LATIN AMERICA FINTECH SNAPSHOT: Colombia

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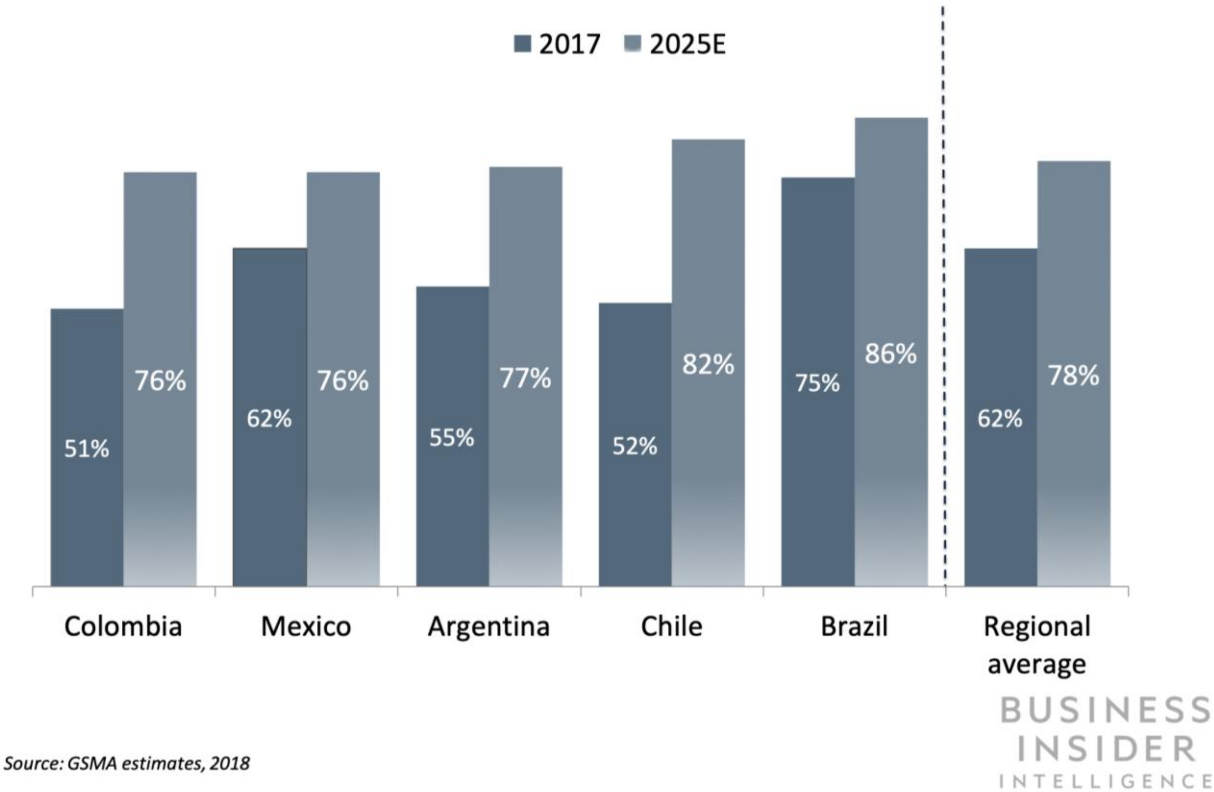
While Brazil and Mexico are battling to be the fintech capital of Latin America, Colombia has consolidated its position as the third-largest fintech ecosystem in the region — the country is home to 180 fintechs, a 45% uptick from August 2017, per Finnovista. And the country's population has been quick to adopt fintech solutions, with 76% of consumers classified as fintech adopters, per EY. This is the highest rate of fintech adoption across the region, and the fifth-highest globally, at 12 percentage points higher than the global average. Four key factors are driving this growth in Colombia's fintech ecosystem:

- **A sizable underserved population:** Only 45% of Colombians aged 15 years or older have a bank account, per World Bank data. When it comes to businesses, despite micro and small- and medium-sized businesses (SMBs) accounting for around 96% of Colombian companies, less than 30% have access to credit, per data cited by Aliatu. As a result, there's a sizable untapped opportunity for fintechs to target in the country.
- **High smartphone and internet penetration:** More than half (51%) of Colombians used smartphones in 2017 — a 7 percentage point increase from the previous year — with that figure expected to shoot up to 76% by 2025, per GSMA data. Internet penetration at the end of 2017 stood at over 63%, almost 10 percentage points higher than the global average at the time.

