MARKET RESEARCH - COLOMBIA

www.bizzbeesolutions.com

BizzBee Solutions

March 2019

CONTENTS

Executive Summary 3

Introduction 5

Market and Industry Overview 5

Industry Trends 11

Demographics 13

Competition 17

PayDay Lending Alternatives 21

Libranzas 21

P2P Loans 21

Governmental Overview 22

PESTEL Analysis 24

Other Organizations 28

Risk Centers (Credit Bureaus) 29

www.bizzbeesolutions.com

EXECUTIVE SUMMARY

Colombians are the second most indebted people in Latin America which use informal credits, loans and other ways of obtaining financing. Information suggests that the debt which is owed to the Colombian informal lenders surpasses 5 billion Colombian pesos (€1,404,496). A survey on 6.8 million Colombians findings indicated that 83% have acquired some type of loan in their lifetime, most using the drop-by-drop loan, which is generally used to purchase everyday products, pay bills, or repay already existing debts.

From the 50 million Colombian population, more than 17 million have an active loan registered in various bureaus. In 2017, in Colombia, there were around 5.5 million consumers with a balance in non-revolving loans, including payroll loans, vehicle loans, housing loans and free investment loans, which represents an increase of 5.7% in comparison to the same period in 2016.

The FinTech industry is quite vibrant in Colombia, where the largest segments of start-ups are seen in the Payment & Remittances, Enterprise Financial Management, and the Consumer Lending sectors. These sectors occupy 30%, 14% and 13% of the Colombian FinTech start-up landscape, respectively. The start-ups in the lending sector are the second largest sector which attracts the most businesses to start their FinTech companies in Colombia, right after the Payments & Remittances sector.

The largest lending activity is recorded after the Winter Holidays, at the beginning of the New Year, where the majority of Colombians are still recovering from their expenses made during the holiday season. Other major reasons driving the demand for informal lending, are the beginning of the school year, which requires purchases of various school equipment and supplies, vacation trips and so on. During 2018's first quarter, around 100,000 loans for these purposes was recorded by an informal online short-term lender in Colombia.

Despite the growth in number of consumer credits in December 2017, which increased by 434,000 (5.7%) there was also a steep decline recorded in the demand of consumer loans from official Colombian banks in 2018.

www.bizzbeesolutions.com

The millennials are the largest loan-product consumer group, which represented 36% of the lending market in Colombia during the first six months of 2017. Generation X was responsible for 33% of the market share, whereas the Baby Boomers had the smallest market share of 24%.

The Colombian population is generally made of people which are neither too rich nor too poor, which are the perfect target group for informal short-term loans, when the traditional stigma is abandoned – that the majority of loan users are poor people.

Benchmarking the target group of one of the top competitors on the Colombian informal lending market, the ideal clients lie between the ages of 25 and 35. This places the number of potential clients around 7,600,000. Results from a survey on a smaller group of Colombians (6.8 million), showcased that more than 80% had inquired for an informal loan through family members, neighbors, pawnshops and drop-by-drop loans Among the most popular, as well as the most dangerous type of informal financing Colombians usually acquire, are the drop-by-drop loans, which according to the survey's results, 25% relied on this type of alternative financing.

The competition analysis identified that the general requirements for being eligible for an online loan, are having a permanent residency in Colombia, a bank account, a mobile phone and be over 18 years of age. Only a couple of the lending companies require that the loan-seekers are employed and having a continuous flow of cash, although being employed significantly increases the chances of receiving an online loan.

Despite the popularity of the payday loans, there are also a few other types of alternative loans which Colombians are using, those are the so-called Payroll loans, as well as the peer-to-peer loans.

The Colombian informal lending market remains loosely regulated, as the majority of the laws are about making sure that the lending companies keep their customers' data safe, private and secure. One of the biggest issues both, for the regulatory bodies, as well as the informal lending industry, is the existence of the drop-by-drop loans, which have proven difficult to root out and regulate due to their nature.

www.bizzbeesolutions.com

INTRODUCTION

The Colombian lending non-bank lending market is generally dominated by the drop-by-drop lending practice, which is the easiest and fastest way to receive additional financing, with the least amount of formalities and paperwork. This practice is not without its drawbacks since it's considered as a highly predatory and exploitative towards the loan-seekers. Therefore, other alternative lending solutions were analyzed, such as the online short-term lending, which proves to be more consumer-friendly and is regulated to some extent. The search for information regarding the Colombian non-bank lending industry, produced limited results, as a lot of the information available emphasized the drop-by-drop lending practice. However, all other relevant information was extracted and presented in the following pages.

MARKET AND INDUSTRY OVERVIEW

It is difficult to determine the size of the informal lending industry in Colombia since there aren't any concrete readings and reports available, or statistics which can provide better understanding. However, there are some estimates and figures, which can facilitate an overall comprehension of the non-bank lending industry in Colombia. Such metrics are provided on the online financial information website - Finanzas Personales' article, which estimates that there are **more than 5 billion Colombian pesos (€1,404,496)** owed to the Colombian informal lenders.

The online newspaper El Pais wrote in one of their articles that Colombia was **the second** country in the Latin America and Caribbean region, with the **most informal credits and loans**. This is a strong indicator of the dependence Columbians have on this type of loan when they are in need of additional finances. Another type of loan which is unfortunately very common for the Colombians, is the drop-by-drop loan ('gota a gota'). The online information portal Finanzaspersonales writes that according to a **survey** conducted on 6.8 million Colombians, **83%** admitted to having acquired a loan through family, friends,

www.bizzbeesolutions.com

neighbors, pawnshops or **drop-by-drop**, the latter having **a 25% share of indebted people**.

There are also about **25%** of Colombians which **aren't yet registered with any banks** or own an account, which provides an ample opportunity to online lenders, according to the news portal – La Republica.

The online newspaper Pulzo elaborates how the drop-by-drop loans in Colombia are used. They inform that the figures from the Superfinanciera and the Banco de la República, show that informal credits (such as "drop by drop") are used to a greater extent for: clothing purchases (38%), pay debts (36%), purchase of assets (27%), business (17%), housing improvements (12%), education (10%), housing (5%) and car (3%). The demand for informal loans in Colombia has increased **among self-employed workers and micro-entrepreneurs** and represents up to **31% of the loans requested**.

It is safe to assume that the fast access to sizeable amounts of finances, is the most alluring reason which draws these entrepreneurs towards the drop-by-drop loans.

