



BANCOLOMBIA: COORDINATING MULTIPLE DIGITAL TRANSFORMATIONS

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CASE STUDY

*an in-depth description of a firm's approach to an IT management issue
(intended for MBA and executive education)*

BUSINESS MODELS

INNOVATION AND STRATEGY

ASSESSING PERFORMANCE
AND VALUE

Bancolombia is the largest commercial bank in Colombia and one of the largest in Latin America. This story traces Bancolombia's journey as it embarked on a wide-ranging digital transformation that encompassed the implementation of an ecosystem strategy and the launch of a neobank—an entirely online bank. It highlights how Bancolombia used Nequi to learn how digital-only banks worked and to challenge Bancolombia's traditional ways of working. It also describes the platform work that Bancolombia did to accomplish its ecosystem strategy.

CONTENTS

Shifting from Banking Products to Digital Ecosystems	4
Evolving Technology to Support Digital Ecosystems	6
Nequi, the Start-Up Inside Bancolombia	8
Remaking an Internal Challenger into an External Competitor	11



BANCOLOMBIA: COORDINATING MULTIPLE DIGITAL TRANSFORMATIONS

Bancolombia S.A.,¹ with 2021 revenues of US\$1.1 billion,² was the largest commercial bank in Colombia and one of the largest in Latin America. It provided individual and corporate customers with a wide variety of both financial products and services and ways to transact with the bank, including more than 900 branches, 21,000 non-bank correspondents,³ and 6,000 ATMs;⁴ a super app;⁵ and commercial teams specifically for business customers.⁶ Bancolombia had over twenty million customers by the end of 2021, of which 15.9 million were digital users.⁷ Founded in 1875, Bancolombia was headquartered in Medellin, and was listed on both the New York Stock Exchange and the Colombian Stock Exchange.

1 The case study was based on eleven interviews, conducted in 2021 and 2022, with twelve stakeholders at the Bancolombia Group, and an analysis of company documents. We thank Cynthia Beath, Barbara Spindell, and Cheryl Miller for their comments and questions.

2 Provided by company, compiled based on reports available at “Financial results,” Investor Relations, Grupo Bancolombia, <https://www.grupobancolombia.com/investor-relations/financial-information/quarter-results>.

3 Non-bank correspondents were business establishments that offered basic financial services under the name of Bancolombia. These establishments could be stores, pharmacies, or any physical business. Business owners earned commissions from bank transactions. Number of non-bank correspondents from unpublished company documents; used with permission.

4 Bancolombia ATM details from Bancolombia S.A., “Corporate Presentation,” January 2022, page 2, <https://www.grupobancolombia.com/wcm/connect/www.grupobancolombia.com/15880/4da24cd8-e940-46fa-a83f-e3e2e5be6788/Corporate+Presentation.pdf?MOD=AJPERES&CVID=nZHOCJm>.

5 A super app was a mobile or web application that let users transact with multiple services and includes payment and other financial transactions built into the functionality. They were built to be all-encompassing, self-contained platforms. Examples included WeChat in China and Gojek in Indonesia. Wikipedia contributors, “Super-app,” Wikipedia, The Free Encyclopedia, <https://en.wikipedia.org/w/index.php?title=Super-app&oldid=1077806630> (accessed April 4, 2022).

6 Bancolombia commercial team details from Juan Carlos Mora U., “Investor Day—Bancolombia,” PowerPoint presentation, Bancolombia S.A., November 9, 2021, page 9, <https://www.grupobancolombia.com/wcm/connect/www.grupobancolombia.com/15880/588a54d9-0a09-401b-bcc8-1929cd728bad/Investor+Day.pdf?MOD=AJPERES&CVID=nVc1GEG>.

7 Bancolombia S.A., “Corporate Presentation,” page 2.

This case study was prepared by Andrea Patricia Diaz Baquero and Stephanie L. Woerner of the MIT Sloan Center for Information Systems Research (CISR). The case was written for the purposes of class discussion, rather than to illustrate either effective or ineffective handling of a managerial situation. The authors would like to acknowledge and thank the executives at Bancolombia for participating in the case study.

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Beginning in 2015, in response to new competitors, more demands from consumers, and the disappearance of industry boundaries, Bancolombia embarked on a wide-ranging digital transformation that encompassed the implementation of an ecosystem strategy and the launch of a neobank—an entirely online bank. Bancolombia developed its digital ecosystem strategy to greatly expand the bank’s offerings of its own financial products by identifying customer needs and then combining its products with nonfinancial and partner offerings to meet those needs. The bank evolved its existing technology to support the ecosystem strategy. The neobank, called Nequi, was the first in Colombia; it operated as a start-up within Bancolombia, and targeted a new customer segment for the bank. Both elements of the digital transformation represented Bancolombia’s sweeping effort to reinvent itself and adapt to its customers’ changing interests and demands in order to fulfill its purpose: “We promote sustainable economic development to achieve well-being for everyone.”⁸

Intrapreneurship for a bank the size of Bancolombia—which manages forty-two percent of the financial transactions in [Colombia]—is a tremendous challenge. It is more difficult to change a successful business than to start a business from scratch.

JUAN CARLOS MORA, CHIEF EXECUTIVE OFFICER, BANCOLOMBIA

SHIFTING FROM BANKING PRODUCTS TO DIGITAL ECOSYSTEMS

Bancolombia’s shift to a focus on ecosystems was prompted by leadership’s belief that the bank would gain a competitive advantage by being involved in and supporting every aspect of its customers’ lives. Accordingly, Bancolombia studied its customers’ broader circumstances, using the bank’s transaction data to learn about the life stages of its customers and the business processes of companies. Based on its research, in 2015 the bank decided to shift to a digital ecosystem mindset. Instead of focusing exclusively on banking services, Bancolombia would instead seek to deliver a wide range of financial and nonfinancial solutions to its nine million customers.⁹

It was important for Bancolombia to adapt to the market trends that are transforming the financial industry and redefining ways of doing business. Our change in focus from following industry norms to operating in digital ecosystems was driven by three factors:

- 1. The evolution of digital business models. Technology and digital transformation capabilities allow companies to deliver value propositions in a more contextual and personalized way.*
- 2. The disappearance of borders between industries. Some companies not only provide customer solutions from their own industry, but also offer services and products from other industries, playing an important role in the daily lives of customers.*
- 3. Consumers are more demanding. They look for contextual, immediate, and personalized solutions.*

LUIS MIGUEL ZAPATA, VICE PRESIDENT OF DIGITAL ECOSYSTEMS, BANCOLOMBIA

With the largest customer base for individuals and businesses in Colombia’s financial industry, Bancolombia used its considerable reservoir of data to understand, anticipate, and personalize customers’ needs. After considering its strategic objectives, the bank targeted two areas, retail and business, in which to establish ecosystems. The bank set about developing three ecosystems in the retail area:

- **Everyday life**¹⁰: a set of solutions to help clients make better savings, investment, and consumption decisions
- **Housing**¹¹: solutions for people searching for housing and financing, real estate analysis tools for builders, and

⁸ Juan Carlos Mora U., “Investor Day—Bancolombia,” page 2.

⁹ Bancolombia had nine million customers as of the end of 2014. See Bancolombia S. A., December 31, 2014, Form 20-F (filed April 27, 2015). Retrieved from https://www.sec.gov/Archives/edgar/data/0001071371/000114420415025318/v406713_20f.htm.

¹⁰ “Tu360Compras” Bancolombia’s e-commerce marketplace launched in 2021, <https://tu360compras.grupobancolombia.com/>.

¹¹ “Tu360Inmobiliario,” Bancolombia’s online real-estate marketplace launched in 2020, <https://inmobiliariotu360.grupobancolombia.com/>.

solutions for property managers

- **Mobility**¹²: solutions to help people find, purchase (or lease), and insure vehicles (cars, motorcycles, and bikes), and support smart and sustainable transportation models

For the business area, Bancolombia envisioned a business ecosystem that would enable the bank's business customers to both connect and collaborate with each other and provide services to the retail ecosystems. The business ecosystem would ultimately include a number of Bancolombia products and services designed specifically for business owners, such as microcredit, bank cards, and electronic payroll, as well as tools to help support business management.

