Case Study: CajaVecina

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1. Introduction

In November 2005, the first CajaVecina service point was established in the comuna\(^1\) of El Carmen in the south of Chile. At that time, one in every three comunas in the country still lacked a financial services access point. In 2017, CajaVecina set up shop in the last remaining comuna in the country that was still without financial services: the Chilean Antarctic.

In just over 13 years of existence, CajaVecina has become a staple in the lives of millions of Chileans and an international benchmark for correspondent banking. With more than 24,000\(^2\) service points spread across all 346 comunas, CajaVecina is the largest network of banking correspondents in Chile and its coverage extends to every corner of the country.

As a subsidiary of Banco del Estado de Chile\(^3\), CajaVecina provides transaction services, both financial and nonfinancial, through correspondent banking operators whose primary business is not related to finance. Kiosks and shops are the most common hosts, but larger variety stores, bakeries and cafés are also used. Two thirds of the attendants at these businesses are women. Banking correspondents are located in rural areas and urban neighborhoods where the presence of financial establishments is limited or nonexistent. Without CajaVecina, people living in these areas would be forced to spend significant time and money travelling elsewhere to carry out financial transactions.

The Juan Fernández Islands Case Study

The Juan Fernández Islands are home to approximately 1,000 people and are located 700km off the coast of Chile in the Pacific Ocean, three-days sailing from the nearest mainland port. Before the arrival of CajaVecina, all economic transactions on the islands were made in cash and the only way to receive or send money to family off the islands was through people coming and going. Today, there are three CajaVecina service points in the Juan Fernández Islands and each one enables users to withdraw cash, deposit money into the accounts of people off the islands, pay bills and save money securely.

CajaVecina has made an invaluable contribution to BancoEstado’s financial inclusion strategy by providing low-cost and secure access to financial services and quality customer care to people in remote areas and areas with scarce financial coverage. From January to September 2018, the CajaVecina network helped more than 7.1 million BancoEstado clients\(^4\) with their financial and nonfinancial needs, doing so with a staff of no more than 70. How has such a small team succeeded in managing a network of over 24,000 service points responsible for carrying out an average of more than 33 million transactions per month?

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1. Chile’s basic unit of local administration, equivalent to a district or municipality.
2. Data as of September 2018.
3. Banco del Estado (BancoEstado) is the only state-owned bank in the country with corporate status and its own assets. Sociedad de Servicios Transaccionales CajaVecina S.A. (CajaVecina) is one of its nine subsidiaries; its legal status is that of bank transaction support company (sociedad de apoyo al giro bancario).
4. Those with a BancoEstado product such as a RUT Account, electronic wallet, checking or savings account, etc.
Reasons for the Success of the CajaVecina Model

Correspondent banking is a complex and multi-faceted business. The following analysis does not attempt to cover all elements that have contributed to the success of CajaVecina but rather to highlight the most important ones and organize them under four overarching categories: (1) the value proposition for users and banking correspondents, (2) the societal role BancoEstado plays through CajaVecina and the synergies achieved with the banking business, (3) the commercial and operational management of the network and (4) business intelligence tools.

2.1. Value Proposition for Users and Banking Correspondents

Users

The first reason behind CajaVecina’s success is that it provides a useful service that is highly valued by its users. Just 13 years ago, 131 of the country’s comunas had no traditional financial service points (bank branches, ATMs, etc.). Today, CajaVecina is present in every one of Chile’s comunas including rural areas and neighborhoods on the outskirts of cities where the presence of traditional banking services is limited or nonexistent.

The commitment to reaching areas that have been largely or completely neglected by banks is demonstrated by the fact that 74% of CajaVecina operators are outside of the Santiago Metropolitan Region where the majority of traditional financial services and the country’s population is concentrated. CajaVecina is currently the only financial service available in 57 of
Chile’s comunas. By bringing access points to neighborhoods, people don’t have to go far to carry out the financial and nonfinancial transactions supported by CajaVecina. This means a reduction in transportation time and costs and an improvement in quality of life.

CajaVecina brings both financial and nonfinancial services\(^5\) to the people, offering them a wide range of useful features whether or not they are clients of BancoEstado. It is one of the primary means of withdrawing cash from the bank, surpassing the network of BancoEstado branches and other alternative methods. Thanks to various collection agreements, CajaVecina users can also top up their cellphone balance and pay their utility bills. Since 2017, people with FONASA public health insurance (who number more than 10 million) can also pay their healthcare plan for medical consultations through CajaVecina.

Financial services are available at CajaVecina during the hours of operation of the host business. In other words, they are not limited by the same restrictions as traditional bank branches and can operate from Monday to Sunday and remain open in the evenings\(^6\). This means users have the benefit of carrying out their transactions whenever they need to go to their neighborhood store.

