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Financial Inclusion in Latin America

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Synonyms

Access to financial markets; Financial services; Financial stability; Microfinance

Definition

Financial inclusion is an ecosystem in which supply, demand, and the regulatory framework interact with the same degree of relevance. Therefore, a definition that considers all its complexity and multidimensionality is crucial. Broadly speaking, we can say that financial inclusion includes the establishment, the promotion, and the regulation of an accessible, affordable, and safe financial environment for the society as a whole. It aims at promoting economic well-being and social inclusion through the supply of financial services and products designed to satisfy the needs of different segments of society.

Introduction

The significant contribution that financial inclusion can make to achieving inclusive economic growth and the Sustainable Development Goals has gained global recognition. This has in turn led to critical policy reforms that help establish an enabling environment to promote financial inclusion, for example, through specific financial inclusion commitments or National Financial Inclusion Strategies.

However, as will be discussed below, only 62% of the world's adult population has a bank account. This means two billion people are excluded from the formal financial system. To make matters worse, poor people and developing countries dominate this unbanked share.

The definition of financial inclusion has evolved over the years, and it is sometimes defined differently by different countries, bodies, or actors.

For example, the G20's Global Partnership for Financial Inclusion (GPFI) adopts a pragmatic view defining financial inclusion as: "A state in which all working age adults have effective access to the following financial services provided by formal institutions: credit, savings (defined broadly to include transaction accounts) payment, insurance and investments."

On the other hand, bodies such as the Consultative Group to Assist the Poor (CGAP) use a more theoretical, wide-ranging, and comprehensive definition of financial inclusion defining it as:

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"A state where both individuals and businesses have opportunities to *access*, and the *ability to use* a diverse range of *appropriate* financial services that are *responsibly* and *sustainably* provided by formal financial institutions."

Financial inclusion is a broad, multidimensional, and polysemic concept, constantly evolving, constructed, and discussed. Its multidimensional nature stems from the unavoidable need to consider various elements and variables in order to achieve its goals. Broadly speaking, we can say that financial inclusion includes the establishment, the promotion, and the regulation of an accessible, affordable, and safe financial environment for the society as a whole. It aims at promoting economic well-being and social inclusion through the supply of financial services and products designed to satisfy the needs of different segments of society.

It is thus an incomplete concept, whose development can be approached from different perspectives. As we shall now see, financial inclusion has gradually found its way into the international policy agenda. However, there is a long road ahead for the phenomenon of financial inclusion.

The Road to Financial Inclusion

The late 2015 session of the United Nations General Assembly marked the end of the Millennium Development Goals (MDG), implemented in the year 2000 and replaced with the new 2030 Agenda, with 17 new Sustainable Development Goals (SDGs). Financial inclusion had a prominent role in this new agenda: the need for improved or universal access to financial services is mentioned in five of the new goals.

However, the long road traveled by financial inclusion did not begin with the SDG. In 2009, with the launch of the Alliance for Financial Inclusion (AFI), policymakers and regulators from 60 developing and emerging countries committed to making financial services available to millions of people living on less than US$2 a day. In the same year, Her Majesty Queen Máxima of the Netherlands was appointed as the UN Secretary-General's Special Advocate for Inclusive Finance for Development.

One year later Group of Twenty (G20) leaders in Seoul launched the GPFI, naming three implementing partners (AFI, CGAP, and the International Finance Corporation) to take forward their financial inclusion action plan. In 2011 the Maya Declaration (world's first commitment platform to set concrete financial inclusion targets) was adopted by AFI members meeting in Mexico. Also in 2011, as we will discuss later, the World Bank Group launched the first global analysis on demand for financial services.

The growing interest garnered by this phenomenon is the consequence of the greater understanding of the importance of financial inclusion for economic and social development, coupled with a higher number of research works and a greater quantitative recognition of the degree of financial exclusion and its effects. One of the most discussed reasons for explaining financial exclusion is that market- or individual-related characteristics could lead to prohibitive high costs for access to financial services.

Earlier in time, microfinance (that has their roots in microcredit initiatives in Bangladesh and parts of Latin America in the mid-1970s) positioned itself as a critical tool to reduce the disparity of access to financial services for poor people excluded by the traditional financial system. The main reason behind the exclusion of the poor from the formal financial system is the erroneous idea that they are incapable of saving, repaying loans, or undertaking productive enterprises.

Microfinance was thus born as a methodological innovation aimed at offering different financial services to poor people or people lacking collateral. After almost half a century of evolution and development, this practice has produced important lessons as to how to foster effective financial inclusion, with a focus on the most vulnerable.

Some approaches see financial inclusion as an evolution of or an improvement upon the concept of microfinance, basically positing that its goals go beyond the fight against poverty, also considering the reduction of banking costs and risks, the growth of the formal economy, job creation, the effectiveness of monetary policies, and the stability of the financial system, among others.

