

Correspondent Banking

**TOOLS FOR FINANCIAL INCLUSION AND
DEVELOPMENT**

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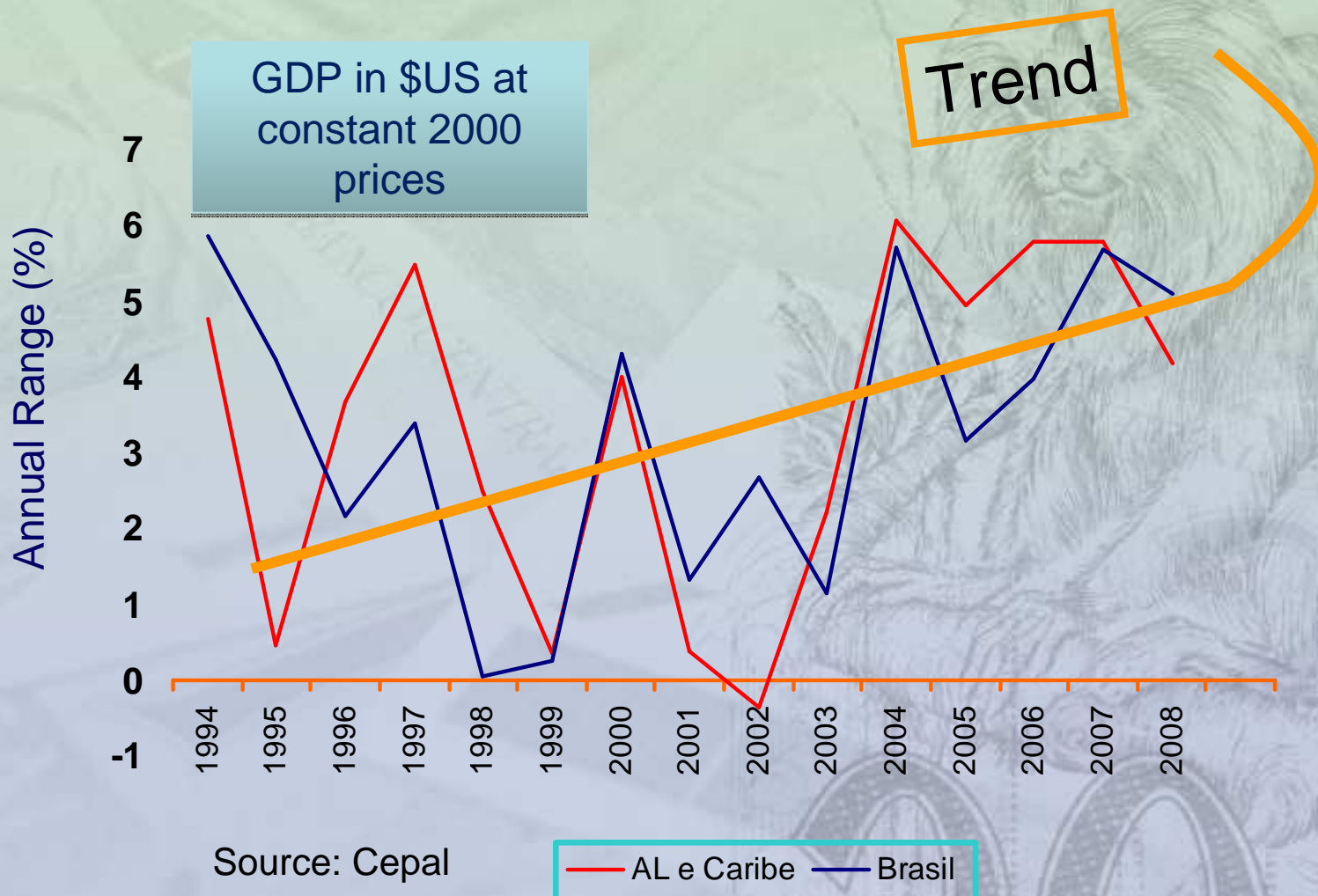
- Brazil in Brief
- The Central Bank and Financial Inclusion
- Correspondent Banking
 - Regulatory Framework
 - Successful Partnerships
- Conclusion

