

**THEORY AND OPERATION OF A NATIONAL MODERN ECONOMY  
GEORGE WASHINGTON UNIVERSITY**



**Banking Correspondents contributions to the provision  
of the bank services in Brazil**

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IBI -Institute of Brazilian Business and Public Management Issues

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To all those whom I could not give the deserved attention during  
this period of intensive study, especially to my family who,  
with wisdom and patience, have always encouraged and supported me.

**Banking Correspondents Contributions to the provision  
of bank services in Brazil**

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#### 5. Bibliography

## **Brazil Financial System**

### **1.1 Brazilian Banking System**

The Brazilian banking system is characterized by the presence of large, private financial conglomerates, State banks and smaller private banks.

Until 1989, the system was notable for its specialized nature; each institution could only act in specific segments of the market. But, from then on, Brazil saw the advent of the multiple bank, which permitted to act simultaneously in different market segments, accompanied by a reduction in the minimum capital requirements for their constitution. These changes intensified competitiveness in the financial sector.

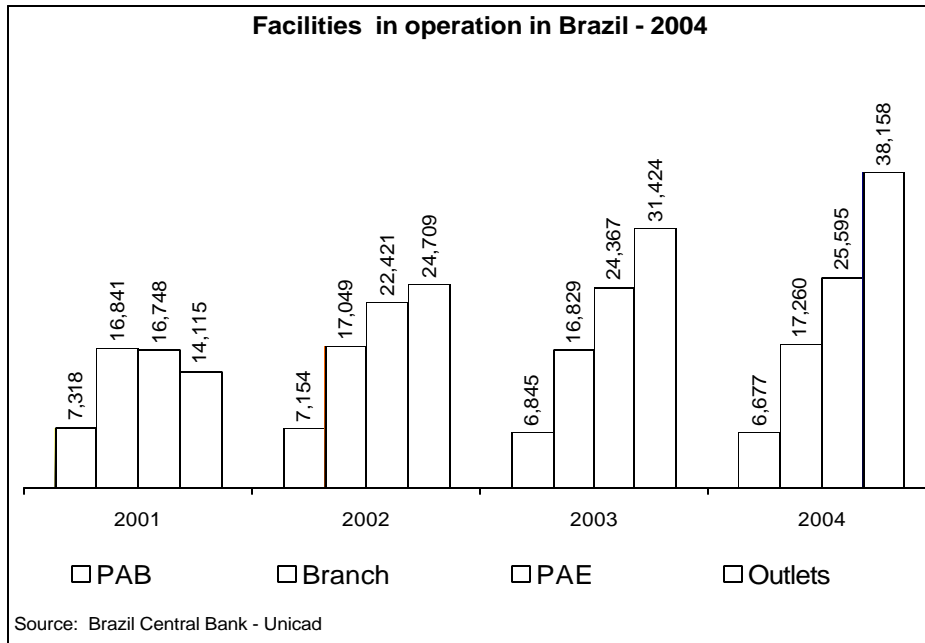
Another remarkable feature of the Brazilian financial sector is its operational efficiency. The high inflation registered over the last two decades and the large-scale economies achieved by the major conglomerates has led to the development of systems for clearing, collections, liquidation and electronic transfer of funds which stand out for their high standards of efficiency.

It is now possible to make electronic payments of any value from practically all Brazilian cities and to clear checks between the main centers within 48 hours. The successive plans for economic adjustment and price freezes have taught the banks to not depend solely on earnings reaped from inflation, which in turn has induced them to reduce costs and invest in technology. Consequently, they have been able to raise levels of operational efficiency to an extremely high point.

These characteristics have ensured that the Brazilian banking system, looked at from an operational point of view, is one of the most efficient in the world.

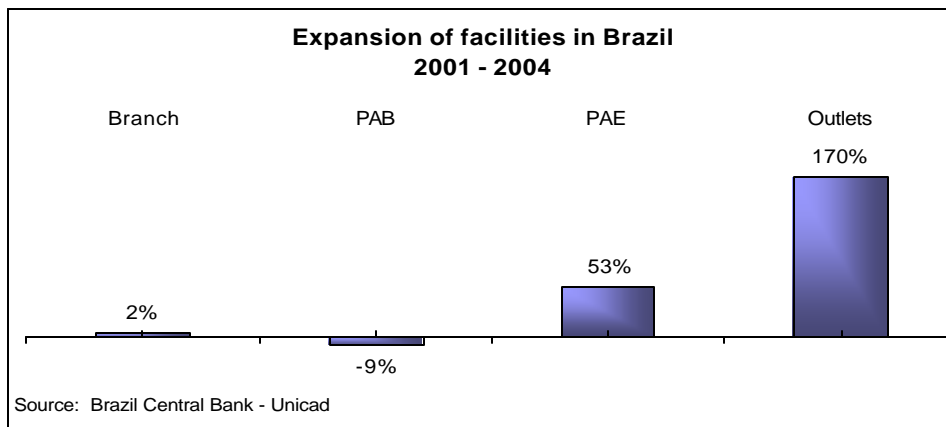
According to a report on the evolution of Brazilian Financial System, by Brazil Central Bank, in Brazil, banking financial institutions provide services to the public through the following dependencies: branches, advanced service posts (PAA), banking service posts (PAB), electronic banking service posts (PAF), cooperative service posts (PAC) and correspondents, in addition to collection and payment banking posts (PAP) and rural credit advanced posts (PACRE), the last two no longer authorized by the Central Bank.

The evolution of the main facilities in operation in Brazil are shown in the next board. The information was regarding 2004, because this was the last year completely reported on the Brazil Central Bank website.



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Though bank branches are the main type of service point, both regarding scope of services and free access by the general public, since 2002 the number of dependencies of this type grows more slowly than electronic service posts. In 2004, this trend became stronger.



However, although the network of correspondents increases faster than the number of branches, they provide services that are structurally different and non exclusive of each other

Another explanation for the lower pace of growth experienced by bank branches is the reorganization processes implemented by large network banks in the wake of acquisitions that took place in recent years.

The technological advancements introduced by the need felt by institutions to cut costs, what triggered a deep rationalization of operating procedures by financial institutions, without, however, implying prejudices to the quality of services rendered to the population.

The increase in the offer of bank services was brought about by automatic service, through electronic terminals and banking correspondents (outlets) providing a higher degree of comfort to customers in their use for many reasons, such as greater area of presence and the number of hours of availability to users, thus improving the quality of service to the population.

As a result of new technologies being absorbed by Brazilian financial institutions, the costs incurred in the installation and maintenance of the so called automatic tellers and banking correspondents are much smaller when compared to the costs of the traditional service,



operated by the employees of the institution. It must be stressed that the cost of the physical installation is the highest part of the banks' fixed cost.

When bank services come into examination our attention is called to the number of municipalities that do not have any branch, PAA or PAB type dependency, although they may have financial services supplied by correspondents.

The growth may be explained by the replacement of branches and service posts by bank correspondents in the municipalities that failed to provide a return in line with the cost of maintaining dependencies of the bank itself.

The lack of a branch, PAA, PAB or even PAC does not mean a lack of bank services, since practically all Brazilian municipalities may rely on same type of assistance, including assistance rendered through correspondents.

The middle class, however, demanded products and tools to protect their savings from inflation. In response, the banks (which have been operating in a competitive environment for years) had to battle to offer availability, variety, reliability and expertise to the market.

The Brazilian banking system is backed by high technology: informatization is employed to the max, and the limit is more on the user's side than on the bank's side; most banks have a presence in the internet, and the available options are wider than in some foreign banks.

The banks in Brazil operates all across the country; practically all Brazilian cities have the presence of one of the major banks; medium cities (>100,000 habitants) usually have a few full service branches.