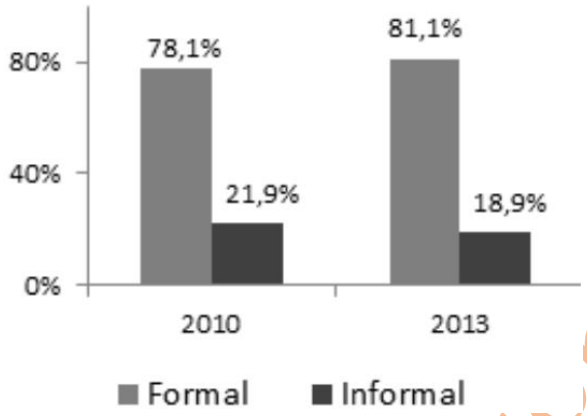
Apart from the loans taken from entrepreneurs, the lending journey for a lot of Colombians usually begins in their teen years or mid-twenties. The online newspaper Vanguardia, in an article states that precisely **young people** between the ages of **18** and **25** are the most likely to take financial products or apply for a loan for **the first time.** The rate of first-ever-loans decreases with the older population. People aged above 35 years, have already taken a loan previously in their life.

Researchgate's publication states that in Colombia for the years 2010 and 2013 the highest proportion of credits were formal, 81.1% in 2013 as it can be seen in the chart below. That leaves 18.9% of all loans filled by the informal loan sector.

Despite the decrease of the informal lending during 2010 throughout 2013, the ease of access to financing, the speed an online loan can be approved, the lack of legalities, as well as with the increase of FinTech the informal lending in Colombia is bound to increase.

www.bizbeesolutions.com

Types of Credit



The online newspaper El Tiempo – informs that although in Colombia there are more than **17 million active loans**, on average about **220,000 people per month** review their financial history, which is very low and even more so compared to the average of other economies, such as the United States, where this habit It shelters more than 50% of those who are reported at the credit bureaus. Out of the nearly 50 million Colombian population, if it's assumed that only 17 million have active loans in registered bureaus, the remainder of the population can be perceived in a way as the other potential market for informal loans.

Other types of loans besides the drop-by-drop loans are detailed in the information provided by online news website Actualicese, which suggests that in 2017, in Colombia there were around **5.5 million consumers with a balance in non-revolving loans, including payroll loans, vehicle loans, housing loans and free investment loans**, which represents an increase of 5.7% in comparison to the same period in 2016.

Interesting insights are provided in the online lending company Lineru's blog, which expands on the **Fintech Panorama in Colombia**. They write that in Colombia, **around 170 Fintech companies** are mapped by the Asociación Colombia Fintech, which is experiencing a panorama of continuous progress aligned with the role of integration between traditional banking. The idea is to eliminate, in some way, the old rivalry between

www.bizbeesolutions.com

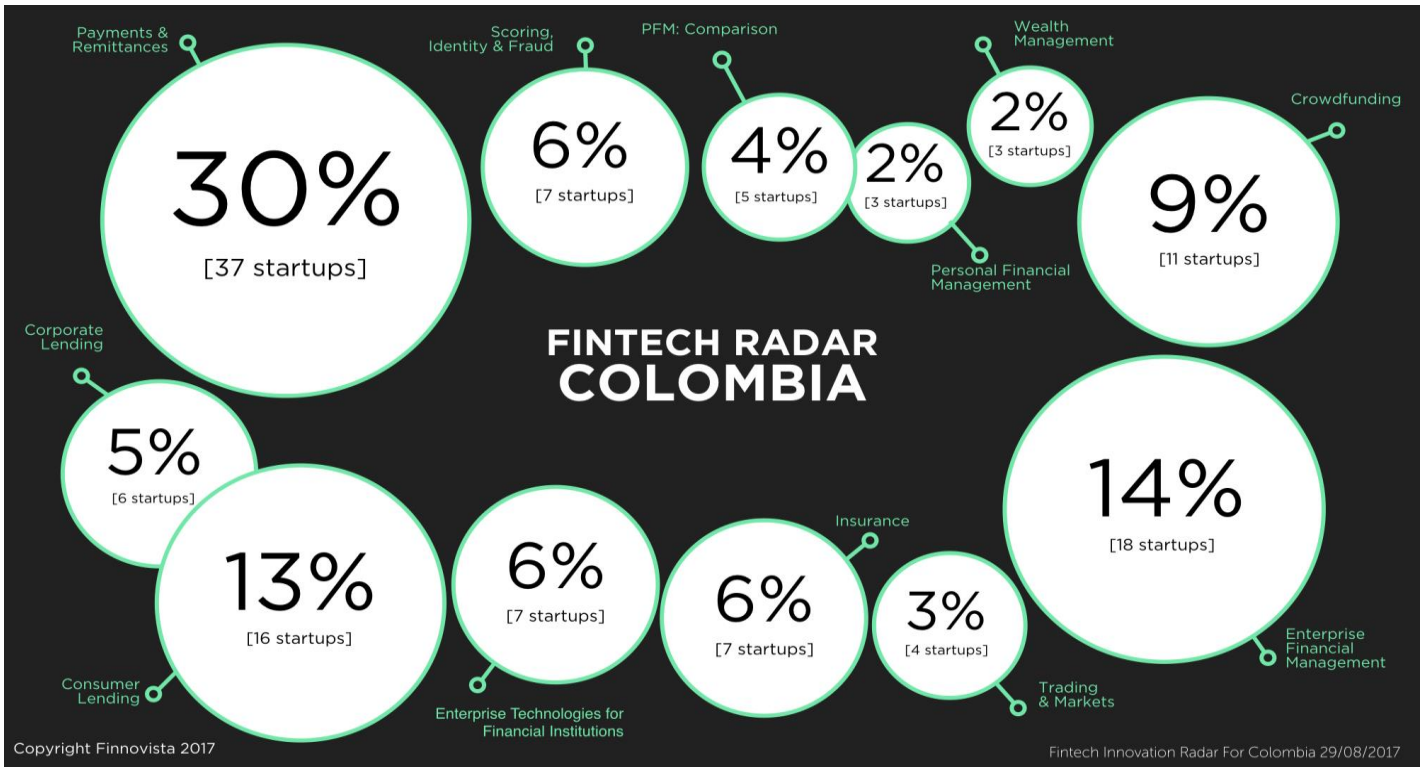
these two sectors and to leverage solutions designed for the welfare of consumers through technology. Bogotá is a pioneer in the Fintech business of online loans, since it occupies 65% of the market, followed by Medellín with 22% and Cali with 3%. The remaining 10% is located in other cities.