General Data

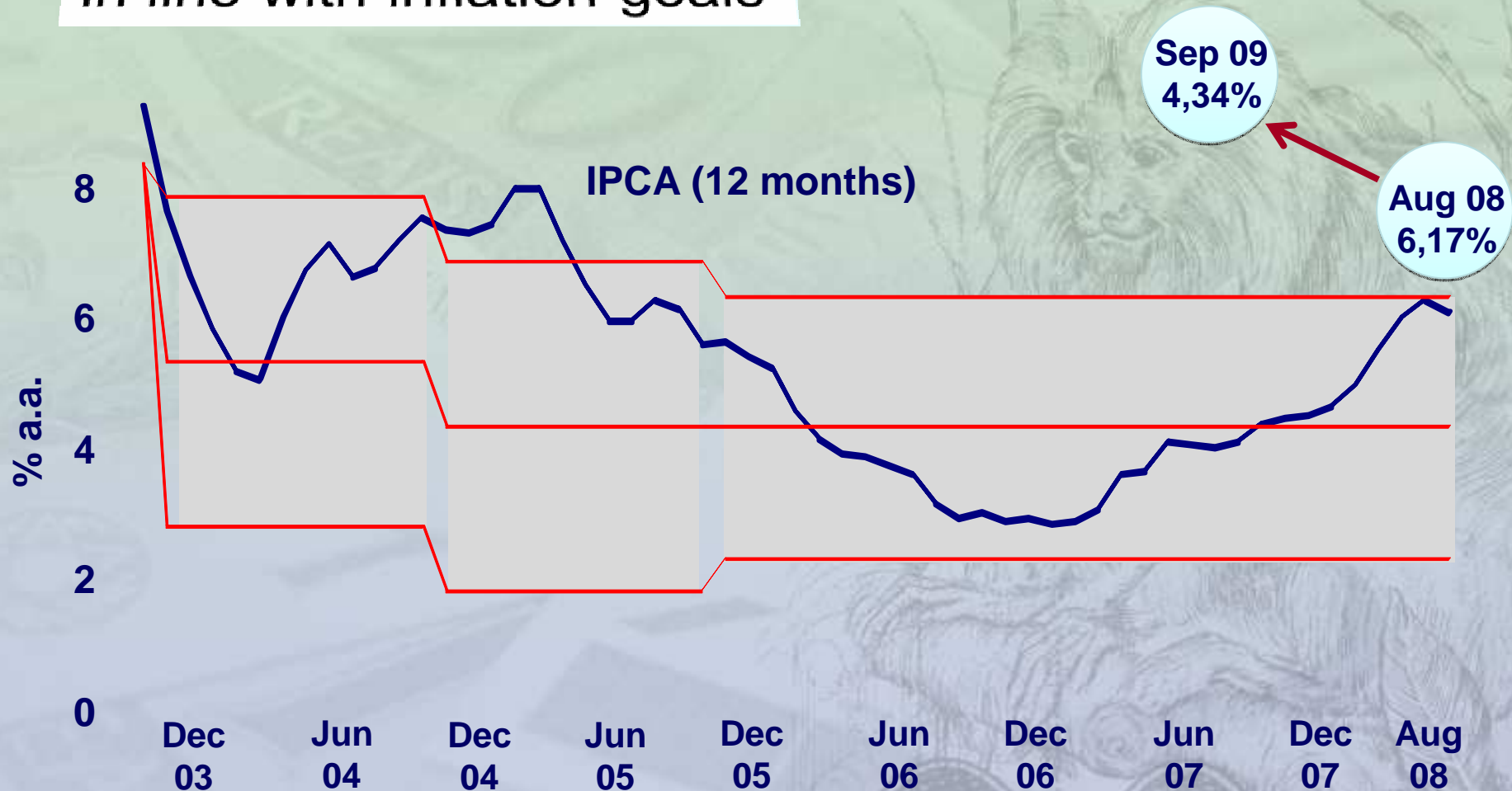


- Area: 8,514,876 km²
- Population: 191.4 million
- GDP: US\$ 1.57 trillion
- *per capita* GDP : US\$ 8,217
- Municipalities : 5,580
- Banks: 159
- Cooperatives : 1,390