Also a wide variety of products are offered. Besides the usual transactions (receiving salary, paying bills, etc), Brazilians can use the bank to: buy insurance; buy and sell shares; invest on currency, derivatives, many future markets, etc; invest on retirement plans .

The System is reliable, in the sense that there is a protection net against frauds and bankruptcy; a few years ago, right after the inflation was controlled, a few major banks failed, and the Brazilian Central Bank responded with a tighter control of balances and the creation of a fund to protect depositors.

The technology and the supervision of the Central Bank bring reliability to the inter-bank operations: the clearing of transactions is quick and reliable, at the site of the Central Bank.

In the technical report from Brazil Central Bank the overview of banks in Brazil did not change in 2004. The scenario stability shows a consolidation of the accentuated process of mergers and acquisitions in the financial market occurred in the last decades. Competitiveness among banks shall increase with the course time as a way to conquer more spaces. Under this perspective, technology shall play an increasingly important role in the offer of new services and in the more efficient management of their structures.

With only 9% of the total number of banks, the public banks have 44% of the total of facilities installed in Brazil, that is, 40% of the agencies, 47% of the service stations and 46% of the ATM stations. With 38% of the total number of banks, the foreign banks have more compact networks, totaling only 19% of the active facilities in the Brazilian territory.

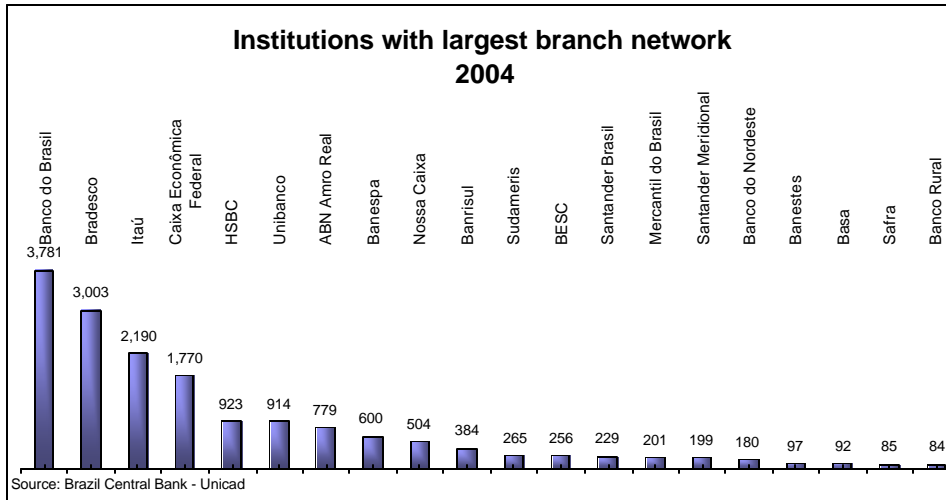
However, there was a remarkable expansion in the number of clients who started using the Internet for their banking transactions. In two years, this universe was doubled, totaling over 18 million at the end of 2004. The voluminous entrance of small businesses that also started using the facilities offered by the virtual network is responsible for the increase in the number of Legal Entity Internet Banking clients. Today, people save countless trips to the banks and stations and have their financial needs met through payment and scheduling of operations via banks' websites.

## 1.2 Statistics of Sector

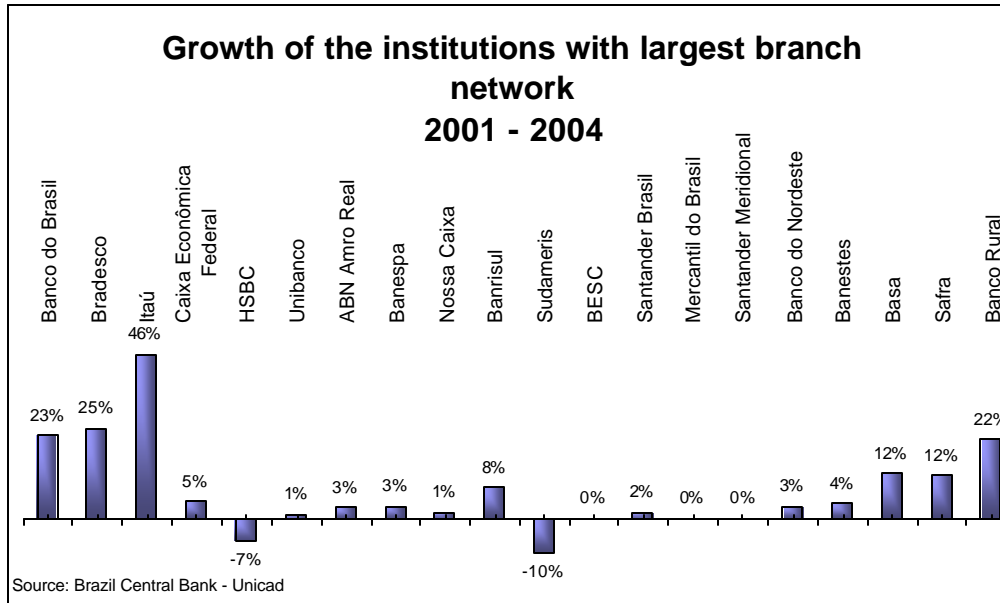
### 1.2.1 Institutions with largest branch network

Institutions with largest branch network					
Bank	2001	2002	2003	2004	%
Banco do Brasil	3,068	3,164	3,295	3,781	23%
Bradesco	2,406	2,508	2,832	3,003	25%
Itaú	1,504	1,670	1,708	2,190	46%
Caixa Econômica Federal	1,689	1,701	1,710	1,770	5%
HSBC	989	943	925	923	-7%
Unibanco	904	896	903	914	1%
ABN Amro Real	756	793	788	779	3%
Banespa	580	595	597	600	3%
Nossa Caixa	497	497	504	504	1%
Banrisul	354	368	378	384	8%
Sudameris	293	294	296	265	-10%
BESC	256	256	256	256	0%
Santander Brasil	225	226	226	229	2%
Mercantil do Brasil	201	200	200	201	0%
Santander Meridional	199	199	199	199	0%
Banco do Nordeste	174	174	174	180	3%
Banestes	93	93	91	97	4%
Basa	82	82	85	92	12%
Safra	76	78	82	85	12%
Banco Rural	69	75	77	84	22%
<b>Subtotal</b>	<b>14,415</b>	<b>14,812</b>	<b>15,326</b>	<b>16,536</b>	<b>15%</b>
Other Banks	2,426	2,237	1,503	724	-70%
<b>Total</b>	<b>16,841</b>	<b>17,049</b>	<b>16,829</b>	<b>17,260</b>	<b>2%</b>