For these reasons, we can assert that financial inclusion is currently a key goal and a component perceived as central for social inclusion and the empowerment of the most disadvantaged sectors.

Financial Inclusion: Measurement, Status, and Impact

Measuring Financial Inclusion

Measuring and assessing financial inclusion is particularly difficult for two reasons. The first is the lack of an absolute consensus regarding a single variable or measure appropriate for representing the whole inherent complexity of the definition of financial inclusion. The second is the fact that information has become available only recently (and, in a certain sense, to a limited degree).

As regards the first reason, the literature studies financial inclusion from a multidimensional perspective. Various approaches resort to creating mixed indicators comprising groups of variables in order to model different aspects of financial inclusion. The most commonly covered dimensions are those related to access to, use of, and depth of the financial system. More recently, the literature has included aspects such as barriers to access and the quality of the financial system (Beck et al. 2007; Sarma and Pais 2011; Dabla-Norris et al. 2015; Sarma 2016).

In terms of the traditional dimensions of use of and access to the financial system, the number of bank accounts and their associated movements, credit and debit cards, branches, and ATMs are commonly used as proxies. The depth of the financial system is usually measured through the ratio of credits or deposits to the GDP in a given economy.

As regards the second reason, until very recently there was no globally comparable information on financial inclusion. It is only since 2004, thanks to the Financial Access Survey (FAS) of the International Monetary Fund (IMF), that a broad database about financial inclusion is being developed through the concentration of supply data, that is, with information provided by institutions and regulatory entities. Since its launch, 189 economies have contributed to the FAS, which now contain more than 150 series on financial inclusion for the period 2004–2015.

Even more relevant and recent is the information focused on the demand side. No comparable data from the individuals' perspective were available until the World Bank launched its first Global Findex database, in 2011. Based on approximately 150,000 interviews with adults, representative at the national level and chosen randomly, the Global Findex database presents data from 143 countries for 2 years (2011 and 2014) and collects information on 506 indicators from at least 1,000 people aged over 15 in each country (Demirgüç-Kunt et al. 2015).

Among its indicators, the main one corresponds to access, measuring the level of adults (older than 15 years) who have an account at a financial institution (such as a bank, credit union, cooperative, and microfinance institution) or through a mobile money provider. But it also provides comparable indicators showing how people around the world save, borrow, make payments, and manage risk.

Currently, the Global Findex is the most comprehensive tool available to measure progress in terms of financial inclusion and the only source of data for comparative analyses between countries at the international and the regional level. The descriptive analysis developed in this work is based mainly on its results, supplemented when necessary with data from the FAS. We will also study the four categories of financial products which are most commonly used by the literature: payment services, saving products, credit, and insurance.

The Global Status of Financial Inclusion

Before 2011, little was known about the global scope of the financial system, including how many people had bank accounts, how they used them, and to what degree specific groups, such as women and the poor, were excluded. The last available information in the Global Findex database (2014) shows that the last few years have seen an explosive improvement in terms of global financial inclusion, but that much remains to be done.

According to these data, 62% of the world's adults reported having an account with a financial institution or a mobile money account, compared to a share of 51% in 2011. However, two billion adults (or 38% of the world's adult population) remain excluded from the financial system, with unmet needs, and their market potential continues to be unexplored.

If we analyze the total number of unbanked adults, only 11% live in high-income economies in general. Within the most vulnerable population (adults with a daily income of less than US$2) the share increases to 77%. In other words, three out of four poor people in the world lack a bank account.

Account ownership varies widely around the planet. For instance, in the high-income economies of the Organization for Economic Cooperation and Development (OECD), account ownership is virtually universal: 94% of adults reported having an account in 2014; in developing economies, on the other hand, the share is 54%. As reflected in Fig. 1, there are huge disparities between developing regions: South Asia and East Asia and the Pacific account for more than half (55%) of the unbanked population.

In South Asia, the number of individuals who lack access to a bank account is around 625 million and in East Asia and the Pacific 490 million. In fact, only three Asian economies (India, China, and Indonesia) host almost 40% of the unbanked in the world. China accounts for 12% of unbanked adults across the globe and Indonesia 6%, together are home to seven out of ten unbanked adults in East Asia and the Pacific. Sub-Saharan Africa accounts for 17% of the world total with about 350 million unbanked adults. India accounts for 21% of the world's unbanked and two-thirds of South Asia's.

As discussed above, account ownership varies not only between countries or regions but also based on categories such as family income and gender. Over half (54%) of the adults in the poorest 40% of the world's households lacked banking services in 2014. In turn, in the OECD's high-income economies, there were practically no gender gaps in terms of account ownership, while in developing economies the gap remained stable between 2011 and 2014: 9% points of difference between women and men.

