

FINDEX NOTES

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The Global Findex Database

Financial Inclusion in Latin America and the Caribbean

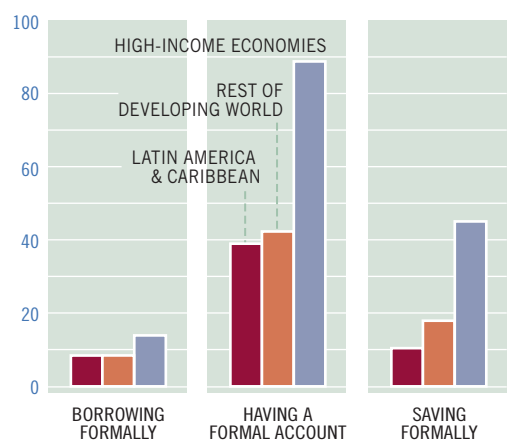
In Latin America and the Caribbean 8 percent of adults have a formal loan and 39 percent have a formal account, according to new data from the Global Financial Inclusion (Global Findex) database. The data also show deep disparities across economies and individual characteristics in how adults use financial services. The database can be used to track the effects of financial inclusion policies in Latin America and the Caribbean and develop a deeper and more nuanced understanding of how adults in the region save, borrow, make payments, and manage risk.

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From the early adoption and expansion of microfinance to the recent reforms in government-to-person (G2P) payment systems, Latin America and the Caribbean has often been at the forefront of efforts to expand financial access. Yet more than 250 million adults in the region remain largely outside the formal financial system. Efforts to improve the scope and quality of financial access have been hindered by the lack of systematic indicators on the use of different financial services—both formal and informal—in most of the region’s economies.

The Global Findex database provides such indicators, measuring how people in 148 economies around the world save, borrow, make payments, and manage risk. These new indicators are constructed with survey data from interviews with more than 150,000 nationally representative and randomly selected adults age 15 and above. The survey was carried out over the 2011 calendar year by Gallup, Inc. as part of its Gallup World Poll. This note features Global Findex data based on more than 19,000 interviews across 20 economies in Latin America and the Caribbean.

1 **FIGURE**
Use of formal financial services
 Adults reporting activity in the past year (%)



How Common Is the Use of Formal Financial Services?

The use of products and services from formal financial institutions—banks, credit unions, cooperatives, post offices, or microfinance institutions—is often the benchmark by which financial inclusion is measured. Though innovations such as banking agents and mobile payments may eventually redefine how adults in Latin America and the Caribbean interact with the formal financial sector, traditional products such as loans and deposit and savings accounts remain, for now, important indicators of financial inclusion.¹

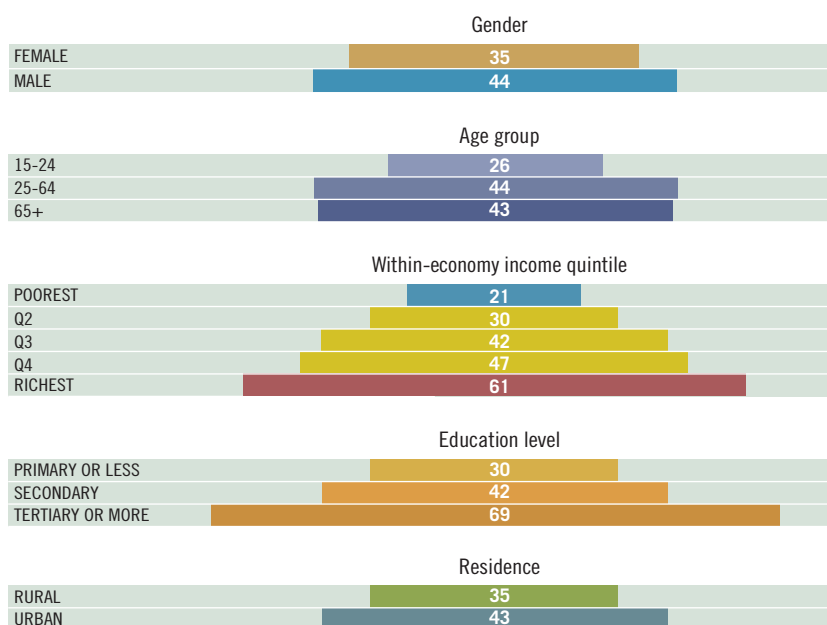
Source: Demircug-Kunt and Klapper 2012.