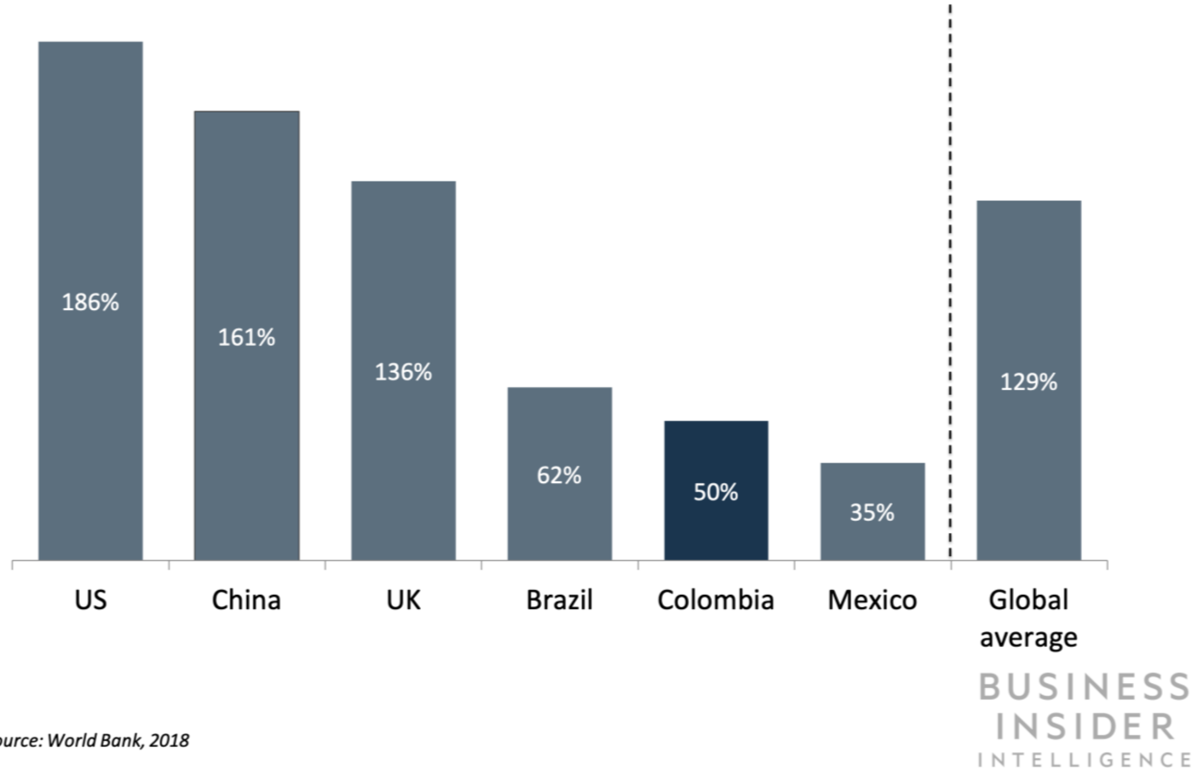
Latin America Smartphone Adoption



Source: GSMA estimates, 2018

- **Incumbents' reticence to lend:** Colombia's incumbents have long been unwilling to provide services like loans to large swaths of the country's consumers, likely choosing to focus on more profitable prime consumer segments. Indeed, domestic credit to Colombia's private sector accounted for 50% of gross domestic product (GDP), compared with 136% in the UK and 186% in the US, in 2018. And where they do provide credit to SMBs, for instance, they do so at high fees: High costs are one of the top cited reasons, alongside the belief they'll be rejected, for why Colombian SMBs eschew securing loans from traditional lenders.