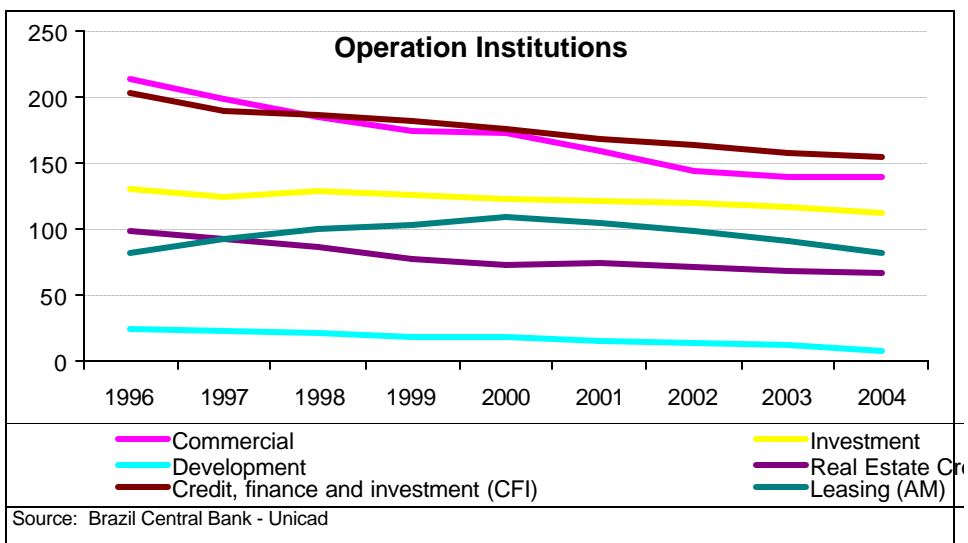
Source: Brazil Central Bank - UNICAD



### 1.2.2 Growth of the institutions with largest branch network 2001 – 2004

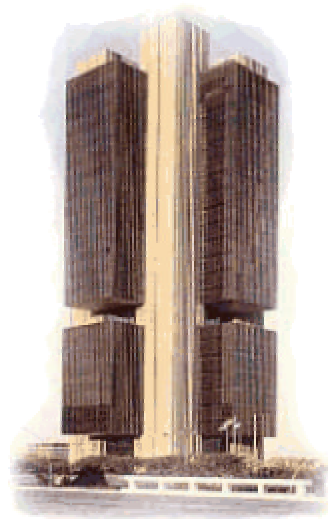


### 1.2.3 Operation Institutions



### 1.3 The main financial institutions and banks in Brazil

#### a. Brazil Central Bank



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The Banco Central do Brasil (BCB), created in 1964, is an autonomous federal institution and part of the National Financial System (SFN).

In a process that continued through 1988, the functions of monetary authority were progressively transferred from the Bank of Brazil to the Central Bank, while the atypical activities carried out by the latter, such as those related to economic incentives and the administration of the federal public debt, were transferred to the National Treasury.

The 1988 Constitution sets down Central Bank's matters, such as the exclusive attribution of the Union to issue money, the need to submit persons appointed by the President of the Republic to be president and director of the Central Bank to prior approval by the Senate, and the prohibition to direct or indirect granting of loans to the National Treasury. The 1988 Constitution also establishes the drawing up of a Complementary Law of the National Financial System, to substitute Law no. 4,595, dealing with varied and important aspects of the structure and activities of the Brazil Central Bank.

**b. FEBRABAN - Brazilian Federation of Banks**



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Founded in November 1967 - FEBRABAN - Brazilian Federation of Banks is a professional organization and the principal representative of the Brazilian banking sector. Its 119 members, out of a total of 164 banking institutions (as of January 2004), hold 95% of the total assets in the system, which strengthens its role as a spokesman for banks in Brazil.

FEBRABAN activities are designed to promote continuous enhancement and upgrade of the Brazilian banking system. For this purpose, it relies on 21 permanent technical committees, which are coordinated by area directors. The committees conduct studies and researches that guide the activities of the entity and its members in different areas.

The main areas are: Accounting and Tax Issues, International Banking Issues, Small and Medium Banks Issues, Internal Audit and Compliance, Cards and Electronic Business, Social Communication, Real Estate Credit, Economy, Risk Management, Legal, Marketing and Customer Relations, Treasury Operations, International Operations, Credit Policy, Financing Products, Human Resources, Institutional Relations, Social Responsibility, Bank Security, Banking Services, Banking Technology, and Automation.



**c. BNDES**

Banco Nacional de Desenvolvimento Econômico e Social - National Bank for Economic and Social Development - An official bank with the mission to support enterprises with

social-economic objectives. Much of the privatizations which happened over the last years were possible only because BNDES loaned the money used to buy out the companies.

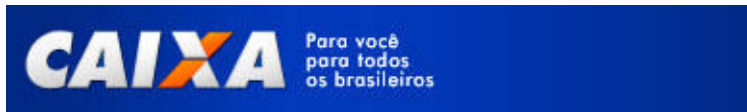
d. **BANCO DO BRASIL**



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Banco do Brasil - The biggest, by assets. Bank of Brazil has shares traded in the stocks exchange, but the Brazilian government has control over the bank. The customers enjoy the largest own network of banking services in the country. There are 14,450 points of service in 2,984 municipalities. This network is segmented according to the markets defined by the Bank, with 3,599 branches linked to the retail market, 38 to the Government market, and 85 to the wholesale market. In 2004, it was also marked by the expansion of the network of banking correspondents.

e. **Caixa Economica Federal**



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Caixa Economica Federal is the largest public bank of Latin America. The numbers are impressive: the customers' base was expanded by 42% in the last two and a half years, arising from 23,1 million to 33,6 million customers. More than 3 million people entered in the Brazilian banking system through the program of simplified account, the largest action of bank inclusion ever taken in the country.



The bank also has the largest network of channels in the country, including all the 5.561 Brazilian municipal districts, with more than 17 thousand service points among branches, lotteries outlets and banking correspondents.

Strategically, the Federal Savings bank – CAIXA – decided to enlarge the capillarity with a mix of channels capable to support banking services challenge also for the population of lower income, which until then were not assisted by the Banks.

The mix is composed by branches and PAB, ATM, the telemarketing and internet as icons of virtual channels and the most bank correspondents.

Banking correspondent is a commercial establishment that is contracted for a financial institution, with authorization of the Central Bank of Brazil to render financial services.

The Federal Savings bank is the owner of the biggest banking correspondents network in the country and it is present in all of the Brazilian municipal districts, interlinked with "on-line" system.

The segment of bank correspondents led by CAIXA lives a continuous struggle to cross the challenges and to provide the financial services for all Brazilians.

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f. **Bradesco**



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Bradesco assists their customers in a segmented way, (9 Private units, 195 Prime branches, 4 corporate units, 66 companies branches, 2656 retail branches and 5461 banking correspondents) in other words, with differentiation of products and services to reach the best adaptation to the profile and load of yours diversified target audience.

In consonance with world tendency of market, the structure it allows the customers' meeting in groups of one same profile, what makes possible a differentiated service and the enlargement of the opportunities of businesses, with larger focus in the actions of relationship.

g.

Itaú








































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The focus of the Itaú Bank, with 2.391 branches, 783 PAB and 22.023 ATM, is to reach the excellence in two fronts: the creation of products and services for the 16,7 million customers, and the development of technologies that guarantee agility, safety and convenience.

The segmentation strategy makes possible for Itaú to constitute and to consolidate companies, structures and systems to answer to the several areas of the finance market and to the several groups of customers.

### 1.4 Regulation and Supervision Entities

Regulation and Supervision Entities		
<p style="text-align: center;">C M N National Monetary Council</p>	<p style="text-align: center;"> <b>Central Bank of Brazil</b></p>	<p>Financial institutions that receive demand deposits</p> <ul style="list-style-type: none"> <li> Multiple or universal banks with a commercial bank portfolio</li> <li> Commercial Banks</li> <li> Savings banks</li> <li> Credit cooperatives</li> </ul>
		<p>Other financial institutions</p> <ul style="list-style-type: none"> <li> Multiple or universal banks without a commercial bank portfolio</li> <li> Investment banks</li> <li> Development Banks</li> <li> Consumer finance companies</li> <li> Savings and loan companies</li> <li> Mortgage companies</li> <li> Development Agencies</li> <li> Savings and loan associations</li> <li> Micro-entrepreneur Credit Company</li> </ul>
		<p>Other financial intermediaries or auxiliaries</p> <ul style="list-style-type: none"> <li> Commodities and futures exchanges</li> <li> Stock exchange</li> <li> Securities brokers</li> <li> Securities dealers</li> <li> Leasing companies</li> <li> Exchange brokerage companies</li> <li> Representatives of Foreign Institutions</li> <li> Independent agents for investments</li> </ul>
		<p>Insurance and pension entities</p> <ul style="list-style-type: none"> <li> Private closed pension funds</li> <li> Private open pension funds</li> <li> Insurance companies</li> <li> Capitalization companies</li> <li> Health insurance management companies</li> </ul>
		<p><b>Portfolio Management</b></p> <ul style="list-style-type: none"> <li> Mutual investment funds</li> <li> Investment clubs</li> <li> Foreign investors portfolios</li> <li> Consortium managers for self-acquisition of durable consumer goods &amp; services</li> </ul>
		<p><b>Liquidation and clearing systems</b></p> <ul style="list-style-type: none"> <li> Special system for liquidation and custody of government bonds- SELIC</li> <li> Center for the custody and financial liquidation of private issues</li> <li> Stock exchange clearing system</li> </ul>
	<p style="text-align: center;"> <b>Securities and Exchange Commission</b></p>	
	<p style="text-align: center;"> <b>Private Insurance Superintendency</b></p>	
	<p style="text-align: center;"> <b>Complementary Pension Secretariat</b></p>	