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Account penetration in Latin America and the Caribbean by individual characteristics

Adults with an account at a formal financial institution (%)



Note: Data by rural or urban residence exclude Guatemala.
Source: Demirguc-Kunt and Klapper 2012.

Fewer than 1 in 10 adults in Latin America and the Caribbean report having borrowed money from a formal financial institution in the past year: 8 percent, on par with the average in the rest of the developing world (figure 1).² A greater share report having borrowed from friends or family in the past year (14 percent), though this share is relatively small compared with that in the rest of the developing world (26 percent). But credit cards are relatively common in the region: 18 percent of adults in Latin America and the Caribbean report having a credit card, compared with 5 percent in the rest of the developing world. In Brazil and Uruguay nearly 30 percent have a credit card.³

Across the region, 39 percent of adults report having an account at a formal financial institution, with the share ranging from 14 percent in El Salvador and Nicaragua to 71 percent in Jamaica (table 1). This places the regional average only slightly below that for the rest of the developing world, where 42 percent of adults have a formal account. In high-income economies 89 percent do.

Despite comparable account penetration rates, adults in Latin America and the Caribbean are significantly less likely than their counterparts in other developing regions to report having saved money at a formal financial institution in the past 12 months. While 10 percent of adults in Latin America and the Caribbean report having saved formally, 18 percent do in the rest of the developing world. The difference appears to be due mostly to differences in savings methods rather than in overall savings activity. The share of respondents in the region who report any savings activity (26 percent) is only slightly lower than that in the rest of the developing world (31 percent). But while 58 percent of savers in the rest of the developing world report having saved in the past year using a formal account, only 37 percent of savers in Latin America and the Caribbean report having done so.

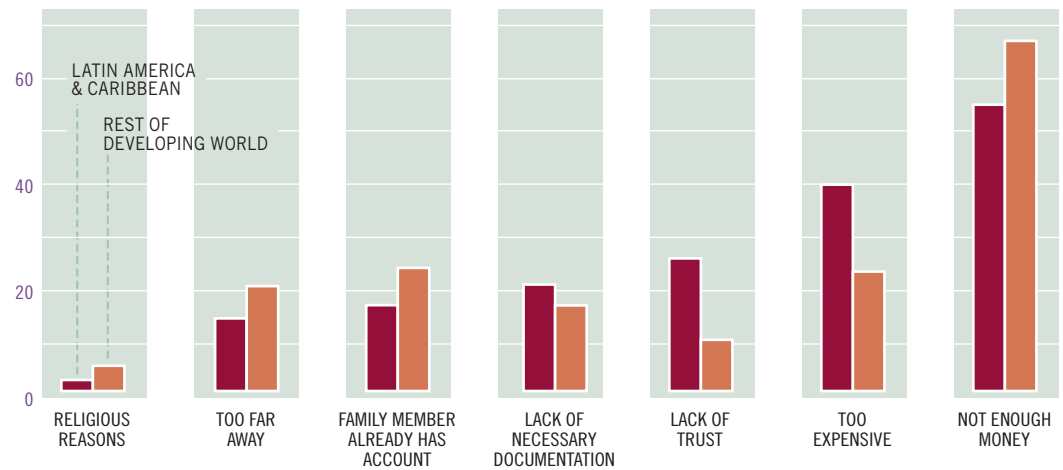
One possible explanation for the relatively low use of formal financial institutions to save is that accounts may be opened and used primarily to receive payments from employers or the government, and it may be difficult or even impossible to also use these accounts to accrue personal savings. Indeed, 68 percent of account holders in Latin America and the Caribbean report having used an account in the past year to receive wages or government payments, compared with only 41 percent in the rest of the developing world. New products that target existing account holders could be used to encourage adults to save in formal financial institutions.

There is sharp variation across individual characteristics in account penetration in the region (figure 2). Men are 26 percent more likely than women to have a formal account,

3
FIGURE

Self-reported barriers to use of formal accounts

Non-account-holders reporting barrier as a reason for not having an account (%)



Source: Demircuc-Kunt and Klapper 2012.

though the gender gap is statistically insignificant in several countries, including Argentina, Chile, the Dominican Republic, Haiti, Nicaragua, Paraguay, and Uruguay. Across the region, adults with a tertiary education are more than twice as likely to have a formal account as those with a primary education or less. Within economies, adults in the richest income quintile are on average almost three times as likely to have a formal account as those in the poorest.

What Are the Barriers?