Besides access, the paramount variable of financial inclusion, it is necessary to consider the use of financial services. Table 1 synthesizes the main results of the Global Findex 2014 according to the main categories of financial products.

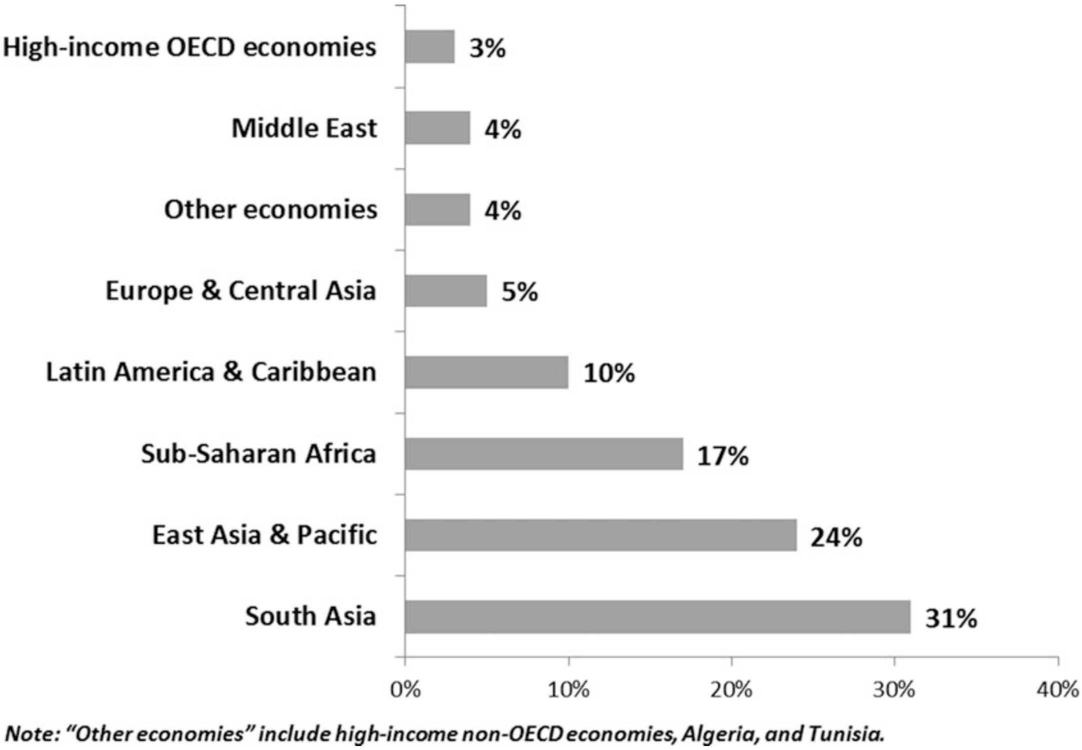
Impact of Financial Inclusion

As we stated above, financial inclusion is a multidimensional concept, a fact which makes it difficult to plot a single and clear map of causal relationships between financial inclusion and inclusive economic growth.

According to the theory, access to financial services in favorable conditions promotes smoother consumption patterns, better expenditure planning, the addressing of health-related risks, and investment not only in productive endeavors but also for the long term, such as in education. However, there is little research on the issue. A fundamental reason is related to the aforementioned limitations in terms of availability of national and global data.

Having said that, various authors have explored the benefits of financial inclusion. In general, most have analyzed specific dimensions based on cases and assessments of particular programs implemented around the world. Karlan and Morduch (2009), Cull et al. (2014), Beck (2015), Klapper et al. (2016), and Demirgüç-Kunt and Singer (2017) provide literature reviews about the empirical benefits of financial inclusion through different approaches.

For example, Klapper et al. (2016) summarize empirical evidence, pointing out how financial inclusion can help achieve the Sustainable Development Goals (SDGs). Based on the study cases under analysis, the authors posit that some goals could be pursued directly through financial inclusion (goals 1, 2, 3, 4, and 5), while in the case of others (namely, 6, 7, 8, 9, 10, and 16), even though there are no empirical studies with robust evidence in this regard, there are theoretical reasons to believe that financial inclusion could be a way to pursue them indirectly.



Financial Inclusion in Latin America, Fig. 1 Adults without an account by region (%) – 2014 (Source: Own calculations based on Global Findex database 2014)

Similarly, Demirgüç-Kunt and Singer (2017) carry out an analysis of empirical evidence differentiated by the financial product category. Exploring their findings based on more recent global evidence, Table 2 summarizes what we currently know about the impact of financial inclusion.

Financial Inclusion in Latin America: Status and Obstacles

The Status of Financial Inclusion in Latin America

When we analyze the Latin America and the Caribbean region based on World Bank data, five aspects stand out.