By operating out of neighborhood stores where it is the business owners themselves that attend to customers, the existing social capital and close relationships—owners are usually just another neighbor—are leveraged to build trust in the use of bank products and services. By building on the value proposition of small businesses and encouraging people to carry out transactions in their neighborhoods, CajaVecina correspondent banking also promotes the development of local economies.

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**The Minga Plan in Chiloé**

Over 160,000 people inhabit the more than 40 islands that make up the Chiloé Islands in the south of Chile. Although much of the population is concentrated on Isla Grande, there are several smaller islands that can only be reached by boat. CajaVecina developed the Minga Plan to establish banking correspondents in these remote areas. In addition, wireless POS technology was used to install CajaVecina service points on the boats that take passengers down the canals that crisscross the islands, enabling them to carry out transactions available through CajaVecina during their commute or when boats arrive.

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\(^5\) The financial transactions supported by CajaVecina include cash withdrawals and deposits (into BancoEstado accounts), transfers between accounts, card payments, lines of credit and credit instalments, credit card advances, balance consultations and PIN changes (for BancoEstado products). Nonfinancial services refer to those that do not necessarily require the involvement of the bank, such as paying utility bills and topping up cellphone balance.

\(^6\) According to transaction behavior studies, the most popular times are between 12pm and 2pm and between 6pm and 8pm.
CajaVecina Operators (or Banking Correspondents)

The main element of CajaVecina’s value proposition is the direct increase in the income of banking correspondents through a per-transaction commission. Operating CajaVecina has no direct cost for business owners (POS terminals, supplies and advertising materials are included in the offer); however, banking correspondents may lose opportunities by carrying out correspondent banking transactions instead of sales for their primary business.

CajaVecina allows banking correspondents to provide their customers with an additional and valued service that differentiates them from potential competitors for their primary business. Operating a CajaVecina service point also has the advantage of building a financial history which improves access to credit and other financial services under preferential conditions.

The advantages for banking correspondents are not limited to direct income: it is estimated that operators increase sales from their primary business by 15 to 25% thanks to the flow of customers drawn in by CajaVecina services. When clients carry out a transaction, they tend to pick up something from the store as well. This is in line with CajaVecina’s goal of not constituting the primary source of business for operators but rather an additional service that gives them something more to offer customers, increases sales, improves reputation and generates commissions in exchange for the services provided. This is also a way to reduce the risk of conflicts of interest that could arise from the need to prioritize sales for the primary business over correspondent banking transactions.

There is an emotional element involved in the commitment to CajaVecina that should not be underestimated, especially in areas that are far removed from big cities. Shop owners often
consider themselves neighborhood representatives of the bank, and rightly so. Providing CajaVecina transaction services is perceived as a way to support people in the community by saving them time and money. This emotional element is the result of a successful teamwork and communication strategy implemented by BancoEstado and CajaVecina to acknowledge the work done by banking correspondents for society every day. Operators are now aware of their fundamental role in BancoEstado’s strategy to reach the most vulnerable and remote areas of the country.

2.2. The Societal Role Played by BancoEstado through CajaVecina and Synergy with the Banking Business

CajaVecina is a subsidiary of BancoEstado, the only state-owned bank in Chile, the objectives of which include fulfilling the government’s economic and social inclusion policies without neglecting financial sustainability\(^7\). The second major factor leading to the success of CajaVecina has been its close relationship with the business of BancoEstado (and particularly with products like the RUT Account) and with the BancoEstado Microempresas (microenterprises) subsidiary, of which banking correspondents are clients. The network of banking correspondents also aids BancoEstado in fulfilling its responsibility to execute the government’s financial inclusion policies.

This synergy between BancoEstado, the Microempresas subsidiary and CajaVecina exists mainly on two levels. Firstly, a business model that is cost-efficient for BancoEstado uses a transaction fee to put an economic value on the services provided to clients; this takes the form of a commission that allows CajaVecina to remain sustainable. Secondly, support is provided through business units and the Microempresas subsidiary, of which operators are clients, making it easier to open bank products associated with operations.

**CajaVecina as a Transaction Services Provider for BancoEstado**

In order to serve its more than 13 million clients, as of the end of 2017 the bank had 517 offices, 2,442 ATMs and 22,147 CajaVecina service points, making CajaVecina its largest service network. Because the CajaVecina correspondent banking model is easy to operate and install (requiring only a POS or payment terminal), it has become the bank’s primary strategy for reaching remote regions and other areas neglected by the financial system.

On average, each CajaVecina operator carries out approximately 50 transactions per day (1,500 transactions per month) for a total monthly value of around USD $40,000. The 35 million monthly transactions processed by the network of banking correspondents make up 14% of all transactions made by BancoEstado clients, which is similar to the percentage of transactions processed by ATMs and the percentage of debit card purchases, and far greater than the number of transactions carried out at bank branches.