The information providing website Finno Vista, offers a visual representation on some of the companies which comprise the **Colombian FinTech world**.

The first excerpt is showcasing the companies in their respective FinTech segments. Some of these segments include; Payments & Remittances, Corporate Lending Consumer Lending, Scoring, Identity & Fraud and so on.

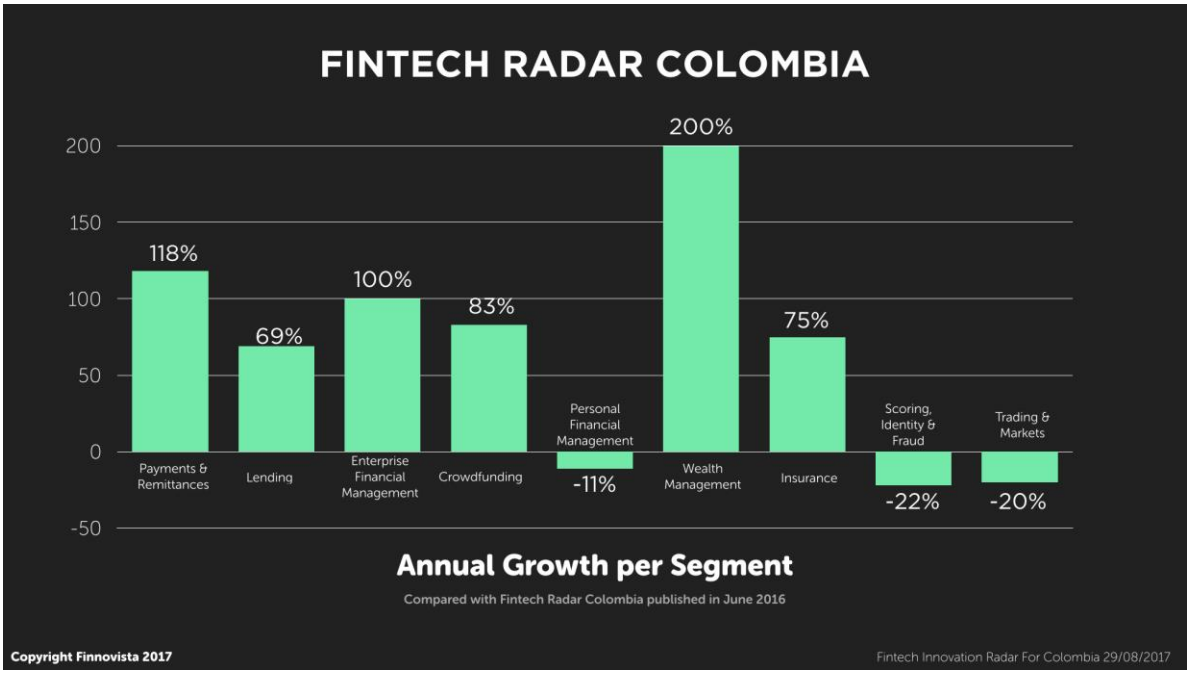
The following excerpt is also taken from Finno Vista's website, and allows insight into the largest FinTech segments for the Colomiban start-ups. The most attractive segments being the: Payments and Remittances (37 start-ups), Enterprise Financial Management (18 start-ups), and the Consumer Lending segment with a total of 16 start-ups.

There is a total of **124** identified **startups** in Colombia, of which around 22 or 18% of the total, belong in the online Lending industry (Corporate and Consumer Lending combined).

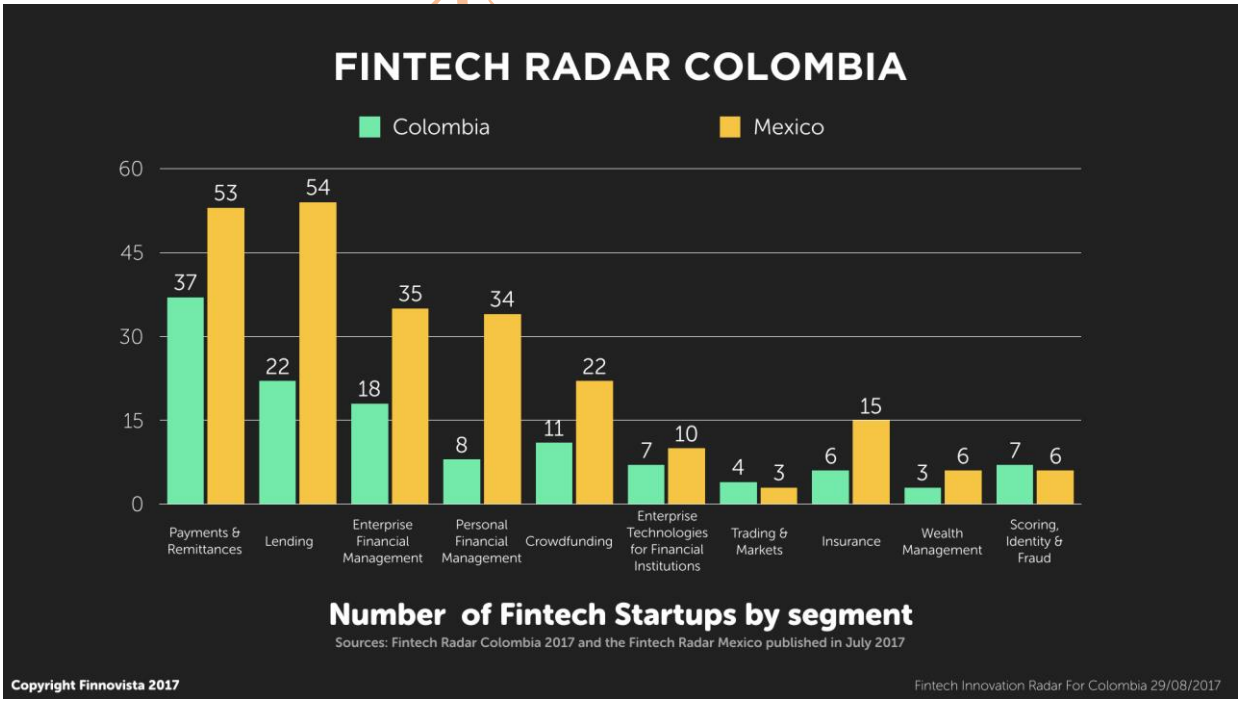


The same source also focuses its attention to the areas of the Colombian FinTech landscape, more specifically on those which are experiencing growth and declines. It can be concluded from the excerpt presented below, that the **top three FinTech segments in Colombia with the largest growth for 2017** are the; Wealth Management segment (200% growth), Payments & Remittances (118%), and Enterprise Financial Management (100%).