Domestic Loans To Private Sector In Select Countries, As Share Of GDP



Source: World Bank, 2018

- **Attractive demographics:** Much like the rest of Latin America, Colombia is home to a young population: The median age in the country is 30 years, while 41% of the population is between 25 and 54 years old, per Index Mundi. This provides the country's fintechs with a large youthful population that's more likely to be tech-literate and therefore more receptive to the digital propositions fintechs offer.

COLOMBIA BY THE NUMBERS	
Population	50 million
Population (15+ years) with a financial institution account	45%
Commercial bank branches per 100,000 adults	14.9
Population with a credit or debit card	14% credit card; 26% debit card
Smartphone adoption	51%
Number of fintechs in the country	180
Regulatory bodies relevant to fintech	Colombian Central Bank, Superintendencia Financiera de Colombia

Source: GSMA, World Bank, 2018; Finnovista, ICLG, 2019

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Notable Fintech Segments

Business Insider Intelligence has identified two particular segments as noteworthy: consumer lending and business lending. Here's why:

- **Excluding payments, consumer lending has the second-highest concentration of fintech players in Colombia after enterprise financial management.** Twelve percent of the 180 fintechs in the country — about 21 fintechs — operate in this space, per Finnovista. We've chosen to focus on this segment because of the vast scale of opportunity it presents: Less than 15% of Colombians borrow from a financial institution, per Colombia Fintech.

- **And around 8% of Colombian fintechs are focused on SMB lending.** Although two other segments have a greater concentration of fintech players, we've chosen to focus on business lending because of the size of the addressable market for SMB credit: Colombia has the third-largest SMB lending market in Latin America.

Noteworthy Fintechs: Consumer Lending

When selecting notable consumer lending fintechs, Business Insider Intelligence looked into key metrics, including funding figures, customer numbers, and product suites, to identify players making a meaningful impact on the segment in Colombia

Notable Colombian Consumer Lending Fintechs

	ADDI	Lineru	RapiCredit ¡Crédito cuando lo necesitas!
Key statistics	• Founded in 2018 • Total funding amount of $16.3 million • 10,000 customers • Interest rates of 20%-29%	• Consumer lending brand of Zinobe, which has raised more than $50 million in debt • More than 200,000 active customers • 60,000 approved loans per month • High stickiness: Average of 13 loans across a single customer's lifetime • 1 million loans since launch	• Founded in 2015 • Average loans of COL$250,000 ($73) • On course to grant 300,000 loans by the end of 2019
Services	• Point-of-sale financing to retail consumers	• Revolving credit lines	• Short-term secure loans ranging from 5 to 30 days
Strengths	• Partnerships with e-commerce platforms and online retailers gives it access to a wide breadth of the consumer market.	• Gamification of product which lowers cost of loans for consumers that repay on time, driving loyalty	• Cheap fees starting at COL$1,250 (40 cents) per day

Source: Crunchbase, executive interviews, Colombia Fintech, TechCrunch, company websites, 2019

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Addi. Addi provides point-of-sale loans to Colombian consumers, allowing them to apply for credit at the moment of purchase, like fintech heavyweights Klarna and Affirm. In June, the startup picked up $12.5 million in a venture round from Andressen Horowitz.

Addi's strength lies in the fact that its core lending product doesn't require a high customer acquisition cost. Because the startup partners with online retailers and e-commerce firms, consumers who shop online are likely to come across its product without it having to do substantial marketing. Signing up partners may involve significant costs, but once this is done, Addi can benefit from the free marketing its placement on their payments site give it. To this end, the startup should take a leaf out its Swedish peer Klarna's book — Klarna sealed a $20 million deal with H&M, rapidly putting Klarna's checkout solution in front of the retailers' millions of customers — and sign up large retail partners to double down on the traction it's secured so far.