CajaVecina is available to all BancoEstado clients but in practice its services have been focused on what is known as the “emergent segment” of the population\(^8\) which has less knowledge of

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\(^7\) BancoEstado’s stated mission is for Chile to be an inclusive and equitable country with services that are made available to all.

\(^8\) 85% of clients earn less than USD $600 per month, while 53% earn less than USD $250 per month.
and experience with digital payment methods. This way, CajaVecina supports BancoEstado’s financial inclusion goals. Correspondent banking is also the service that the bank’s clients value most highly; according to phone surveys, 88% of users give it a score of over six out of seven. Thanks to the network’s extensive coverage, CajaVecina provides BancoEstado with added value that sets it apart from private competitors. Banking correspondent service users particularly appreciate the availability of several different service points for carrying out transactions.

The CajaVecina business model is based on a fixed rate for every transaction carried out over the network, by which BancoEstado remunerates CajaVecina for providing transaction services to its clients and others, and for helping to fulfil its economic and social inclusion mandate. This model takes into account the savings that the bank enjoys by using CajaVecina instead of other costlier channels such as bank branches and BancoEstado and third-party ATMs. In addition to this remuneration for carrying out transactions, CajaVecina’s other source of income is the collection of fees from phone companies for providing payment services for prepaid and postpaid cellphone plans. Thanks to this model and to its ability to successfully adapt to BancoEstado’s strategies for sustainability and efficiency, CajaVecina is sustainable and covers its operational costs.

Nevertheless, the efficiency and productivity of the network is key to keeping the model sustainable. Commissions paid to operators make up a significant portion of the costs and as a variable that is directly linked to the number of transactions, this does not promote economies of scale. Operational costs are the other major expenditure and include human resources, administrative and operational costs for things like device installation and technological development.

CajaVecina and its Relationship with the Products, Units and Tools of BancoEstado

In 2005, BancoEstado launched the RUT Account. A simplified process for opening this type of account uses the client’s individual taxpayer identification number, or RUT in Chile (which the vast majority of people know by heart). The only requirement for opening this type of account is having an identification number. The RUT Account emerged as a strategy to provide low-income populations with a payment method for managing their money securely, easily and comfortably so as to encourage financial inclusion. CajaVecina emerged as part of this strategy, to provide nationwide transaction access for RUT Accounts.

There are now more than 10 million RUT Accounts—more than half the population of Chile has one—and a significant portion of the transactions carried out through CajaVecina are linked to this product. In Chile, when people want to send others money, they are more likely to deposit it into a RUT Account than to transfer it.

9. Qualitative studies have shown that many users claim they chose BancoEstado over other banks because of CajaVecina and that they prefer it not be opened up to other banks (in a universal correspondent banking model, for example) for fear that the quality of service would go down.
10. Minors require a request from one of their parents. Women must be over 12 years of age and men over 14.
In addition, 97% of CajaVecina operators are clients of the BancoEstado Microempresas subsidiary, meaning that these businesses have a prior relationship with BancoEstado and consequently, a financial history\textsuperscript{11}. Access to the financial information of these businesses and microentrepreneurs’ financial behavior makes it easier to select CajaVecina operators and to assign them the appropriate credit quotas, or overdraft line of credit.

The CajaVecina team works with the bank’s management, regional branches and other units to run the network as a comprehensive financial service (that is not limited to correspondent banking) and to ensure that the branches also promote the growth and use of CajaVecina. This synergy has been further reinforced by the fact that services provided by BancoEstado branches and by CajaVecina are interdependent and complementary, and that both understand that the other adds value to the chain of services offered to clients and others at a bank that serves both the Chilean and international population on a massive scale.

In addition to leveraging the RUT Account and the BancoEstado Microempresas subsidiary, CajaVecina interacts with the bank’s processes, services, products and tools. For example, the network of banking correspondents is connected to BancoEstado’s transaction platform, Switch, which operates online and makes it possible to monitor transactions carried out over the network.

Finally, CajaVecina is able to capitalize on the bank’s experience and infrastructure through several complementary processes such as the methodologies for process management and human resources and policies for maintaining standards that improve the subsidiary’s performance. BancoEstado has a model for supervising its subsidiaries that is aimed at ensuring the fulfilment of all internal policies and procedures as well as the standards and regulatory requirements in force in Chile.

2.3. **Commercial and Operational Management of the Network**

A third differentiating factor is that CajaVecina manages its operators and providers directly. CajaVecina’s administration takes the lead in the commercial and operational management of the network, with certain processes being outsourcing and constantly monitored\textsuperscript{12}. As the number of operators has increased, management has become a challenge. The current size of the network requires the participation of external companies to provide support services and managing these external service providers is crucial to the success of the model. They are considered strategic partners for CajaVecina and training their teams as well as communicating with them on the quality and timeliness of services to be provided to operators are fundamental processes for CajaVecina.

