MAY 2015

FINDEX NOTES

#2014-4

The Global Findex Database 2014

Financial Inclusion in Latin America and the Caribbean

The Latin America and the Caribbean region has made strong progress in extending financial services to residents, particularly among the poor. Fifty-one percent of adults in the region have an account, up from 39 percent three years ago. Drawing on new data from the 2014 Global Financial Inclusion (Global Findex) database, this note measures the extent of account ownership in the region and explores how accounts are used. It concludes by outlining ways governments and businesses can help reach the region's 210 million unbanked adults, and encourage more active use of accounts

WWW.WORLDBANK.ORG/GLOBALFINDEX

WORLD BANK GROUP

BILL & MELINDA GATES foundation

Before 2011, little was known about the financial system's global reach, including how many people owned accounts and the extent to which groups such as women and the poor were excluded. The first Global Findex database was a landmark, delivering unprecedented insights into how people in more than 140 economies were saving, borrowing, making payments, and managing financial risk.

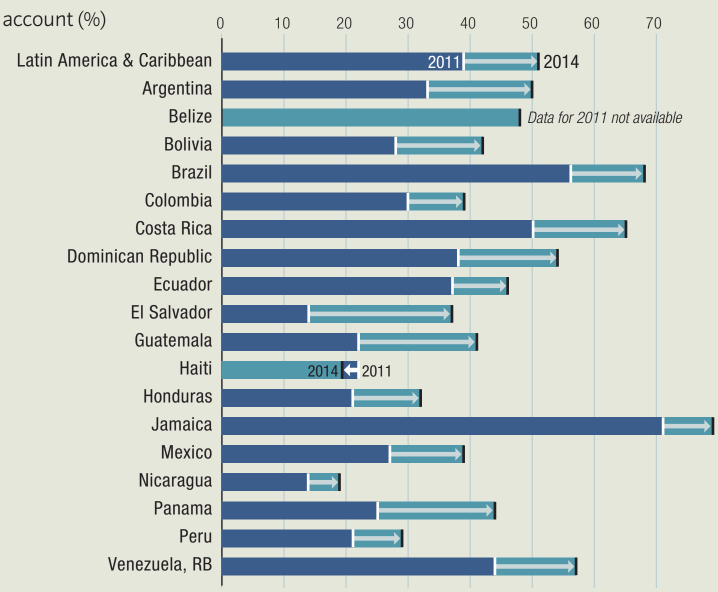
Three years later, the second edition of the Global Findex updates the indicators collected in 2011. It also provides new data on mobile money and domestic payments. As in the first edition, indicators are constructed with survey data from interviews with nationally representative and randomly selected adults age 15 and older. About 150,000 people were surveyed in 143 economies during the 2014 calendar year.

Account Ownership Rising, Especially Among the Poor

FIGURE 1

Account ownership increased in Latin America and the Caribbean between 2011 and 2014

Adults with an account (%)



Source: Global Findex database.

Latin America and the Caribbean saw rapid growth in account ownership over the last three years. Fifty-one percent of the region's adults now have an account at a financial institution—such as a bank, credit union, cooperative, and microfinance institution—or through a mobile money provider, up from 39 percent in 2011. Progress was especially strong in Panama, where account ownership increased from 25 percent to 43 percent, and in Argentina, where it increased by 17 percentage points to 50 percent (figure 1). The region's level of account ownership is slightly below that of developing countries overall, which stands at 54 percent, up from 41 percent in 2011. It is also below the global average of 62 percent, which is up from 51 percent in 2011.

Much of the region's progress was driven by rising account ownership among adults living in the poorest 40 percent of households. In Argentina, account ownership among this group more than doubled, to 44 percent; it more than tripled in Peru, to 18 percent. Regionally, 41 percent of these adults have an account, up 17 percentage points since 2011. During the same period, adults living in the richest 60 percent of households saw account ownership rise by just 8 percentage points to 58 percent.

Despite the swift and disproportionate increase in account ownership at the lower end of the economic ladder, the rich and the poor are still separated by a sizable 17 percentage point gap in account ownership, down from a 25 percentage point gap in 2011. This is in line with the 14 percentage point gap in developing economies, where 60 percent of adults living in richer households have an account, compared with 46 percent of those living in poorer households. As account ownership increased overall, the income gap in developing economies narrowed by 6 percentage points between 2011 and 2014. This shrinkage was due mainly to the enormous growth in account ownership among adults in the poorest 40 percent of households in East Asia and the Pacific—the only region aside from Latin America and the Caribbean which saw a significant narrowing of the gap. The gap remained about the same in all other regions.