Lineru. Lineru, the consumer lending brand of Colombian fintech startup Zinobe, provides short-term revolving credit to Colombians. The startup offers consumers credit lines to meet short-term liquidity challenges, such as for medical purposes. Using the platform, consumers can take out up to three concurrent credit lines, with the costs of these loans depreciating when they repay their loans on time. To date, the startup has given out more than 1 million loans and counts more than 200,000 active monthly users, Zinobe cofounder Martin Schrimpff told Business Insider Intelligence. Underpinning its underwriting model, much like we've seen from successful fintechs in other Latin American countries and big established fintech ecosystems, is a data-driven credit assessment model that couples conventional credit data points with alternative data inputs, like tax filings.

Lineru's success lies in the fact that its product allows Colombian consumers to meet their credit needs but also build their credit scores. Like many other emerging markets, Colombia doesn't have an effective credit scoring model, with existing approaches leaving large swaths of the population unable to access credit. By leveraging technology like data analytics, Lineru has developed its own credit assessment model that enables it to close these gaps. Moreover, it reports its consumers' data to credit agencies, which helps Colombian consumers build up their conventional scores — and in turn providing them an opportunity to access large credit facilities, like mortgages, from incumbents in the future. The next step for Lineru as it looks to maintain rapid growth is to expand its product suite to meet more of its consumers' needs. To this end, it's already in the process of building out credit cards for its existing user base, according to Schrimpff.

RapiCredit. The fintech provides short-term loans to underserved Colombians. Initially consumers can borrow COL$110,000-COL$750,000 ($32-$218), which they must repay in 30 days; their loan limit can be increased if they repay their loans within their agreed plan and time. The startup's focus on short-term credit is a reflection of its target market: The majority of Colombians who lack access to conventional credit and are often forced to use alternative lenders that charge exorbitant fees.

Focusing on the the underserved has given RapiCredit a huge addressable market to target. That there's a substantial population in the country locked out from conventional credit products is a boon for RapiCredit, as it gives it a large consumer base to offer its short-term loans to. The startup reports these consumers' data to credit agencies, which allows its users to build their credit history. By doing so, RapiCredit is able to help these consumers access conventional loans in the future: In fact, after using its platform, 36% of its customers have been able to access traditional bank loans. As it grows, the challenge for RapiCredit is to increase its balance sheet so that it has the capacity to meet its consumers' needs, and avoid losing customers with bigger capital needs, such as mortgages, to banks. In that way those consumers will stay with the fintech instead of turning to banks for bigger capital needs like mortgages.

Opportunities In Consumer Lending

With large swaths of the population remaining unbanked, there are significant growth opportunities for consumer lenders. In addition to only 45% of Colombians over age 15 having a bank account, even fewer (15%) borrow from financial institutions. Consumers' lack of access to mainstream financial services means that while early movers like Lineru have secured traction, their market share remains small. This leaves a large addressable audience of consumers with unfulfilled needs. We think fintechs that identify partnership opportunities to work with players outside of the financial services industry can quickly scoop up shares of this market. For instance, around 10% of Colombians who borrow money do so for educational purposes, while another 10% do so for health purposes, per Colombia Fintech. By partnering with large healthcare or academic institutions, fintechs can get their products directly in front of more Colombian consumers, and in the process accelerate their growth.

