

# Promoting Financial Stability in the Americas through Access to Banking...

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# Understanding financial access...

- At the core of economic development is the ability of people and society to achieve wealth independence;
- Enabling the methods to promote financial independence for people is a key strategy and it focuses on financial access;
- Financial access is an activity that includes payments (such as money transfers), financial products, such as a variety of savings, loans and insurance.
- The World Banking Institute measures access in four ways, namely usability, openness, formality and functional capacity:
- *Usability*: capable of opening accounts affordably and with small balances
- *Openness*: capable of reaching everyone without hurting any social sector
- *Formality*: capable of enforcing regulations without compromising use and openness
- *Functional capacity*: capable to serve the four core financial product needs: payments, savings, credit and risk mitigation

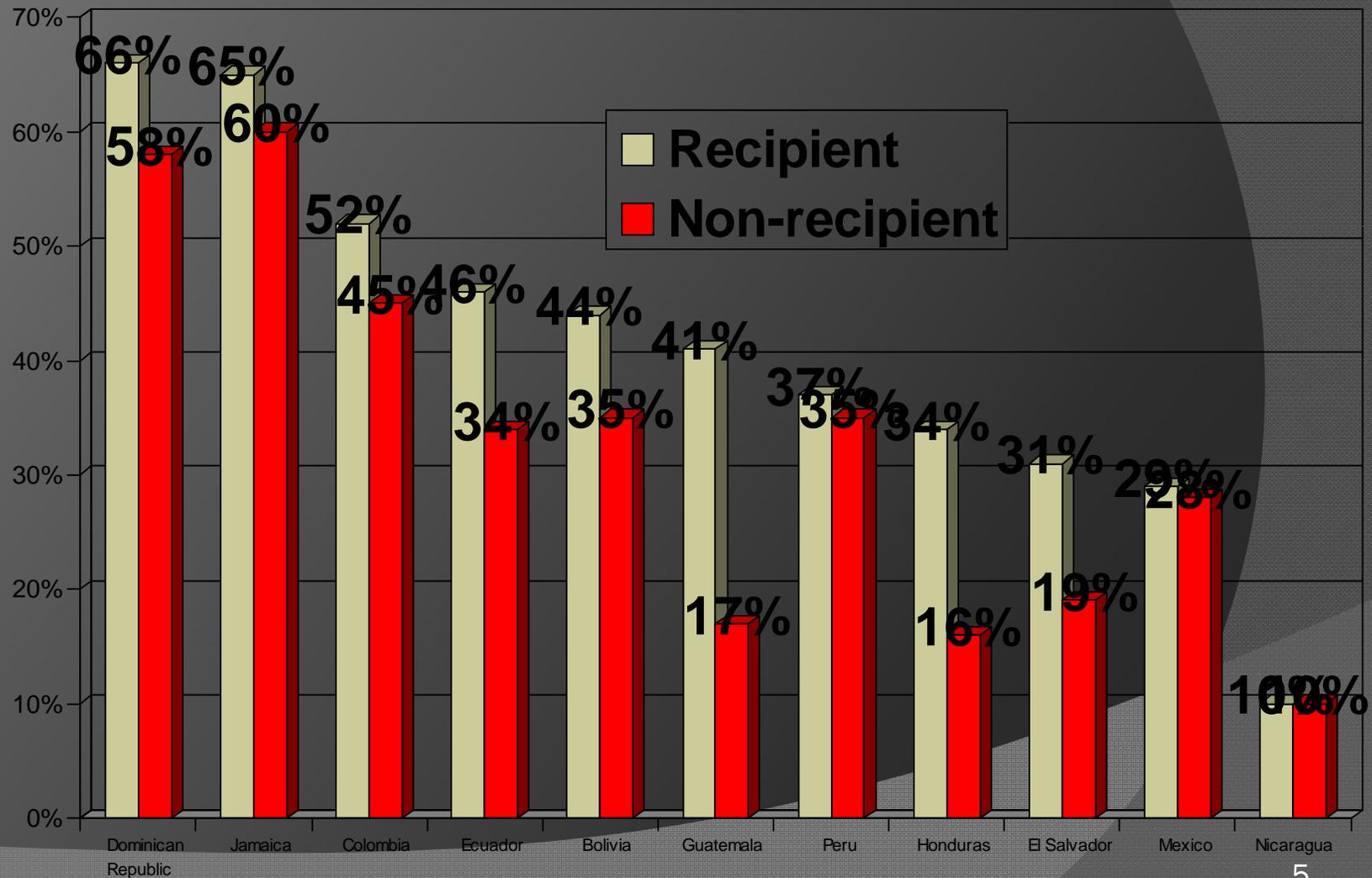
# Financial access and products

	Remittances	Savings	Credit	Risk mitigation
Usability	Transfers are competitive	Most recipients saving at Financial Institutions (FIs)	Low use of loans, but not different from other LAC countries	Insurance on remittances
Openness	Transfers are accessible	Lower income recipients save; rural recipients save	Younger cohorts use student loans; elderly people can borrow	Women and the elderly can buy insurance
Formality	Transfers are carried out by a wide range of Financial Institutions (FIs)	Commercial banks as well as savings and credit institutions are primary providers		Not only insurance companies offer the services