Environment of economic growth



In line with inflation goals



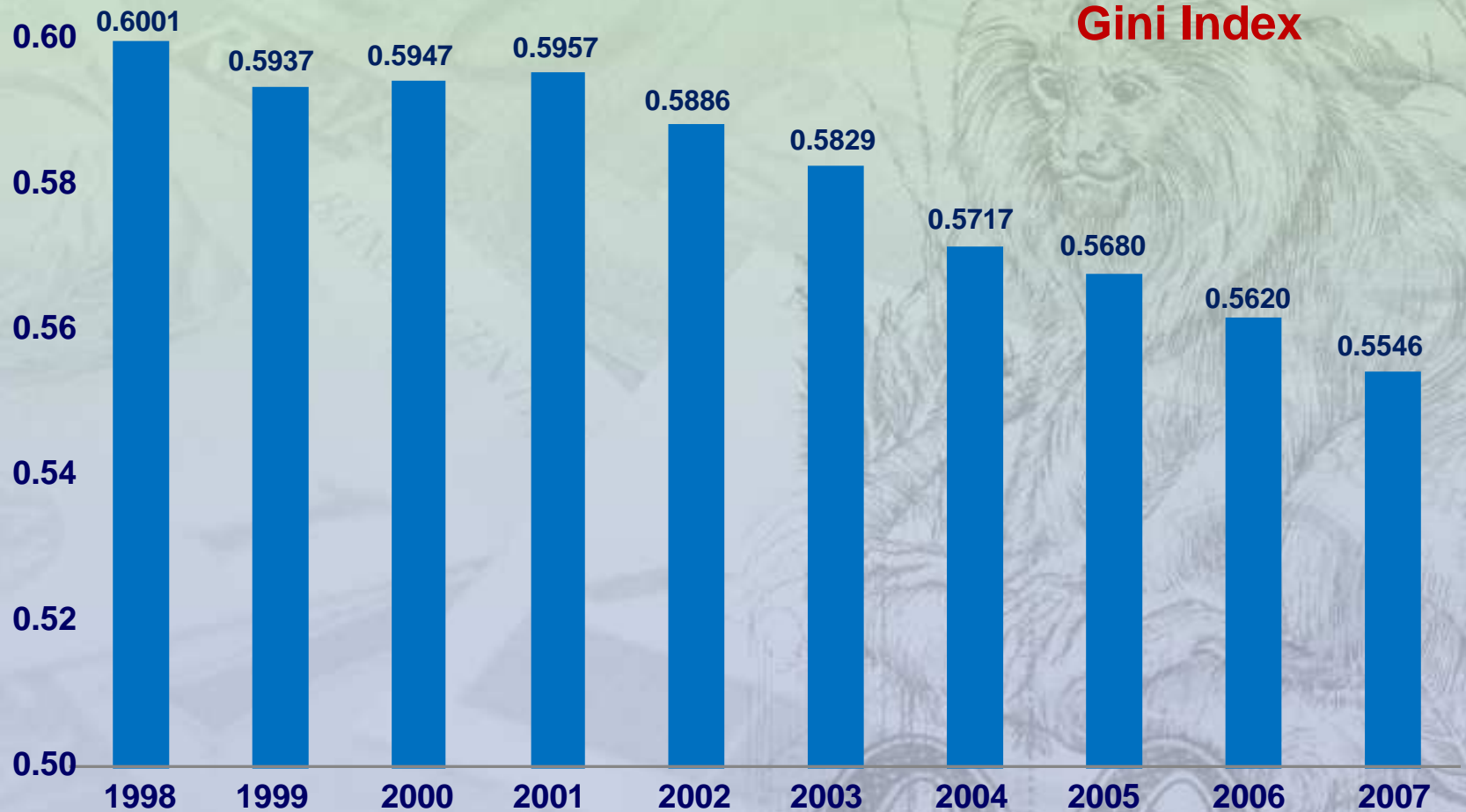
Source: Central Bank and IBGE

Increasing credit supply



Source: Central Bank

With less inequality



Source: FGV-CPS

