Financial Services in Nuevador*
what’s happening south of the border?

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World Bank
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*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)

......sound familiar ???
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?

1. Mexico DF
2. Bogota DE
3. Nuevador
4. Chicago
5. Nueva York

Porcentaje de Desbancarizados

4/9/2009
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?

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

**Costs for maintaining a basic savings account**

<table>
<thead>
<tr>
<th>Affordable to earners above (percentile):</th>
<th>USA</th>
<th>Nuevador</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NA*</td>
<td>75th</td>
</tr>
</tbody>
</table>

*(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?

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>Nuevador</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informally:</td>
<td>20.5%</td>
<td>28%</td>
</tr>
<tr>
<td>Tandas/ Cadenas/clubs,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under the Mattress, in the cookie jar</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saleable items: Jewelry, electrodomestic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home ownership</td>
<td>8%</td>
<td>63%</td>
</tr>
<tr>
<td>No financial savings</td>
<td>68.6%</td>
<td>56%</td>
</tr>
</tbody>
</table>
Nuevador Who saves and how much?.. In 2002..

The Unbanked- US$ 500 million (in cookie jars)
The Banked US$ 500 million (in savings accts)

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

How do they make payments?

<table>
<thead>
<tr>
<th>Method</th>
<th>USA – Nuevador</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and in person</td>
<td>36%</td>
</tr>
<tr>
<td>Money order/bill payment services</td>
<td>35%</td>
</tr>
<tr>
<td>Check payments</td>
<td>2-3%</td>
</tr>
</tbody>
</table>

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
Nueva

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

How do they borrow ?

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

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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,