For example, Tu360Negocios¹³ was a business network created for Bancolombia business customers, a community where participating businesses—more than ten thousand¹⁴—could promote their business and make contact with other Bancolombia business customers. Two Bancolombia businesses, Plink and Wompi, supported business customers in the bank's business ecosystem. The Plink¹⁵ platform was a data analysis tool that helped merchants better understand their business, improve their decision making, and potentially increase sales. The Wompi platform¹⁶ was a payment platform that allowed businesses to receive digital payments without a commission, via payment links sent to customers, QR codes, and an API for website integration, or using credit, pre-paid, and debit cards. Bancolombia also partnered with companies, such as BlueCaribu,¹⁷ a digital marketing agency, that provided services small- and medium-sized business needed.

(See exhibit A for the retail and business areas and the activities in each on which the bank focused; see exhibit B for a schematic of the three retail ecosystems showing the ecosystems' relationships with each other and with businesses.)

In order to offer the nonfinancial solutions needed in these ecosystems, Bancolombia found it had to adopt new monetization models. Bancolombia executives expected that seventy percent of the revenues in the new ecosystems would come from the bank's traditional portfolio of financial solutions, and that the remaining revenues would come from new monetization models such as subscription payments, sales transaction commissions, and pay-per-use.

Bancolombia's new strategy required the creation of multiple partnerships in different industries. When selecting organizations with which to partner, the bank considered several factors including alignment with the bank's goals and corporate values, level of expertise in providing the service, and reputation. In some cases, Bancolombia established exclusivities with partners that could provide the bank with a competitive advantage in the market.

One partnership, started in November 2021, was with Aper, an Argentinian start-up that helped Bancolombia create its e-commerce marketplace Tu360Compras.¹⁸ Aper was a SaaS platform that allowed a bank to launch an online marketplace and embed the bank's financing solutions, and provided options such as free shipping and personalized offers.¹⁹ Bancolombia leveraged the start-up's existing core platform and its expertise in managing sellers to get the Tu360Compras marketplace up and running quickly. The bank expected that by the end of 2022, the marketplace—which in 2021 had approximately two hundred fifty sellers in nine categories and estimated sales of US\$6 million²⁰—would have 30,000 active SKUs.

12 "Tu360Movilidad," Bancolombia's online car marketplace launched in 2020, <https://movilidadtu360.grupobancolombia.com>.

13 "Tu360Negocios," Bancolombia's online business marketplace, <https://www.bancolombia.com/tu360/negocios>.

14 Number of businesses from "Boletín Ecosistemas," Bancolombia, March 2022; internal company document, used with permission.

15 "Aumenta tus ventas" ("Increase your sales"), Plink, <https://plink.grupobancolombia.com/plink>.

16 "Tu corazón lo sabe, eres invencible" ("Online payment solutions for business"), Wompi, <https://wompi.co/>.

17 "Alianza Bancolombia y BlueCaribu para digitalizar tu empresa" ("Alliance Bancolombia and BlueCaribu to digitize companies (e-commerce builder)"), BlueCaribu, <https://www.bluecaribu.com/bancolombia>.

18 "Tu360Compras," Grupo Bancolombia, <https://tu360compras.grupobancolombia.com>.

19 "Aper's SaaS platform empowers banks to quickly launch their own online marketplace—risk free," Aper, <https://www.aper.com/platform/>.

20 Sales figures provided by Bancolombia.

As an organization, we have declared that we want to provide comprehensive solutions to the needs of our clients. We could be the bank that develops and provides the solution directly to the customer. However, there are other companies with more experience and expertise in certain areas, and it makes sense to partner with them to provide the best solution. That is why the partnership model becomes an important enabler. We need to be humble and understand that this is an ecosystem, not an ego-system.

LUIS MIGUEL ZAPATA, VICE PRESIDENT OF DIGITAL ECOSYSTEMS, BANCOLOMBIA

EVOLVING TECHNOLOGY TO SUPPORT DIGITAL ECOSYSTEMS

Bancolombia's shift to digital ecosystems required technology that could support them, which compelled the bank to evolve from a service-oriented architecture (SOA) to a microservices architecture. This was not a simple task for an organization that had amassed disparate and redundant platforms over its history.

The biggest challenge in replatforming has been changing the culture within the bank since it requires new goals, processes, values, roles, communications practices, attitudes, and assumptions—things that can be a challenge to change in a 146-year-old bank with more than 30,000 employees.

JORGE OSPINA, CHIEF INFORMATION OFFICER, BANCOLOMBIA

At Bancolombia, technology is not the challenge in the transformation; technology is a tool, not the objective. The real challenge for the bank is change management, leadership, and cultural transformation.

CIPRIANO LÓPEZ, VICE PRESIDENT OF INNOVATION, BANCOLOMBIA, AND CHIEF EXECUTIVE OFFICER, NEQUI²¹

Between 2005 and 2014, Bancolombia concentrated on unifying redundant technology platforms and replacing its banking core, which was replete with outdated technology, as the bank consolidated customers from the mergers and acquisitions.

In 2012 we made the decision to remove the word “operation” from our vocabulary because we needed the front-office and back-office teams to realize that, in an organization like ours, a good part of the customer experience occurs in the back office.

JAIME ALBERTO VILLEGAS, VICE PRESIDENT OF CORPORATE SERVICES, BANCOLOMBIA

Bancolombia's transformation eventually required a change in focus; bank leaders saw changes in customer expectations and behavior, and by 2015 they felt they were not executing on their ambition of the bank being a customer-centric company. They decided to invest in building a technical foundation that would enable them to enter into new business partnerships and support the development of ecosystems.

To underpin the strategy and help them manage the transformation, Bancolombia leadership developed a set of guiding principles:

1. **Implement agile methodologies.** Internal teams worked using Agile methodologies and were organized into multidisciplinary “full stacks.”
2. **Adopt cloud aggressively and favor use of open platforms.** Open platforms were developed in-house and run in the cloud.
3. **Increase automation of all legacy systems.** Incorporating DevSecOps into the applications helped accomplish this autonomously.
4. **Increase scalability of the backoffice.** Digitization, robotization, and artificial intelligence were leveraged in

²¹ Cipriano López was serving as vice president of Innovation at Bancolombia when the authors first interviewed him in 2021. He additionally assumed the role of chief executive officer at Nequi in January 2022 when the Bancolombia spun off the neobank, and when interviewed again by the authors in 2022, López was serving in both roles concurrently.

“smart” process design to increase back-office scalability by replacing repetitive activities. This allowed the bank to retrain its people for tasks that had higher value for the bank.

5. **Leverage advanced analytics and AI.** Use of the bank’s analytical platform was democratized to ensure that more and more business decisions were based on data.
6. **Be obsessive about cybersecurity.** Cybersecurity was seen by bank leadership to be key to ensuring privacy and supporting digital growth.
7. **Develop open banking capabilities.** These capabilities facilitated Bancolombia’s ambition of becoming a central player in multiple digital ecosystems and promoted open innovation.

Bancolombia created a framework of seven guiding principles for our ecosystem strategy. This framework aligns with our goal of becoming a platform that connects opportunities to our clients, contributing to the creation of a more competitive, resilient, sustainable, and inclusive economy.

JAIME ALBERTO VILLEGAS, VICE PRESIDENT OF CORPORATE SERVICES, BANCOLOMBIA

Bank leadership envisioned the ecosystem strategy to encompass two distinct activities. The first activity was orchestrating solutions for customers leveraging the bank’s existing platforms—i.e., banking as a platform, or BaaP—to offer financial and nonfinancial services. In 2011 Bancolombia introduced the Bancolombia Personas app, a mobile app created to offer financial services to the bank’s customers, and in 2020, as part of its BaaP efforts, Bancolombia evolved the banking app to be a super app that offered nonfinancial as well as financial services.²²

We leveraged the bank’s crown jewels, such as our mobile and web traffic, data, millions of existing customers, and the brand with the best reputation in Colombia to allow our customers to manage their money and daily life; categorize and keep track of expenses; find a home, a car, personalized offers, and discounts on products; transfer money; recharge transportation cards; and perform simple transactions directly in the app.