Mainly due to public policies with focus on mitigating inequality

Direct Income Transfer Programs

Real Increases in Minimum Wage

Controlled Inflation

Employment and Income Generation

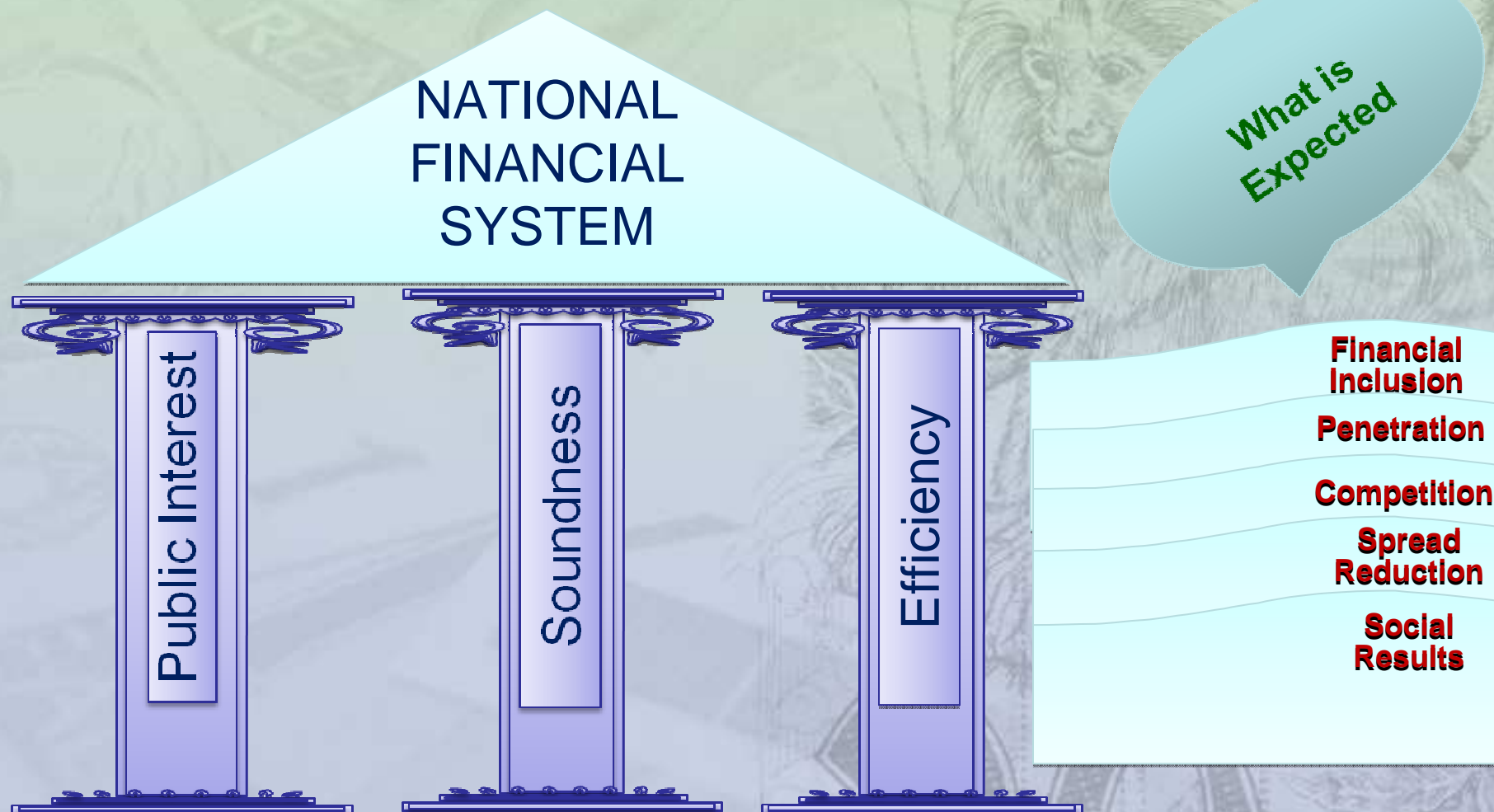
Incentives to Increase Financial Services

