MAY 2015

FINDEX NOTES

#2014-3

The Global Findex Database 2014

Financial Inclusion in East Asia and the Pacific

The East Asia and the Pacific region has made dramatic progress in expanding financial services. Sixty-nine percent of adults in the region have an account—the largest share in the developing world—up from 55 percent three years ago. It also boasts the highest formal savings rate among developing regions. Drawing on new data from the 2014 Global Financial Inclusion (Global Findex) database, this note measures the extent of account ownership in East Asia and the Pacific, and explores how accounts there are used. It concludes by outlining ways governments and businesses can help reach the region's 490 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.

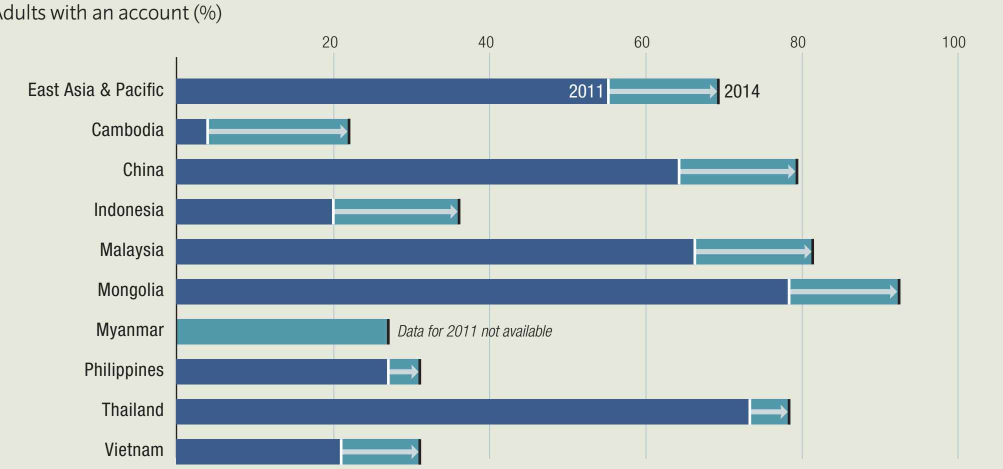
Account Ownership Increasing, Especially Among the Poor

East Asia and the Pacific has the highest rate of account ownership among developing regions. Sixty-nine percent of adults 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 55 percent in 2011.

FIGURE 1

Account ownership increased in East Asia and the Pacific between 2011 and 2014

Adults with an account (%)



Source: Global Findex database.

Countries in the region which have made especially strong progress include Mongolia, where account ownership increased by 14 percentage points to 92 percent, and Cambodia, where it surged from 4 percent to 22 percent (figure 1). China drove the overall regional increase, reflecting its sheer size and rapid growth in account ownership. About 180 million adults in China opened an account during the last three years, pushing the country's account ownership rate to 79 percent, up from 64 percent in 2011. East Asian and the Pacific exceeds the account ownership rate of 54 percent among developing countries overall, which was up from 41 percent in 2011. It also exceeds the world average: Globally, account ownership rose to 62 percent, up from 51 percent in 2011.

Men and women both benefited from the region's account ownership increase. Today, 71 percent of men in East Asia and the Pacific have an account, as do 67 percent of women. This 4 percentage point gender gap leaves the region tied with Latin America and the Caribbean for the smallest gender gap in the developing world. Indonesia, Vietnam, and Mongolia practically have no gender gap, while the Philippines is among the rare countries where women are actually more likely than men to have an account. These success stories help distinguish East Asia and the Pacific from the developing world overall, which struggles with a gender gap of 9 percentage points—unchanged since 2011.

The account ownership gap between the rich and the poor in the region shrank, because adults living in the poorest 40 percent of households opened accounts in massive numbers. In Indonesia, account ownership among this group more than doubled—to 22 percent—while Vietnam saw a similar increase to 19 percent. Regionally, 61 percent of these adults have an account, up 22 percentage points since 2011. Meanwhile, account ownership among adults living in the richest 60 percent of households grew by just 8 percentage points to 74 percent. Although the regional income gap was cut in half by the rapid and disproportionate increase in account ownership at the lower end of the economic ladder, the rich and poor remain separated by a 13 percentage point gap in account ownership. Similar conditions prevail in developing economies overall, where 60 percent of adults living in richer households have an account, compared with 46 percent of those living in poorer households—an income gap of 14 percentage points. As account ownership increased in developing economies overall between 2011 and 2014, the income gap narrowed by 6 percentage points. This decrease was due primarily 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 besides Latin America and the Caribbean that saw a significant narrowing of the gap. The gap remained about the same in all other regions.

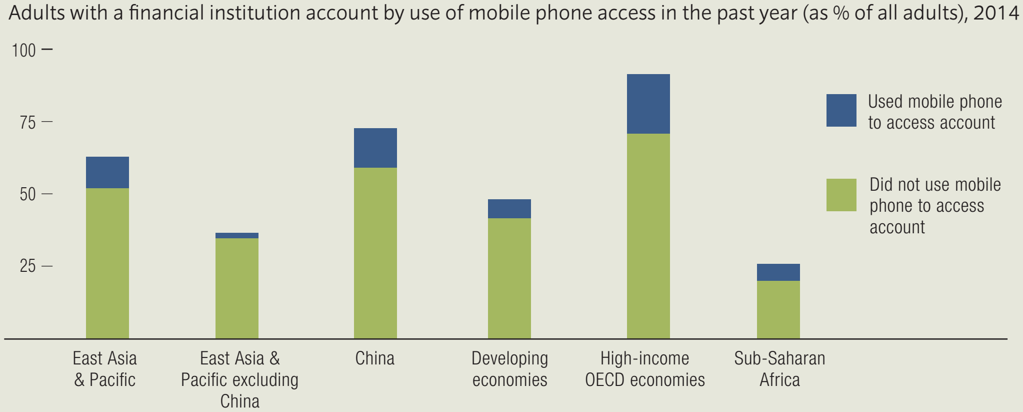
Accounts Used Widely for Formal Saving

Account ownership is a first step toward financial inclusion. However, the benefits of financial inclusion really come from the use of accounts. New data from the 2014 Global Findex provides unprecedented insight into how adults use their accounts to make and receive payments.[1] Half of account