LUIS MIGUEL ZAPATA, VICE PRESIDENT OF DIGITAL ECOSYSTEMS, BANCOLOMBIA

The second activity was offering financial solutions in third-party channels via APIs—i.e., banking as a service, or BaaS—to embed financial services in third-party experiences. (See exhibit C for a depiction of how Bancolombia combined banking as a platform and banking as a service to deliver the bank’s ecosystem strategy.)

People don’t dream about getting a bank loan, they dream about buying their first home or having a better car. To offer nonfinancial services successfully and seamlessly, we needed to become an invisible bank, with the bank’s financial services underlying the nonfinancial offerings.

LUIS MIGUEL ZAPATA

Bancolombia began work on its foundation by strengthening the bank’s internal API layer, with the eventual goal of creating a robust external API layer, an API marketplace, or both. Focusing first on developing the internal API layer helped Bancolombia to isolate the bank’s core. Then the bank made independent processes available as APIs that were reusable across integrations, which accelerated the implementation of internal business solutions and circumvented repetitive implementation work. Its internal APIs allowed Bancolombia to institute a cleaner data governance architecture. Next, building on its internal API efforts, the bank implemented an external API layer that exposed certain capabilities for outside consumption; in doing so, the bank improved customer experience by enabling its services to be available through third parties (see exhibit D for a depiction of the evolution of Bancolombia’s IT landscape from 2016 to 2020).

²² “App Bancolombia,” Bancolombia, <https://www.bancolombia.com/centro-de-ayuda/canales/app-bancolombia>.

Bancolombia started by designing APIs for specific business customers, and realized later that this approach was very inefficient. Now, we develop APIs that respond to business customers' shared needs.

PABLO ARBOLEDA, DIRECTOR OF DATA AND ANALYTICAL CAPABILITIES, BANCOLOMBIA

With the Plink platform, which Bancolombia launched in 2018, the bank created value for its customers using its APIs to offer business intelligence tools to Bancolombia merchants.

Plink uses analytical models from the bank and exposes them through APIs, providing anonymized and aggregated information to thousands of businesses. Merchants have access to broader customer segmentation and more information than they would have had previously. A single shoe store owner does not need to have the technological infrastructure, data, or a marketing department to reach potential buyers; the store owner just needs to be a client of Bancolombia to use Plink's analytical model.

JUAN SEBASTIAN FRANCO, DIRECTOR, PLINK

Initially, Plink charged Bancolombia merchants a monthly fee under a subscription model. Eventually Bancolombia decided to offer Plink as a free service to its customers. This change in strategy facilitated the increased adoption of Plink: in 2021 the platform had grown to have more than 26,000 merchants. Additionally, the move attracted business customers from competing banks, generating more than two hundred million US dollars in new funds from merchants that migrated their accounts to Bancolombia.²³ In 2022, Plink launched a new feature to enable merchants to send promotions directly to the more than six million active users of the Bancolombia Personas mobile app.

Our primary motivation has been the need to realize our ambition to be a customer-centric organization. We are doing so by offering financial and nonfinancial products to our customers through our own digital marketplaces and as a part of third-party marketplaces that consume our BaaS [Banking as a Service] APIs.

JAIME ALBERTO VILLEGAS, VICE PRESIDENT OF CORPORATE SERVICES, BANCOLOMBIA

NEQUI, THE START-UP INSIDE BANCOLOMBIA

Anticipating the entry of new financial players in the region, especially new digital-only entities, Bancolombia created its own digital-only entity—the neobank Nequi—both to learn how such entities worked and to challenge Bancolombia's traditional ways of working. The neobank, a new business unit within the bank, operated exclusively digitally, without traditional physical branch locations; its banking services were designed to be operationally efficient and scalable. Customers transacted with Nequi using the Nequi mobile app.²⁴

Nequi, conceived of in Bancolombia's innovation lab in 2014, was designed to attract customers suspicious of traditional banking. The name Nequi came from a word in the indigenous Colombian language of Wayuu that meant traveling companion; just as a Sherpa would guide travelers on expeditions to the Himalayas, Nequi was intended to guide users in their financial transactions. Bancolombia also believed that Nequi could serve as an instigator within the bank to push Bancolombia to reinvigorate its own products and services.

²³ Plink's number of users and revenues are from executive interviews.

²⁴ Nequi launched the Nequi app in 2015 for the Colombian market. In 2017, the neobank launched a new version of the app for the Panamanian market. The bank distinguished the two versions of the app as Nequi Colombia and Nequi Panama. As the neobank did not maintain a web customer interface, the Nequi app was the only method to transact with Nequi until October 2020, when Nequi launched a prepaid Visa card that could be recharged through the Nequi app; see "Nequi presents a new Visa card for payments in Colombian and international businesses," LABS – Latin American Business Stories, October 26, 2020, <https://labsnews.com/en/news/business/nequi-presents-new-visa-card-to-pay-in-colombian-and-international-businesses/>.

Nequi was created to respond to three features in the Colombian marketplace:

1. *Fintechs and nonfinancial companies entering the financial business, putting pressure on banks to respond*
2. *The [lack of] speed Bancolombia has, and [that] its legacy systems prevented us from having the necessary speed at that time in that competitive environment.*
3. *The tense relationship between people and banks*

ANDRÉS VÁSQUEZ, CHIEF BUSINESS OFFICER, NEQUI²⁵

Nequi began with a strong focus on young people: more than eighty percent of Nequi's customers were under forty years old.²⁶ Deploying design thinking methodologies to gain a deep understanding of the user, the Bancolombia team developing Nequi envisioned a new relationship between young people and money.

Providing financial education was at the heart of Nequi's mission and also connected to Bancolombia's purpose of promoting educational and financial inclusion. Most people found traditional banking language difficult to understand, so Nequi created an easy-to-understand language that mimicked interactions with everyday objects. This helped users feel more comfortable using the financial services in the app.

ANDRÉS VÁSQUEZ

The app's language helped previously unbanked customers feel at ease using Nequi for financial services (see exhibit E for a picture of the app with English translations of app terms). Nequi's core services—services that allowed users to send, withdraw, request, pay, and manage money—were free. Users created “pockets” to allocate money to different expenses, such as rent, education, and groceries. They were also able to save money “under the mattress,” a function that borrowed an expression reflective of a historical distrust in banks. This friendly approach was not just embedded in the design of the app, it was also part of the company's marketing strategy: a Nequi promotional video portrayed the service as an approachable, smiling smartphone, happily chatting with people in a bank line.²⁷ One of the most popular posts on Nequi's blog suggested movies that could help people learn to manage money, such as *The Pursuit of Happiness* and *Birdman*.²⁸

Nequi also offered paid proprietary and third-party financial and nonfinancial products and services through the app; these marketplace services included an alliance with PayPal²⁹ (an alliance that Bancolombia eventually joined³⁰), small loans through Bancolombia, bill payment, cell phone and internet plan purchases, health services, and mobility services. Third-party alliances were a key component of Nequi's banking as a service strategy, and the neobank developed the first external API marketplace in Colombia in the first half of 2017—preceding

25 Andrés Vásquez was the head of Nequi in the role of chief business officer when interviewed by the authors in 2021. In 2022, when Bancolombia spun off Nequi, Cipriano López assumed the role of head of Nequi as CEO, primarily focusing on the separation between Nequi and Bancolombia. Meanwhile, Andrés Vásquez stayed on as chief business officer in charge of the business, technology, and operation teams.

26 The median age of Colombian population in 2020 was projected to be 31.3 years. See “Colombia: Average age of the population from 1950 to 2050,” Statista, <https://www.statista.com/statistics/368964/average-age-of-the-population-in-colombia/>; data is from “World Population Prospects 2019,” the United Nations Department of Social and Economic Affairs, <https://population.un.org/wpp/>.