Law
4,595/64

*To ensure
the stability of the
currency's purchasing
power*

AND

*the soundness and
EFFICIENCY of
financial system*



Population underserved

**45 million people
without access to
overall financial
services.**

Government measures

Regulatory
measures related
to financial
inclusion and
microfinance

Correspondents

Simplified Accounts

National Program of
Oriented Productive
Microcredit - PNMPO

Targeting 2% of
Demand Deposits
Into Micro-credit

Credit Unions

Favorable environment and structure

High fixed costs for opening and maintaining bank branches, mainly in distant regions

Barriers to Entry (brand, technology, regulatory requirements)

Vast territory and heterogeneous distribution of population and economic activity

Competition between large-scale retail banks

Inviability of state banks that, have closed or were sold, no longer serving a large population

Technology that allows immediate connection throughout the entire country

Favorable Environment:

- Municipalities not served by banking network (in %)

	Quant	2001	2002	2003	2004	2008
NORTH	449	55.4%	55.3%	51.9%	51.9%	63.2%
NORTHEAST	1,793	44.5%	44.5%	43.0%	44.2%	57.0%
MIDWEST	482	25.2%	24.6%	25.5%	34.4%	42.1%
SOUTHEAST	1,668	15.7%	15.6%	16.2%	20.1%	23.0%
SOUTH	1,188	18.0%	17.3%	17.2%	18.3%	25.8%
TOTAL	5,580	29.7%	29.4%	28.7%	31.2%	39.4%

Source: [www.bcb.gov.br/Sistema Financeiro Nacional](http://www.bcb.gov.br/Sistema_Financeiro_Nacional)

Definition

An agreement or contract established by a financial institution with a corporation, in which the latter carries out activities on behalf of the former

Permitted operations

- I – Proposals for the opening of accounts
- II – Account Transactions
- III – Payment Accounts
- IV – Payment Orders
- V – Loan Requests
- VI – Credit analysis
- VII – Collections
- VIII – Proposed issuance of credit
- IX – Control Services

Relevant Characteristics

contracting

- Permitted for all financial institutions
- It's mandatory to observe aspects of security, confidentiality and money laundering prevention
- Regularity

- Prohibit corporate exclusion
- Restrict use of the word "bank"

contracted

Special Characteristics

- Total responsibility of the contracting party for services provided by the correspondent, including the possibility of subrogation of the contract to third parties in whole or in part;
- Full and unrestricted access to all information by the Central Bank (data and documents relating to the company, the third party and the services they provide);
- In the case of delegation of power to a third party, the correspondent must first obtain permission from the contracting party.

Responsibilities

- The contract must contain clauses about restrictions on the correspondent's activities:
 - To advance cash based on future resources to be disbursed by the contracting institution
 - To issue in its favor documents related to transactions intermediated
 - To charge fees on its own
 - To offer any guarantees on operations contracted

Responsibilities

- The financial settlement must take place within every two working days
- In loan contracts, the disbursement must be made in favor of the beneficiary or of the commercial enterprise
- It's mandatory the correspondent to disclose information about its condition as just a service provider on behalf of the financial institution

Bank Secrecy

- Hiring a correspondent doesn't characterize non-compliance with the rules of bank secrecy
 - The law of confidentiality (including penalties) reaches not just the contracting institution, but the correspondent and its employees as well.

