

## BANKING RELATIONSHIPS

Colombian financial system, types of bank accounts and requirements for their opening, control mechanisms, and related entities.

55% of the financial transactions in Colombia are made in Bogotá and the city currently has 25 domestic and foreign banks, which are all the existing banks in the country, thus guaranteeing an appropriate financial offer for any company<sup>7</sup>.

## Introduction to the Financial System

The Colombian Financial System is regulated and based on a specialized banking model. International transactions must be subject to the national exchange regime. The financial system has the mission of offering products and services to Colombian government agencies, companies and individuals to help them meet their needs for money. The main functions of the financial system are as follows:

- Accept deposits from the government, companies and families.
- Lend money to companies, families and government agencies.

The Central Bank is responsible for carrying out central banking activities such as the issuance of local currency, control of monetary circulation, and management of legal reserves. Moreover, it may be a lender of last resort (see graph: Colombian Financial System Structure).

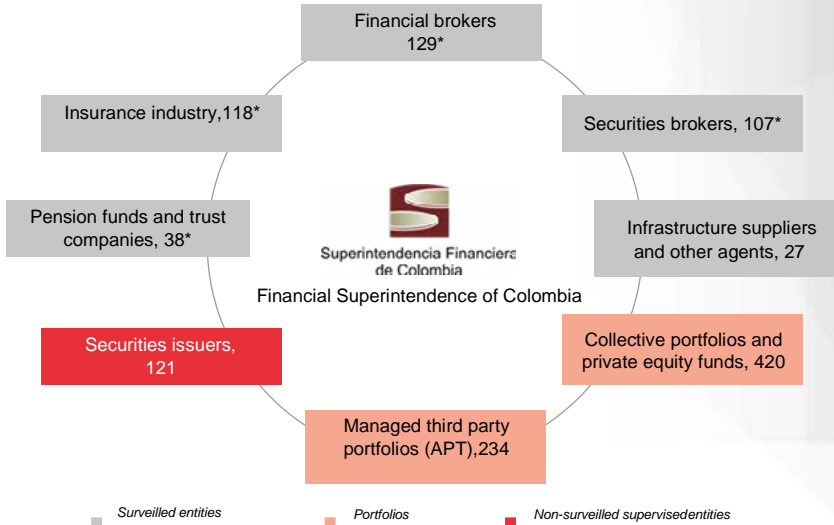
Due to the specialized banking model, the country has different types of financial entities, depending on the type of business they carry on:

- Banks that carry out general activities.
- Financial corporations that undertake corporate credit activities and some investment banking activities.
- Commercial financing companies that finance the purchase of consumer goods through different mechanisms such as financial leasing.

Banks are considered to be the most common source to raise funds in Colombia. Particularly, the consumer loan portfolio showed an actual growth of 7% while mortgage loans increased by 6.7%.

Foreign investment aimed at the Colombian Financial System is permitted and there is already an important presence of foreign banks. These investments are regarded as deposits and covered by deposit insurance of the Guarantee Fund of Financial Institutions (FOGAFIN as per its acronym in Spanish). This insurance covers up to COP \$50,000,000 (US \$16,375) per depositor in each financial institution registered, regardless of the number of credits they hold, in accordance with the terms set forth by the Colombian legislation.

### Colombian Financial System Structure



+Including representation offices abroad  
Source: Financial Superintendence of Colombia

## Bank Accounts

It is important to open a bank account at the time of incorporating a company in the country in order to receive capital contributions made to that company. Opening a bank account is also necessary for carrying out most of the company's administrative activities, such as employment and supplier payments, tax payments, and, generally, to make most financial transactions.

### Types of bank accounts

#### Current account

It can only be opened in the country through local banking establishments. Its purpose is to integrate the management of payments of a person, either an individual or legal entity. However, it is also possible to make deposits. This type of account does not usually pay interest, but it does offer several payment methods.

The following characteristics of a current account are worth mentioning:

- It is the only mechanism to draw a check in Colombia.
- The account may be joint or collective; the account holder may also authorize a third party to draw checks.
- The bank may debit the holder's obligations to the bank from such an account, except when the current account

holder has agreed otherwise.

- The funds belonging to this account may be seized.
- It allows bank overdrafts, a mechanism for short-term financing.

It should be noted that, for foreigners who are not residents in the country, there are restrictions over the funds they may deposit in their accounts and over the destination of transfers.

#### Savings account

This type of account is a banking service that aims to promote saving among customers. It is meant for individuals; however, small businesses may use this service since their payment needs are less complex than those of large companies.

The main characteristics of savings accounts are as follows:

- They pay interest.
- They allow general access to payment systems.
- They anticipate the possibility of having joint or collective accounts.
- As opposed to current accounts, the bank may not debit the holder's obligations to the bank from this account, unless otherwise agreed by both parties.
- Funds in this type of accounts cannot be

seized up to COP \$31,298,237 (approx. US \$10,250). This is applicable if the account beneficiary is an individual.

The aforementioned limit is adjusted periodically by the Colombian authorities.

- It is meant to be a mechanism for saving and not a mechanism for granting credits.
- It is not possible to draw checks with this type of account.

## Requirements for opening a bank account

The requirements for opening an account may vary depending on the financial entity. Generally, they are as follows:

- A request for general information of partners or shareholders of a company.
- Information of business carried on by the company.
- Information about source of funds.