Why do more than 250 million adults in Latin America and the Caribbean remain outside the formal financial system? As in the rest of the developing world, the most frequently cited reason for not having a formal account is lack of enough money to use one: this is the response given by 55 percent of adults in the region without a formal account, with 16 percent citing it as the only reason (multiple responses were permitted). But Latin America and the Caribbean stands out for the relatively large share of unbanked respondents who cite cost as an important barrier: about 40 percent of respondents in the region without a formal account report not having one because they are too expensive, compared with 22 percent in the rest of the developing world. And unbanked respondents in the region are more than twice as likely as those in the rest of the developing world to cite lack of trust as a barrier (figure 3).

Conclusion

As the first public database of indicators that consistently measure people's use of financial products across economies and over time, the Global Findex database fills a big gap in the financial inclusion data landscape. The data set can be used to track the effects of financial inclusion policies globally and develop a deeper and more nuanced understanding of how people around the world save, borrow, make payments, and manage risk. By enabling policy makers to identify segments of the population excluded from the formal financial sector, the data can help them prioritize reforms accordingly and, as future rounds of the data set become available, track the success of those reforms.

Selected Global Findex indicators by economy in Latin America and the Caribbean

	Accounts and payments								Saving and credit					
	Share with an account at a formal financial institution				Adults using a formal account in the past year to receive			Adults using mobile money in the past year (%) ^a	Adults saving in the past year		Adults originating a new loan in the past year		Adults with a credit card (%)	Adults with an outstanding mortgage (%)
	All adults (%)	Poorest income quintile (%)	Women (%)	Ages 15-24 (%)	Payments from work or selling goods (%)	Payments from government (%)	Family remittances (%)		Using any method (%)	Using a formal account (%)	From a formal financial institution (%)	From family or friends (%)		
World	50	—	47	37	21	13	7	—	36	22	9	23	15	7
Latin America & Caribbean	39	—	35	26	20	10	4	3	26	10	8	14	18	2
Rest of developing world	42	—	37	31	14	6	6	5	31	18	8	26	5	3
High-income economies	89	—	87	76	50	42	13	—	58	45	14	12	50	24
Argentina	33	19	32	16	16	11	1	1	24	4	7	7	22	0
Bolivia	28	12	25	19	10	2	4	9	44	17	17	8	4	4
Brazil	56	33	51	36	29	20	5	1	21	10	6	16	29	1
Chile	42	19	41	39	20	6	4	2	27	12	8	9	23	4
Colombia	30	9	25	13	19	4	3	3	33	9	12	18	10	3
Costa Rica	50	30	41	45	28	13	9	0	41	20	10	7	12	3
Dominican Republic	38	19	37	28	15	7	9	8	37	16	14	15	12	2
Ecuador	37	22	33	26	16	5	4	1	30	15	11	15	10	2
El Salvador	14	1	10	10	6	3	3	1	26	13	4	6	5	2
Guatemala	22	8	16	22	10	3	4	4	25	10	14	10	7	2
Haiti	22	4	21	6	8	1	11	15	32	18	8	36	2	2
Honduras	21	15	15	17	8	2	4	3	22	9	7	11	5	2
Jamaica	71	71	67	63	14	4	15	8	51	30	8	21	7	3
Mexico	27	12	22	29	14	4	5	6	27	7	8	15	13	3
Nicaragua	14	4	13	8	5	0	2	2	26	7	8	4	2	0
Panama	25	18	23	15	10	4	5	0	35	12	10	17	11	11
Paraguay	22	4	23	15	10	1	2	7	18	10	13	15	9	1
Peru	20	6	18	14	11	3	4	4	29	9	13	14	10	1
Uruguay	24	7	24	12	12	6	1	1	17	6	15	6	27	2
Venezuela, RB	44	27	36	18	29	8	3	3	28	14	2	10	10	0

— = not available.

a. Data refer to adults who report having used a mobile phone in the past year to pay bills or send or receive money.

Source: Demirguc-Kunt and Klapper 2012.

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1. Data on the use of bank agents and mobile payments are available online.
2. The regional and worldwide aggregates omit economies for which Gallup excludes more than 20 percent of the population in the sampling either because of security risks or because the population includes non-Arab expatriates. These excluded economies are Algeria, Bahrain, the Central African Republic, Madagascar, Qatar, Somalia, and the United Arab Emirates. The Islamic Republic of Iran is also excluded because the data were collected in that country using a methodology inconsistent with that used for other economies.
3. Information is collected on the ownership of credit cards but not their use.

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

Demirguc-Kunt, A., and L. Klapper. 2012. "Measuring Financial Inclusion: The Global Findex Database." Policy Research Working Paper 6025, World Bank, Washington, DC.