Although the growth of the **Lending segment** on the Colombian FinTech landscape didn't acquire growth of such magnitude, the segment **grew more than half its size (69%),** when compared to the previous year (2016).



Relying on information and charts from Finno Vista's website, the following graph, once more showcases the landscape of the FinTech industry in Colombia, where the largest number of start-ups operate in the l**argest segment in Colombia's FinTech environment - Payment & Remittances**. The second largest segments where FinTech companies start



operating, is in the **Lending segment**, which roughly counted **22 new start-ups in 2017**.

It can be seen that the FinTech in Colombia is continually gaining traction, same as the race between companies, striving to provide the Colombians with the best and most efficient financial products and solutions.

More detailed information on the way the Colombian lending market proved to be hard to find, therefore the research couldn't showcase a more insightful segmentation of the market, beyond the basic categorization of bank sector (banks) and non-bank sector (online informal, and drop-by-drop loans).

The following part of the document will expand more on the Colombia's lending industry trends, as well as the loan-seekers' spending habits and reasons for seeking loans.

INDUSTRY TRENDS

This part of the document is reserved for showcasing some of the trends which are seen in the Colombian loan-seeking market, as well as in the loan-seekers' behavior.

The **first couple of months of each New Year, are considered to be among the most active periods for the Colombian loan-seekers.** The online newspaper – La Republica explains that the main reason for the rise of loans in this period, is that the majority of Colombians are still recovering from their financial expenses made over Christmas, holidays, studies etc. Reportedly, the first quarter of 2018 saw more than 100,000 requests for loans on Lineru's website. The expectations for 2019, is that this figure will increase between 200% and 300%.

The online information portal Finanzaspersonales' article points to some of the reasons why the Colombians are resorting to informal money loans:

- They do not have access to the financial sector due to **lack of credit experience** or because they are **reported at the credit bureaus**.
- Some Colombians **do not meet the requirements demanded by financial institutions** to access formal loans. Informal credit allows them to survive.

www.bizzbeesc

- Lenders do not have high demands from the loan-seekers in order to grant them a loan, and they deliver the borrower's money quickly.
- The payment of the fee is generally daily, which is more manageable because its cash flow is **daily, not monthly**.
- **Lack of financial education**.

The reasons above are an answer to the question of why do the Colombians seek informal lending, they also represent the trends of the Colombians' behavior which drives them to borrow from informal sources.

Despite the growth in number of consumer credits in December 2017, which increased by 434,000 (5.7%) according to the online newspaper - El Pais, the beginning of 2018 was marked with a steep decline in the demand of consumer credits. According to Credy's article, **since the beginning of 2018,** the Bank of the Republic reported that the **demand for consumer credit in Colombian banks and cooperatives has drastically declined**.

This information could be pointing out that the interest in loaning from the banking sector is declining, while there's opportunity for the non-bank lender to capitalize on.

Lineru's blog presents a couple of ways Colombians prefer to use their informal loans:

- Purchase of mobile devices
- Traveling
- Purchase of various items (clothes, furniture, electronic equipment, house appliances)
- Payment of debts

If the loan-seekers have been declined a loan from both the public, and private financial sectors, Colombians usually turn to the drop-by-drop loans, a predatory practice which is highly noticeable in the Colombian informal lending sector. According to the news portal Sputnik Mundo, drop-by-drop lenders give money **without asking any guarantees**, in exchange for **the loan being repaid each day bit by bit with enormously high-interest rates**. These loans' interest rates range from 10% of the loans initial amount, up to 40%.

www.bizzbeesolutions.com

This interest rate is in Colombia **15 times higher than the usury rate defined by the Financial Superintendence**.

The terrifying thing about these types of loans, if not repaid in time, is that they can **include physical violence, death threats or expropriation of assets, measures that lenders go to when they no longer find another way to recover their money**.

The following part of the document will offer more insights into the Colombian loan-seekers characteristics and features.

DEMOGRAPHICS

Referring back to the loans which are taken for the first time, to the online newspaper Finanzas Personales emphasizes the incremental role cell phones had in enabling the Colombians inquire and obtain their first loans through the Internet. The article also underlines the biggest expenditures of the first-ever loans are found in the **telecommunication** sector (75%) - most likely the purchase of a new mobile phone. Another more significant sector where these Colombians aged between 18 and 35 spend their first-ever loan, is in **financing**. Here the loans (**microcredits**) are generally used on developing productive businesses (11.1%) and **credit cards** (10.3%).

Information published on the online newspaper – El Colombiano's website provides a regional outlook on the Colombian areas with their corresponding amounts of debt. The **Antioquia** and **the Coffee Region**, the average balance of a consumer is **17.3 million pesos (4,860 euros)**, with a default of 1.1% (at 90 days). The same happens in **Bogotá**, although the **average debt** in that part of the country reaches **20.2 million pesos (5,674 euros)**.

In **the Atlantic Coast,** the average credit of each client of financial establishments is **18.7 million pesos (5,253 euros),** with a default rate of 2.6%.

In **the Eastern Plains, the level of debt is 18.9 million pesos (5,309 euros)** with a default of 2.3%. In **the Central-South region** (Tolima, Huila, Caquetá, Putumayo) the balance in 90-day default is 3%, and the **average debt is 18.9 million pesos (5,309 euros).**

Judging by the size of indebtedness the before-mentioned areas in Colombia have, Bogotá having the debtors with the largest debts, could indicate that they seek the most loans, therefore having **Bogotá as a primary target** for X's products is a just consideration.

The same article continues explaining that the **millennials** (people born between 1980 and 1994) consisted the **largest group of borrowers of any credit product** during the first half of 2017, representing **36% of the market.** They are followed by **Generation X** (people born between 1965 and 1979) taking up **33%** of the market, and lastly the **baby boomers** (born between 1946 and 1964) with **24%.**

By the type of financial product, between January and March of the year 2017, **millennials** made up **37% of the credit cards placed by banks**, followed by **Generation X** with **33%** and **baby boomers with 23%**. This segment takes the lead in debts, via payroll loans "Libranzas" with 37%, followed by the millennials with 28%.