27 Nequi, “Nequi: una App para usar tu plata a tu Ritmo,” March 3, 2017, video, 0:48, <https://youtu.be/BDLXvSQCZ8>.

28 “Seis lecciones sobre la plata que nos enseña el cine,” *Metidas de Plata* (Nequi blog), October 19, 2017, <https://metidasdeplata.nequi.com.co/2017/10/19/seis-lecciones-la-plata-nos-ensena-cine/>.

29 “Nequi and PayPal join forces in Colombia,” *BNamericas*, September 25, 2018, <https://www.bnamericas.com/en/news/nequi-and-paypal-join-forces-in-colombia>.

30 Bancolombia entered into the alliance with PayPal to access new markets and new sets of customers. Third-party alliances afforded Bancolombia the opportunities to augment its reach and range by increasing both the number and kinds of customers it had; for more on leveraging digital partnering to increase reach and range, see Ina M. Sebastian, Peter Weill, and Stephanie L. Woerner, “Three Strategies to Grow via Digital Partnering,” MIT Sloan CISR Research Briefing, Vol. XX, No. 5, May 2020, https://cisr.mit.edu/publication/2020_0501_DigitalPartneringStrategies_SebastianWeillWoerner. Third-party alliances also offered Bancolombia the opportunity to access new revenue streams.

the launch of Bancolombia's e-commerce marketplace in 2021. Nequi's work on developing partnerships and leveraging APIs ultimately informed Bancolombia's efforts to build out its ecosystem strategy.

Nequi's revenues relied heavily on commissions, paid by both service providers and customers,³¹ enabled by the neobank's open API strategy. In 2021 twenty-five companies consumed Nequi's APIs to facilitate offerings such as parking meters, parking lots, e-commerce, and a food delivery app. For example, a bottle recycling offering allowed a customer to insert returnable plastic bottles into a recycling machine and receive the refund money in the Nequi app.

Nequi's strategy is to strengthen the free services, the heart of the application, and increase the customer base at a low customer acquisition cost, to become attractive for business partners. We wanted our customers to find everything they needed in the app, so the money circulates in the ecosystem.

ANDRÉS VÁSQUEZ, CHIEF BUSINESS OFFICER, NEQUI

While external auditors recommended that the Nequi team follow the standardized, strict processes of traditional banks, Nequi differentiated itself from its parent Bancolombia through its products, diversity, and different ways of working. Notably, almost sixty percent of the Nequi team came from industries other than banking; for instance, it was common to come across designers with a background in city development. Nequi's leaders believed such diversity of perspectives offered a more nuanced view of its customers, which they said helped the neobank meet the goal of fulfilling a range of daily life needs for a broad customer base. Nequi prioritized an agile culture, with employees collaborating through self-organizing, cross-functional teams, which bank leadership believed led to faster creation and implementation of functionalities and products.

In developing Nequi to function so differently from the bank, Bancolombia was aiming to create an internal competitor. This allowed Bancolombia to learn by observation the ins and outs of alliances and partnering around APIs; new market segments and strategies; and engaging with customers. But developing a competitor, with a different model of operating, within the bank was a big challenge.

Nequi was designed from the beginning to operate like a start-up, [whose] working model, skills, operating model, process, and working culture differed from the parent company to challenge the way we do banking. We needed to change the collective work habits and culture by implementing agile—not as a methodology, but as an intuitive way to operate, with the loudest voice inside the team being the customer's voice.

CIPRIANO LÓPEZ, VICE PRESIDENT OF INNOVATION, BANCOLOMBIA, AND CHIEF EXECUTIVE OFFICER, NEQUI

How Nequi managed the development and launch of loans was illustrative of its approach to creating new products. The neobank did not initially offer loans when the Nequi app was launched, as user research showed that, of all banking functions, the loan process generated the most fear, distrust, and friction for customers. Once the app reached 200,000 users, the Nequi team launched the app's loan functionality despite that the functionality was not yet fully developed, in order to iterate it based on customer engagement. The team took a test-and-learn approach to see how customers did and didn't use the loan process, making alterations to the process as they learned. In contrast, Bancolombia only launched products that had first been completely tested and approved.

Bancolombia designed Nequi to function as a test laboratory for innovation and technology. For example, Nequi's mobile app was the first one hundred percent cloud application developed at Bancolombia, an approach Bancolombia later moved to with its banking mobile apps. In addition, the bank's face and voice authentication technologies were initially tested and implemented at Nequi before being deployed at Bancolombia. And Banco-

³¹ One example of commissions paid by customers was that a customer who received funds through the PayPal service offered inside Nequi paid a five percent commission to Nequi.

lombia tested part of its ecosystem strategy through Nequi by experimenting with APIs to develop partnerships; those learnings were eventually integrated into Bancolombia's operations.

As a Bancolombia brand, Nequi was integrated with the bank through its accounting systems—thereby benefiting Nequi's customers. Although Nequi had its own non-bank correspondents (fifteen thousand) with which Nequi customers could add and withdraw funds and make payments, the neobank's customers were also able to use Bancolombia's twenty-one thousand non-bank correspondents and over six thousand ATMs to make financial transactions. And due to the interoperability between Bancolombia and Nequi, customers could transfer money between the two in real time without going through external payment networks.

REMAKING AN INTERNAL CHALLENGER INTO AN EXTERNAL COMPETITOR

Our competitive advantage stemmed from the number of our customers, our analytical capacity, and the ability of our channels to integrate new offerings and companies, as well as the trust and reputation that derive from Bancolombia's brand. Together these allow our customers to have all the solutions they need in one place. And we created a robust API layer so that the bank's solutions can be exposed in the available digital platforms and marketplaces—all the spaces where customers will seek to solve their needs.

MARÍA CRISTINA ARRASTÍA URIBE, BUSINESS VICE PRESIDENT, BANCOLOMBIA

The COVID pandemic brought about a number of changes at Bancolombia. Among these was that it facilitated the rapid migration of Bancolombia's customers to digital channels (see exhibit F for Bancolombia transaction share by channel for the fourth quarter of 2021). By the end of 2021, almost 80 percent of Bancolombia's clients were also digital users.³² By the end of the third quarter of 2021, Bancolombia's digital channels were responsible for a whopping 89.9 percent of the organization's total transactions.³³ NPS for retail customers was at 60 percent, and was over 88 percent and 84 percent for mid-size and large corporations respectively.³⁴ By the end of 2021, the bank's net income had risen 31 percent year-on-year from the previous year.³⁵

Initially, Nequi's growth was challenged by the immaturity of the Colombian business ecosystem—especially around the development of API technical integrations and new business models—but eventually those hurdles began to disappear. Over the course of the pandemic, Nequi saw big growth in its user base and its fees. By the end of 2020, the neobank had 4.8 million monthly active users and finished 2021 with 10 million users;³⁶ the number of Nequi users in Colombia equaled about a fifth of the population.³⁷ Fees grew 428 percent from the first quarter of 2020 to the third quarter of 2021.³⁸

The COVID pandemic and resulting government distribution of aid transformed the user population. One-third of Nequi's users were its target audience of 18-to-40 year olds. A second third was rural users who were not digitally savvy and were typically unbanked. These users found that with a smartphone and internet access, they could access the government aid systems. Many of Nequi's users in these first two groups were not especially financially literate—they earned money but needed information on their financial options. The last third turned

32 Bancolombia, "Corporate Presentation," January 2022, page 2.

33 Juan Carlos Mora U., "Investor Day—Bancolombia," page 17.

34 Juan Carlos Mora U., "Investor Day—Bancolombia," page 29.

35 Roberto Peckham, "Bancolombia Full-year 2021 Net Income Jumps 31% Year-on-Year," *Medellin Herald*, February 23, 2022, [https://www.medellinherald.com/expcorn-2/companies/item/1281-bancolombia-full-year-2021-net-income-jumps-31-year-on-year#:~:text=Medellin%2Dbased%20multinational%20banking%20giant,trillion%20\(US%241.04%20billion.](https://www.medellinherald.com/expcorn-2/companies/item/1281-bancolombia-full-year-2021-net-income-jumps-31-year-on-year#:~:text=Medellin%2Dbased%20multinational%20banking%20giant,trillion%20(US%241.04%20billion.)