## Chapter 2

### **The importance of inclusive financial system for the low income people**

In this chapter, I tried to gather several articles, materials and reports, produced in several parts of the world regarding building inclusive financial sectors acknowledging the importance of this financial segment in provision of funds to low income populations in different countries of the world.

With the United Nation's International Year of Micro-Credit now underway, attention shifts to the exchange and understanding of practical examples and initiatives.

#### **2.1 Shaping the “blue book” on building inclusive financial sectors for development**

“The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance.

The great challenge before us is to address the constraints that exclude people from full participation in the financial sector...

Together, we can and must build inclusive financial sectors that help people improve their lives.”

**UN Secretary General Kofi Annan, 29 December 2003,  
announcing 2005 as the International Year of Microcredit**

On the basis of the objectives of the 2005 International Year of Microcredit and the mandate to pursue consultations under the umbrella of the Monterrey Consensus, the United Nations Capital Development Fund and the Financing for Development Office of the United Nations Department of Economic and Social Affairs launched a consultative process to deepen the investigation of the fundamental question of why so many bankable people are unbanked.

Building inclusive financial sectors should be a major goal of development policy. The financial sector overall development is important for poverty reduction; promoting inclusive finance can reinforce this effect. Yet, the vast majority of people in developing countries do not have access to financial services and there is considerable disparity among countries in the inclusiveness of their financial systems.

However, financial systems can do even better in helping overcome poverty through direct interaction with the poor. Microfinance — safe savings, appropriately designed loans, and other financial services for poor and low-income people — is an effective way to help poor people to increase incomes, build assets, manage risk, and try to work their way out of poverty.

For the poor, access to financial services can mean not only increased production, but also protection as the financial sector — through stored savings, credit and insurance — can serve as a cushion in times of crisis. More developed domestic financial markets fuelled by domestic savings can, over time, reach more of the poorer segments of the population, as well as those segments of the economy that most affect the lives of the poor.

Financial markets in many countries in the world are shallow, incomplete, segmented and inefficient. Institutional weaknesses such as the lack of credit-risk management capability, poor public sector governance, as in terms of competence and effectiveness of the courts in the areas of contract enforcement, collateral and bankruptcy laws, as well as traditions of obscurity in business accounting and reporting, and the cash-based nature of these economies impede the emergence of the virtuous circle of financial sector development and economic growth.

Appropriate government intervention through policy, legislation and regulations is essential to overcome such situation.

Financial sector development is a critical element of development in the light of its contribution to economic growth and equity, as well as enhancing financial stability. A robust financial sector can help strengthen financial services for the poor, but the latter requires an explicit policy consideration at country level.

## **2.2 World Bank, World Development Report, 2000-2001**

“Access to financial market is important for poor people. Like all economic agents, low-income households and micro-enterprises can benefit from credit, savings, and insurance services. Such services help to manage risk and to smooth consumption ... and allow people to take advantage of profitable business opportunities and increase their earnings potential.”

“But financial markets, because of their special features, often serve poor people badly ... Since poor people often have insufficient traditional forms of collateral (such as physical assets) to offer, they are often excluded from traditional financial markets ... Transactions cost are often high relative to the small loans typically demanded by poor people. And in areas where population density is low, physical access to banking services can be very difficult.”

## **2.3 World Bank – Access to Financial Services in Brazil**

A great study was led by Anjali Kumar, Lead Financial Economist in the Finance Cluster of the Latin America and the Caribbean Region of the World Bank. The work is the outcome of a collaboration of an extensive team of people from within the World Bank in Brazil and external consultants.

In the recent study, the challenge of alleviating poverty and improving living conditions for the poorest populations is a formidable one. It is increasingly apparent that such a betterment of the lot of the poor people requires an effort that spans all sectors of the economy and may not be easy to achieve through economic growth alone.

Improved access to financial services helps poor people by enabling payment transactions that then bring them into the formal sector. Access to deposit services helps people save safely and thus handle fluctuations in consumption needs. Financial services also enable poor people to use profitable business opportunities and thus raise earnings.

## **2.4 “Pink Book” – Summary of the key principles of microfinance**

These principles were developed and endorsed by CGAP (Consultative Group to Assist the Poor) and its 28 member donors, and further endorsed by the Group of Eight leaders at the G8 Summit on 10 June 2004, at Sea Island, Georgia, USA.

- ? Poor people need a variety of financial services, not just loans. In addition to credit, they want savings, insurance, and money transfer services.
- ? Microfinance is a powerful tool to fight poverty. Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks.
- ? Microfinance means building financial systems that serve the poor. Microfinance will reach its full potential only if it is integrated into a country's mainstream financial system.
- ? Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people. Unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from donors and governments.
- ? Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services.
- ? Microcredit is not always the answer. Other kinds of support may work better for people who are so destitute they are without income or means of repayment.
- ? Interest rate ceilings hurt poor people by making it harder for them to get credit. Making many small loans costs more than making a few large ones. Interest rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people with highest credit risk.
- ? The job of government must enable financial services, not provide them directly. Governments can almost never do a good job of lending, but they can set a supporting policy environment.
- ? Donor funds should complement private capital, not compete with it. Donor subsidies should be temporary start-up support designed to get an institution to the point where it can tap private funding sources, such as deposits.
- ? The key bottleneck is the shortage of strong institutions and managers. Donors should focus their support on building capacity.

- ? Microfinance works best when it measures—and discloses—its performance. Reporting not only helps stakeholders judge costs and benefits, but it also improves performance.

In the same report, financial services can play a critical role in reducing poverty. Permanent access to financial services can enable poor people to increase incomes, build assets, and reduce their vulnerability to external shocks.

In this context, financial services can put power into the hands of poor households, allowing them to progress from hand-to-mouth survival to planning for the future, acquiring physical and financial assets, and investing in better nutrition, improved living conditions, and children's health and education. Because financial services can be delivered sustainably, these benefits can be enjoyed well beyond the duration of donor or government programs.

It is important to note that all aspects of an inclusive financial system may be difficult to apply in all countries. As in every other area of development, one of the most important starting points should be the country context. For instance, in countries with dysfunctional or non-existent financial systems, the entry point for building permanent access to financial services for poor people will differ from the entry point in countries with flourishing financial systems.

**2.5 Brazilian Federal Government and Central Bank are maintained with a view to foster the development of this segment in the financial system.**

“The area of financial system regulation and organization will increasingly be focused on the following aspects: ... creation and improvement of financial instruments and activities including those intended to broaden and cheapen credit.”

“It is a priority to improve the regulation of mechanisms that broaden the access of the population to the financial system.”

Henrique de Campos Meirelles, Governor of the  
Central Bank of Brazil, January 7, 2003.



The United Nations, under the direction of the General Assembly, declared 2005 as the International Year of Microcredit, acknowledging the importance of this financial segment in the provision of funds to low income populations in different countries of the world.