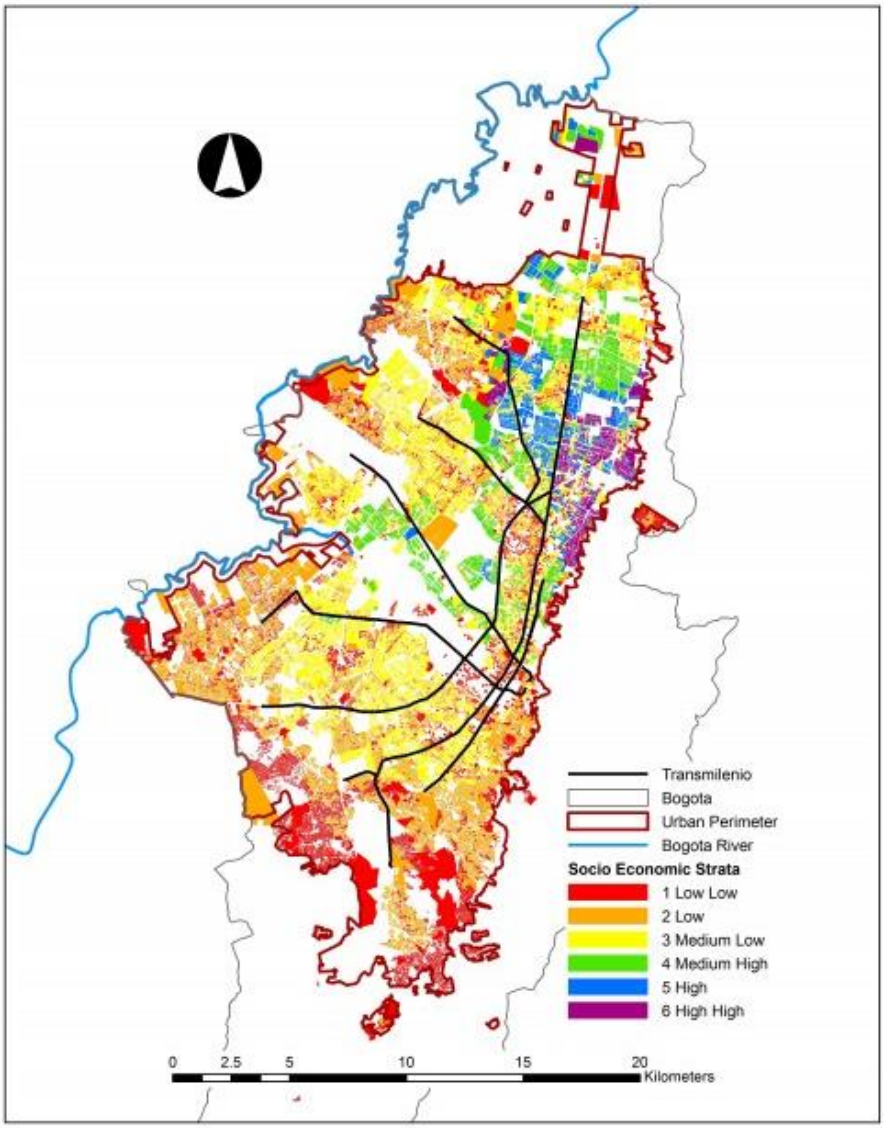
Apart from the overview of the financial products the Colombians use, the Colombian populace can also be observed through **stratums (sections)**, which will allow X to graphically comprehend its potential client size.

The map below is showcasing the demographic layers which the Colombian society is made out of. These layers are divided into a total of 6 stratums of which stratum 1 represents the poorest demographic/population in Colombia (painted in red in the map below) and stratum 6 representing the richest populace in Colombia (painted in purple in the map below).

Lineru's Commercial Director – Hector Aponte, in an exposition published on the online FinTech website Colombia FinTech, explains that **their customer target include the Colombians between 25 and 35 years, belonging mostly to strata 2, 3 and to a lesser extent 4.** This information suggests that **they automatically discard the poorest Colombians as potential customers**, and the 2nd, 3rd and 4th stratums, which make up the largest part of the Colombian demographic, are in fact their target group with the most potential.

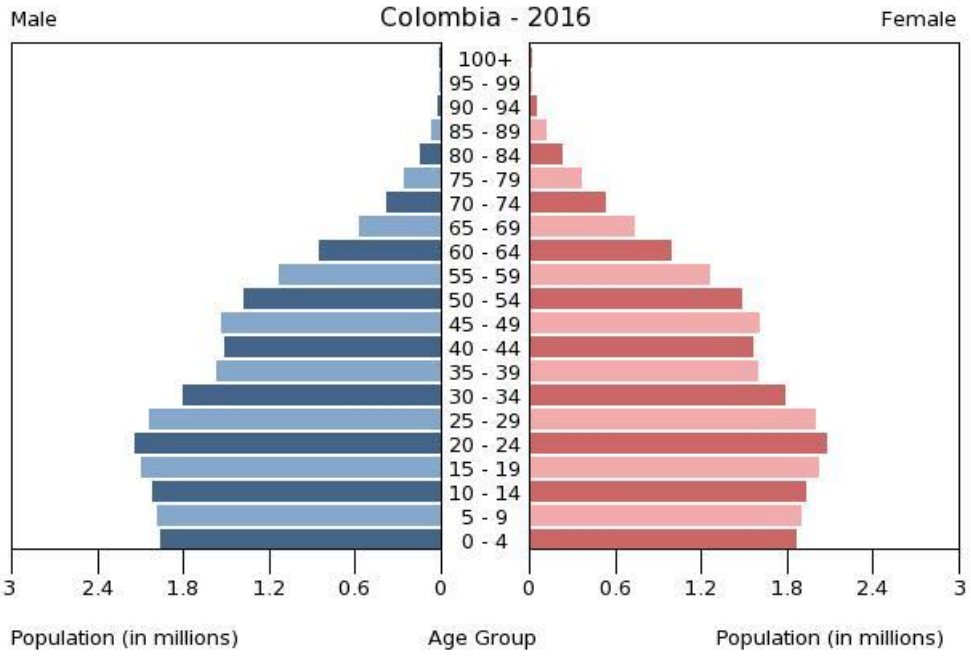
These stratums are neatly showcased in the map below, which is taken from the International Federation for Housing and Planning.

www.bizzbeesolutions.com



The map allows drawing the conclusion that the poorest Colombian population is located among the edges of the Colombian state. The inner stratums are growing in wealth, when compared to the border-line ones. The only exception, is the extremely wealthy Colombian stratum, which are is facing the north-eastern borders of the country.