(1) *Account ownership: outstanding progress, but half the region continues to lack access*

As of 2011, only 39% of the adults in the region had a bank account. By 2014, that share had increased to 51%. This means that, even though there was a significant decrease in the unbanked population in 2011–2014, half the people in the region continue to lack access.

Approximately 10% of the world's unbanked population (210 million people) live in this region. However, the region's level of account ownership is still below than that of developing countries overall, which went from 41% in 2011 to 54%, and below the aforementioned global average, which increased from 51 to 62%.

(2) *Payments: good usage of the accounts, but low among the poorest*

A noteworthy aspect is that of usage levels (whether people use their accounts and how). Approximately 62% of account holders in Latin America and the Caribbean use their accounts to make or receive payments (a share well above the average of 48% for

Financial Inclusion in Latin America, Table 1 Usage of financial services – Global Findex 2014 (Source: Own elaboration based on Demirgüç-Kunt and Singer (2017))

Financial product	Global Findex 2014
Payment	Virtually all account holders (95%) in high-income OECD economies made or received at least one digital payment from or into their account while in developing countries only 62% of did so
	In developing economies, 59% of adults who reported receiving a wage payment, 91% from the sale of agricultural goods and 48% from a government transfer payment, did so in cash instead of into an account
	Similarly, of the 56% of adults in developing countries that made regular payments for utilities in 2014, almost 90% did so in cash
Saving	Over half (56%) of adults around the world saved or set aside money in the past year (54% of adults in developing economies)
	A quarter of adults (or almost half of savers) saved formally in the past year (at a bank or another type of financial institution)
	In developing countries, about half of savers use other ways than a formal financial institution (an informal savings clubs, a person outside the family, or saving in cash at home or in goods)
Credit	Less than half (42%) of all adults reported borrowing money in the past 12 months (excluding through the use of credit cards)
	In high-income OECD economies, a financial institution was the most frequently reported source of new loans. In all other regions, family and friends were the most common source of new loans
	Overall in developing economies, three times as many adults borrowed from family or friends than borrowed from a financial institution
Insurance	The 2014 Global Findex database does not collect data on the use of insurance

the developing world). Likewise, about 55% of the employees in the region receive their wages in a bank account (compared to an average of 41% in the developing world).

This active account usage is based mainly on card payments. Approximately 40% of the adults of Latin America and the Caribbean have a debit card: more than in all developing regions, with the exception of East Asia and the Pacific. They are also more likely to use them: 54% of account holders use their debit card to make direct payments, compared to 25% on average in developing economies. The widespread use of debit cards is also reflected in the way in which adults in the region make cash withdrawals: 71% resort to ATM (the highest share, by far, in developing regions).

However, an analysis of the most vulnerable segments contradicts this aspect. Only 5.91% of the poorest population (the poorest 40% of households with an account) in the region have a high frequency of account usage (at least three times a month). Though some countries, such as Costa Rica, have noteworthy ratios (16.54%), no country in the region is particularly advanced in this regard.

(3) *Saving and credit: particularly weak and informal*

In spite of the strong use of accounts as a means to make and receive payments, Latin Americans are less likely than their counterparts to save using accounts in financial institutions. Even worse, a significant share resorts to informal financial services.

Only 25% of account holders in Latin America use formal saving methods, compared to 39% in developing economies overall, 42% in sub-Saharan Africa, and 50% in East Asia and the Pacific. The difference between the total number of adults who reported having saved (41%) and those who did so in a formal financial institution (14%) broadened by 11% in 2011–2014. That is, the gap went from 16 to 27%, which reflects a significant increase in informal savings.

Against this backdrop, only 33% of the population in the region reported receiving a

Financial Inclusion in Latin America, Table 2 Financial inclusion evidence-based impact (Source: Own elaboration based on Demirgüç-Kunt and Singer (2017))

Financial product	Evidence-based impact
Payment	Shifting cash payments into accounts increase their speed, reduce the associated incidence of crime, increase transparency, and also help people build a payments data history which can then be leveraged for better access to credit
	Incorporating payments data into credit files also helps financial institutions to better assess credit risks and thus minimize their nonperforming loan portfolio
	Shifting cash payments into accounts might be especially valuable for women, who benefit from the greater confidentiality and control. This may also have larger societal and development benefits
Saving	Formal savings advantages are safety from theft, mostly pay better interest revenue, and curb impulse spending (and therefore encourage better cash management)
	Strengthen women's economic empowerment by offering confidentiality and greater control over their savings
	Anyway, researches express uncertainty about the exact mechanisms that allow people to save more or better manage their funds with savings account
Credit	Borrowing from a formal financial institution might give better credit terms than from informal lenders
	Microcredit might increase household consumption expenditures, assets, labor supply, and children's school attendance, especially when microcredit was provided to women
	Anyway, randomized controlled trials for evaluating the impact of microcredit have drawn "modestly positive, but not transformative, effects" of microcredit as a development tool (Banerjee et al. 2015)
Insurance	The empirical evidence documents that individuals indeed adopt higher-risk, higher-return technology if provided access to formal agricultural insurance
	Evidence shows that it encourages farmers to move from low-return, low-risk crops to high-return, high-risk crops
	However, studies typically do not assess the welfare implications of the adoption of higher-return technology

loan in the previous year, but only 11% did so with a formal financial institution (and less than 7% in the lowest-income segment). This means that an alarming 22% of borrowers resort to informal financial institutions.