The gap in account ownership between men and women in Latin America and the Caribbean is less prominent than the region's income gap in account ownership. Today, 49 percent of women and 54 percent of men in the region have an account. This amounts to a gender gap of 5 percentage points, down from 9 percentage points in 2011. Among developing regions, only East Asia and the Pacific has as small a gender gap as Latin America and the Caribbean. One country that made strong strides expanding account ownership among women is Mexico. Three years ago, the country faced a gender gap of 11 percentage points. Today, that gap has vanished. Such progress sets Latin America and the Caribbean apart from most of the emerging world, which struggles with a 9 percentage point gender gap—unchanged since 2011.

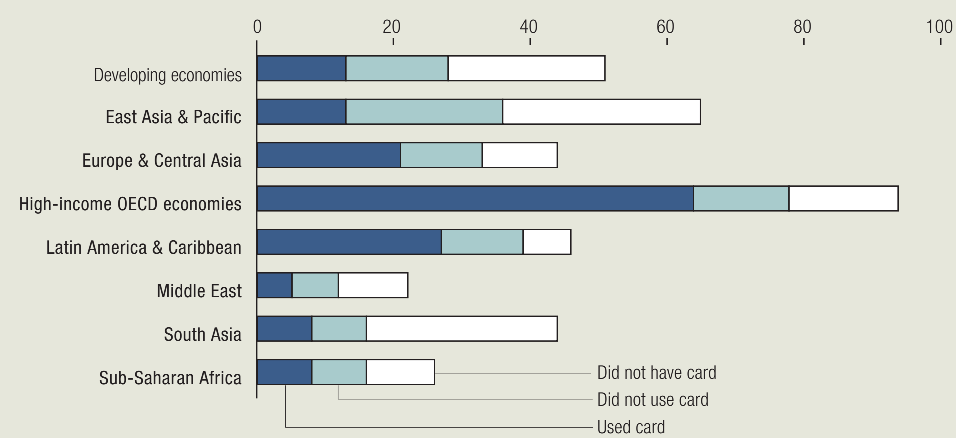
Accounts Widely Used for Digital Payments, But Formal Savings Lag

Account ownership is a first step toward financial inclusion. But the benefits of financial inclusion really come from the use of accounts. New data from the 2014 Global Findex provide unprecedented insight into how adults use their accounts to make and receive payments. About 62 percent of account holders in Latin America and the Caribbean use their account to make or receive payments, well above the developing world average of 48 percent. Adults within Latin America and the Caribbean also are more likely to have their wages deposited directly into an account: About 55 percent of wage earners there are paid into an account compared with the developing world average of 41 percent. And most adults in the region make active use of their account. Roughly two-thirds of account holders have what the Global Findex describes as a high-use account: one used for cash management in the past year, or for

FIGURE 2

Debit card ownership and use widespread in Latin America and the Caribbean

Adults with a financial institution account by debit card use in the past year (as % of all adults), 2014



Source: Global Findex database.

making payments or saving money during that period. The shares are comparable in East Asia and the Pacific and in Sub-Saharan Africa.

This active account use is built primarily on the region's strong use of card payments. About 40 percent of adults in Latin America and the Caribbean have a debit card—a higher share than in every developing region except East Asia and the Pacific. They also are more likely to use their debit cards to make direct payments than adults in other developing economies (figure 2). Across Latin America and the Caribbean, 54 percent of account holders make payments directly from their account using a debit card, compared with 25 percent in developing economies on average. Widespread debit card use also is reflected in how adults in the region make cash withdrawals, with 71 percent typically using an automated teller machine (ATM) for this purpose. That is by far the largest share among developing regions.

Despite the strong use of accounts to make and receive payments, adults in Latin America and the Caribbean are less likely than their counterparts elsewhere to save money using accounts. Just 25 percent of account holders in the region use formal savings methods, compared with 39 percent in developing economies overall, 42 percent in Sub-Saharan Africa, and 50 percent in East Asia and the Pacific.

Government Programs Helping Boost Financial Inclusion

Governments in Latin America and the Caribbean are helping to increase financial inclusion by depositing subsidies, pensions, and other social benefits electronically into accounts. Among the 13 percent of adults in the region who receive such government transfers, 67 percent receive these payments into an account (figure 3). This is by far the highest regional share in the developing world, where on average about 52 percent of government transfers are deposited into an account.