Functionality	Not all institutions offer all services			

## Banking in Latin America...

- Historical banking institutions were predominantly 'oligarchic' in nature, oriented toward servicing the economic elites;
- Mid 1950s savings banks (ie, Banco Popular) often state owned are formed to serve a small but emerging middle class (bureaucrats, professionals, the military);
- 1960s international banking grows in presence;
- Later in the 1970s credit unions are formed, partly as an idea from development institutions (USAID);
- The 1980s international financial crisis affects banks,
- 1990s microfinance becomes a widespread phenomenon, accompanied by privatization of state owned banks and their subsequent transnationalization: a paradox on development;
- Private commercial banking consolidates and brings the current business model on corporate accounts, credit card retail services and limited savings products

# The lack of financial access: People with bank accounts among recipients and non recipients of remittances



# A society that saves, despite low banking access.

▪ ▪

	Dominican Republic	Guatemala	Hondura s	Nicaragu a
<b>People who save (%)</b>	49	18	44	34
<b>People with bank accounts</b>	45	30	40	24
<b>People who save at banks</b>	27	8	16	26
<b>Average amount saved (US\$)</b>	1440	1460	1661	1200
<b>People with credit cards (%)</b>	12		24	8

Source: Orozco, Manuel. National surveys carried out by the author

# Most saving practices are informal. . .(%)

	Cuba	D.R.	Nic.	Hon.
Cash investment in a business	34	17	15	13
Medical insurance	0	13	0	6
Savings account in bank, MFI, cooperative	12	15	18	16
Mutual fund	0	1	30	6
Purchase of goods (house, car)	28	3	2	4
Purchase of animals	6	0	2	2

