SEDPEs. Following its passage, the government, through Banco Davivienda's DaviPlata service, deployed conditional cash transfers (CCTs) to 937,000 beneficiaries of the Más Familias en Acción program. This program provides poor households with cash transfers for education and health care.[17]

In concert, these changes in Colombia's regulation, as well as the creation of a government competitor to banks sought to lay the groundwork for a shift in the country's banking sector to be more inclusive of low-income clients and the opportunity for innovation. While enabling regulations and institutions continued to be refined, there was acknowledgement that regulation could not, on its own, accomplish the nations financial inclusion targets. Even with an active government, cross-sector partnership was required to bank Colombia's unbanked.

ALIGNING INTERESTS FOR A NEW LAW

Despite the significant regulatory changes which occurred beginning in 2006 to simplify KYC requirements for low balance accounts and to extend the forms of bank payment to include non-bank correspondent networks and electronic payments, bank activity by low-income Colombians remained low.

The Colombian banking sector remained oriented towards higher-income clients, and geographic coverage of financial services was concentrated in urban municipalities, with rural areas still underserved by bank branches and agent networks.

What about the Postals?

Colombia's postal system is another player in the financial services sector. In 2009, the Ministry of Information Technology and Communications (MINTIC) issued a law (1442) authorizing post offices as narrow banks. Present across remote parts of the country, post offices are allowed to perform certain financial transactions such as taking cash deposits, sending cash and cash withdrawals. They currently process approximately 90% of domestic remittances. Critics argue that the country's post offices should be subject to the same formal financial regulation other financial providers face by the SF. Currently MINTIC not the SF regulates the postal network.

In 2012, only three mobile-wallet products were offered by any of the twenty-three licensed banks.[18] Banks maintained a focus on operations in cities with populations over 50,000 and did not use the newly authorized correspondent banking channels. Banco Agrario was an exception. As a government-operated bank, its mandate included operations in less densely populated communities as well as offering a savings account for low-income clients, a product no other bank had at that time.[19]

In 2011, banks were the only channels through which electronic money deposits could take place, yet ongoing conversations regarding broadened account ownership between the Ministry of Finance, individual banks, and Asobancaria (the national banking association) revealed that banks did not prioritize changing their account structures.[20] In their view, low-income accounts were costly, requiring a change in internal strategy and expanded geographic reach, and the offsetting profit was too low given that these balances yielded smaller returns and less potential future value, with their growth strategy oriented towards urban areas.

Profitability, however, was not only a function of the costs of expansion and marketing low margin products. The costs were exacerbated by stringent and high capital requirements as well as expensive banking licenses. The core operating costs of banks in Colombia were simply not optimized to take advantage of the political inertia behind bancarization.

Many within the government believed that in order for Colombia's financial inclusion strategy to succeed, wider participation on the part of financial institutions was needed, as was a new strategy to make electronic transactions more accessible and less expensive, especially in rural areas. The focus on bancarization and microfinance for poor Colombians by Banca de las Oportunidades was not enough. By providing a singular product of small loans to low-income Colombians, Banca de las Oportunidades did not address the underlying challenges to financial inclusion faced by the majority of Colombia's population.[21] As it became evident to financial inclusion champions within the Ministry of Finance that despite new legislation allowing for low-balance and electronic accounts, the banking and MNO sectors were not expanding into this client market of underserved Colombians, they came to the conclusion that they needed to create a new kind of financial institution.

THE MAKING OF A LANDMARK LAW

About the 2014 Financial Inclusion Law

In 2010, a team of dedicated policy makers began mapping out the law that would become the 2014 Financial Inclusion Law. The brainchild of Ana Fernanda Maiguashca, then Director of the URF and Assistant Minister of Finance, the 2014 Financial Inclusion Law's development and passage is the shared result of the tireless work of policy makers Maria del Pilar Galindo, Felipe Lega, David Salamanca, and Jose Sanin, who each served tenures at the URF. In the words of Mr. Felipe Lega, former Deputy Director of Market Integrity, "Ana and Jose gave birth to idea for the law, and David and Maria raised it."[22]

Initially the law was comprised of three chapters, one tightening regulation of the postals, one addressing the use of prepaid cards, and one creating the SEDPEs.