Lineru are **one of top** and most successful **competitors** on the Colombian non-bank lending market, therefore their customer targeting could be benchmarked. According to CIA's World Factbook, there are around **7.6 million Colombians between the 25 and 35 age ranges.**



There wasn't a clear indicator of how many Colombians aged 35 are in the age pyramid from 35 to 39 years, therefore in order to showcase a more accurate representation of X's potential client base, Colombians between 25 and 34 years of age were included in the calculations.

If the men and women between the age groups of 25 to 34 are considered, then the number of potential clients in this segment is around **7,600,000.**

Lineru's Commercial Director continues elaborating in the article that there is also another portion of clients (somewhere between 30% and 40%) which **have had previous loans in the past, but now have negative reports in the credit bureaus (Risk Centers).**

Regarding the **gender** usage of loans in Colombia, Lineru's blog informs that on a national level, **women are more indebted than men in almost all Colombian regions**. The biggest difference was recorded in the **Coffee Region, where 57.4% of the women** were granted a loan in the first quarter of 2016 compared to about 42.6% of the men.

An analysis conducted on Finanzas Personales website informs that the among the portfolios which were analyzed during their research which included consumer loans, microcredits, mortgage credits, and commercial credits, the **highest percentage of**

indebtedness was in the **consumer loans from 58% to 79%.** This suggests that the **consumer loans are most sought out types of loans**.

Additional information from the analysis, indicates that from the six regions Colombia's divided (the Caribbean, Cundinamarca, the Coffee Region, the Orinoquia and the Amazon and the Pacific) **Cundinamarca** (26.4%) and **the Coffee Region** (24.3%) are the **two most indebted regions**. The conclusion from this information is that X could look into promoting and offering its finance products in these regions first.

The following part of the document will showcase the top 10 online non-banking lending competitors, operating on the Colombian market.

COMPETITION

In the following spaces, a competitor analysis on 10 of the best and most prominent online short-term lending companies in Colombia will be provided. The two biggest lending forces on the Colombian market are the online loans and the drop-by-drop loans. The research managed to find and identify only a handful of online lending companies in Colombia, which are presented in the spaces below. It was assumed that the reason for the extremely limited competitor choice, was due to the prevalence of the drop-by-drop loans over the online loans.

Nevertheless, the steps which were taken to identify the competitors, included performing a Google search with the Spanish translation of the phrase "short-term online loans Colombia".

This method proved to be very efficient, and it was used in full, in order to create the competition table presented below.

www.bizzbeesolutions.co

Company	Products	Pros	Cons	Loan Requirements
Rapicredit	Short-term loans, up to 69 days. $ 110,000 – 750,000 (Colombian Peso) 25% interest rate.	•Once approved, the loan will be transferred to the loan-seeker within 1 day. •Loan approval answer within moments. •A longer period for loan repayment.	A credit history is created since all the operations are reported to the credit bureaus.	•Be of legal age (18+) have a citizenship card. •Have a credit history. •Not registered in a Risk Center. •Have a bank account and an email. •Functional cell-phone.
Lineru	Short-term loans, up to 30 days. $ 150,000 – 900,000 25% interest rate.	•Once approved, the loan will be transferred to the loan-seeker within 1 day.		•Be of legal age. •Have a savings account. •Be a resident of Colombia. •Have an email and a cell-phone.
YaDinero	Short-term loans, up to 30 days. $ 120,000 – 600,000 19.7% interest rate.	•Once approved, the loan will be transferred to the loan-seeker within 1 day.	•If the loan application is denied, the loan-seeker can re-apply again after 90 days.	• Legal age and a citizenship card. •Have an email and a cell-phone. •Own a bank account.
Kredicity	Short-term loans, up to 30 days. $ 105,000 – 900,000 24.87% interest rate.	•Once approved, the loan will be transferred to the loan-seeker within 1 day. •2 ways of applying for a loan (online, or a request for a credit card). •Loan approval answer from 30 minutes up to 24 hours.	•Loan-seekers credit history is checked in the Risk Centers' databases. •Only one at a time active credit line allowed.	• Legal age and a citizenship card. •Have an email and a cell-phone. •Own a bank account.

www.bizzbeesolutions.com

Credy	Short-term loans, up to 90 days. $ 100,000 – 750,000	•A longer period for loan repayment. •Free loan on $ 200,000 up to 30 days.	•Provides loans to persons which have stable income.	•Legal age. •Have a bank account. •Have a stable income source.
Binixo	Short-term loans, up to 30 days. $ 150,000 – 900,000	•In some cases, extensions on the loan return period are provided. •Loans without Risk Center check-ups are provided.	•A small amount of information regarding the loan.	N/A
Solicita Credito	•Short-term loans, up to 30 days. $ 50 – 850,000 •Quick credits without papers. •Quick Credits without Payroll. •Personal and Urgent Loans. •Loans with CIFIN / DATACREDITO •Microcredits, Quick Loans Without Endorsement. •Quick mini-credits, Immediate online loans, 24 hours credits.	•Numerous types of loan services available for loan-seekers to choose from. •Some of the loans offered, do not require the loans-seeker to have a permanent/stable source of income.	N/A	• Have an email and a cell-phone. •Own a bank account. •Permanent residency in Colombia. •Stable Employment.

www.bizbersolutions.com

Credito Ahora	Short-term loans, up to 30 days. $ 100,000 – 500,000	N/A	•Provides loans to persons which have stable income. •A small amount of information regarding the loan. •The website is not informative and responsive enough.	•Colombian citizenship and over 18 years of age. •Have a bank account. •Personal email and a cell-phone. •Facebook account. •Demonstrable income.
Web Kapital	Short-term loans, up to 30 days. $ 100,000 – 500,000 1.8769% interest rate.	N/A	•A small amount of information regarding the loan. •Cost of loan is too high.	•18 years or older. •Have a personal email. •Have a bank account.
Presta	Short-term loans, up to 30 days. $ 100,000 – 500,000 25% interest rate.	•Once approved, the loan will be transferred to the loan-seeker within 1 day. •If denied, the loan-seeker can re-apply for the loan again in 30 days. •Multiple banks where repayment can be done.	•Cost of loan is too high. •Loan-seekers should maintain a good credit history and references.	•Resident in Colombia. •The legal age for taking loans. •Own an email and a mobile phone. •Have a bank account.

www.bizzbeesolutions.com

Once the loan application has been approved, the lending companies usually transfer the loan amount to the loan-seekers bank account in less than 24 hours. Another common practice is that once a loan-seekers loan application has been declined, they have to wait from 30 up to 90 days to be eligible to re-apply for the loan again.