36 Source for 10 million users was executive interviews. Other figures are from Juan Carlos Mora U., "Investor Day—Bancolombia," page 39.

37 In 2020, Colombia had a population of 50 million; see Wikipedia contributors, "Colombia," *Wikipedia, The Free Encyclopedia*, <https://en.wikipedia.org/w/index.php?title=Colombia&oldid=1078720227> (accessed March 29, 2022).

38 Juan Carlos Mora U., "Investor Day—Bancolombia," page 41.

to Nequi as their second, digital bank. These customers were educated and maintained a number of financial products. Fifty-five percent of Nequi's users banked with Nequi but not Bancolombia; the other forty-five percent banked with both. Nequi, as a result of starting from scratch with a native cloud development (and with its front end separated from Bancolombia's infrastructure), was able to accommodate the growth quickly and add new features continuously.

Bancolombia is like an aircraft carrier. It's massive, strong, solid, safe, and it has been reinventing itself to improve and complement its value proposition. Nequi is like a speedboat, faster, more agile, and more flexible than the aircraft carrier. But it can be more vulnerable to the environment, like speedboats are when the weather changes too fast, creating big waves. We think Nequi is set up to explore new ways to combine financial and nonfinancial products and to create new ecosystems. And we will be competing with traditional banks, fintech companies, and with big tech.

CIPRIANO LÓPEZ, VICE PRESIDENT OF INNOVATION, BANCOLOMBIA, AND CHIEF EXECUTIVE OFFICER, NEQUI

Bancolombia had envisioned Nequi as one hundred percent digital operation, one that would serve to fulfill its purpose of promoting sustainable economic development for all of Colombia's citizens, and as a place to experiment with new technologies and business models within Bancolombia. Bancolombia leadership, however, had not imagined the large adoption rates of Nequi among rural Colombians and the urban clientele who already had a relationship with a traditional bank.

For Bancolombia, following two different digitally based innovation paths simultaneously—the shift to digital ecosystems and the creation of Nequi—always raised the question of the end game. If Bancolombia eventually learned enough from Nequi so that it had the same capabilities, what then? Through 2021, keeping Nequi as a business unit of Bancolombia proved more beneficial to both Nequi and Bancolombia. The end of 2021, however, proved to be the tipping point in Bancolombia's business case for Nequi. The large growth in the user base, accompanied by the increased diversity of users, changed the value proposition of Nequi. Separating Nequi from Bancolombia would give Nequi more opportunities to grow and exploit its technology. The Bancolombia board of directors authorized Nequi to operate as a one hundred percent digital credit firm—a separate business from Bancolombia, with its own financial license.³⁹

Nequi was intended from the beginning to be independent and separable from Bancolombia. When the bank spun off Nequi, the app's core banking system became completely independent from Bancolombia's technology infrastructure—but its ERP system remained part of the architecture of Bancolombia. Nequi planned to unplug most of its support function software from Bancolombia, leaving only a few processes connecting the two entities. For example, Nequi planned to continue using Bancolombia's cyber security capability, paying a fee for the service, and do the same with procurement. And Nequi also planned to contract for the use of Bancolombia's ATM network.

Nequi had begun separating from Bancolombia in 2022 when Cipriano López, who had been serving as vice president of Innovation at Bancolombia, additionally assumed the role of Nequi chief executive officer. As CEO, López led the separation of Nequi and Bancolombia, envisioning a new relationship between them.

We will cooperate with Bancolombia in some areas and compete in other areas. Bancolombia agrees on this. For example, we might not develop a product that Bancolombia already has, but we will partner with Bancolombia, using their APIs for access to that product—for example, a car or house loan. And then we will compete with them on experience, usability, communication, and flexibility.

CIPRIANO LÓPEZ

³⁹ "Nequi will be a separate platform from Bancolombia – Financial Sector – Economy," NewsBeezer, December 15, 2021, <https://newsbeezer.com/colombiaeng/nequi-will-be-a-separate-platform-from-bancolombia-financial-sector-economy/>.

Nequi's spinoff from Bancolombia offered a number of potential opportunities for the neobank:

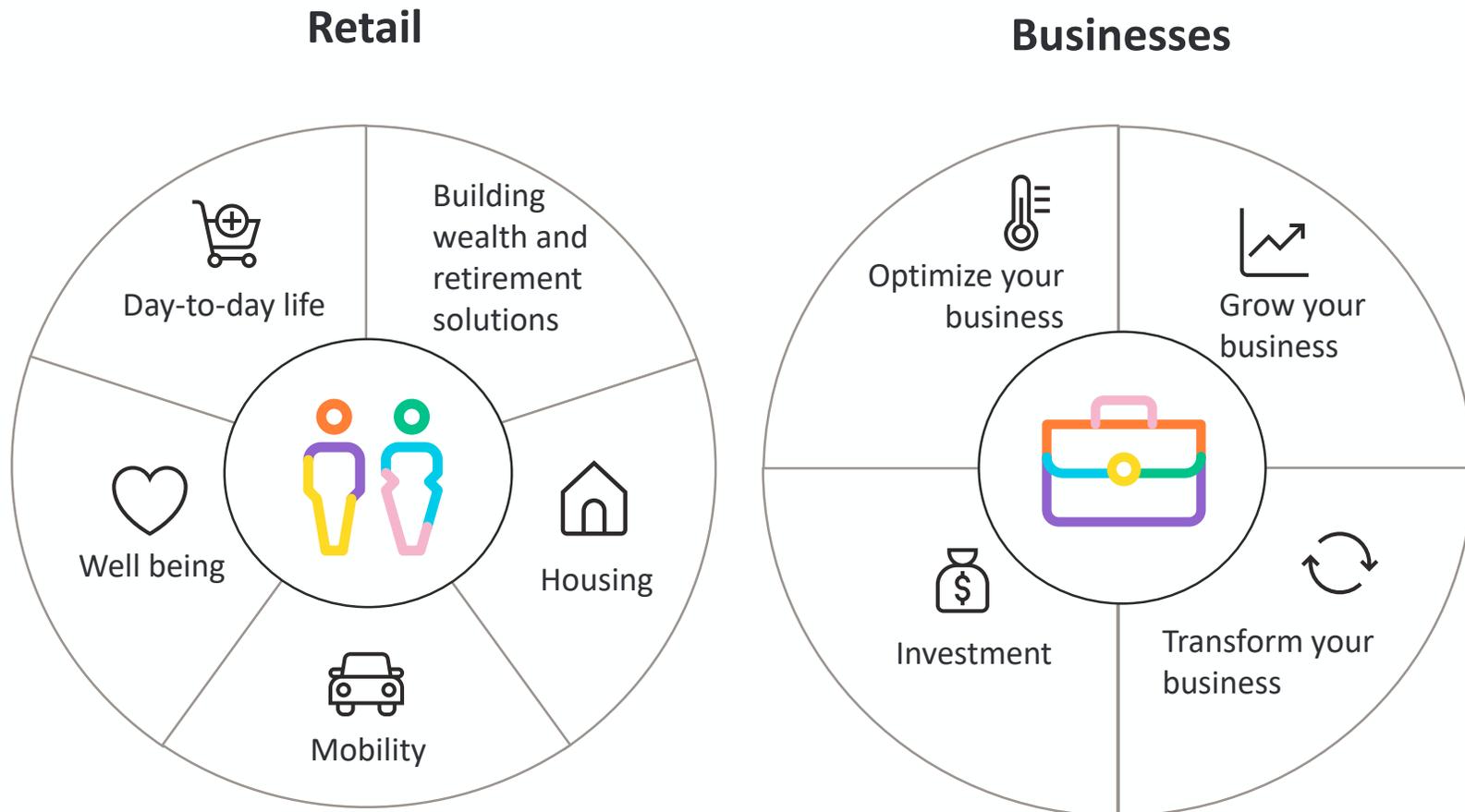
- **Expanding the user base and leveraging network effects:** Nequi had an aspiration of growing to 20 million users by 2025.
- **Using its data more extensively:** In 2021, more than 900 million transactions took place on the Nequi platform, 600 million of which were financial transactions.⁴⁰ Nequi gained a lot of information from the data and wanted to further explore and use the data. That data could also be useful for the entire Bancolombia Group.
- **Growing internationally:** Nequi had operations in Panama and was interested in increasing its international presence
- **Becoming more active in the business ecosystem:** Nequi was strong in the business-to-consumer market, but moving forward Nequi leadership believed it had to be stronger in the business-to-business market.
- **Offering more financial and nonfinancial products:** Nequi had an expansive view of the products and services that it was interested in carrying—anything that was a transaction that finished with a payment of some kind.