(4) *High heterogeneity between countries*

Five countries in the region account for 72% of the unbanked population (Mexico, 25%; Brazil, 23%; Colombia, 10%; Peru, 7%; and Argentina, 7%). We find economies whose progress has been below average (such as Nicaragua, Ecuador, or Haiti) and others in which it has been particularly significant, such as Panama, where account ownership went from 25 to 43%, or Argentina, where it went from 33 to 50%.

Specifically, countries that exceed the region's average of 51% account ownership are Jamaica (78.3%), Brazil (68.1%), Costa Rica (64.5%), Chile (63.2%), Venezuela (56.8%), and the Dominican Republic (54%). Below are Argentina (50.1%), Ecuador (46.2%), Uruguay (45.3%), and Panama (43.4%). The lowest levels are in Guatemala (40.8%), Bolivia (40.7%), Mexico (38.6%), Colombia (38.3%), El Salvador (34.6%), Honduras (30%), Peru (29%), Nicaragua (18.8%), and Haiti (17.5%).

Disparities also exist in the realm of saving and credit. For instance, countries such as Brazil and Chile present the highest account ownership ratios (68 and 63%, respectively), but their saving and borrowing ratios are very low (12 and 15%, respectively).

(5) *The increase in account ownership is mainly explained by the progress of the poorest*

At the regional level, 41% of the adults living in the poorest 40% of households have an account: an increase of 17 percentage points relative to 2011. Instead, the richest 60% increased their level of account holding by just 8% (reaching 58%). In countries such as Argentina and Peru, the number of account holders among the poorest households increased more than twice and thrice, respectively.

The countries with the highest levels of banking among the most vulnerable (poorest 40% of households) are Jamaica (69.5%), Costa Rica (61.3%), Brazil (58.4%), Chile (56.37%), and Puerto Rico (55.9%). They are followed by Venezuela (48%), Argentina (44.3%), the Dominican Republic (41.8%), Uruguay (34.9%), Ecuador (32.4%), and Panama (32.4%). The lowest levels are in Mexico (29.2%), Guatemala (27.1%), Bolivia (26.3%), El Salvador (24.4%), Colombia (24.4%), Honduras (19.7%), Peru (18.4%), Haiti (14.5%), and Nicaragua (8.4%).

A comprehensive understanding of the reasons behind these regional characteristics requires a deeper analysis of each country's peculiarities and public policies.

However, as regards the significant increase in the number of holders of accounts with financial institutions in the region, the consensus generally holds that the governments in Latin America had a key role to play (particularly in relation to the poorest households), through the opening of accounts and the electronic transfer of subsidies, pensions, and other social benefits.

The data reveal that, of the 13% of adults who receive government transfers in the region, 67% do so through an account. This is by far the greatest share in the developing world, where, on average, only 52% of government transfers are deposited in an account. Having said that, the aforementioned regional heterogeneity appears in cases such as that of Brazil, where 88% of the population receiving government transfers (15% of the adult population) do so directly in an account, though 88% of those withdraw all of the funds as soon as they are deposited, without making an effective use of the account.

An alternative analysis is done by Rojas-Suarez (2016) comparing values from 2011 and 2014 with countries that the author calls "comparators" in the sense of having a similar degree of development as Latin America (group of countries in the world belonging to the same decile of GDP per capita). Beyond the regional amazing progress mentioned above, from this alternative perspective the region lags behind not only with respect to high-income countries but also with respect to the comparators.

Relative to its comparators, Latin America's account ownership in formal financial institutions gap (defined as the difference between Latin America's median value and the corresponding value for alternative country groupings) in 2011 and 2014 has not decreased significantly. Indeed, the reduction was only 0.7%. Measured by savings, Latin America's median gap has deteriorated relative to high-income countries by 3%, while it has improved relative to its comparators by only 1%. Finally, says Rojas-Suarez, the borrowing variable yields the worst results where the regional median gap has deteriorated with respect to both high-income countries and Latin America's comparators.

In summary, the weakest points in Latin America in terms of financial inclusion refer to the fact that half the population remains unbanked and that usage measures continue to be weak.