While lending is perhaps a low-hanging fruit in the Colombian fintech space, players that offer a breadth of digital financial services can get ahead of their peers. Given the credit gap in the country, it makes sense that a number of fintechs have coalesced around consumer lending. But there's also an opportunity for players to rebundle financial services beyond credit and offer an integrated suite of solutions to meet their wider financial needs. For instance, they could bolster lending services by offering bank accounts and personal finance management tools. Players that do so stand to reap significant benefits: Such products offer valuable cross-selling opportunities that can maximize returns per customer, offer a greater pool of data to further improve their lending decision-making processes, and drive greater engagement with customers, which can increase

Noteworthy Fintechs: SMB Lending

Business Insider Intelligence identified the listed SMB lending fintechs as noteworthy by looking into crucial metrics, including funding figures, client numbers, and pain points these players' solutions addressed for Colombian SMBs.

Notable Colombian SMB Lenders

	sempli	finaktiva FINANCIACIÓN INTELIGENTE	aliatu
Key statistics	• Founded in 2016 • Total funding amount (equity + debt) of $24 million • 5%-6% delinquency rate after 30 days, compared with 10% - 11% for traditional lenders • Almost 1,000 clients • Average interest rate of 11%	• Founded in 2017 • Total funding amount of $15 million	• Founded in 2018 • SMB lending brand of Zinobe, which has raised more than $50 million in debt • Average interest rates of 24%-25% • Served over 100,000 SMBs to date
Services	• Short-term SMB loans	• SMB loans • Business Insights • Financial insights	• Short-term (6-month) working capital • Longer-term (24-month) credit line
Strengths	• Over 60 data points for credit assessment • Personalized loans to SMBs	• Services beyond lending to build SMB loyalty	• Partnerships with large companies to offer working capital across their supply line

Source: Company filings, Crunchbase, executive interviews, 2019

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Sempli. The startup, which operates a lending platform for SMBs, recently secured an $8 million raise, to take its total funding in equity and debt to north of $24 million. SMBs can apply for a loan by filling out an online form, which takes around 10 minutes. Thereafter, the startup conducts an online interview to better assess applicants, Esteban Velasco, Sempli's cofounder and CEO told Business Insider Intelligence. If applications are successful, SMBs are offered loans in 48 hours, with a range of choices regarding terms and rates for their loans. To be eligible for a loan, companies must have been established for a minimum of one year and have annual revenues of at least $200 million pesos ($58,035).

Sempli's approach of mixing alternative data with a human touch has helped it overcome the challenge of determining creditworthiness. In Colombia, like in many emerging economies, a lack of a standardized credit scoring approach for SMBs means determining creditworthiness is particularly challenging; it's unsurprising that around 60% of SMBs that apply for loans at traditional lenders in the country are rejected. To overcome this, Sempli leverages over 60 data points, including credit bureau and tax filing data as well as psychometric data gathered from interviews, to make credit decisions. The next step for Sempli is to automate more of its lending processes, which can allow it to cut its lending decision times significantly as well as to reduce its underwriting costs, something which its growing troves of data can support.

Finaktiva. Finaktiva operates a digital lending platform for Colombian entrepreneurs and SMBs. Beyond offering credit facilities, the startup offers clients resources and tools like business-focused webinars to help them manage their operations. Offering financial tools beyond credit is especially beneficial for Finaktiva, as around 40% of its clients have no previous experience with using formal banking services. These tools can improve clients' overall financial health, in turn potentially making them more likely to repay loans.

Finaktiva's strengths lie in the fact that its services span beyond SMB credit alone — a useful strategy to build client stickiness. Given that a substantial proportion of its client base were previously unbanked, the startup's add-on benefits like financial literacy programs are a valuable tool for its clients. By providing businesses with tools and educational services, the startup can build up loyalty with SMBs and ultimately increase the lifetime value of each SMB. Moreover, doing so will likely build goodwill among its clients, which in turn can make them evangelists for its products.

Aliatu. Aliatu provides short-term loans of COL$1 million ($290) to COL$50 million ($1,448) for a period of one to six months, as well as longer-term loans lasting for 24 months, to micro and SMBs. It is the SMB lending business unit of Colombian fintech startup Zinobe, which has served more than 750,000 consumers and SMBs across its retail and business lending brands. Aliatu has a slew of partnerships with large corporations in Colombia to provide working capital financing to SMBs in those corporates' supply chain, Schrimpff told Business Insider Intelligence.