In addition, the following is usually required:

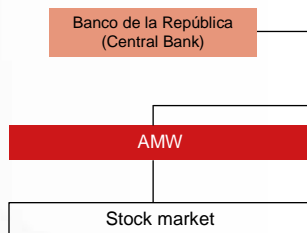
- Tax Identification Number (NIT as per its acronym in Spanish)
- Information of shareholders or partners of a company.
- Information about source of funds pertaining to a company's capital formation.
- Information about the use of the first transfer made to Colombia, along with an estimated calculation of the frequency of such transfers.
- Business references.

It should be noted that while some banks allow opening of bank accounts with a foreign passport, most financial institutions require a foreigner's ID card for their opening.

## Control mechanisms

National bank accounts are controlled by the following mechanisms:

- Creation of joint bank accounts.
- Terms of use agreement with the bank; for example, the need for a given signature to access the funds in an account.
- Restrictions agreement with the bank that establishes amount limits to certain signatories when accessing funds in the account.



## Ministry of Finance and Public Credit

The Ministry's function in the financial system is to run the institutions directly responsible for the control and supervisions of financial institutions. It is also responsible for representing the country in international banking and multilateral financial organizations, such as the International Monetary Fund (IMF) and the World Bank. Go to: <http://www.minhacienda.gov.co/> HomeMinhacienda

## Central Bank

The authority that regulates monetary, exchange and credit matters. Its main functions in the financial system are:

- Has the exclusive power to issue Colombian currency (bills and coins).
- Lender of last resort for credit institutions in case of temporary liquidity needs.
- Manages international reserves considering the public interest and the benefit of national economy, and helping with the country's payments abroad.

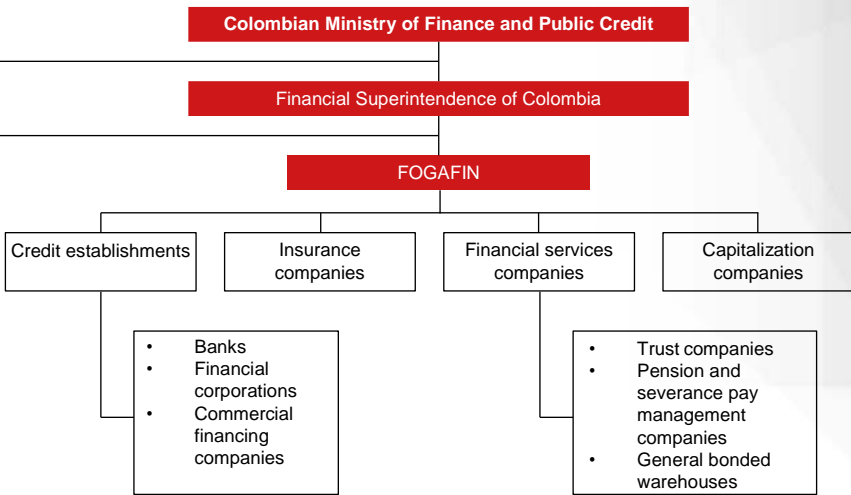
It should be noted that, unlike other countries, this entity does not regulate the financial system, a function assumed by the National Government and the Financial Superintendence.

Go to: [www.banrep.gov.co](http://www.banrep.gov.co)

## The Financial Superintendence

A public entity responsible for the functions of supervising, monitoring and controlling the financial system and its various stakeholders, in order to maintain its stability, security and

# Main actors in the Colombian financial system



■ Supervision, monitoring and control authorities

trust, and ensure the protection of investors, depositors, and the insured. In addition to this supervision function, it must promote, organize and develop the Colombian market.  
Go to: [www.superfinanciera.gov.co](http://www.superfinanciera.gov.co)

### Guarantee Fund of Financial Institutions (FOGAFIN)

Entity responsible for protecting the trust of depositors and creditors in the financial system, based on the preservation of economic balance and equality. Its functions are to organize, develop, and manage the deposit insurance system.

The aim of the FOGAFIN deposit insurance is to guarantee the debts borne by financial institutions registered with the institution which are under liquidation. A guarantee is offered to savers and depositors to the extent that it returns totally or at least partially the amount deposited, according to the law.

Go to: [www.fogafin.gov.co](http://www.fogafin.gov.co)

### Stock Market Self-Regulator (AMV as per its acronym in Spanish)

An independent entity that performs regulation, supervision, discipline and certification functions in the Colombian stock market. It ensures integrity and transparency of the

market, stock investors and general public. Some of its functions are supervising all financial transactions made through the Stock Market and the network of financial institutions operating in Colombia.

Go to: [www.amvcolombia.org.co](http://www.amvcolombia.org.co)

### References

- Central Bank: [www.banrep.gov.co](http://www.banrep.gov.co)
- Financial Superintendence: [www.superfinanciera.gov.co](http://www.superfinanciera.gov.co)
- Colombian Association of Banks and Financial Institutions: [www.asobancaria.com](http://www.asobancaria.com)
- Guarantee Fund of Financial Institutions (FOGAFIN): [www.fogafin.gov.co](http://www.fogafin.gov.co)
- Stock Market Self-Regulator (AMV): [www.amvcolombia.org.co](http://www.amvcolombia.org.co).