Obstacles to Financial Inclusion in Latin America

The data show that the greatest challenge for the future of financial inclusion in the region lies not only in providing the high number of unbanked people with access but also in ensuring that they (as well as those who already have access) make an effective use of the new tools.

Seeing financial inclusion as an ecosystem in which supply, demand, and the regulatory framework interact with the same degree of relevance, the barriers to the use and provision of financial services are multidimensional and comprise factors in the three dimensions. The literature has shown that both aggregate (macroeconomic) and individual (age, educational level, income, employment, etc.) variables are fundamental to explain ownership and use of accounts in the formal financial system (Allen et al. 2016).

For the specific case of Latin America, some authors suggest that the social, economic, and institutional environment in which financial markets operate has a key role to play in promoting or hindering their inclusive development. Specifically, Rojas-Suarez and Amado (2014) and Rojas-Suarez (2016) propose four categories of obstacles: socioeconomic constraints, macroeconomic environment, institutional weaknesses and inefficiencies, and inadequacies in the financial sector.

Their econometric analysis makes it possible for them to posit that, even though they differ in terms of significance, all categories are statistically relevant to explain the limited level of financial service use in Latin America. Table 3 below explains the different obstacles and presents evidence-based correlations for each.

Present and Future Trends of Financial Inclusion in Latin America

As we have seen so far, there is room to improve financial inclusion in the region. We will now address three trends which will surely define the current and future agenda of financial inclusion in Latin America. As we shall see, these are far from being isolated phenomena. Rather, they present interlinked challenges and opportunities, which render them equally relevant.

Growing Importance of Digital Financial Inclusion

One of the main pillars of the various efforts to promote financial inclusion around the world focuses on the promotion and adoption of new digital tools. Given the rapid advance of new technologies, digital innovations bring the promise of a broad-scope, large-scale financial inclusion. The use of digital means, particularly for payments but also for more complex forms of access to and use of financial services, has shown great potential in terms of reaching large segments of the financially excluded population (Chishti and Barberis 2016; Gabor and Brooks 2017).

Indeed, in order to manage not only the opportunities but also the risks associated with rapid digitalization, the G20 published in 2016 a report sponsored by the World Bank Group and the People's Bank of China (called "High-Level Principles for Digital Financial Inclusion") with eight recommendations to promote financial inclusion using digital technologies. More recently, during the German presidency of the G20 in 2017, the opportunities and risks associated with digital transformation applied to finance and its inclusive potential were also addressed.

Digital financial inclusion and the revolution of new financial technologies (Fintechs) are the current paradigm in the sector, and this also includes Latin America. In a region characterized by its geographical extension and high infrastructure costs, the trend in terms of mobile phone subscribers and Internet users shows promise.

According to data from the IMF's FAS (2015), mobile phone subscriptions in the region account for 115% of the population, while the number of Internet users amounts to 47%. Moreover, the number of ATM and bank branches, on average, is of only 49 and 39, respectively, for every 100,000 inhabitants. The report "Informe de Mobile Banking en América del sur y el mundo" (mobile banking in South America and the World), presented by TBI Unit in December, 2016, revealed that most banks in Latin America are already allowing and encouraging their customers to carry out mobile banking transactions, through applications, interactive mobile sites, or SMS.

Against this backdrop, many e-money projects have developed rapidly in the region during recent years, for example, in 2010, "Tcho Tcho" in Haiti, "mPeso" in Nicaragua, "Tigo Money" in Paraguay, and "Cuenta Móvil" in Chile; in 2011, "Daviplata" in Colombia, "Movilway e-wallet" in Venezuela, and "Bancamigo" and "Tigo Money" in Guatemala; in 2012, "Mi Billetera Móvil" in Argentina, "Billetera Móvil" in Perú, "transfer" in México, and "Transfer and Aval" in Colombia; during 2013, "Ahorro a la Mano" in Colombia, "Meu Dinheiro" and "Zuum" in Brazil, "Envíos Personal" in Paraguay, and "Lajancasjh" in Haiti; in 2014, "Orange mPeso" in the

Financial Inclusion in Latin America, Table 3 Obstacles to financial inclusion in Latin America (Source: Own elaboration based on Rojas-Suarez and Amado (2014) and Rojas-Suarez (2016))