Zinobe's retail and SMB lending operations as well as the fact it has partnerships with large corporates in the country is an important competitive advantage for Aliatu. A significant portion of Colombian SMBs are family-owned or sole-trader businesses, meaning there's a direct tie between these businesses and the individuals who own them, according to Schrimpff. This is a boon for Aliatu, because it has existing data on SMB owners from its parent company's consumer lending brand, which not only gives it a valuable cross-selling opportunity, but also makes it easier to assess creditworthiness and ultimately offer loans to these SMBs. Beyond this, the fact that the startup has struck up partnerships with large corporations in Colombia means it can offer loans to SMBs that work with these companies, and do so at a lower customer acquisition cost. As it continues its rapid growth — it's already served 100,000 SMBs in the year it has been operational — Aliatu should consider adding services like financial insights to bolster its proposition. Because it already has crucial insights into the SMBs it works with via corporate partnerships, such an offer would likely be easier for it to develop than for players starting from scratch.

Opportunities In SMB Lending

Fintech SMB lending in Colombia is still fairly nascent — which gives fast-moving players an opportunity to scoop up large shares of the market rapidly. In contrast to Mexico, for instance, Colombia's SMB lending fintechs are very small — as demonstrated by the size of the funds they've raised. Despite the early progress these players have made, a substantial share of the 2.5 million SMBs in Colombia still lack access to capital. For players that move fast and deliver innovative and seamless solutions to help Colombia's SMBs meet their capital needs, there's substantial scope to snag a large share of the country's SMB lending market.

Around 70% of Colombian SMBs shutter in the first five years of operations — suggesting a large addressable market for services beyond capital. On top of the risk inherent in operating any SMB, players in Colombia also likely struggle because of a lack of financial education. As we noted above, around 40% of SMBs that use Finaktiva are previously unbanked, meaning they have limited understanding of formal finance. This suggests there is a sizable addressable market for fintechs — and incumbents — that can provide SMB-geared services beyond meeting capital needs. Players that can deliver greater business insights to these SMBs, such as financial insights about their cash flows and how to manage their overheads, can better help SMBs prosper. Doing so is likely to mean greater client loyalty for these fintechs, which can help them differentiate from competitors.

Challenges To Fintech Growth

Access to funding is the biggest challenge faced by fintech players in Colombia. Latin America's fintech ecosystem is only beginning to thrive, having lagged not only established markets like the US, the EU, and China, but also emerging regions like Southeast Asia. As such, the total pool of funding going into the region remains relatively low compared with other regions. Even then, the lion's share of the funding for the region’s fintechs has been directed at players in Brazil and Mexico — unsurprising given these countries are the two biggest in the region in terms of economy, population, and fintech players. The impact: Colombia's fintechs will have to fight incredibly hard to secure a share of the already limited fintech funding flowing into the region. One possible path for overcoming this challenge is greater collaboration between fintechs to establish opportunities for investors to interact with players in the space, such as holding regular fintech-focused events.

Talent shortage is a major challenge Colombian fintech players have to contend with. Finding the right talent is one of the biggest challenges that Colombian fintechs face, according to Sempli CEO Velasco. This is perhaps unsurprising as Colombia is both an emerging economy and a nascent fintech ecosystem, and as such tech-focused employees are hard to come by. In the long run, the growing number of fintechs in the country means there's likely to be more and more of the country's population that'll pursue training, which will help to fill the skill shortage to an extent. One way fintechs can get ahead of this challenge is to build relationships with universities to reach skilled graduates more effectively, as well as to increase uptake of the studies that produce these skilled workers. This is an approach adopted in other markets; for example, US blockchain-based startup Ripple has adopted this strategy to increase academic engagement with blockchain.

Download the charts and data in Excel.

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