This is one of the reasons by which the 2004 Yearly Report on the Development of the National Financial System keeps focusing on the microfinance segment. The other reason is that expectations on the impact of measures taken by the Brazilian Federal Government and Central Bank are maintained with a view to foster the development of this segment in the financial system.

In this context, the strategies put in place in the remaining segments of the National Financial System (SFN) by different financial conglomerates, especially banks operating with commercial portfolio, to leverage positions in market niches such as loans, both personal loans and consumption loans, proved to be very innovative.

Several institutions competed fiercely for significant shares of the demand for credit, in particular through the so called consignment loans, the repayment of which is made by installments debited to the consumer's paycheck, as well as by the offer of consumption loans, mainly through associations with retail shops networks .

## 2.6 “Unbanked: Technology’s Role in Delivering Accessible Financial Services to the Poor”

A SEMBA Consultant, Janine Firpo, in the article “Unbanked: Technology’s Role in Delivering Accessible Financial Services to the Poor” writes that the goals of attaining economic development in many more countries around the world is unlikely to be accomplished while 1.7 billion working adults make less than US\$2 a day [McKinsey & Company, 2005] and have little or no access to basic financial services. The history of financial systems in the United States has shown that providing citizens with access to capital and the ability to save are key underpinnings of economic growth. Yet between 70 - 80% of the world’s population has no access to even the most basic financial services.

**Deleted:** In this context, the task of the Brazil Central bank is fundamental to regulate the National Financial System, increasing the chances of the banks to assist the citizens who are excluded from the banking system, for income or for geographical area. ¶

Over the last 30 years, the microfinance industry has proved that the extreme poor are bankable. Not only do they repay loans, but they also do so with very low defaults and relatively high interest rates. Banks and entrepreneurs in developing countries under development are beginning to realize that there is a viable market for financial products among the vast unbanked populations of the world.

What is more significant for the purposes of this paper are the meta-lessons that have arisen from a combination of results from the pilot in Uganda, similar initiatives conducted in other parts of the world, and analysis of both the microfinance and finance industries. Together these conclusions pushed the team to think in new ways.

- ? Technology combined with business process change brings the greatest return
- ? Emerging markets require innovative, appropriate technologies that are designed for scale
- ? The cost associated with building the infrastructure to support this enabling technology is too high for MFIs to do it alone.

## **2.7 More than micro-finance: Linking business solutions to 'bank the un-banked'**

In this article, Cameron Rennie, director of the World Business Council for Sustainable Development profiles the business case for micro-finance, as well as showcasing examples of work in practice.

Micro-finance is regarded as one of the success stories of development. It has demonstrated the capability of communities to look for solutions that create wealth rather than relieve poverty.

However, for micro-finance to unleash its full potential, and operate at scale, it needs to operate as a business that can compete for capital and not be dependent on free or low interest funds to make it viable. It needs new technologies and new impetus with demand for micro-credit, savings and insurance being created from other businesses. This will create the economic virtuous cycle of development that builds the capital of the poorest communities.

Finance is essential for everyone. For thousands of years trade has been a source of development – both in sheer economic terms and through the related exchange of thoughts and ideas. It might be argued that in the current era of growing insecurity and poverty the beneficial exchanges brought about through movement of goods, people and ideas are more important than ever.

Flourishing trade requires flourishing finance: exchangeable currencies, savings as security and loans for investments. These notions apply to the 2.8 billion people on the planet who live on less than \$2 per day, just as much as they apply to the richer parts of the population.

Business solutions to poverty Member companies of the World Business Council for Sustainable Development (WBCSD) are leading the way in developing an understanding of the opportunities generated by Sustainable Livelihoods business. That is business which benefits low-income communities, whilst simultaneously providing new avenues of growth for companies. It involves putting the poorest communities at the heart of business thinking to identify opportunities for them to become sources of supply or innovation.

It involves considering how to include and consider everyone as potential employees and customers of the future in a way that makes good business sense. Solutions that engage the poor in local economic activities are likely to be sustainable over the long term and to provide growing income and secure livelihoods.

The approach to Sustainable Livelihoods business is strictly businesslike because the rigors of a business approach are most likely to yield benefits that are enduring. Business wants to remain viable, and in the process it can provide employment and deliver goods and services including basic needs such as water and energy. Moreover business creates opportunities for entrepreneurs as suppliers and distributors – thus driving the virtuous circle of economic growth and sustainable development.

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Recent events in Asia have shown not only the vulnerability of populations who have been unable to invest in durable housing, but how whole communities are destroyed through inadequate infrastructure. Microfinance is no panacea, and the private sector is certainly not the single actor that will prevent poverty and crisis.

However, in a world of six billion people, where nearly half of them live far below any commonly accepted standard of decent living, there is growing realization that the dynamics and motivations of business are the drivers of long term development and security.

If set within a fair regulated framework for commerce, business transactions reward efficiency; business delivers essential services such as water, energy and foodstuffs; business creates jobs and income.

Looked at from another point of view, as the world population is predicted to increase to nine billion by 2050, the poorest three billion going on six billion are the employees, the customers and the entrepreneurs of the future. Microfinance warrants investment and support from all stakeholders to ensure the technology and the regulatory environment is developed to provide products that are affordable, accessible and available at a scale that will make a difference.

There are many opportunities if we invest in "banking the un-banked", concludes Cameron Rennie.

## Chapter 3

### Development of the Banking Correspondents

I

#### 3.1 Banking Correspondents

The number of banks and their branches has remained stable in the past five years, confirming the trend for stabilization of the most traditional channel of access to clients. On the other hand, the number of selfservice stations continues to grow, even if slower than in the previous years.

According to technical report of the World Bank, a number of banks in Brazil have developed a home grown, sophisticated delivery channel called “banking correspondents”. Using technology and partnerships with retail lottery and postal outlets, these banks have opened millions of new accounts in a few years in urban slums, peri-urban areas, and even rural and remote locations.

Banking correspondents are retail establishments contracted by the banks and authorized by the Brazil Central Bank to render services for banks. They use technology and business arrangements with retailers, such as supermarkets, grocery stores, drugstores, gas stations, the postal company, and the lottery outlet chain.

Banking correspondents offer services including savings deposits, credit withdrawals, bill payments, new account openings, money transfers, insurance, and government benefits including pension receipts to provide access to financial services people active in Brazil's informal economy.

However, the new channel represented by banking correspondents is expanding significantly, in their many ways of composition with the retailers, lottery outlets, post office agencies, register offices, retail store chains, etc. They are truly extensions of banking services installed in their partners' infrastructure.