Confronting Initial Resistance

Considering the scope and ambition of the task at hand, advocates for financial inclusion within the government stressed the importance of building a cooperative ecosystem with banks. Thought was given to forging a new product co-created by Colombian banks and mobile network operators (MNOs), inspired by the success of mobile money in East Africa. However, banks and MNOs were not interested in changing their existing business models. In response, the URF team changed course, with the goal of building a new legal framework for financial inclusion. In order to mitigate resistance and increase the likelihood of go-to-market products, the URF convened stakeholders who would be affected by the new law. Asobancaria, Asomóvil, correspondent networks like MovilRed, the SFC, Fogafin, the Central Bank, and the Ministry of Technology and Communication (MINTIC) were brought to the table to voice their distinct perspectives and concerns.

Yet, aside from the URF champions who drafted the 2014 law, there was significant resistance from other players

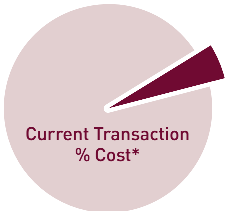
within the financial ecosystem. Banks did not want new competition; MNOs did not want to apply for a new financial services license; the SFC, Central Bank, and Fogafin were apprehensive about how to regulate these new entities; and MINTIC brought up the concern of the postal networks.

Over a period of three years, the URF continued these conversations to refine the law, encourage buy-in, and reach compromise so as to have the highest likelihood of the law's successful passage. By the time the law was introduced to Congress, the first two chapters on the postals and prepaid cards were dropped and only the third chapter on the creation of the SEDPEs remained.

Creation of the SEDPEs

Signed into Colombian law on October 21, 2014, the Financial Inclusion Law licenses non-banks, known as Specialized Electronic Deposit and Payment Institutions (SEDPEs). SEDPEs are a new kind of financial institution which provide either new entities or existing retail, mobile or non-bank correspondents with a specialized financial license. The SEDPEs are intended to be low-cost, high-volume financial institutions. Prior to the establishment of SEDPEs, banks held a monopoly on offering electronic deposits and transfers. Authorized to receive and send small electronic deposits (up to $900 a month) for payments and transfers, SEDPEs cannot grant credit.[23] Instead, customer deposits are held and insured by a traditional bank. In addition, there is a minimum capital requirement for each SEDPE of $3 million. Given their insurance scheme and narrow license, it was believed that these entities would face limited credit, market, and liquidity risks as compared to traditional Colombian banks, as well as more lean operating costs. The only area in which SEDPEs are considered subject to significant risk is in their operation. The law's provisions were designed to build trust with their target client base, who are historically wary of financial service providers, and to ensure the successful operation of these nascent entities. One additional benefit of formalizing these flows was the ability to gather more granular usage data, through electronic transactions, on a segment of the population whose financial lives are largely unknown and undocumented.

In 2013, the financial regulation building blocks were in place, changes in Ministry leadership had occurred, international pressure and momentum around advancements in financial inclusion was mounting, and perhaps most significantly, Colombia's economy had recovered from a financial crisis. These factors allowed for a shift in the MOF's conversation from currency stabilization to financial inclusion. In addition to these factors which created a window of opportunity for the law's passage, the URF team sought to mitigate resistance by addressing four persisting concerns: lack of understanding of the necessity for creating SEDPEs, insufficient political sponsorship, perception by banks and other stakeholders of unequal regulation,



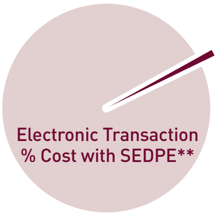


TABLE 2: Illustration of Cost Savings for Sandra as a SEDPE Customer (denoted in Colombian pesos)

Sandra receives a monthly income of $600,000 in cash and conducts the following transactions each month.

Purpose of Transaction	Transaction Type	Amount	Current Pre-SEDPE Cost*	Cost with SEDPE**
Send money to Family	Domestic Remittance	$100,000	$10,950	$726
Utilities	Payment	$61,000	$7,866	$1,376
Rent and Other Payments	Withdrawal	$432,000	$1,100	$1,376
Savings		$7,000		
Handling Fee			$9,138	—
		Total Transaction Cost	$29,054	$3,478
	Take Home Savings (Savings-Costs)		**($22,054)**	**$3,522**

*Based on the average transaction cost of Colombia's 4 largest banks

**Based on illustrative example of the cost of electronic payments with M-Pesa in Tanzania

The Big Data Revenue Potential

Banks may not have the channels or capillarity to access low-income clients. Excluded from the formal financial sector, millions of Colombians have no access to credit and are highly vulnerable to economic shocks with limited financial safety nets. Information on these individuals has been costly to obtain or entirely unavailable , making it difficult to understand and address the gaps preventing full inclusion into the formal financial sector the financial system is largely unknown. SEDPES through electronic deposits and payments will be gathering data on these new clients which they can then sell to banks and other interested parties to better understand the needs of these low income clients. Several of the law's supporters and critics agree that in order for this business model to succeed, SEDPES, banks and MNOs need to recognize that long-term profitability will be driven by the information they gather, not the fees they collect. SEDPES have a big data opportunity.

and lack of economic viability of the SEDPE business model.

