

# Financial Services in Nuevador\*

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**what's happening south of the  
border ?**

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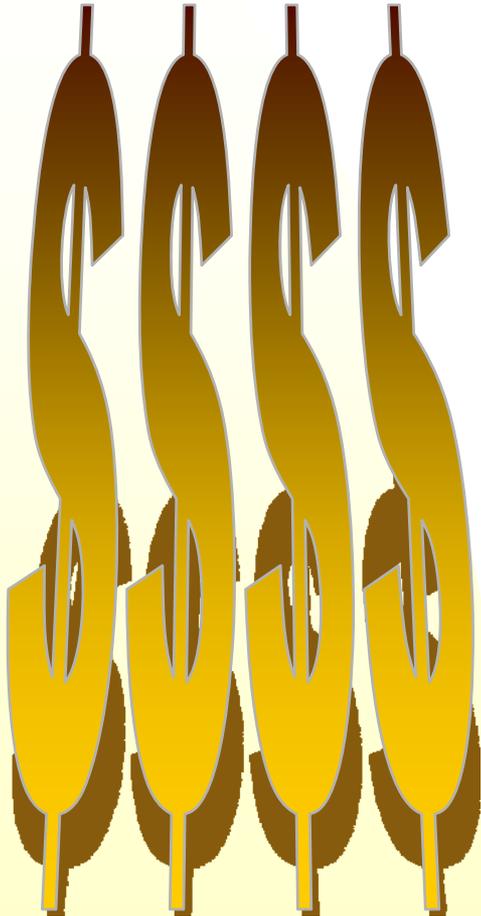
World Bank

Atlanta Federal Reserve Bank Consumer Banking Conference

March 18, 2009

**\*Nuevador: A composite country prepared especially for The Atlanta Fed Consumer Banking Conference. It shows the most extreme data from several Latin American countries such as Colombia, Mexico and Brazil as of 2003/4**

# **Nuevador – the financial sector is thin and shallow**



**Assets – US\$ 100 billion, 120%GDP**

**Domestic Credit– 25% GDP**

**Ratio of GDP/Credit Nuevador -6/1**

**(Ratio of GDP/Credit USA 1/6)**

**But the financial sector reaches only 20%  
80% are UNBANKED**

**In Nuevador:**

**Sector consolidation –**

**7 Banks have 99% of assets**

**The Banks aren't lending....**

**50% of income from services..**

**And from investments.. In govt paper**

**And in the Stock Market**

**Deposit insurance.. Not really there**

**(and discouraged by the experts)**

# **Nuevador ...**

## **The financial cost of the Unbanked**

### **Costs to Unbanked:**

**USA - 2.5% - 4% of income.. Nuevador - 5% - 25 % of income**

### **Costs to the Financial Sector – in transactions and efficiency loss:**

*Rough estimate – US\$ 1 billion saved at home – not reinvested – cost to import*