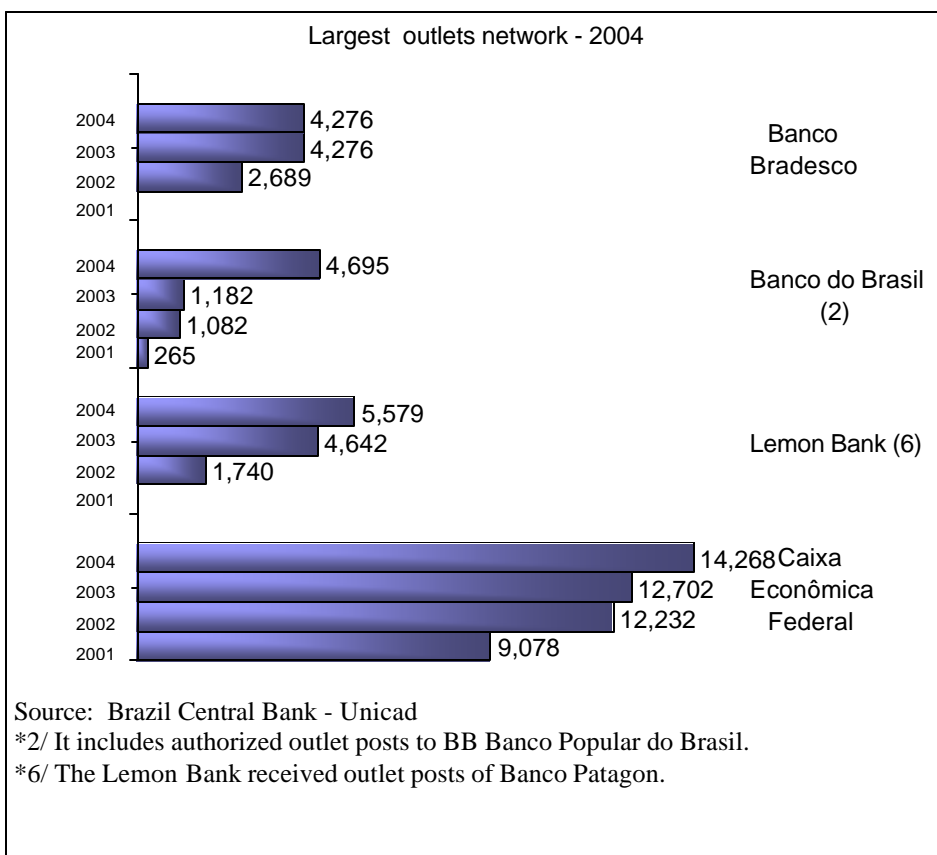
|

**3.2 The largest operators of Banking Correspondents:**

Financial Institution	2001	2002	2003	2004
Caixa Econômica Federal	9,078	12,232	12,702	14,268
Lemon Bank (#)		1,740	4,642	5,579
Banco do Brasil (*)	265	1,082	1,182	4,695
Banco Bradesco		2,689	4,276	4,276

\*/ It includes authorized outlet posts to BB Banco Popular do Brasil.

#/ The Lemon Bank received outlet posts of Banco Patagon.



The banking correspondents, since 2002, serve every municipality in Brazil, including remote areas only reachable by several hours travel in either a boat or plane. Since 2000, when the model first emerged, these banks have opened together millions current accounts, principally for people who have not previously held banking accounts.

In the last years, the Brazil Central Bank has streamlined accountopening norms and gradually relaxed guidelines for using agents to deliver banking services, to make the model available for unbanked areas.

Strong unions and strict rules on working hours and salaries make it expensive for banks to open new branches in underserved areas. This may have encouraged a search for delivery channels.

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It is difficult to determine how poor the customers of BC's are. Clearly, the channel has had great success in bringing the "unbanked" into the financial system: there are now almost 40.000 banking correspondents, and the four banks mentioned above have acquired more than 10 million new account-holders in the past four years.

In a research from the World Bank, most banks report that their banking correspondents are targeting the fairly large layer of pensioners and informally-employed low-income people.

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The channel is an attempt by banks to reach unbanked communities, not an attempt to deliver microfinance in the traditional sense. However, as banks grow increasingly comfortable in these communities by operating through banking correspondents, they may become more knowledgeable about the financial services poor people require.

### 3.3 Democratization of financial services

In the report on evolution of National Financial System, from Brazil Central Bank, one of the challenges faced by the Monetary Authority in our country is to secure democratic access to financial services in different regions and all layers of the Brazilian population.

Democratic access displays two different dimensions. The first is to enable access to financial services by the lower income population. The second dimension of this challenge, which is often added to the first, is to provide services to regions devoid of financial services.

Their impact in decentralization of banking services from the geographical viewpoint is still much reduced, even though they play a relevant role in the dynamics of small businesses frequently lacking capital and financing instruments. One expects that the regulatory improvements implemented in 2003 may strengthen the presence of such institutions in other regions of the country.

Banking correspondents constitute a further instrument for democratization and decentralization of financial services. It is vital making the physical, population<sup>al</sup> and economic aspects, mechanisms that may facilitate the flow of funds between financially assisted municipalities and those that do not count on traditional assistance represented by bank branches and service posts.



## Chapter 4

### The banking correspondents in Brazil

#### 4.1 Caixa Economica Federal use of banking correspondents in Brazil

Caixa Economica Federal, the state-owned bank that manages the country's lottery network and distributes government benefits, manages about 14,000 banking correspondents.

Caixa's banking correspondents are present in all of the country's 5,561 municipalities, and the bank estimates that nearly 40 percent of all of its banking transactions are already handled by this network.

Through its correspondents, Caixa offers the full range of banking and payments services, including a simplified current account.



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Besides being for payment of bills and tickets bank, the "Caixa Aqui" offers a series of products and services to their customers and all the community:

- ? Reception and direction of proposals of opening accounts;
- ? Reception and direction of proposals of loans and credit card;
- ? Drafts in checking account, saving and Social Security
- ? Deposits;
- ? Consultations of balances and extracts;
- ? Payments of social programs

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? Payments of safe unemployment

? Payments of FGTS, etc.



In 2002, CAIXA became the first and unique institution present in all the 5.561 Brazilian municipal districts, accomplishing transactions in real time with the Banking Correspondents. "CAIXA Aqui" – "CAIXA Here" – integrates the physical net of service, and makes available for the Brazilian population the banking services and the benefits of the Federal Government's social programs in more than 17,000 access points.

The Caixa's implantation in the 2.000 small cities benefited a population of 11 million Brazilians who had the need to go to neighboring municipal district to receive their benefits.

Research accomplished by the CAIXA shows that, before the correspondents' implantation, the people traveled, on average, 24Km until a neighboring city to receive social benefits to pay bills and to do purchases.

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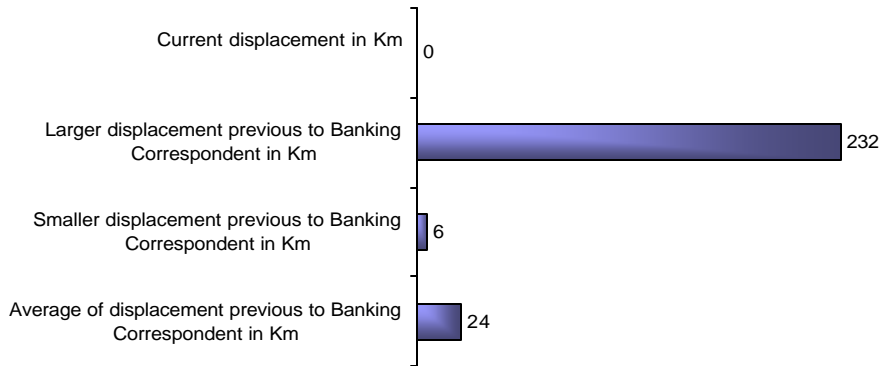
In Brazil, about 25 million families don't possess an account in bank, constituting an universe of 100 million people.

That inequality is more evident if we stratify for strip of income - 75% of the families with superior monthly income to 10 minimum wages have checking account, while in the families with inferior income to 10 minimum wages that index is of only 20%.

The incomes of those families are frequently not enough for their survival, not remaining resources to save. However the access to the bank services is not summarized in this operation type.

The payments of bills of public dealerships and imposed and the reception of the benefits of the Net of Social Protection was only obtained by displacement to neighboring municipal districts with available bank services. That displacement, many times, represented a same or superior cost than the received benefit.

One of the most unfavorable cases was of the municipal district of Jacareacanga in the State of Pará distant 232 Km of the closest bank.