TIDES OF CHANGE: TAKEAWAYS FROM THE LAW'S PASSAGE

On 21 October 2014, following three years of intense debate, the Colombian government enacted Law 1735, the Financial Inclusion Law. The bill was formally presented to Congress in April of 2014 and passed on 30 September 2014, with 83% of the Chamber voting in favor. The law was a landmark in financial inclusion legislation in the country and considered a model for private sector-enabling regulation.

There were several strategic and political lessons that those closest to the law noted as critical to the law's success, including:

- creating a fair and transparent competitive environment;
- building a sound business case for collaboration;
- crafting a compelling story that humanizes the law's intended outcomes;
- marshalling strong internal and external political support.

Create a Fair, Transparent, and Competitive Environment

A key factor in winning the support of Colombia's banking sector was that while SEDPEs have a narrow mandate, they are subject to the same regulation as all financial service providers. Banks were concerned that SEDPEs would be subject to different rules with lower regulatory and capital requirements. The creators of the law made the strategic decision that as long as SEDPEs functioned under a financial license, they would be regulated like a bank and structured in a similar, albeit more simplified, manner per the Central Bank's simplified savings account circular.

All Colombian financial institutions are regulated by the SFC and insured by Fogafin, the insurance regulatory body of the Ministry of Finance. Traditional banks have coverage of 20 million pesos ($7,000 USD), a risk-adjusted premium of 30 basis points, and a reserve fund of $5 billion pesos to protect against bank default. While still in draft form until the SEDPEs are operational, Fogafin adapted the following insurance scheme. SEDPEs will receive the same amount of coverage, at 20 million pesos. Their premium will be half that of traditional banks, at 15 basis points and risk adjusted so that SEDPEs with lower organizational risks receive a lower premium and those with more risk, higher premiums. The largest departure from the traditional banks is as relates to the SEDPEs reserve fund and insurance structure. Their reserve fund is entirely separate from that of other financial institutions, and insurance is a direct guarantee rather than a pass-through scheme. Deposits into the SEDPEs will be insured and sit in the accounts of formal banks, but the SEDPEs themselves will not be insured. These provisions are meant to build client trust in the security of their deposits and their confidence in the new SEDPEs, reduce the risk of arbitrage and default on deposits, and appease banks by increasing their liquidity as more deposits are made into the SEDPEs.

Build a Business Case

In order to successfully compete and be sustainable, the SEDPEs needed to be low cost, client focused, and profitable. Postals, while ubiquitous, were expensive and unregulated, charging 10% for each deposit transaction. The first bank-created mobile wallet, DaviPlata, failed to disrupt client behavior, and recipients of the Más Familias en Acción transfers continued to use cash and not their electronic accounts.

The SEDPEs are designed to earn small amounts of revenue through a series of sources, culminating in an information database. These revenue streams include: Transaction charges for 1) Peer-to-peer payments (P2P) and cash out;[24] 2) Bulk payments such as the distribution of government subsidies or salary payments; 3) Utilities and bill payments; 4) International remittances; 5) Financial spread to account owners—SEDPEs store their deposits in a bank and will pass along a small amount of interest to their clients. With the large potential quantity of clients and and cumulative balances SEDPEs could bring to banks, a spread is

Who is Sandra?

After two years of internal discussions amongst the team who developed and advanced the law, the law's progression was becoming stagnate and a change in narrative was needed. The Minister of Finance needed to be convinced of why such a law was important and so Sandra was created. Sandra is a fictionalized woman meant to represent the millions of Colombians who navigate their day to day payments through cash. According to the Ministry of Finance, 70% of Colombians' income moves as cash. Sandra pays rent and utilities, buys groceries and sends domestic money transfers to family across the country, all in cash. She spends all of her time physically going from vendor to vendor making these payments in person and the little money she might have left over in cash she takes home to save somewhere within her house.

anticipated to accrue to the holders of the accounts); 6) Information database fee.[25]

The SEDPE model is to operate as narrow banks, able to offer services at a lower cost because they have minimal infrastructure costs and do not infuse the high cost and regulation of intermediation. However, at this point this business model is largely theory, as in 2016 at the time of this case's completion, no SEDPEs are in operation and skeptics remain doubtful as to its revenue potential and sustainability.