Development Tools

- Access to banking services is more than a simple business. It's a primary way of ensuring citizenship and promoting economic and social development

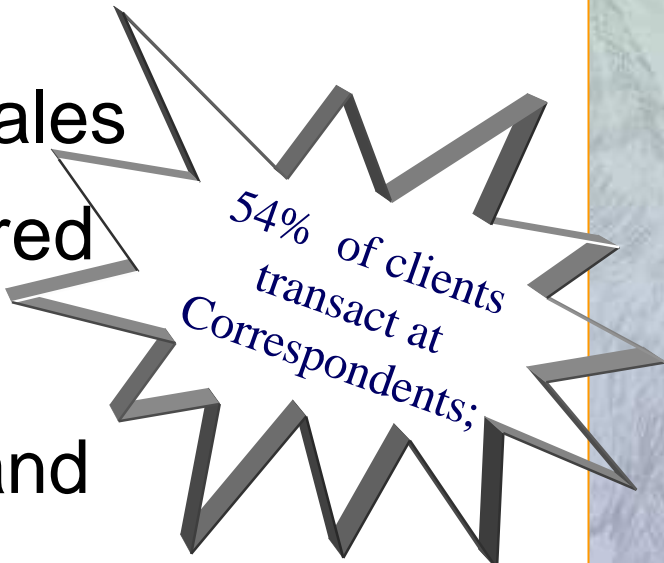
Everyone wins
with the Correspondent

Benefits for the banks

- ⇒ Access to the population that does not have access to bank services
- ⇒ An alternative channel to deliver financial services
- ⇒ Social visibility

Benefits for the correspondent

- ⇒ Higher flow of potential clients at stores
- ⇒ Competitive advantage
- ⇒ Increase of up to 20% in sales
- ⇒ Income for services rendered
- ⇒ Client loyalty
- ⇒ Strength of company`s brand



54% of clients
transact at
Correspondents;

Benefits for the client

- ⇒ Convenience and savings.
- ⇒ Easy access.
- ⇒ Service at different hours and no lines.
- ⇒ Credit at regulated institutions.
- ⇒ Safety.
- ⇒ Service in the city where client is located.
- ⇒ Electronic means of payment - replacing physical money with electronic money (cards).

Benefits for the government

- ⇒ The Correspondents contribute to:
 - ⇒ bank inclusion
 - ⇒ social inclusion, promoting citizenship (CPF [taxpayer's card], RG [ID card], work card etc.)
 - ⇒ companies abandoning informal job market
- ⇒ It encourages savings and credit.
- ⇒ It promotes Brazil's growth.
- ⇒ It stimulates competition.
- ⇒ It develops the local economy.