Nequi started as a lab experiment, and it gave Bancolombia the leverage to explore things that would be difficult to do inside Bancolombia. That experiment has now become a big company. By 2025 we plan to be the largest financial and nonfinancial services marketplace in Colombia, present in people's daily lives and the daily operations of business and SMEs, helping them to fulfill their purposes.

CIPRIANO LÓPEZ, VICE PRESIDENT OF INNOVATION, BANCOLOMBIA, AND CHIEF EXECUTIVE OFFICER, NEQUI

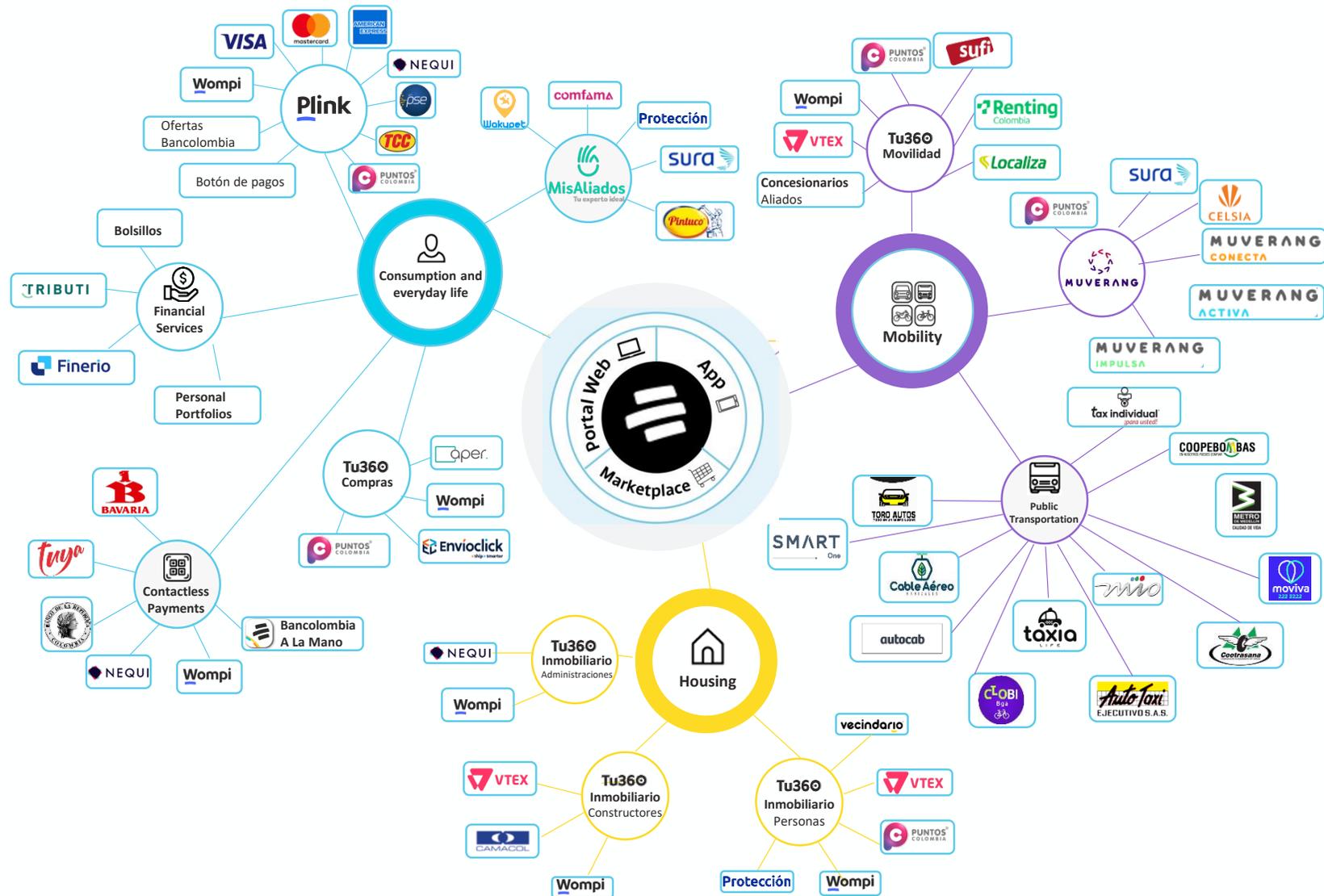
40 Source of figures was executive interviews.

Exhibit A: Activities Around Which Bancolombia’s Digital Ecosystems Targeted Retail and Business Customers



Source: Juan Carlos Mora U., "Investor Day—Bancolombia," PowerPoint presentation, Bancolombia S.A., November 9, 2021, page 8, <https://www.grupobancolombia.com/wcm/connect/www.grupobancolombia.com15880/588a54d9-0a09-401b-bcc8-1929cd728bad/Investor+Day.pdf?MOD=AJPERES&CVID=nVc1GEG>.

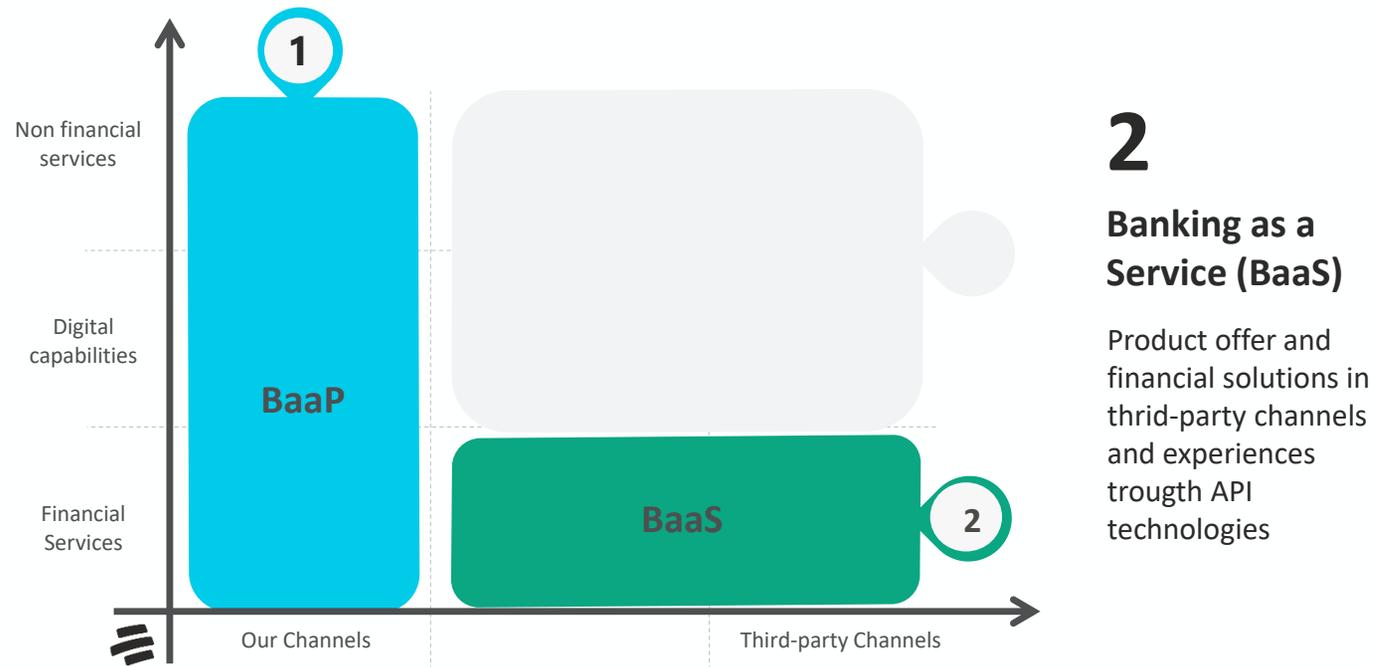
Exhibit B: Relationships of Bancolombia's Three Retail Ecosystems with Supporting Partners and Businesses



Source: Juan Carlos Mora U., "Investor Day—Bancolombia," PowerPoint presentation, Bancolombia S.A., November 9, 2021, page 22, <https://www.grupobancolombia.com/wcm/connect/www.grupobancolombia.com15880/588a54d9-0a09-401b-bcc8-1929cd728bad/Investor+Day.pdf?MOD=AJPERES&CVID=nVc1GEG>.