\bibliography{references}

\footnote{\textsuperscript{11} Since its creation, the BancoEstado Microempresas subsidiary has served more than 500,000 microentrepreneurs.}

\footnote{\textsuperscript{12} External service providers are responsible for installing POS terminals, training operators and setting up tech and operational service desks and promotional materials.}
Commercial Management and Sales

The commercial management team is the largest at CajaVecina, made up of around 20 people distributed throughout the country. A highly mobile and field-based work plan enables the team to reach the least accessible areas of the country, managing new access points and maintaining existing ones. The primary responsibilities of the commercial management team include sales (opening new service points), maintaining cash flow for correspondent banking operators and building relationships with communities and key players in the comunas including mayors, governors, Juntas de Vecinos (neighborhood councils), civil society organizations and businesses.

As the network has increased in volume, growth rates have gradually declined. It is more and more difficult to find businesses that fulfil all requirements for becoming banking correspondents and that are also willing to take on this role. The CajaVecina team has been looking into the most cost-effective ways of identifying new service points and deciding how to prioritize its actions to this end. For example, internal analysis has shown that referrals from BancoEstado branches have been the most effective means of identifying appropriate businesses.

Another way to encourage network growth has been through partnerships with mass distribution companies, government agencies and local authorities such as municipalities and other community actors like neighborhood councils. New markets have also been explored for growing the network, including installing mobile correspondent banking service points at farmers markets where large numbers of people make transactions at certain times during the week.

Installation and Training for Banking Correspondents

Once the location for a new banking correspondent has been selected, the work of the commercial management team is complemented by that of the technological continuity and after-sales departments at CajaVecina and by BancoEstado Microempresas in the opening of the commercial accounts and overdraft lines of credit necessary for operating the service. CajaVecina operates using point-of-sale or POS terminals that are connected to the BancoEstado transaction platform via cellular communication. All sets installed since 2015 are dual (meaning they have SIM cards for at least two cellphone operators) to ensure more stable reception. The technological continuity team supplies what is needed for operations (SIM cards, IDs and passwords), but the installation of devices and POP displays in stores is outsourced13, along with tech support.

Those in charge of installing POS terminals are also responsible for explaining how the devices function and the step-by-step process for carrying out test transactions with the help of a user’s manual and a test function built into the device14. The CajaVecina team coordinates deliveries

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13. Across the country, up to 15 operators may be set up each day and up to 100 in a week. The company in charge of installations receives monetary incentives that reward performance that goes beyond expectations and punish delays in an effort to encourage smoothness of service.

14. The training is expected to last 1.5 hours and includes connectivity tests, theoretical training, practical training and recommendations. The installation kit also contains a manual with step-by-step screenshots explaining how to operate the device.
and can remotely monitor the test operations carried out by operators during the installation. Proper communication and coordination with the company responsible for installation is considered fundamental to making a good first impression and ensuring that the banking correspondent will have confidence in the system. It is also a key factor in ensuring efficient operations from each banking correspondent in the long run.

Operations and Commissions for Banking Correspondents

CajaVecina uses commercial accounts to register operations and lines of credit to back up all cash transactions carried out by banking correspondents. These lines of credit are debt quotas and their approval depends on the credit analysis carried out by BancoEstado Microempresas on the potential operator. Although this affects borrowing capacity, the model also has advantages for banking correspondents as it is free of costs and, most importantly, it does not require business owners to use their own capital to operate CajaVecina.

The services offered by CajaVecina through banking correspondents are the same across the board. Authorized amounts may vary according to each operator's borrowing capacity. Authorized transactions and limits are determined following a characterization study of each POS terminal, which can be done remotely.

A mixed approach is taken for paying out commissions to banking correspondents, combining fixed and variable commissions depending on how long the banking correspondent has been in operation (the longer the time, the greater the proportion of variable commissions per transaction and the smaller the proportion of fixed commissions) and on the type of transaction (for example, the fee for topping up cellphone balance is a percentage of the value of the top-up). The objective of this is to tailor the model to the typical behavior of the transactions curve over time, which shows a gradual increase in the number of transactions being carried out by each banking correspondent. This is due to the fact that operators require a period of time to become familiarized with the operations and to position the service point in the neighborhood. A minimum number of transactions needed in order to receive commissions is also set in order to encourage more transactions.

In an effort to encourage more transactions, variable commissions increase as the number of transactions increases. In other words, the more transactions carried out by a banking correspondent, the greater the commission per transaction.

After-Sales Services

The CajaVecina after-sales team is responsible for dealing directly with operators' questions and requirements related to commercial aspects, complaints or claims. Specifically, the department is responsible for requirements related to commissions and quotas, theft and fraud suffered by operators, claims made through BancoEstado branches or other channels regarding

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15. This quota averages approximately USD $1,800.
CajaVecina\textsuperscript{16} and suspicious activity from operators (such as splitting one transaction into several smaller transactions).