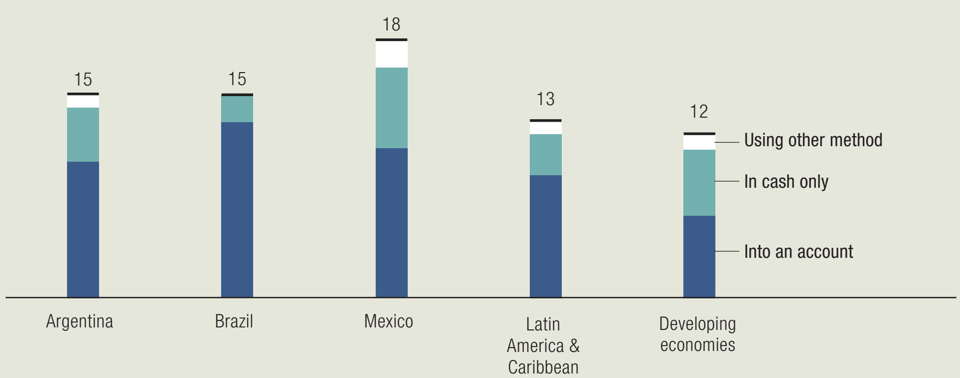
A few governments are making especially strong use of digital payments. Among the 15 percent of adults in Brazil who receive government transfers, 88 percent receive them into an account. Argentina has the next highest share, with 71 percent of transfer recipients receiving their transfer payments into an account. Another pioneer is Mexico, where 56 percent of government transfer recipients in the country use an account to collect these payments.

While the share of adults who receive government transfers might be limited, government transfer payments can provide a strong impetus for people to get accounts. Among adults in Latin America and the Caribbean who receive government transfers into an account, 58 percent said they opened their first account specifically to receive these payments – compared to about a third of recipients in developing economies overall. A few countries stand out: In Argentina, the figure is 81 percent, while it stands at 47 percent in Mexico.

FIGURE 3

Adults in Latin America and the Caribbean receive government transfers mostly into accounts

Adults receiving transfers in the past year, by method (as % of all adults), 2014



Source: Global Findex database.

How to Reach the 210 Million Unbanked and Increase Account Use

With roughly half of adults—210 million people—still unbanked, Latin America and the Caribbean has plenty of room to further expand financial inclusion. Both businesses and governments could bring millions of people into the financial system by abandoning cash as a payment method in favor of electronic deposits. The number of adults in the region with an account could increase by about 30 million if businesses shifted the payment of wages from cash into accounts. Doing the same for government wages and transfers could reduce the number of unbanked by up to 15 million. In addition, about 15 million unbanked adults are still paid in cash for the sale of agricultural products. Moving these payments into accounts could yield many potential benefits for both senders and receivers. It could improve the efficiency of payments by increasing their speed and reducing the cost of sending and receiving them. Digitizing payments also could enhance the security of payments and thus lower the incidence of associated crime. And it could reduce possibilities for corruption by making payments more transparent.

Global Findex data point to several big opportunities to increase account use in Latin America and the Caribbean. Although use of accounts to receive and make payments is relatively high, 61 percent of account holders—about 135 million adults—still pay utility bills in cash. About 16 percent of account holders—roughly 35 million adults—pay school fees in cash. The benefits of moving such payments from cash into accounts go well beyond convenience: Research shows that people often have to travel and queue to pay these bills, forcing them to miss work and forfeit wages.

Conclusion

In Latin America and the Caribbean, 51 percent of adults now have an account, up from 39 percent in 2011. Much of this growth stemmed from rising account ownership among adults living in the poorest 40 percent of households. Other signs of progress include robust use of accounts to make and receive payments. Yet 210 million adults in the region remain unbanked, and most account owners still pay utility bills in cash. By presenting detailed data on how adults save, borrow, make payments, and manage risk, the Global Findex database reveals ways that governments and businesses can help adults in the region benefit more fully from financial services.

WWW.WORLDBANK.ORG/GLOBAL FINDEX

The reference citation for the 2014 Global Findex data is as follows:

Demirguc-Kunt, Asli, Leora Klapper, Dorothe Singer, and Peter Van Oudheusden. 2015. "The Global Findex Database 2014: Measuring Financial Inclusion around the World." Policy Research Working Paper 7255, World Bank, Washington, DC.