A small amount of the competitors (2) require the loan-seekers to be in employment (have a stable flow of revenue), though it should be assumed that the loan-seekers' chance of obtaining a loan significantly increases if they are in employment.

The requirements for receiving a loan are generally the same throughout the competitors. Having at least 18 years of age and citizenship are the basic requirements. Furthermore, using an active email and a mobile phone as well as owning a bank account, are some of the more common requests short-term lending companies ask the client-seekers to fulfill in order to be eligible to receive a loan.

In the following paragraphs of this document, couple of the alternative ways the Colombian loan-seeker can receive additional finances will be showcased.

PAYDAY LENDING ALTERNATIVES

Here are a few of the ways Colombians could seek additional financing without relying on the predatory drop-by-drop loans and the online short-term loans.

LIBRANZAS

Although this practice lies within the bank-side of the lending spectrum, in Colombia there's the practice of using **Libranzas (Payroll Loans),** a mechanism through which the debtor authorizes his employer to deduct from his payroll the funds to pay the obligations contracted with the person who made the loan.

According to Caracol – an online news website, Colombia has more than 400 companies which are legally entitled to make these loans through the clearing mechanism.

It is a safe business insofar as the payment is guaranteed by the employing companies. The banks offer in libranzas the **lowest interest rates of the market.**

P2P LOANS

The loans between people, also known as P2P loans, or peer to peer, are based on crowd-lending and are credits that are granted through platforms that put users who need

www.bizzbees.com

financing in contact with investors who want to make their savings profitable by lending their money. Therefore, it can be stated that P2P are a valid source of alternative financing, and an attractive way of investing to achieve higher profitability than that offered by banking entities.

This financing model can be also found under the term "crowdfunding", which tries to obtaining capital to finance different projects through a large number of private investors, each of which will contribute a part of the total loan requested. It is an innovative model that allows financing without having to go to banks or investors to achieve profitability through a new asset class.

In the case of companies, it is a good way to diversify funding sources and obtain financing for more extravagant projects.

In the case of people, it is a good way to get very cheap loans if the loan-seeker has a good profile since the interest will depend on their profile.

More detailed insights on the crowdfunding and crowd-lending landscape in Colombia are available on To Do Crowd Lending's website (a portal referencing website for investors interested in Crowdfunding, Crowd-lending, P2P and other alternative ways of financing), which lists companies, regulations, and platforms for both alternative funding methods.

GOVERNMENTAL OVERVIEW

The governmental overview is the chapter dedicated to the explanation and showcasing on the laws, rules, and regulations which must be abided by anyone who wishes to operate in the Colombian short-term lending market. Also, the PESTEL analysis will be presented in this part of the document.

Shopify - To sell in Colombia any type of product and/or service online or physically, it is required to have a Unique Tax Registry [UTR], which is issued by the Dian (National Directorate of Taxes and Customs) or the company can be created and registered in the Chamber of Commerce in the Colombian city where the business is located. This way an access to the NIT (Tax Identification Number) is given, which will work as the ID or identification of the company.

www.zbeesolutions.com

Organic Law of Protection of Personal Data was a law that guaranteed and protected the processing of personal data, public liberties, and fundamental human rights, and especially of personal and family honor and privacy.

The short-term lending companies in Colombia must abide the laws and regulations which protect the clients' data in accordance to the Colombian Constitution's article 15 and 20, the provisions law 1581 of 2012, as well as the Regulatory Decree 1377 of 2013. The details can be seen here.

Law 22/2007 of 11 July (articles 7 and 8) and Law 16/2011, of June 24 (articles 10 and 12) are about ensuring that consumers receive enough information before the contract is concluded so that they can decide on contracting the service with full knowledge of their rights and obligations.

The remainder of the regulations discovered were related to the credit operations of the banks, as well as the regulation of the internal and external debt of the country. They didn't prove relevant to the research, therefore were omitted.

www.bizzbeesolutions.com

PESTEL ANALYSIS

In the spaces below the PESTEL analysis will be presented. The purpose of the analysis is to provide insights into some of the important factors which might affect or change the vital variables which influence X's operations on the Polish short-term lending market. The analysis of the political, economic, social, technological, environmental and legal factors will enable X to take advantage of the opportunities and avoid potential dangers and threats.

	External factors to consider	***Importance to X***
Political	•Colombia's current corporate tax rate is 33%. It will decrease up to 30% in 2022 in a progressive way (32% for FY 2020, and 31% for FY2021) •Source Governability risks will rise during the four-year term of the center-right president, as he lacks a governing majority in Congress. The failure of the talks with the Ejército de Liberación Nacional, a smaller guerrilla group, could fuel further violence in the medium term. •Source Globally, 2019 may be the year governments start cracking down on the use of personal data. The consultations of the US Congress, together with the EU's General Data Protection Regulation, illustrate the seriousness with which countries take up	•This is the percentage of X's profits which will have to be paid in taxes. •Gradual implementation of a peace deal with the former FARC (Revolutionary Armed Forces of Colombia) rebels will boost stability and creditworthiness, which could increase the number of borrowers and loan-seekers. •X should be absolutely certain that its clients' data and personal information is secure and kept safe. Evading brand tarnishing and any potential legal action if client data is leaked, is an issue best avoided.