***Transaction costs for Cash = 5 X Checks = 15 X***

***Electronic***

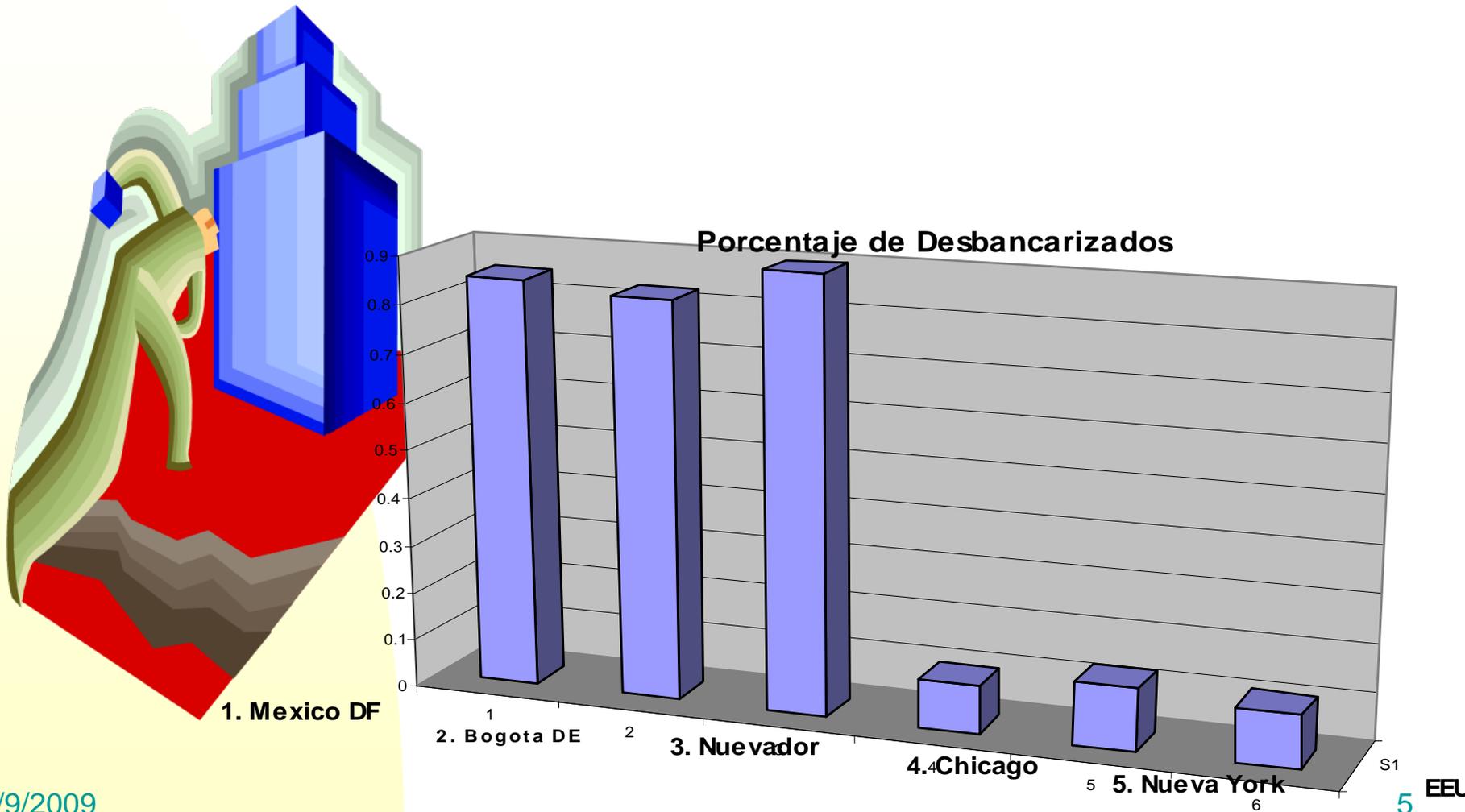
### **Development Costs**

*Reduced aggregate savings*

*Reduced productive reinvestments of savings*

*Increased income inequality through upward redistribution of income*

# Nuevador vs US- How many Unbanked?



# Nuevador vs US- Who are the Unbanked?

## Similarities

**Below median income**

**USA -79%**

**Nuevador 90%**

**Less than high school**

**USA -56%**

**Nuevador - 51 %**

**Marginalized socio-  
economically**

**Nuevador**

**(informal sector) 60%**

**USA (Latino and Afro  
American) 90%**

## Differences

**Percentage of Unbanked**

**Nuevador (La Capital) 75%**

**USA 9.1%**

*(Percentage of Unbanked is markedly greater  
in Nuevador)*

**Home Ownership of Unbanked**

**Nuevador (own home La Capital) 63%**

**USA (New York City and LA) 7.8%**

*(Surprisingly home ownership is markedly  
greater in Nuevador)*

# Nuevador vs US- Why are the Unbanked..... Unbanked?

	USA	Nuevador
■ Don't need account – no savings	<b>53%</b>	7%
Fees and minimum balance too high	<b>45%</b>	<b>70%</b>
■ Want to keep records private	22%	2%
Not comfortable/don't trust banks	<b>18%</b>	<b>16%</b>
■ Inconvenience – location and hours	10%	2%
Banks require documentation*	10%	3%