CajaVecina has made use of external specialized support to solve specific problems that fall outside of its own area of expertise including technological issues (POS terminal connectivity, broken antennas or cables, etc.), requests for supplies (such as paper for POS terminals) and issues related to correspondent banking administration (books not balanced, typos, unconfirmed transactions, cancellation of payments, etc.).

Call centers for banking correspondents are another key tool used in after-sales management\textsuperscript{17}. They handle a large volume of requests including tech, operational and commercial support. Their efforts are aimed at resolving as many of these as possible at the first level of support (when the operator makes the call) in order to reduce the burden on the internal team and to ensure quality care. Phone surveys carried out with banking correspondents to measure their satisfaction is just one of the ways services are evaluated. Calls are also monitored online and recorded calls are randomly reviewed.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{diagram.png}
\caption{Model of value of CajaVecina}
\end{figure}

\textsuperscript{16} These are most commonly related to quality of service and charges made by operators. There is a policy that sets out specific actions to be taken depending on the number of claims made against an operator which can result in the closure of a service point.

\textsuperscript{17} The call centers referred to exist solely for CajaVecina operators. BancoEstado clients have their own call centers, and when a request is related to correspondent banking the caller may be transferred to the CajaVecina after-sales department.
2.4. Business Intelligence

The last of the major factors in the success of CajaVecina has been its management model which uses business intelligence or geobusiness tools. This type of management is based on the clear identification of key indicators, data for decision-making and the adoption of progressive measures to achieve desired results.

Key Indicators and Information Management

The range of initiatives put forth by CajaVecina are in line with a single, primary objective: to provide users with high-quality transaction services. This objective is measured using the number of transactions indicator, from which all other indicators used by CajaVecina to monitor its operations are derived. Business intelligence is also directly related to CajaVecina’s strategic guidelines. The number of transactions indicator is used to set metrics and goals for each internal department which are in turn used to derive plans of action and incentives schemes.

Indicators are monitored daily, weekly and monthly in order to constantly measure progress towards goals. They are organized on monitoring boards that display information on each department for quick and easy reference. Plans and initiatives are also reviewed each quarter in order to take stock of achievements and progress and make adjustments or adopt new measures as required.

Network growth is fundamental to increasing the number of transactions. One of the most important tasks of the business intelligence department is deciding where and how to grow. A set of selection criteria has been established based on several different variables including population size, socioeconomic background, unsatisfied demand for transactions, geographical banking coverage and presence of businesses. This enables the department to prioritize regions with greater transaction needs.

Once a service point has been set up, the main challenge is to monitor its transaction behavior. Based on aggregate data related to network operations and behavior, transaction analysis makes it possible to identify potential problems and areas for improvement, make inferences and decisions and adopt measures (see section on campaigns below).

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18. The primary indicators monitored by CajaVecina are as follows: (1) number of transactions and amounts (per type—specifically electronic versus cash—and per region), (2) the status of the network (number of installed and operating service points and network performance by census region), (3) network growth (new service points installed and their transactions) and (4) quality and rapport.

19. The status of the network and service point operations are monitored daily and a summary of the main indicators for each area is drawn up. Network behavior and indicators related to current campaigns are analyzed weekly. Management and closure reports are drafted and monitoring boards with the summary of key indicators by area are finalized on a monthly basis. Reports on operator payments and theft management are also drafted monthly.
Monitoring the Network

Monitoring network operations is essential to ensuring the greatest possible availability of correspondent banking for operators, thereby allowing them to provide users with quality service. To this end, CajaVecina has an automated and constant monitoring mechanism complemented by a geo-referencing platform that monitors transaction behavior, network availability and the features offered at service points. This mechanism includes a control panel that measures key indicators related to network operations in real time, calculates transaction behavior patterns daily, hourly and even by the minute and makes it possible to send out alerts, stay on top of potential fraud and take specific steps when a service point or geographical area is showing abnormal behavior.

All transactions are recorded and detailed operations of every POS terminal may be accessed. This makes it possible to detect suspicious behavior including transaction splitting and make decisions regarding the closure of service points due to wrongful practices. The CajaVecina after-sales team has the ability to create reports on all service points that have carried out no transactions during the month, which may then be used to contact the relevant parties and take measures according to each specific situation.

Monitoring network operations is also key to contingency planning for things like natural disasters including earthquakes, tsunamis, volcanic eruptions and fires. This way, CajaVecina fulfills its societal role by providing services that come to the aid of those affected and assist in rebuilding efforts.