Obstacles	Definitions and correlations
Socioeconomic	Theory: Countries with greater access to social services and a better quality of life are countries that have also developed a stronger "financial culture" in which the use of financial services through formal markets becomes essential
	Correlations: The correlation between alternative financial inclusion variables (accounts ownership, payments, savings, and borrowing) and the UN Human Development Indicator (a well-known measure of social development) is positive and high
Macroeconomic	Theory: Macroeconomic instabilities leading to financial crises drastically reduce the provision of credit and other financial services. On the demand side, it plays a central role in determining people's willingness to entrust their funds to the formal financial sector
	Correlations: In several countries, the correlation between alternative financial inclusion variables and real interest rate volatility (approximated by the coefficient of variation) is significant and negative
Institutional	Theory: The quality of institutions (broadly defined as the set of rules and conventions) has long been recognized as an important factor affecting access to and use of all type of financial services
	Correlations: The Worldwide Governance Indicator "Rule of Law" (that measures agents' confidence in and commitment to abiding by the rules of society, the quality of contract enforcement, the police, the courts, and the likelihood of crime and violence) shows a strong and statistically significant inverse relationship between weak law and all the financial inclusion variables
Financial sector	Theory: One of the most discussed obstacles for explaining financial exclusion is that market characteristics could lead to prohibitive high costs for access to financial services (e.g., operational inefficiencies, concentration, etc.)
	Correlations: The relationship between financial inclusion variables and the ratio of bank's overhead costs to total assets (a common indicator of bank's operational efficiency) is negative and significant. In turn, the data does not show a significant correlation between financial concentration and financial inclusion. Particular correlations support the hypothesis that bank concentration is negatively associated with financial inclusion mostly in countries with weak institutional quality

Dominican Republic, "Movil Cash" in Panama, "Tu Dinero Móvil" in Peru, and "y Plata Móvil" in Colombia; and during 2015 "Olhan Conta" and "TIM Multibank Caixa" in Brazil, "Dinero Electrónico" in Ecuador, "Bim" in Peru, and "VIVA solutions" in Bolivia. The list can continue to this day.

Besides these efforts, according to the GSMA Mobile Money Adoption Survey (2015), of the 460 million adults in the region, only 15 million were registered users of electronic money, and only six million were active users. In other words, the penetration of electronic money was of only 3.3%. Besides, the range of uses was very limited: mobile balance top-up and people-to-people (P2P) operations accounted for 70% of all transactions.

Global Findex data show that the percentage of adults with a mobile account in Latin America is only 2% and that only 7% of the adults in the region report having used Internet to make payments, and only 7% of bank account holders carried out transactions through a mobile phone. According to the Americas Alternative Finance Industry Report (2017) of the Cambridge Centre for Alternative Finance, while the level of loans granted by banking institutions accounts for 41% of the regional GDP, financing through online platforms accounts for only 0.01%.

These figures suggest that innovative digital financial services have an enormous potential as a means to close the financial inclusion gap in Latin America, especially in countries in which the financial system has a reduced capillarity.

Demand-Side Policies

The goal of designing policies to strengthen all dimensions of financial inclusion has led to a series of novel approaches aimed at providing new demand-side answers. Advances in the realm of behavioral economics have confirmed that psychological predisposition has an important effect on the behavior of savers, their personal finance, and their wealth (De Meza et al. 2008; Garcia 2013).

The various lessons this discipline brings to the discussion of financial inclusion have provided strong evidence of how the complexity of financial decisions often drives people away from efficient and optimal choices. For instance, it was found that people with prejudices toward financial topics are more likely to acquire financial products which are less favorable or which fail to meet their needs.

These lessons become especially relevant when designing tailored products or intervention strategies aimed at boosting financial capabilities in order to enable better decision-making. For instance, they have been useful inputs in financial education programs, which as a result considered the psychological advantages of factors such as the continuous nature of education, the use of easy-to-understand slogans, a reduced number of options for questions, the provision of tailored advice instead of passive education, and adjusting assistance to age or specific moments of the life cycle, among many others.

Financial education is a vital and essential capability, seen worldwide as a necessary condition to achieve real financial inclusion and, consequently, a sustainable economic development, with equal opportunities. In the words of the OECD, financial education sets the minimum foundations for many important decisions faced by all citizens during their lives, either when evaluating a work contract, buying their first home, or, later on, managing their retirement savings (García et al. 2013).

Most governments in Latin America recognize the importance of financial education, and many have implemented or are developing national financial education strategies. Some assessments are already showing positive outcomes, but measuring the program's impact and establishing comprehensive follow-up indicators, which go beyond the number of people educated, continue to be challenging.

Financial education is thus a fundamental tool to increase knowledge of financial products through information and advice, with the goal of developing the capabilities and trust needed to make informed and efficient decisions. It is fundamental as a means to manage the opportunities and risks of the digitalization which has made financial services available to a large share of the population. Demand-side policies aimed at increasing and improving the use of financial services in the region become thus unavoidable.

Empirical evidence has shown that financial inclusion makes it possible to increase well-being, when users have an appropriate level of knowledge and capabilities as regards financial products and services. The future of financial inclusion in Latin America must necessarily consider the need to work on the agents demanding financial services.