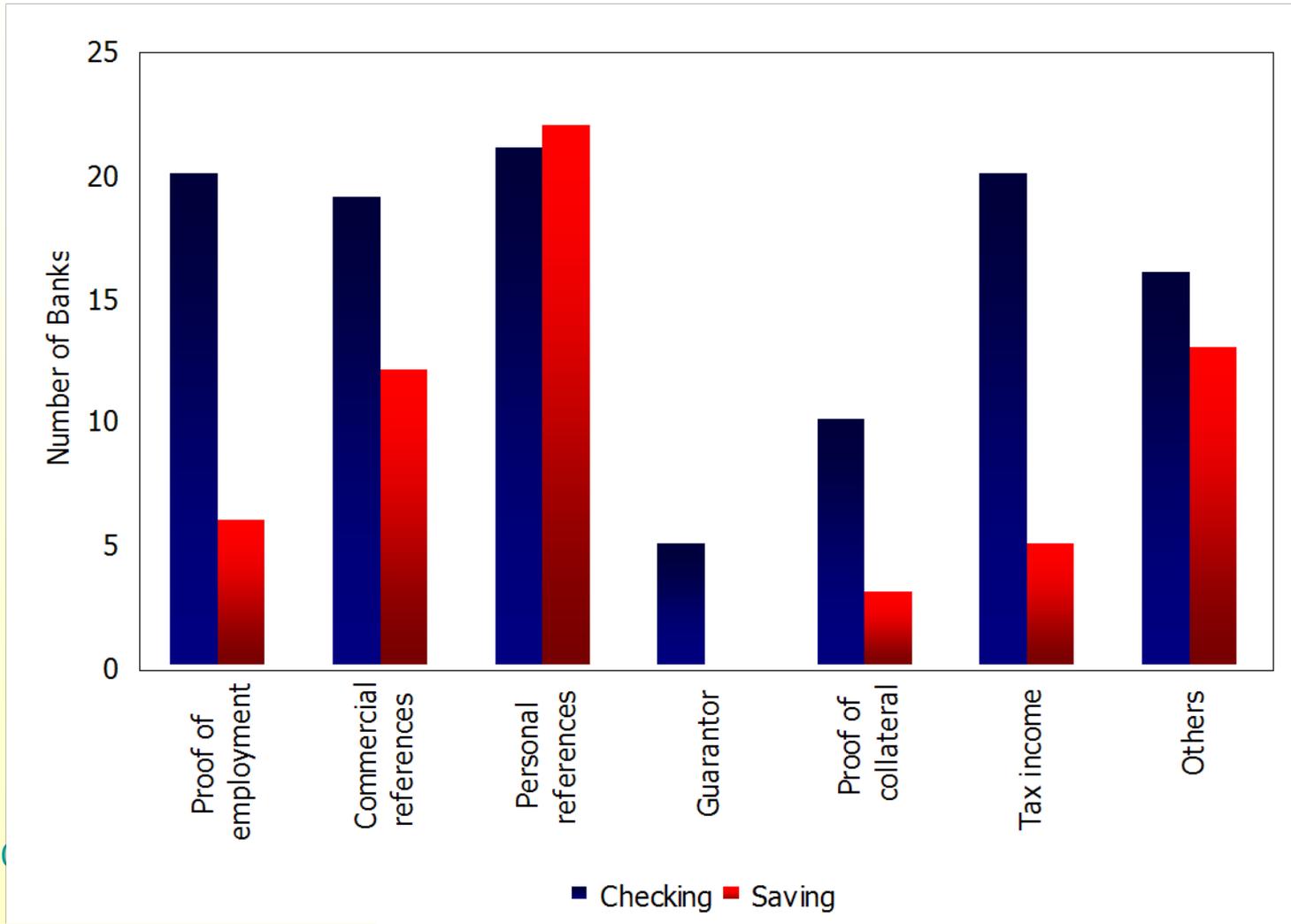
## Costs for maintaining a basic savings account

	USA	Nuevador
Affordable to earners above (percentile):	NA*	75th

*(Based on income required to maintain an adult savings account in 2001 where interest earned matches bank fees  
Assuming that 50% of monthly income can be maintained and 1% of monthly income can pay for maintenance fees  
US conditions vary with state. Some states require banks to offer free savings products)*