Craft a Compelling Story

After two years of internal discussions, between 2011-13, the Law's progression was stagnating. The law's explanation and justifications were very technical and difficult to describe succinctly—a real problem for advocates who had limited time in front of key decision makers. To be convinced of the human impact of a lack of financial inclusion and the concrete benefits that millions of Colombians could enjoy under a changed legal framework in less than five minutes seemed a gargantuan but critical task.

Out of this need, "Sandra" was born. Maria del Pilar Galindo F'13 simplified the narrative around the law from dry jargon to an anecdote describing the struggle of one average Colombian woman, Sandra, and her difficulties in affordably remitting funds and managing her cash flows. Sandra pays rent and utilities, buys groceries, and sends domestic money transfers to family across the country, all in cash. She spends all her time physically going from vendor to vendor making these payments in person and the little money she might have left over in cash she takes home to save somewhere within her house.

While Sandra is a fictionalized woman, she represented the millions of Colombians who navigate their day-to-day payments through cash. According to the Ministry of Finance, 70% of Colombians' income is transacted in cash. The creation of Sandra was a key turning point for the law. With Sandra, the full impact of the law and its potential was made clear to the many elected officials who were critical to the law's passing. Even more importantly, the law and its impacts could now more easily be shared with everyday Colombians. Sandra's compelling story connected on a human level and opened the door to broader political support. In particular, it persuaded two key champions, Minister of Finance Cárdenas and Former Minister of Technology Diego Molano, to socialize the law and guide it through a long legislative process.

Marshalling Internal & External Champions

The successful passage of the 2014 Financial Inclusion Law relied heavily on favorable timing and the engagement of high-level political sponsors. The URF team engaged in internal discussions dating back to 2010 and 2011 but waited three years before presenting the law to Congress to allow for as much stakeholder buy-in as possible and the right alignment of legislative champions. Following the 2009 global financial crisis, Congress was solely focused on economic recovery and consumer protection. In 2010 President Juan Manuel Santos was elected, and Mauricio Cárdenas succeeded Juan Carlos Echeverry as Minister of Finance.

By 2013 the team needed the endorsement and enthusiasm of high-level sponsors. They found it in the newly appointed Minister of Finance, who recognized its purpose and the importance of electronic payments as key to financial inclusion in Colombia. Cárdenas became a champion of the law, and in March 2014 something unexpected happened, providing the team with an additional political boost. Queen Máxima of the Netherlands-, a global champion of financial inclusion, visited Colombia and met with President Santos and Minister Cárdenas. She advocated strongly for Colombia's participation in and contribution to the global financial inclusion movement. Her influence was pivotal for the law's success, galvanizing high-level support. One month later in April, Minister Cárdenas presented the law to Congress.[26]

In March 2014, Minister Cárdenas presented the bill to Congress. His support of the law was critical in gaining the confidence and endorsement of Congressmen. Despite the URF's work to build stakeholder consensus, banks and MNOs exerted lobby pressure against the law once it was in the halls of Congress. Champions like Congressmen David Barguil, President of Colombia's Conservative Party, emerged and the law passed through

debate and committee more quickly than expected. President Santos fast tracked the law by combining the last two committee debates into one, and after its presentation to Congress in April, the bill was approved and signed into law in October. In the final round of chamber voting, it passed with 83% voting in favor and only 17% against.[27]

LOOKING AHEAD: THE FUTURE OF THE FINANCIAL INCLUSION LAW

In Colombia, the reality remains that banks are most interested in serving the 15% of the population that accounts for nearly 85% of the country's income. The remaining 85% of the population is left excluded from or underserved by the formal financial sector. In the words of Hernando Rubio, President of MovilRed,[28] their mission of "hacemos la vida mas facil a los que lo tiene dificil,"* is driving his motivation in becoming a SEDPE so that his organization can continue to serve the needs of his low-income clients more holistically.[29] The SEDPEs created under Colombia's 2014 Financial Inclusion Law are poised to help fill this void and drive financial inclusion in the country while creating tremendous opportunities for further innovations.

THE SEDPE EXPERIMENT

As of 2016, no SEDPEs had formed. Following the Financial Inclusion Law's passage, the URF issued a regulatory decree to outline concrete guidelines of the SEDPEs' regulation and the Superintendence of Finance is in the process of finalizing its regulation protocol for the SEDPEs. Approximately eleven entities have expressed interest in applying for the new license and four of these, NBCs and postal networks, possess established business models easily adapted to the new model. The SEDPE application, licensing, and formation process will take approximately 8-10 months with two main steps: 1) submitting a checklist of the necessary paperwork to the Superintendence of Finance to ensure the entities meet the capital and governance requirements and 2) licensing, which will grant the newly formed SEDPEs specific operating guidance and instructions.