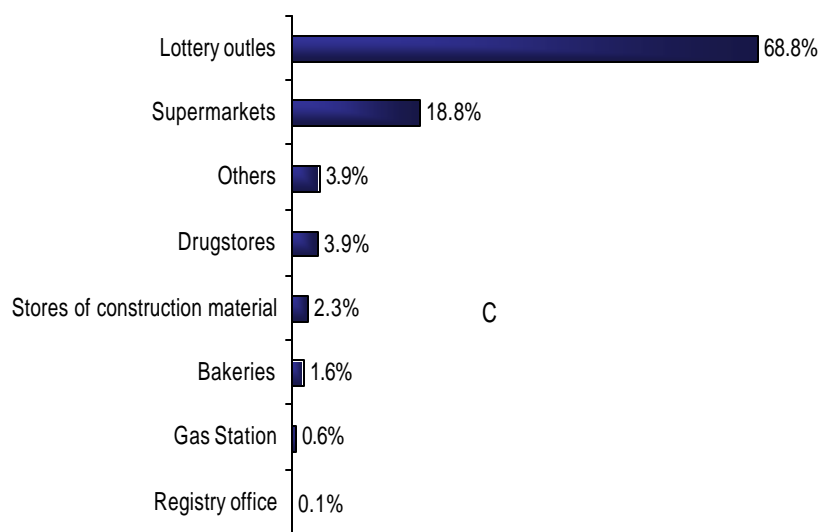
Source: Caixa Economica Federal e Vox Populi

The Brazilian regional inequalities are also reflected in the distribution of the bank agencies - about 60% of them are located in the Southeast, having about almost 2,000 municipal districts without any conventional bank branch.

The account from CAIXA enlarges the alternatives of bank services and it is destined to the public that didn't have access to the banking system, making possible the inclusion of that segment as user of those services in the whole country.

#### 4.2 Distribution of banking correspondents by the retail segment.

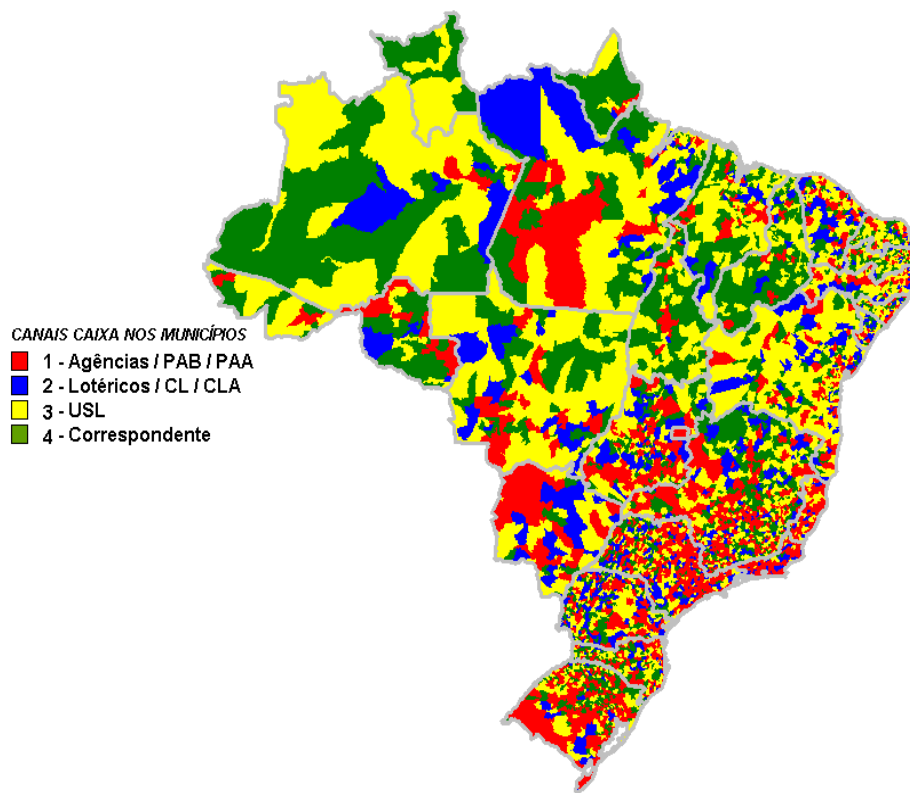
Nowadays, Caixa has about 14,000 banking correspondents:



Source: Caixa Economica Federal

The distribution for activity branch shows that the Caixa Economica Federal selected, beyond the lottery outlets network, mainly establishments that marketed goods of first need, as well as it was also adherent to the tax of consumption reversion in the commercial establishments of the products made available in the banking correspondent.

#### 4.3 Caixa Economica Federal makes available banking services in whole the contry



Since 2002, Caixa Economica Federal is in all 5.561 cities in Brazil, making available financial services.

- ? The red color = 1035 municipalities with branches and lotteries
- ? The blue color= 420 municipalities with only lotteries
- ? The yellow color = 1998 municipalities with special lotteries
- ? The green color = 2108 municipalities with banking correspondents



This is the symbol of the Caixa's presence in all the Brazilian municipal districts. The challenge has been overcome in May of 2002 with the implantation of the at least a point of "on-line" service in the 5.561 municipal districts.

Some smaller challenges were overcome so that the CAIXA conquered the larger challenge of being present in all of the Brazilian municipal districts with at least a point of access with banking services in real time.

During the implantation of the banking correspondents in the 2000 smaller municipal districts, we have the following registrations:

- ? 70 municipal districts didn't have any legalized company, so the bank needed to help the entrepreneurs of the city to legalize their businesses
- ? 6 municipal districts didn't have any electric power point, so the process was changed to generator of energy by fuel.
- ? The bank hired 3 commercial establishments installed in house built on stilts, so that needed adapt the whole infrastructure for installation of the equipments, satellite dish, lightning rod, etc.
- ? And others.



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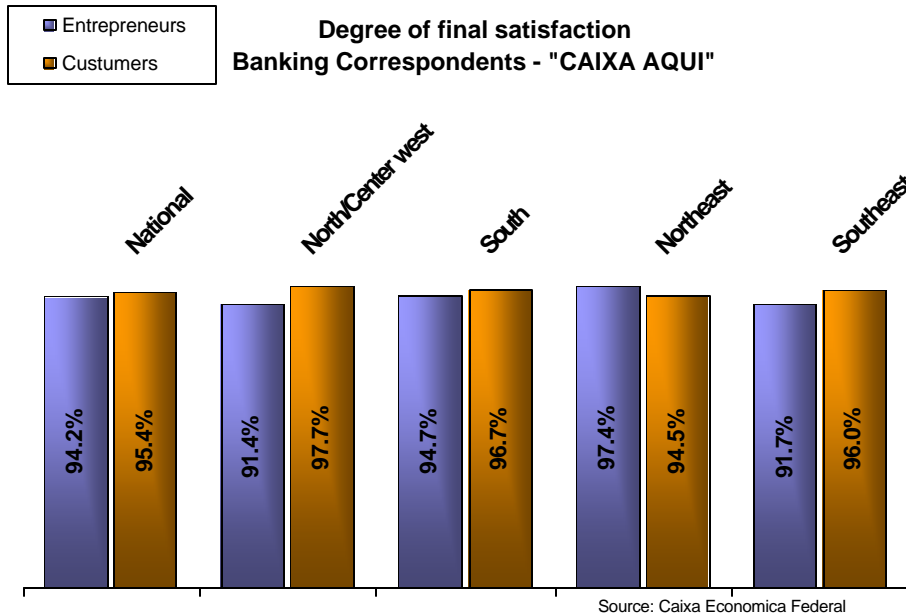
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The picture above is of the city of Guaribas, inside the state of Piauí, city with the smallest index of human development of Brazil. In 2002, bathroom didn't exist in the city, but the banking correspondent already worked there, with satellite and everything in the grocery store Alves.



#### 4.4 Degree of Satisfaction



According to the last research regarding the satisfaction of the entrepreneurs and customers of the banking correspondents:

- ? 95,4% of the customers are satisfied with the banking services in the banking correspondents
- ? 94,2% of the entrepreneurs are satisfied with the partnership with Caixa Economica Federal

Although these numbers are very good for the banking correspondents' project, Caixa discovered that:

- ? the entrepreneurs who did not have 100% of satisfaction were of a segment of retail that was not so adherent to the partnership with banking correspondents.
- ? the customers who did not have 100% of satisfaction were clients who wanted the commerce to be open also on Sundays and to start working before 8:00 a.m..