Being Proactive: Commercial Campaigns

Campaigns are temporary initiatives that involve the use of different tools aimed at a specific objective (often associated with increasing transactions) and at changing behavior around correspondent banking. These tools may take the form of direct communication (via POS terminals, text messages or emails) or communication via mass media (printed media, radio, social media) and they make use of economic incentives such as prizes for operators who reach a particular goal, or higher commissions for certain transactions made with electronic payment methods instead of cash.

Because they are based on the analysis of transaction behavior data, these campaigns can focus on problematic service points and on transaction behavior that does not meet expectations (service points that do not carry out electronic transactions, for example). They also facilitate the prioritization of service points when arranging visits from officials (to service points that once showed average behavior and that suddenly ceased to record any transactions, for example).

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20. For example, during a campaign promoting electronic payment methods (see below), commissions were doubled for transactions carried out using electronic payments.
Experience has shown that CajaVecina works better when actions are focused on operators rather than users. By focusing on banking correspondents, the hope is that they will promote the desired behavior among their customers, thereby maximizing the scope of incentives and their cost effectiveness. Correspondent banking operators are the best channel for communication when it comes to spreading the word about the possibility or convenience of carrying out a specific kind of transaction with CajaVecina and showing users how to carry out that transaction.

Campaigns are run by the CajaVecina team of commercial officials, with each individual managing a portfolio of several hundred operators. They carry out regular monitoring visits and promote the campaigns during these visits, meetings or phone calls. However, communication with operators remains one of the greatest management-related challenges (see below). Call centers are not only responsible for handling operators’ requests but also providing support through proactive measures like setting up meetings, providing information on campaigns incentivizing payment methods or transfers, monitoring eventualities and contacting banking correspondents in areas affected by earthquakes or flooding.

**Balancing Cash**

One of the greatest challenges in correspondent banking is balancing incoming and outgoing cash flow, especially considering the high rate at which money is turned over at banking correspondents (it is estimated that the credit quota used for correspondent banking turns over an average of 30 times per month). If a banking correspondent has more incoming than outgoing cash and needs to free up the credit quota, the operator must go to the bank (or to another banking correspondent) to deposit the money. If an operator has more outgoing than incoming cash, they may have to withdraw cash to remain in operation.

A key strategy for facilitating liquidity management is to promote the use of electronic payment methods (such as a bank cards associated with RUT Accounts) rather than cash for carrying out transactions. Operations carried out through electronic payments involve a direct transfer from the source account to the target account, meaning that they have no impact on the banking correspondent’s line of credit. Banking correspondents receive less cash this way (and the associated benefits in terms of security) and avoid having to go to the bank to deposit or withdraw cash when they need to balance their line of credit. Promoting the use of electronic payment methods also contributes to BancoEstado’s strategic goals of financial inclusion.

CajaVecina has used campaigns to try to get operators to balance their incoming and outgoing cash (see inset) and increase the number of electronic transactions. From 2013 to 2017 the number of monthly transactions through electronic payment methods went from 80,000 to over 920,000. Thanks to the campaigns, average incoming and outgoing cash flows are now balanced.

21. Electronic payment methods can be used to pay utility bills, top up cellphone balance and pay BancoEstado products.
Campaign for Balancing Cash

Around five years ago, cash deposits were more common than withdrawals because users still saw correspondent banking primarily as a way to send money (by depositing it in the account of a third party). Withdrawals were fourth on the list of most common transactions, but now they are the first. How was this achieved?

Banking correspondents were informed that they could offer users the choice to withdraw cash and the message that doing so would have positive effects on the banking correspondent was reinforced. This awareness campaign was backed by economic incentives for service points that reached goals in terms of the number and value of withdrawals. In March 2013, 1.5 million withdrawals were being carried out each month; in December 2017, this rose to more than 7 million.

2.5 Clarification Regarding Factors for Success

We chose to highlight just some of factors that have led to the success of CajaVecina, rather than provide an exhaustive list. Other factors that are equally important have not been mentioned simply because they are not unique to correspondent banking. This is the case, for example, with CajaVecina’s human resources management which has contributed to the success of the business thanks to tools and processes designed for improving the skills of team members, evaluating team performance in terms of individual goals and creating an attractive work environment.
3. Major Challenges Facing CajaVecina

Thanks to these factors for success, CajaVecina has succeeded in becoming the largest network of banking correspondents in Chile, offering quality services to operators and users. However, in an environment where ways of providing and using financial services are evolving at a rapid rate, CajaVecina will need to adapt equally rapidly to the new demands of the market. The biggest challenge will be to continue to offer users, the bank and its businesses, and finally operators a valuable service in an increasingly cost-effective way, integrating new transactions, technologies and devices that enable a more efficient management of the network and remaining up-to-date and competitive in an environment where transactions will be evolving in a digital era.

3.1. Strengthening the Value Proposition for Users and Operators

Strengthening the value proposition primarily involves continuing to increase coverage and the variety of transactions to respond to demand, perfect quota and commission schemes and constantly improve the quality of customer care.