# Nuevador - Why are the Unbanked..... Unbanked?

*\* those pesky required documents*



# **Nuevador vs US- How do the Unbanked manage ..... Without banks ?**

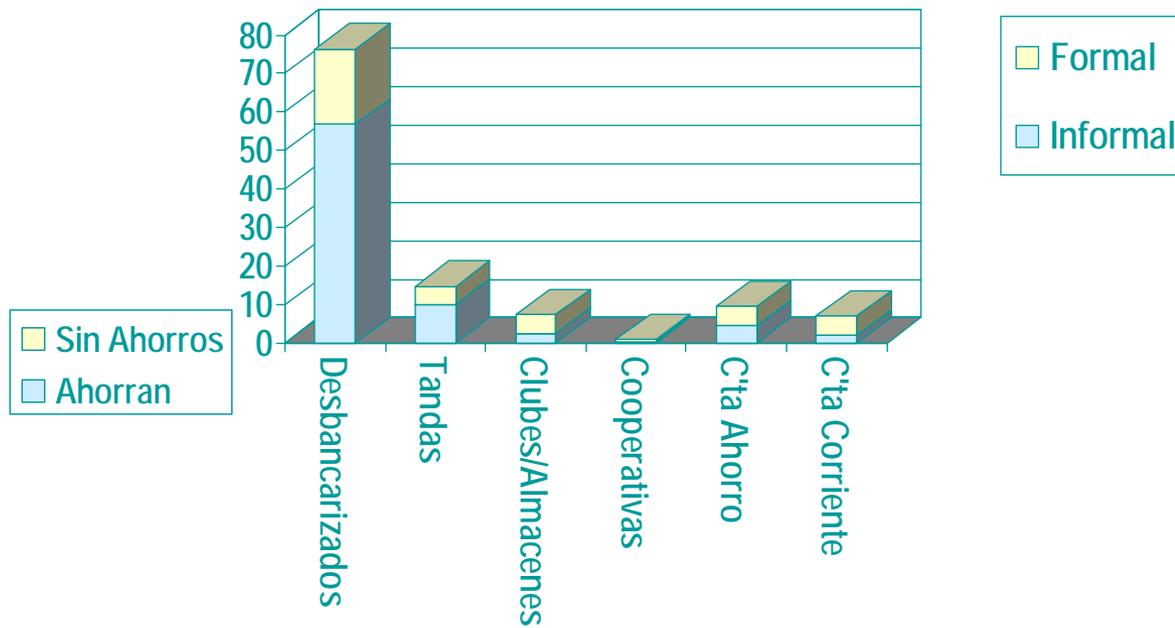
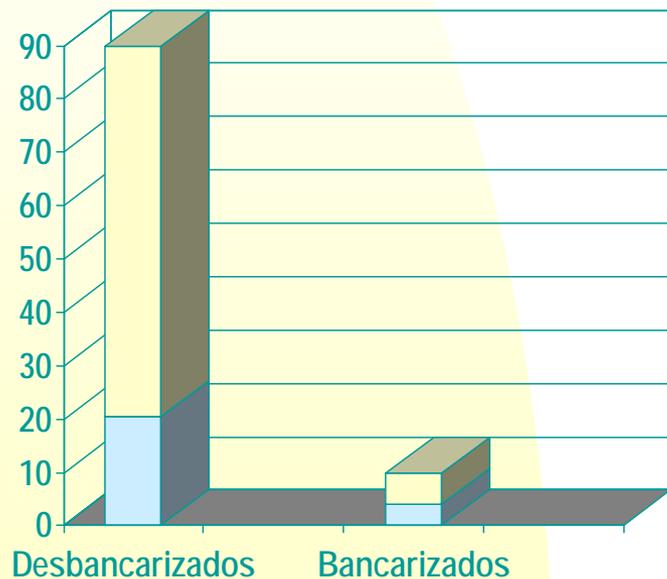
## **How do they save ?**

	<b>US</b>	<b>Nuevador</b>
<b>Informally: Tandas/ Cadenas/clubs, Under the Mattress, in the cookie jar Saleable items: Jewelry, electrodomestic</b>	<b>20.5%</b>	<b>28%</b>
<b>Home ownership</b>	<b>8%</b>	<b>63%</b>
<b>No financial savings</b>	<b>68.6%</b>	<b>56%</b>

# Nuevador Who saves and how much?.. In 2002..

**The Unbanked- US\$ 500 million (in cookie jars)**

**The Banked US\$ 500 million (in savings accts)**



# Nuevador vs US- How do the Unbanked manage ..... Without banks ?

## How do they make payments?

	USA – Nuevador	
Cash and in person	36%	95%
Money order/bill payment services	35%	NA
Check payments	2-3%	5%

### USA–What it costs

*\$600/year for a median income household*

### Nuevador – What it costs

*Time : 2-4 days per month plus travel or 5% min wages*

# Nuevador vs US- How do the Unbanked manage ..... Without banks ?

## How do they borrow ?

	US	Nuevador
Family or friend	25%	9%
Bank	6%	4%
Finance Company	3%	3%
Car dealer	2%	NA
Retail store*	2%	49%
Mortgage company	0.3%	NA
Individual(who charges interest)	0.4%	26%
Government	NA	6%
Cooperative, Credit Union, NGO	NI	5%

# **Nuevador a key change from the Retail Store\* .... to the Retail Bank...**

**At Banco Azteca, FAMSA, WALMART,  
EL EXITO you can open an  
account for \$5 and a thumbprint ...**

**New players in the financial sector have led to  
\$1.5 billion in savings in 2004 ... compared with  
\$500 million in traditional banks**

# **Nuevador The Good News:**

**Anyone can open a savings account,  
earn interest and make electronic payments  
– and the Banks are interested....**

# **Nuevador The Not So Good News:**

**No deposit insurance, no regulation,  
no financial education, no competition to  
drive down the price of credit,**