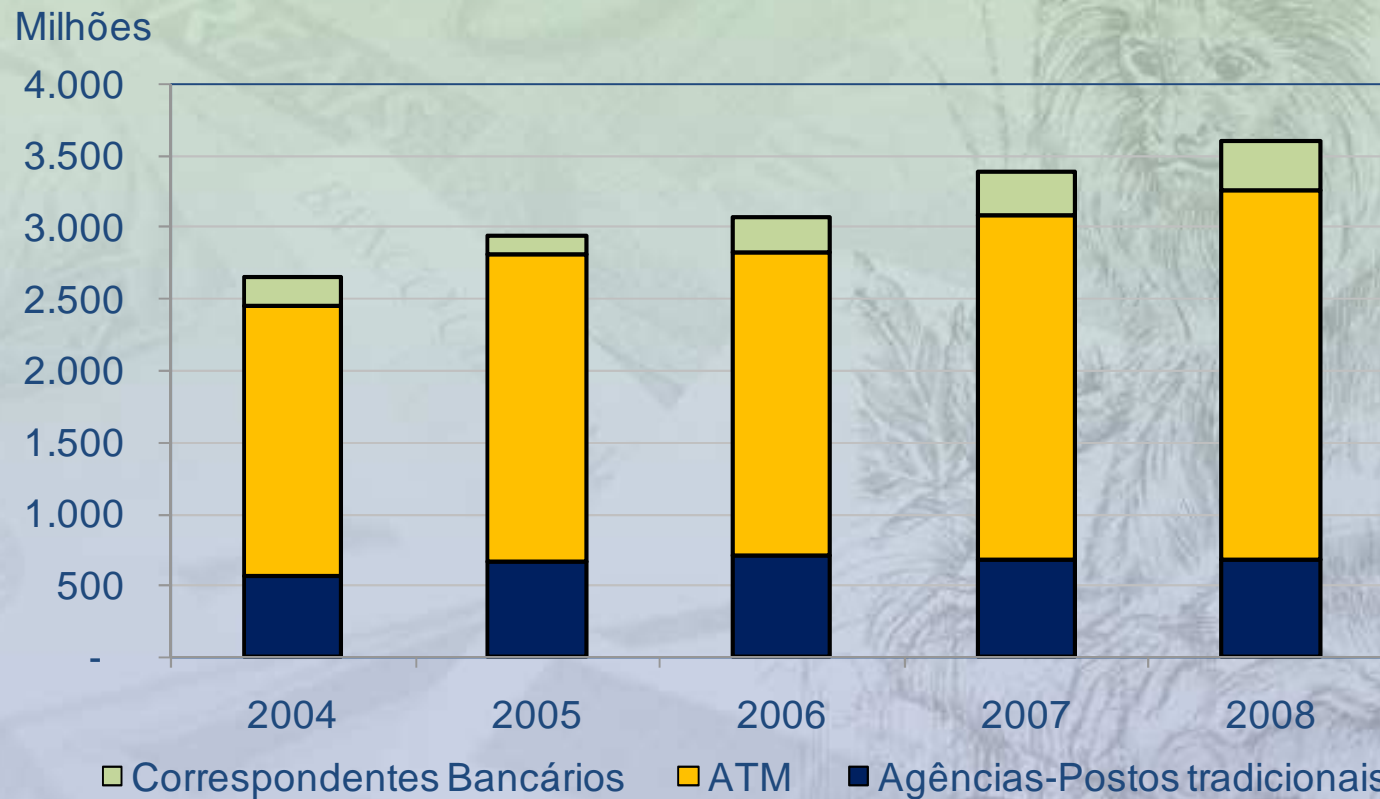
Services provided by the Correspondents

Data-base: June, 2009

I – Opening accounts	42,381
II – Account transactions	53,469
III – Bill payments	82,108
IV – Payment Orders	37,353
V – Loan Requests	95,820
VI – Credit analysis	38,124
VII – Collection	78,627

Source: Central Bank of Brazil

Access Channels - withdrawals



Source: Department of Banking and the Central Bank's payment system

Proving the efficiency of
the project

	2001	2003		Sep/2009	
		Quant	%	Quant	%
Bank Network	42,673	49,735	16.5%	69,741	40.2%
Branches	17,023	16,993	- 1.8%	19,406	14.2%
ATM	16,748	24,367	45.5%	41,259	69.3%
Others	8,902	8,375	- 6.3%	9,076	8.4%
Cooperatives	2,723	3,135	15.1%	4,289	36.8%
Correspondents	8.118	78,539	867.5%	144,081	83.4%
TOTAL	53,514	131,409	145.6%	218,111	66.0%
Correspondents Participation	15.2%	59.8%		66.1%	

What are the reasons for its success

Regulatory structure that, because of the financial stability, the strong banking industry and the modern payment systems, becomes sensitive to innovations

Political support for enabling or facilitating access to financial services by the population previously excluded from it.

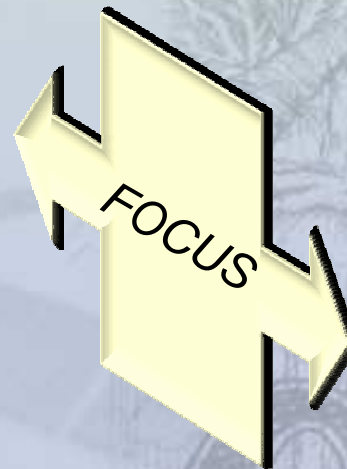
Confidence in the model: increasing the number of correspondents and transaction volume

Objectives Met

A creative way to encourage financial inclusion and improve people's lives in deprived communities

ECONOMIC

Important channel of bank access to specific markets, taking advantage of lower cost synergies



SOCIAL

more effective tool for access to remote areas from major urban centers and the periphery of cities

Final Words

Society requires creative solutions and the market reacts positively in front of an appropriate regulatory environment

Thank you!

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