Exhibit C: Delivery of Bancolombia's Ecosystem Strategy

Ecosystems: Orchestrating solutions and participating in third-party experiences

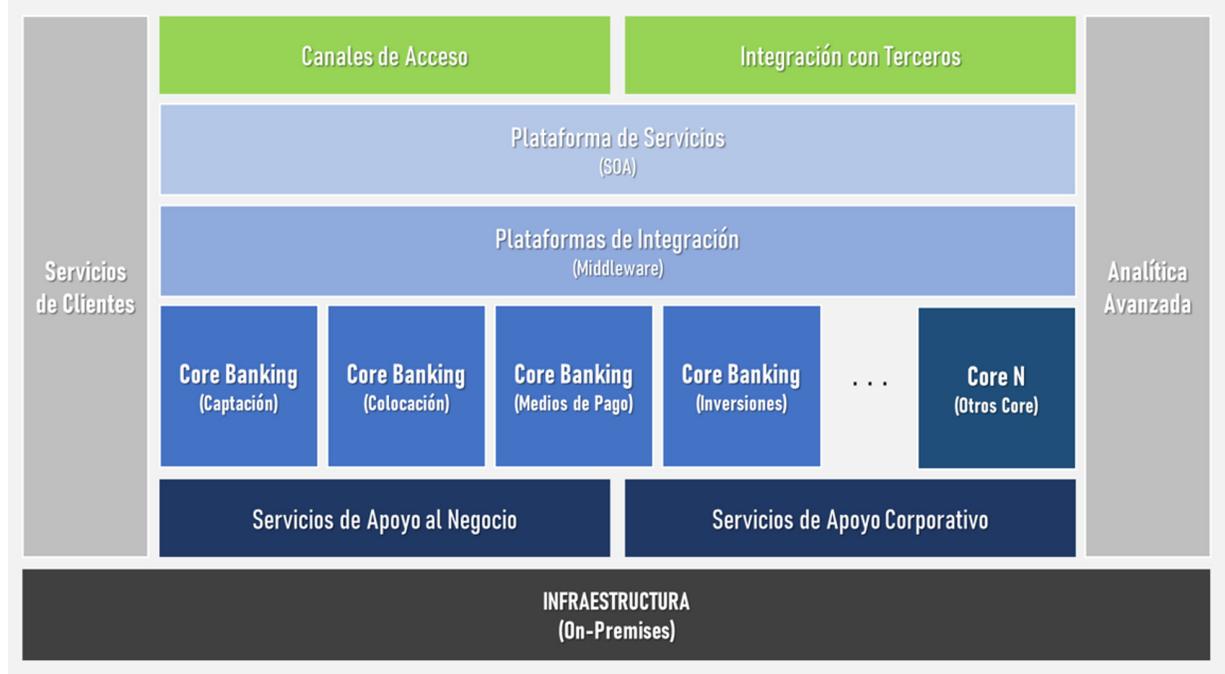


- 1 Banking as a platform (BaaP)**
 Orchestration of financial and non financial services, with in-house and third-party solutions in our channels.

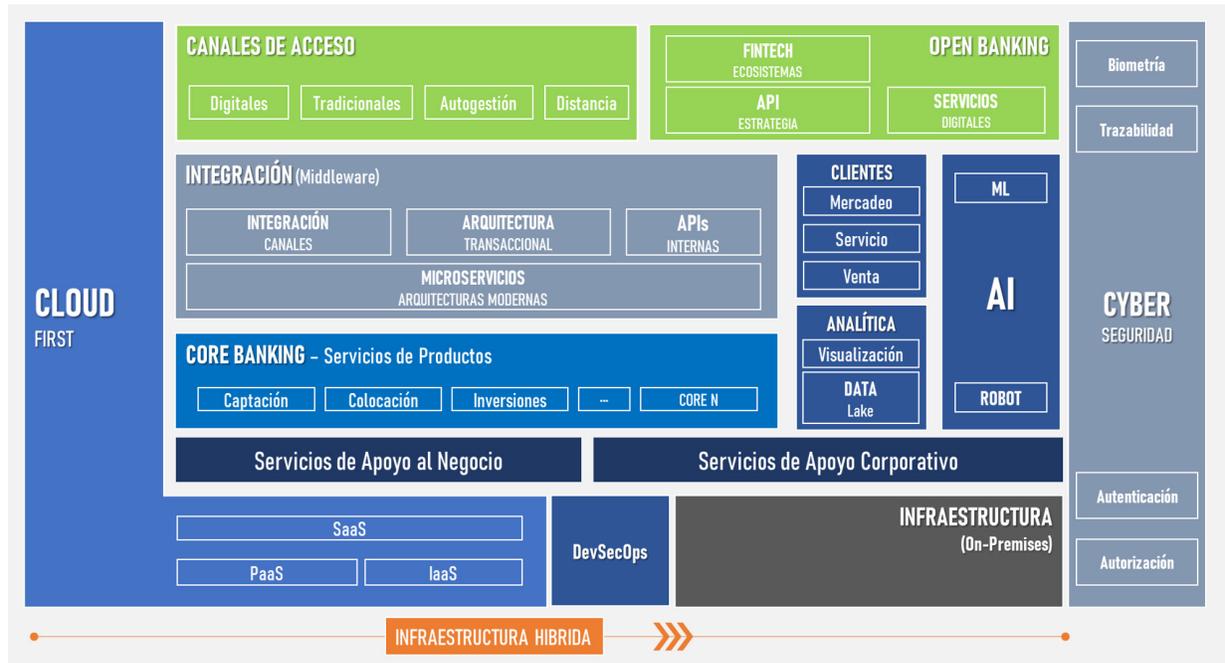
Source: Juan Carlos Mora U., "Investor Day—Bancolombia," PowerPoint presentation, Bancolombia S.A., November 9, 2021, page 19, <https://www.grupobancolombia.com/wcm/connect/www.grupobancolombia.com15880/588a54d9-0a09-401b-bcc8-1929cd728bad/Investor+Day.pdf?MOD=AJPERES&CVID=nVc1GEG>.