On the other hand, the good evaluations were also regarding the time of service.

“service before, during and after the schedule of service of the bank branches. As the beneficiaries' part is of the rural area, it is very commemorated the possibility of the service in the first hours of the morning, so that they can return earlier for their residences”.

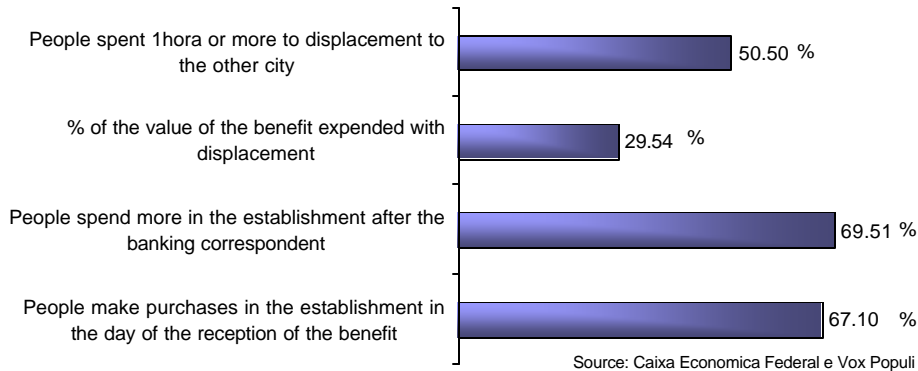
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- ? service on Saturdays;
- ? fast service, most of the time, without lines, different that happens in the branches;
- ? it avoids assaults during the displacement;

The others results of the research with the bank correspondents' customers were:

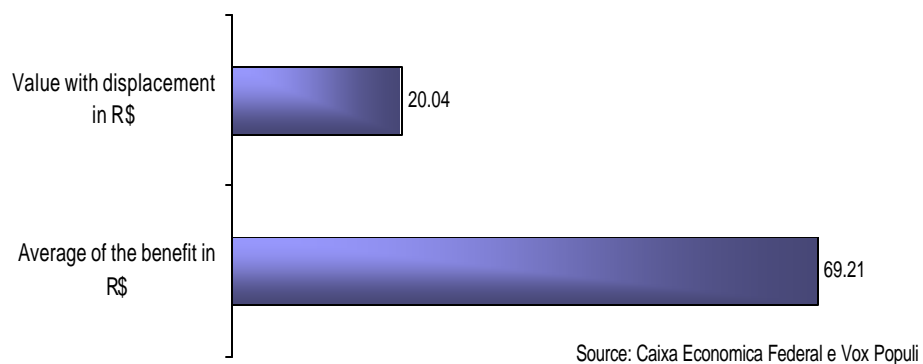
- ? The main reason of the Banking Correspondents is to benefit the population, mainly the elderly.



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- ? The customers said that the service was created to facilitate the day by day of the most lacking and humblest people.

- ? They acquire with the banking correspondents more comfort and life quality, because they don't need to move to receive the benefits anymore, let alone to spend part of those benefits unnecessarily (with transportation and feeding).



The average of the benefit was of R\$69,21 and the expense for one to receive it was R\$ 20,04, about 30% of the benefit and with the implantation of the banking correspondents in the 2000 smaller cities in brazil, this expense became income again.

#### 4.5 Technological model

It uses POS devices (a card-reader, barcode scanner and PC) with dial-up or high-speed connectivity to process transactions at lottery and mini-lottery outlets, in addition to gas stations, supermarkets, drugstores, bakeries, butchers and other stores.





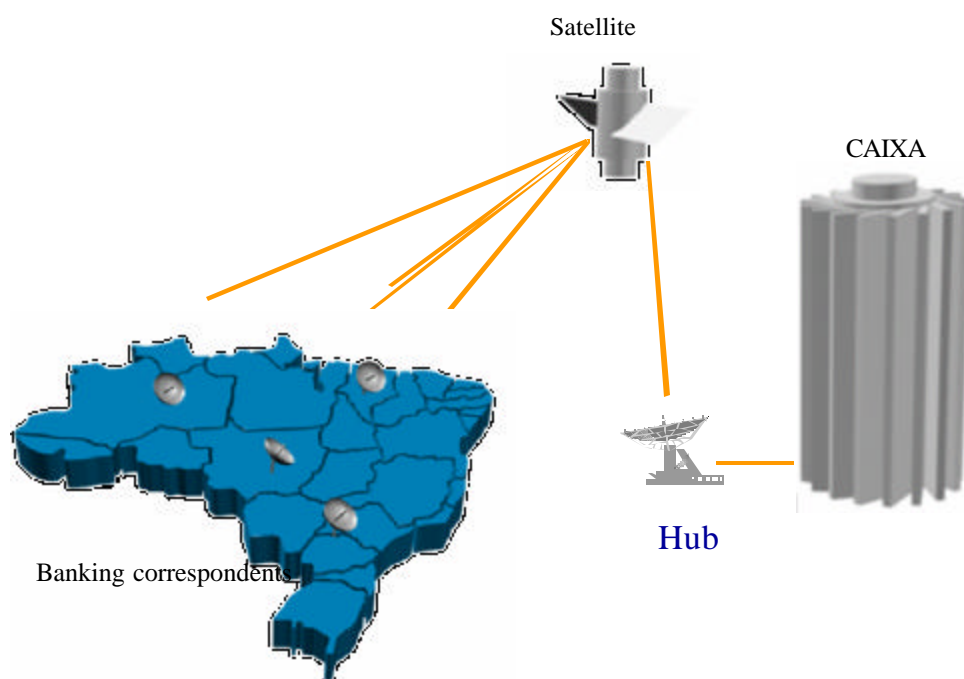
The details the solution logistics for the bank Correspondents are:

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- ? All the Correspondents received "on-line" equipments linked to the CAIXA's central computers.
- ? Such a model guarantees safety for the users of the channel, as well as it allows to manage and to monitor what happens with each of the establishments, for instance
- ? Knowing the fitting of cash of each store;
- ? Accompan ing the rendered entrepreneur's accounts;
- ? Monitoring all the work during the whole day
- ? Etc.

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## CAIXA AQUI



#### 4.6 Conclusion

Thanks to the Banking Correspondents, millions of Brazilians so far excluded from the banking system have started to have the possibility to open a banking account and to obtain credit in a regulated institution.

The banking correspondents also make possible the substitution of the cash for the use of debit cards and credit, reducing risks and facilitating the administration of the resources.

Nevertheless, the banking correspondents model seems to be a powerful way of increasing access to financial services for all customers – regardless the poverty level.

One shall notice that correspondents were first thought with the purpose of overcoming the challenge of democratizing the access to financial services, both in its social and economic dimension, providing services to lower income populations, and in its geographical dimension, assisting regions devoid of such services. Correspondents fulfil a social and economic function with relevant impact in income and wealth distribution in our country.

The main objective of the “Caixa Aqui” banking correspondents, present in all 5.561 Brazilian municipal districts, is to assist the population of low income, especially in more than 1.700 cities which didn't count with other financial institution before .

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Besides, the banking correspondents provides larger economical development of the cities, it foments new enterprising and, with that, it improves the life of the people.

By 2007, Caixa expects to operate 20,000 banking correspondents, and reach customers in every district of the country, reducing the maximum distance between a customer and the banking system .

In this context, the task of the Brazil Central Bank and Congress is fundamental to regulate the National Financial System, increasing the chances of the banks to assist the citizens who are excluded from the banking system, for income or for geographical area.

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