Deepening Strategic Alliances

The current situation leads us to confirm that the smooth articulation of actors is a necessary condition to advance with well-targeted efforts. In this regard, the Alliance for Financial Inclusion (AFI) has played a key role, becoming a pioneer and benchmark in the area, for example, promoting National Strategy for Financial Inclusion or initiatives as the launch of the Financial Inclusion Initiative for Latin America and the Caribbean (FILAC) in strategic alliance with the International Development Research Centre (IDRC) in June 2016.

However, other alliances have achieved important outcomes, though without the AFI's global and massive scale. As another example of coordinated work in Latin America, we can mention the effort of the Inter-American Development Bank (IADB), which joined a strategic alliance organized by the UN to create synergies with governments, companies, and local organizations in order to promote Fintech-type innovations for financial digitalization.

We can highlight other important initiatives at the national level, for example, "Micropagos" of Banco Santander in Uruguay, an entity that has created an ecosystem composed of the same bank, mobile operators, and the company of mobile payment transactions “Micropagos” for the development of rural savings; the “Tigo Money” network in Honduras, which in alliance with banks and cooperatives, facilitates the sending of remittances and payments through mobile phone in 160 municipalities with low or zero banking; the “Viva Cash” mobile wallet in Bolivia, which uses the network of the largest distribution company in the country Viva and in partnership with different banks and provides services to the unbanked population in urban and rural areas; or the alliance between IDB-MIF and the telecommunications company Tigo in Paraguay that has allowed more than one million citizens to use their mobile phones to pay services, do transfers, access cash, and make deposits in an efficient and secure manner through a network of merchants throughout the country.

A particular case of digital financial innovation enabled through strategic alliances in the region is that of the digital money wallet Bim, in Peru, where, after exploring various schemes against the background of a new regulation on electronic money, the “Peru Model” was implemented in 2014 as a joint e-money project. Through it, the participants cooperated to create a common operational platform in order to develop an ecosystem of digital payments and then compete for the final users.

Later, 2015 saw the creation of Pagos Digitales Peruanos S.A., a company responsible for the implementation of Bim, a free-to-use digital money wallet which offers a solution which is unique and innovative compared to other models at the international level. Though Bim wallets are available to the general population, the program targets those sectors excluded from the financial system (according to the World Bank, only 30% of the Peruvian population has a savings account in a financial institution). That is why its design presents inclusive features, such as minimum entry requirements for users, a broad range of uses, and a high degree of interoperability.

The aforementioned examples show that alliances comprising different actors (public and private, local and international) and with technology as a fundamental ally make an important difference in terms of increasing and improving financial inclusion in Latin America.

Conclusion

This entry has provided an overview of financial inclusion in the particular case of Latin America. Access to formal financial services enables individuals to carry out financial transactions more efficiently and safely and could help people escape poverty through investments in education and businesses. Moreover, financial inclusion could also keep individuals from becoming poor in the first place, as it provides tools to manage income volatility.

At the macroeconomic level, the promise of reducing poverty and inequality is coupled with several potential benefits, such as the expansion of the formal economy, the reduction of banking risks and costs, job creation, financial stability, the effectiveness of monetary policies, and the stimulus for economic activity, among many others.

Having said that, two billion people in the world remain without access to an account in a financial institution, 10% of whom live in Latin America. In spite of the region’s dynamism, half the adult population lacks access to an account. Including the 210 million Latin Americans currently excluded from the formal financial system will need additional efforts.

Some challenges remain, such as that of reducing the gap in account ownership between men and women and that between the wealthiest 60% and the poorest 40% of the population. It is central to improve usage indicators, and there is a significant potential to increase the share of adults who save and receive credit from formal institutions.

The obstacles to the improvement of financial inclusion in Latin America are many, and they refer to aspects of the social, economic, and institutional environment. Given its geography and the particularly high penetration of mobile phones and Internet users, new financial technologies emerge as a great opportunity for new providers to promote digital financial inclusion in the region.

It is central to leverage these experiences in order to identify goods practices to be replicated in different communities and sectors, as is the joint and coordinated work through strategic alliances. Besides, the use of mobile phones and the Internet to access financial services requires a balanced regulatory framework, which encourages both innovation and user protection. It is then fundamental to promote cooperation under a management model that promotes demand-side policies and includes frequent dialogue and coordination within each country.

In summary, financial education and literacy programs supporting the development of the industry, which consider the demand's aspects and capabilities, new technologies to facilitate a digitally responsible financial inclusion, and the valuable intervention of external actors working in alliances with local agents and leaders, are all critical factors which must work to create synergies in Latin American financial inclusion strategies.

Cross-References

- ▶ Economic Development Policy
- ▶ Microfinance in the Public Section
- ▶ Politics of Development
- ▶ Regional Inequality and Globalization
- ▶ Sustainable Development Administration

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