FIGURE 2

Widespread use of mobile phones to access financial institution accounts

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



Source: Global Findex database.

holders in East Asia and the Pacific use their account to make or receive payments—about the same as the developing world average of 48 percent. And most adults in East Asia and the Pacific make active use of their accounts. About 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 making payments or saving money during that period. The shares are comparable in Latin America and the Caribbean and Sub-Saharan Africa.

In East Asia and the Pacific, the relatively large share of high-use account owners is built mostly on strong use of accounts for savings, reported by 72 percent of account holders with a high-use account. Overall, 50 percent of account holders in the region report using their account for saving money, the highest percentage in the developing world. At 69 percent, the share is especially high in Indonesia. When it comes to use of accounts to receive wages, the region is in line with the rest of the developing world: 43 percent of wage recipients in East Asia and the Pacific have their earnings deposited into an account, compared with 41 percent in developing economies overall. The picture is similar concerning the use of accounts to receive government social benefits, such as pensions, subsidies, and payments for educational expenses. Among the 15 percent of adults in East Asia and the Pacific who receive such government transfers, 55 percent use an account to do so, compared with 52 percent in developing economies overall.

Use of mobile phones to make payments is relatively more popular in East Asia and the Pacific than in most developing regions. Although less than 1 percent of adults in the region have a mobile money account, 17 percent of account holders make payments from their bank account using a mobile phone, compared with 13 percent in developing economies on average (figure 2). This is driven primarily by China, where 19 percent of account holders make such payments. But the figure also is high in Cambodia, at 23 percent. Among developing regions, only Sub-Saharan Africa has a higher rate—22 percent—reflecting the popularity of mobile payments within that region.

Widespread Saving, Especially for Old Age

In East Asia and the Pacific, account holders are not the only ones who make strong use of saving; adults in the region overall are as likely as adults in high-income OECD economies to save, regardless of whether they own an account, and far more likely than their developing world counterparts to do so. About 71 percent of adults in the region reported having saved money in the past year, compared with just 54 percent in developing economies overall (figure 3). This holds across different groups of adults. While 69 percent of women in East Asia and the Pacific save money, just 51 percent do so in the developing world overall. Malaysia leads the region, with 84 percent of women saving money. Among adults living in the poorest 40 percent of households in East Asia and the Pacific, 60 percent save money – compared with just 44 percent in the developing world. In both Thailand and Malaysia, 76 percent of adults living in the poorest 40 percent of households save money.

FIGURE 3

East Asia and the Pacific leads the developing world in saving

Adults saving any money in the past year (%), 2014

Source: Global Findex database.

The 2014 Global Findex survey asked about three specific reasons for saving: for old age, for education expenses, and to start, operate, or expand a farm or business. The East Asia and the Pacific region exceeds the developing world average in each category. Thirty-seven percent of adults in the region save for old age, compared with 21 percent who report doing so in developing economies overall. Thirty-one percent of adults in East Asia and the Pacific save for education, compared with 22 percent in the developing world. And 21 percent of adults in the region save for the purposes of a farm or business, compared with 15 percent in developing economies.

Using Digital Payments to Reach the 490 Million Unbanked and to Increase Account Use

Although East Asia and the Pacific has the highest account ownership rate among developing regions, 490 million adults in the region are still unbanked—about one-quarter of the global total. The 2014 Global Findex reveals that 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 90 million if businesses shifted the payment of wages from cash into accounts. Doing the same for government transfers and wages could reduce the number of unbanked by up to 65 million. Across the region, about 160 million unbanked adults are still paid in cash for the sale of agricultural goods. 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 the possibilities for corruption by making payments more transparent.

Global Findex data point to several big opportunities to increase account use. In East Asia and the Pacific, 64 percent of account holders—about 705 million adults—still pay utility bills in cash. Twenty-six percent of account holders—roughly 285 million adults—pay school fees in cash. The benefits of moving such expenses into accounts go well beyond convenience: Research shows that people often have to travel and queue to make such payments, forcing them to miss work and forfeit wages.

Conclusion

The East Asia and the Pacific region rapidly expanded financial inclusion in the last three years. The region not only has the highest account ownership rate in the developing world; but it also has the highest formal savings rate. Still, the region is home to 490 million unbanked adults and most account owners continue to 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 people in the region benefit more fully from financial services.

WWW.WORLDBANK.ORG/GLOBAL FINDEX

1. The 2014 Global Findex survey asked questions about seven types of payments received or made in the past 12 months: wage payments, government transfers, and payments for the sale of agricultural products (payments from businesses or governments to people); payments for utility bills or school fees (payments from people to businesses or government); and domestic remittance payments, both those sent and those received (payments between people). The questions on agricultural payments, school fees, and remittances are asked in developing economies only.

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.