Many challenges and uncertainties lay ahead for these new entities and their future, and the question remains whether the market will develop out of this law as opposed to the market developing first and then the regulatory framework. It is also uncertain whether banks and MNOs will now be willing to change their behavior to focus on the unbanked. However, by merit of the creation of SEDPEs, the financial services provider market is widening. Banks and even MNOs are moving towards a new mindset in which they want to advance digital transactions. They are driven to keep up with the evolving pace of change and competition within the financial services industry that is happening in Colombia and throughout the world. Ana Fernanda Maiguashca Olano, the ostensible mother of the law, views the law as a success no matter the outcome, "Even if no SEDPEs are created, the Financial Inclusion Law will have been a success because now it is not us speaking of the need to defeat cash, but the banks. Their entire mindset is changing all because of this law."

Discussion Questions

1. Do you think that Colombia's new Financial Inclusion Law will drive uptake in electronic financial systems and address current barriers to financial inclusion in the country?
2. What services or practices does the law enable that were not possible before the law?
3. Do you see any potential drawbacks to the narrow bank plus full regulation model that the URF and other financial regulators designed for the SEDPEs?
4. What sort of entities do you think will apply for the SEDPE license and why?
5. What opportunities and/or challenges lie ahead for the SEDPES and Colombian regulators?

* "We make life easier for those who have it hard"

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4. Percentage of respondents who report having an individual or joint account at a financial institution; "having a debit card in their name; receiving wages, government transfers, or payments into an account at a financial institution in the past 12 months; paying utility bills or school fees from an account at a financial institution in the past 12 months; or receiving wages or government transfers into a card in the past 12 months."

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12. SISBEN stands for the System for Identifying and Selecting Beneficiaries and has three income tiers. SISBEN I represents the poorest segment of the population, who are the largest recipient of government subsidies.

13. "4 Por Mil" is a national tax levied on all financial transactions with two primary exceptions: account holders under the lowest balance limit and one of an individuals' accounts, whether savings or debit.

14. These simplified savings accounts known as "cuentas de ahorro trámite simplificado" impose transaction limits in order to meet minimum KYC threshold. The account balance cannot exceed a maximum of 8 times the current national minimum monthly wage, and monthly debit operations may not exceed three times the minimum monthly wage. (Superintendencia Financiera de Colombia, Circular Externa 013, May 2013).

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20. Interview with Felipe Lega Superintendencia Financiera; Maria Del Pilar Galindo Vergara URF; Oscar Gonzalo Martinez Amaya URF; Jose Sanin GSMA; David Salamanca URF, Bogotá, Colombia , December 10, 2015.

21. Interview with Ana Fernanda Maiguashca Olano, Director Junta Directiva, Central Bank, Bogota, Colombia, December 11, 2015.

22. Interview with Felipe Lega Superintendencia Financiera; Maria Del Pilar Galindo Vergara URF; Oscar Gonzalo Martinez Amaya URF; Jose Sanin GSMA; David Salamanca URF, Bogota, Colombia, December 10, 2015.

23. The balance and transaction requirements of SEDPEs are in line with the pre-existing regulation on simplified savings accounts and electronic savings accounts.

24. Colombian financial institutions can charge for every transaction as long as the charges are transparent. Other country specific allowances include: appropriation of interest in full from account, no caps for agents, caps with ATMs, agents can be remittance agents but not international direct intermediaries.

25. Interview with Felipe Lega Superintendencia Financiera; Maria Del Pilar Galindo Vergara URF; Oscar Gonzalo Martinez Amaya URF; Jose Sanin GSMA; David Salamanca URF, Bogota, Colombia, December 10, 2015.

26. KCBA News, "The queen of the Netherlands will visit Colombia and Peru to promote financial inclusion," 2/28/14, *http://www.kcba.com/2014/02/28/the-queen-of-the-netherlands-will-visit-colombia-and-peru-to-promote-financial-inclusion/.*

27. Congresso Visible Law 7576, *http://www.congresovisible.org/proyectos-de-ley/por-la-cual-se-dictan/7576.*

28. One of the NBCs likely to apply for the SEDPEs license.

29. Interview with Hernando Rubio, Bogota, Colombia, December 11, 2015. Mission translates to: "Making the lives easier of those who have it most difficult."

30. Interview with Ana Fernanda Maiguashca Olano, Director Junta Directiva, Central Bank, Bogotá, Colombia, December 11, 2015.