Catering to Unfulfilled Demand

It is estimated that there is still a great deal of unfulfilled demand for transactions. As such, one of the main challenges continues to be the growth of the network and increase in the number of transactions carried out. These goals require new ways of tackling a more mature market—with increased competition and less space to grow—while also reducing the costs of opening service points.

There is a demand among users for increased coverage (more service points where transactions can be carried out), greater availability (extended hours of operation and system stability) and a greater depth of service (a wider range of services offered by CajaVecina). Strengthening the value proposition for users also involves opting for self-service tools that allow users to make transactions directly from their devices with less and less outside assistance. This would also create new opportunities to cooperate with businesses that normally do not carry out correspondent banking, such as taxis and buses.

CajaVecina has enormous potential to support financial inclusion 2.0 in the country—spearheaded by BancoEstado at the orders of the government—by encouraging its users in the most excluded regions of the country to save money. The practice of saving has a proven social impact as it stabilizes household consumption, reduces vulnerability in the face of unexpected events and allows people to build different kinds of assets (including financial, physical and productive). The formal financial system offers safe and convenient mechanisms for saving and CajaVecina provides the public with a nearby and trustworthy place to deposit their money. Banking correspondents can also be a means of practical financial education oriented at using financial services for improving quality of life.
Building Loyalty Among Operators
Another major challenge will be to reduce the volatility of the network and the number of banking correspondents that cease operations after having been installed. It is therefore essential to foster loyalty among operators and to continue building a community around correspondent banking in order to strengthen operators’ sense of belonging and understanding that they are contributing to BancoEstado’s social objectives.

New ways to make the offer more attractive to business owners are needed in order to keep the network growing. Security is one of the main concerns of business owners: a significant proportion of those who decide not to operate CajaVecina service points cite their fear of being robbed. Each banking correspondent moves an average of USD $55,000 per month, and in comunas with high crime rates this fear has stalled the growth of the network. When business owners ask that their shops not be identified as banking correspondents through POP displays or when they simply decide to stop operating as a banking correspondent, security is once again one of the most common reasons cited.

Offering services that increase trust and security for banking correspondents is essential to network growth and stability. The most powerful tool for achieving this goal continues to be a reduction in the use of cash by promoting electronic payments in their place.

In addition to security, another key way to increase the value proposition for operators is to complement correspondent banking with tools that are useful for operating both CajaVecina and their primary business. Technology offers big opportunities to this end (see below).

Increasing Network Cost-Efficiency
Improving the performance of each banking correspondent is one of the key challenges that must be overcome if CajaVecina is to increase its value proposition without impacting operating costs. To achieve this, actions must be focused on two major variables: increasing the
total number of transactions made at each banking correspondent and shifting transactions from cash to BancoEstado electronic payment methods. These methods increase operators’ transaction capacity by not impacting their credit quota and reduce security risks linked to the use and movement of cash.\textsuperscript{22}

A reduction in the use of cash is also important for collecting valuable information about the financial behavior of CajaVecina users as payment method transactions make it possible to identify the person carrying out the operation, thereby also helping to create financial histories.

CajaVecina has demonstrated that business intelligence tools and actions derived from them (such as incentives, campaigns and partnerships) are effective in achieving these goals. It is essential to continue to collect more and more information on transaction behavior, base actions on data analysis and increase the automation of internal processes. Certain kinds of abnormal transaction behavior could for example trigger automatic reactions such as direct communication with the operator or the scheduling of a visit from the official assigned to that operator. Actions aimed at promoting electronic payments can continue to be targeted primarily at \textit{comunas} with a higher risk of theft, relatively low use of electronic methods or imbalanced incoming and outgoing cash flows.

\textsuperscript{22} In 2016, 92\% of transactions were still being made in cash.
Integrating new technologies poses another fundamental challenge for positioning the subsidiary in the short term and for achieving cost-efficient network management. Technology is related to many key processes in the operation of CajaVecina including phone and internet connections, the network administration system, communications and training for banking correspondent operators.

Communicating with Operators

Building loyalty among banking correspondents depends in large part on the quality of communication and its success in maintaining a sense of belonging, which is the key to a close and trusting relationship between the network and its operators. One of the major weaknesses of POS terminals is that they do not offer appropriate communication features. The incorporation of devices such as smartphones or tablets to aid in correspondent banking operations would revolutionize the way management and communications are carried out with operators, and would also reduce several different costs (paper, on-site visits, call centers, etc.), thereby improving network cost efficiency.

Such digital devices would make communicating the existence and conditions of campaigns more effective and would also make it possible to send updates regarding agreements or simply provide useful information to banking correspondents and users. Reliance on call centers and the need for general meetings would be reduced. Smart devices allow for greater integration with virtual channels and social media for communication and sales purposes, and therefore also help build a community around correspondent banking.