	this topic.	
Economic	•By 2019, the local economy is expected to grow by 3.3%. •Colombian Peso exchange rate is 1EUR = 3,557.74 COP. •Minimum wage is 828 116 pesos (233 euros) and although it depends on a plethora of circumstances, generally the cost of living in Colombia is between USD 550 and 700 (1,756,617 - 2,235,695 Colombian pesos or EUR 489 - 622).	•This could mean that Colombia would see more employment, more money would be earned and spent by more people, and therefore the need to seek loans could decline. •The rate showcases the amount of profit X would earn with each business transaction. •The wage, alongside the living costs, acts as an indicator of the discrepancy between the finances earned and spent, which provide X with a clearer picture of the potential of money lending.
Social	•Colombians in dire need of financing are often relying on the drop-by-drop predatory lending alternative, which it may momentarily solve their problems but cause them serious issues in the future. •Source One in four Colombians live in a precarious situation and	•X could attempt to convert the loan-seekers which would otherwise turn to the day-by-day loans, therefore gaining even more potential clients. •The statistics of people in endangered financial situations could present a potential client base for any of X's financial

www.beesolutions.com

	there are 13.5 million people living in poverty.	products.
Technological	•Source In 2017, Lending – FinTech businesses were the second largest start-up segment in Colombia. •Innovative FinTech companies with new perspectives on disrupting the traditional Lending industry. Tranqui Finance offers personalized tools and recommendations that help people improve their credit profile as well as the management of their debts, budget, and access to credit.	•This showcases the attractiveness of the digital/online lending industry in Colombia, as well as the competition it amasses. •New innovative FinTech products on the market which could sway potential clients away from seeking loans in the first place.
Environmental	•Source Mining in Colombia is a major environmental issue. Illegal mining risks heavily damaging Colombians' health, since a plethora of rivers (such as Atrato) have been contaminated with mercury and using these waters for agriculture or regular drinking poses massive health threats.	•The health issues which could originate from the consumption of water contaminated with mercury (directly or indirectly), could lead to Colombians seeking loans in order to pay their medical treatments or medications.
Legal	•The usury rate in February 2019 was set at 29.55% for consumer and ordinary loans. •The legal lender:	•X shouldn't provide loans with larger interest rates than these since they can be punishable by law. •Moreover, abiding the regulations which make a money-

- Does not ask for money in advance. This is one of the most common techniques for swindling people.
- Handles interest rates within the legal margin, never higher than 29.55%.
- It is registered in the Chamber of Commerce and is also supervised by financial entities.
- A legal lender has the right platforms and contact channels to reach a client without using aggressive techniques such as threatening messages.

lender legal, is another way X can further promote themselves, instill trust in its customers and acquire new clients.

Case Study: Superindustria sanctioned the lender company BCI EMPRESAS SAS

www.bizzbeesolutions.com

OTHER ORGANIZATIONS

These are some of the more relevant organizations and establishments, which can provide X with more knowledge, information, and insights on the Colombian lending practices.

- Colombian Association of the Credit Ecosystem - The associations 'objective in addition to representing the 74 member organizations, is the dissemination of the best practices which lead to the professionalization and ethical consolidation of the lending activity, as one of the economic pillars of Colombia, as well as the generation of academic articles, texts and reports, with relevant and current content that allow Colombia's lending practices to further develop and innovate.
- Colombian Association of FinTech Companies - The Colombian Association of Fintech Companies has already joined more than 35 platforms, which have defined a Financial Responsibility Code to regulate their activities and benefit their users. The Code includes practices that are already carried out by traditional financial institutions such as requesting authorization for queries in credit bureaus, protecting the personal data of users, allowing the advance payment of loans, not charging for credit surveys and reporting the obligations of its clients to risk centers, among others.
- The Financial Superintendence [SFC] 's mission is to preserve public confidence and financial stability, maintaining the integrity, efficiency, and transparency of the stock market and other financial assets and ensure respect for consumer rights and the proper financial service. They also set the rate of usury, which cannot be surpassed, in contrary legal action could follow against the entity using loan rates higher than those allowed. The current usury rate in Colombia is 29.06% annually or 2,148% monthly.
- Superintendencia Financiera de Colombia [SFC] is the Colombian government agency responsible for overseeing financial regulation and market systems in order to preserve stability, security, and confidence, and to promote, organize and develop the securities market. It is also mandated to provide investor protection for depositors and policyholders. SFC doesn't oversee or regulate the "drop-by-drop" informal lending.

www.bizzbeesolutions.com

- Asobancaria - "The Banking and Financial Institutions Association of Colombia, Asobancaria, is the representative union of the Colombian financial sector, a non-profit entity, constituted on August 31, 1936, of indefinite duration and private law. The Banking and Financial Institutions Association of Colombia is created as an institution that would serve the banks to set the banking rules, uses and customs applicable in those cases not explicitly contemplated in the Law, defend the interests of the banking industry in Colombia and establish a permanent and stable link with government authorities.
- The Superintendence of Industry and Commerce ensures the proper functioning of the markets through the surveillance and protection of free economic competition, the rights of consumers, compliance with aspects concerning legal metrology and technical regulations, the valuation activity of the country, and the management of Chambers of Commerce.
- TransUnion is a body which aims to collect, obtain, compile, modify, administer, process, exchange, send, disclose and transfer the credit and financial information of persons, therefore, it represents a valuable knowledge and information asset.

RISK CENTERS (CREDIT BUREAUS)

Each month, credit bureaus update their databases to record the lending activity of a person and their payment behavior. If you pay on time all your debts you will be "green". But if you fall behind or break any of your payment obligations, you will be reported and put in an unfavorable situation in view of the banks.

The risk centers in Colombia are:

- The Financial Information Center [CIFIN] is one of the main risk centers in Colombia. It is a data storage and processing system in which the data concerning the credit activity of any person who has payment obligations to a bank or financial institution is recorded. CIFIN provides the credit information of the clients in a quick and useful way to the entities that request the reports of the loan applicants. With this report, they will make their evaluation and determine if the client is reliable to approve the loan.

www.bizzbeesolutions.com

- Datacrédito - like CIFIN, Datacrédito is a well-known risk center that offers its information services to financial institutions and individuals that require debt reports, users belonging to the financial, insurance, and solidarity sectors, among others. It offers integrated solutions to its clients for the evaluation and credit monitoring for the decision making regarding the session and approval of credits, minimizing its margin of losses and level of risk assumed.
- Procrédito - is a very important risk center in Colombia, it has information regarding the payment behavior of Citizens resident throughout the country, concerned by Affiliates belonging to 38 sectors of the economy. With 61 years of experience and participation in 17 countries, it is consolidated as one of the best risk centers in Colombia.
- DICOM (managed by Equifax) is a private company that registers commercial data of people, these are public access records and are used to evaluate the granting of bank or other loans. These records are quite important for the banking and financial sectors in Colombia, since it helps the entities in this two sectors to minimize the risks when conducting business with potential future clients (loan-seekers).

www.bizzbeesolutions.com