Exhibit D: Bancolombia's IT Landscape Evolution

Bancolombia's IT Landscape 2016

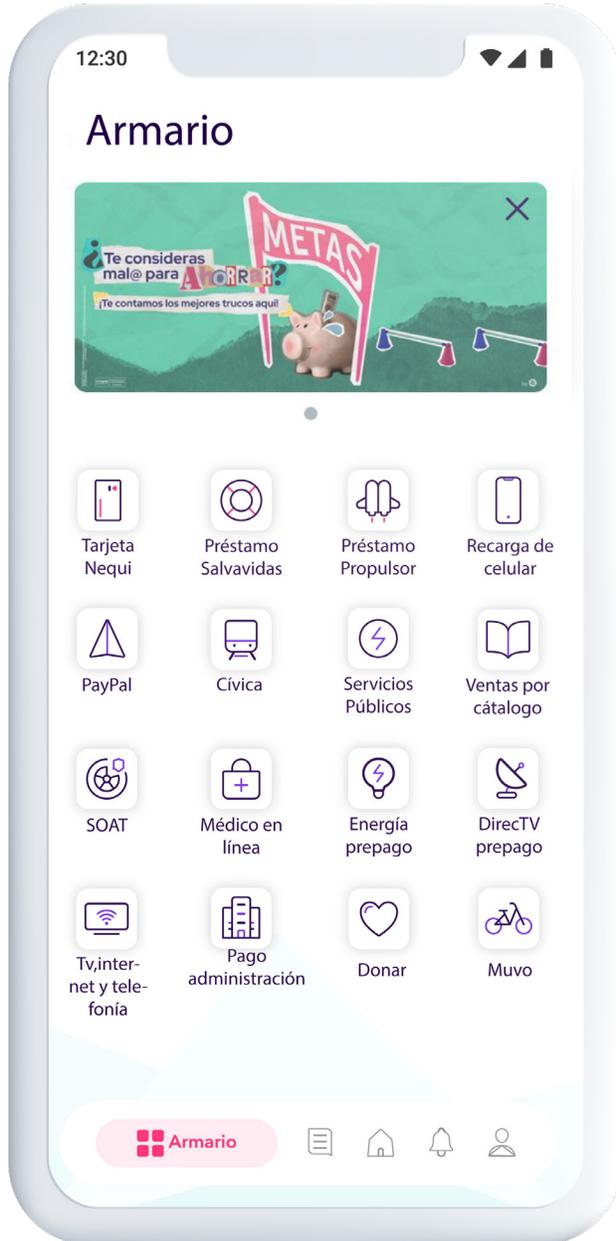


Bancolombia's IT Landscape 2020



Source: Unpublished company documents; used with permission.

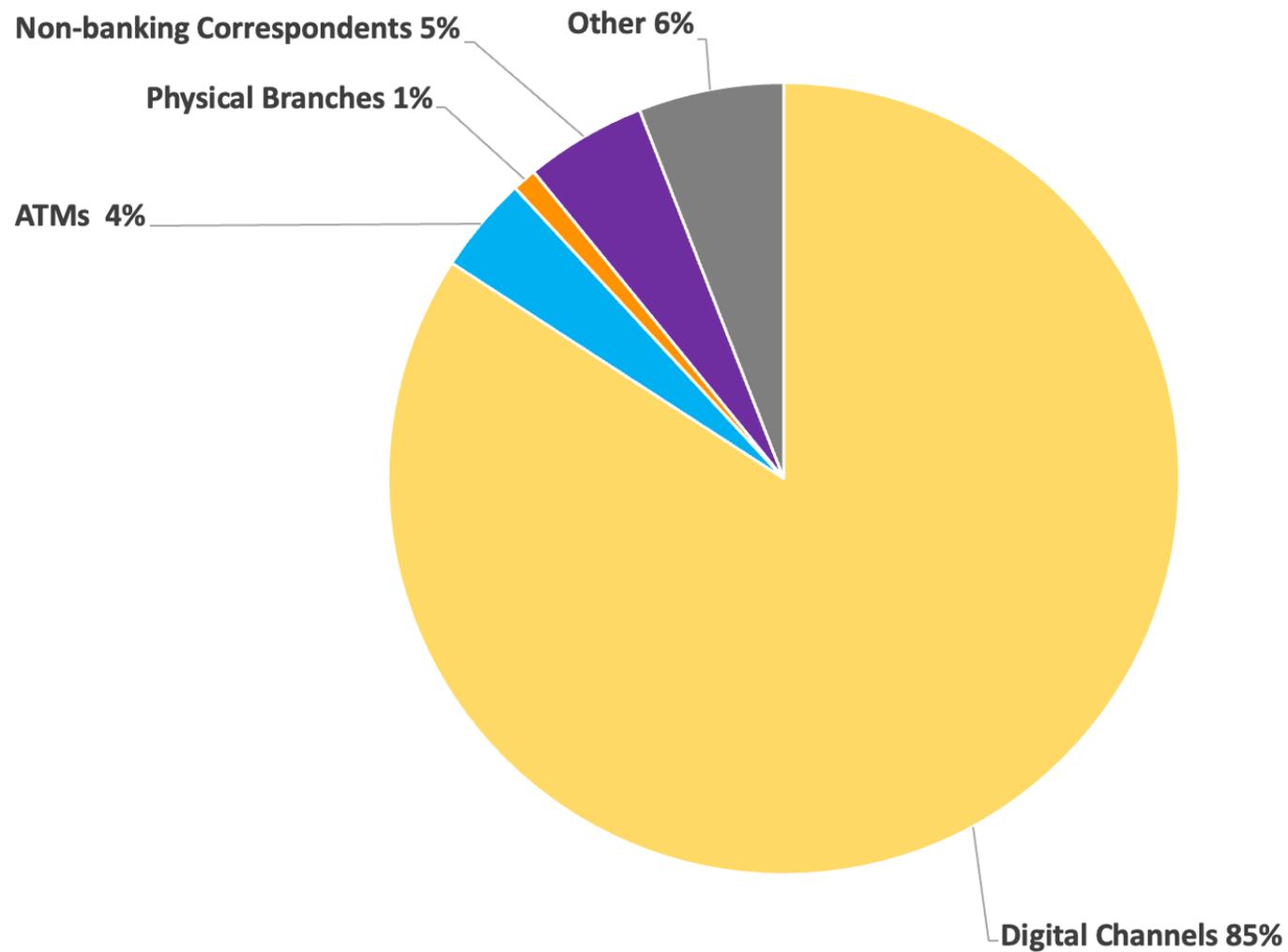
Exhibit E: The Nequi App's Inclusive Language



- Tarjeta Nequi: Nequi Card
- Préstamo Salvavidas: Lifesaver Loan
- Préstamo Propulsor: Propellant Loan
- Recarga de Celular: Mobile Top-up
- PayPal: PayPal
- Cívica: Metro Card
- Servicios Públicos: Utility Bills
- Ventas por catálogo: Sales Catalogue
- SOAT: Car Insurance
- Médico en línea: Online Doctor
- Energía Prepago: Prepaid Electricity
- DirecTV prepago: Prepaid DirecTV
- TV, Internet y Telefonía: TV, Internet, and Phone
- Pago Administración: Property Management Fee
- Donar: Donations
- Muvo: Bike Sharing

Source: Bancolombia.

Exhibit F: Bancolombia Digital Distribution Channels, Fourth Quarter 2021



Source: Channel shares based on number of transactions; the combined channel shares equal greater than one hundred percent because shares were rounded up. Author recreation based on Bancolombia, "Earnings Results 4Q21," PowerPoint presentation, January 2022, Page 7, <https://www.grupobancolombia.com/wcm/connect/www.grupobancolombia.com15880/3b9b3523-cdad-412a-a0d5-c7f74a351e69/4Q21+Results+VF+%281%29.pdf?MOD=AJPERES&CVID=nYD0nOW>.

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(Mexico)

General Mills, Inc.

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Henkel AG & Co. KGaA
(Germany)

Hitachi, Ltd.

HSBC Technology & Services
(USA) Inc.

Johnson & Johnson

Kaiser Permanente

King & Wood Mallesons

Koç Holdings (Turkey)

Mercer

National Australia Bank Ltd.

Nomura Holdings, Inc. (Japan)

Nomura Research Institute,
Ltd. (Japan)

Org. for Economic
Co-operation and
Development (OECD)

Pacific Life Insurance
Company

Pioneer Natural Resources
USA Inc.

Posten Norge AS

Principal Financial Group

Procter & Gamble

QBE

Raytheon Technologies

Reserve Bank of Australia

Royal Philips
(The Netherlands)

Santander UK/Grupo
Santander

SC Global Tubular Solutions

Scentre Group (Australia)

Schneider Electric Industries
SAS (France)

SIGMAXYZ Inc.

State Street Corp.

Stockland (Australia)

Suncorp Group (Australia)

Teck Resources Ltd. (Canada)

Tetra Pak (Sweden)

Trinity Health

Truist Financial Corporation

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