Incorporating a CajaVecina app would improve the experience of banking correspondents by giving them the opportunity to access key information in real time and in an organized and visually attractive way. Operators could, for example, easily access information on their credit quota, daily POS terminal closing balance, number of transactions carried out and total value of the commissions they should receive (thereby also reducing the number of calls taken by call centers).

Such an app could also include advice for equipment care to reduce the need for replacements and maintenance visits. Lastly, these devices would make it possible to connect with other electronic means of communication to send receipts by email and reduce paper, for example.

Training

Training sessions for operators are essential because they improve their perceptions of the service provided to them and in turn the quality of service they provide to users. The businesses operating CajaVecina are the face of BancoEstado in their communities and the perception users have of the service provided by banking correspondents extends to the bank.

An app for managing CajaVecina could also provide operators with practical lessons on how to operate correspondent banking by offering information on what transactions are permitted, using simulators for carrying out each kind of transaction and letting operators know about payment agreements, commercial terms of operation and how to communicate with CajaVecina users, among other things.
Digital devices can include practical step-by-step audiovisuals, simulators and tutorials explaining how to operate correspondent banking. This information can be made available at all times; if an operator has a specific question about how to carry out a transaction or about how the flow of money works, they can use the app to look up the information directly without having to contact the call center or request a visit from tech support.

By digitalizing the training process for banking correspondents through a self-learning app, the need for field visits would be reduced along with operator training costs especially in the most remote areas. When a new person needs to operate an existing banking correspondent (perhaps a new employee or family member), having a digital training app would circumvent the need for sending a technician to train the new person.

Lastly, the various features of smart devices enable the development and incorporation of different kinds of apps that could add value for banking correspondents and would constitute added value at the time of sale; for example, applications for financial management and accounting for operators’ primary businesses (that enable separate management of the books for the primary business and the banking correspondent, and therefore reduce the risk of cash not balancing out).

**Network of Banking Correspondents and Technology**

The biggest challenge posed by new types of devices has to do with security protocols. POS terminals come equipped with features that allow them to comply with high financial and cyber-security standards, and although other kinds of devices do not necessarily have these features, current technology allows tablets and smartphones to comply with these standards through the incorporation of apps or complementary features.

Methods of payment will probably continue to advance towards new ways of authenticating transactions that require only users’ smart devices rather than cards. As such, integrating payment systems for swifter transactions will be another significant challenge. In order to achieve this goal, it is necessary to form partnerships with companies that develop FinTech solutions.

Constant monitoring of developments in the field of transaction technologies is also important. The ability to anticipate is one of the greatest factors for success in any activity that uses technology. CajaVecina needs to ensure that it has the means to constantly monitor technological developments and identify those that are relevant to the efficiency of its operations in a timely manner.
Integrating Methodologies for Innovation

Finally, CajaVecina must aim to develop its own innovative solutions that respond to the changing needs of its operators and users. Integrating methodologies for innovation will allow CajaVecina to design, model, test, adjust and validate solutions on the ground once they have been deemed necessary for responding to the needs of the public (while also focusing on continuous improvement of the user experience).

Testing and creating pilot projects with prototypes is a way to learn quickly and make the necessary adjustments before going through the formal approval process and scaling up. It improves CajaVecina’s capacity to respond quickly in the face of market needs and demands.
4. General Conclusion: Positioning the Network within Digital Transaction Ecosystems

Today, CajaVecina is without a doubt the leader in correspondent banking in Chile. However, its competitors are also found outside the field of correspondent banking since CajaVecina’s market encompasses all actors and channels offering transaction services.

The final major challenge involves deciding how CajaVecina is going to be put on the transaction services map, keeping in mind the general trend towards digitalization of financial services. CajaVecina continues to be an in-person services provider and it is worth reflecting on what its value proposition will be in an environment that is transitioning towards an ever-growing demand for remote services. More transactions are made with CajaVecina than at bank branches, but virtual transactions top the list by far. In 2016, 36% of BancoEstado transactions were being carried out via the internet or cellular technology, which is double the transactions made through CajaVecina.

One can logically conclude that the need to compete with digital services by lowering costs will pressure the network to be more cost-efficient. Increasing the range of services to include applying for and obtaining financial products (in so far as the regulations allow) can help keep correspondent banking relevant and position its value proposition in an environment where transactions are going digital. CajaVecina could also potentially be positioned as a universal service provider rather than a purely transactional one.

By teaming up with neighborhood businesses, CajaVecina has not only brought transaction services to the population but also humanized financial services that had previously seemed distant and impersonal. Within the current trend towards digitalization and virtualization of many aspects of daily life—financial services included—the human contact factor is and will continue to be the major added value offered by the network of banking correspondents.
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