Source: Orozco, Manuel. National surveys carried out by the author

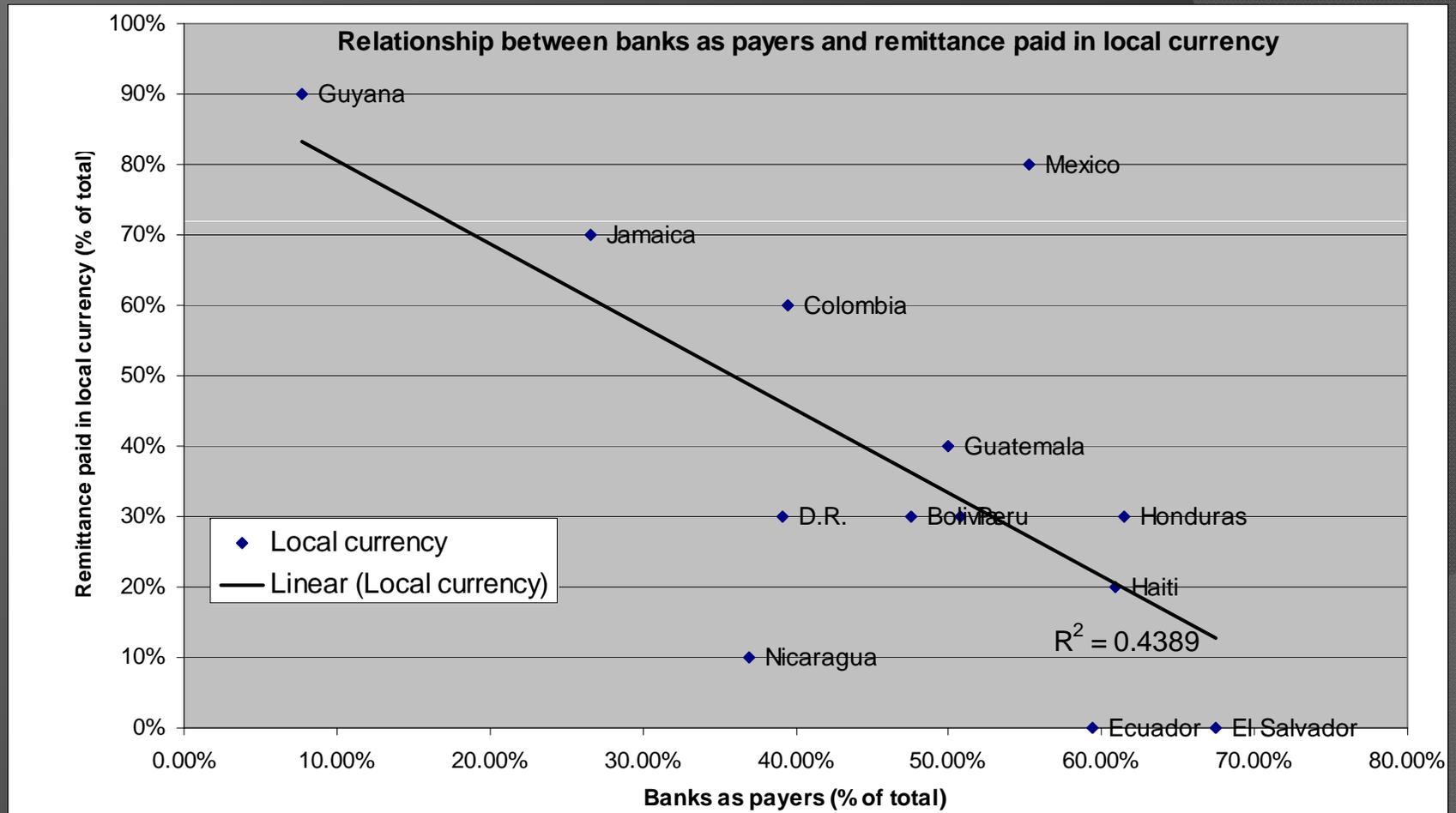
# And so is the use savings (%)

	Cuba	Hon.	Nic.	D.R.
Basic Family Necessities	25	12	13	14
In Case of an Emergency	25	16	31	30
Family Enjoyment	6	5	2	3
Debt Payments	1			
To Start a Business	5	7	10	10
Car Or House Improvement	21	4	3	6

Source: Orozco, Manuel. National surveys carried out by the author

# Policy challenge: banking the unbanked

Despite the fact that a) there is a strong relationship between remittances and finance (that is, the more money is sent, the more one saves and invests), b) that most remittances are picked up at banking institutions, and c) the few efforts to bank unbanked recipient households report a 30% transformation rate; *there is little financial intermediation by banking institutions leveraging on the remittance transfers, thus diminishing the propensity to bank these individuals*



\* Number in parenthesis reflects the percent of payers that are bank for that MTO.

# Ways to go forward,

## Financial sector

Regulations on financial access

Data systematization: the real KYC

Financial literacy

Staff training to cross sale

Product design and marketing

Technology applications

Government and donor supervision and support

# Experiences and models

- a) Mainstreaming remittance payment products;
- b) Savings offering by CUs (Fedecaces);
- c) MFIs and credit (Fielco);
- d) Midsize banks down streaming [Altas Cumbres; Procredit] ;
- e) (Re-)Discovering financial literacy (BacBamer/HSBC/BanColombia/Credito de Peru);

# Challenges and opportunities in 2009

- Current credit offering is being restricted even among banks unlikely to be affected by financial crisis;
- Passive rates are dropping;
- Leveraging on those who are saving under the mattress is a priority and a joint public private partnership effort...