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Financial Inclusion in Latin America and the Caribbean: Access, Usage and Quality

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ABSTRACT

This study presents a general overview of financial inclusion in Latin America and the Caribbean. We employ data for the three dimensions: access, use and quality, which outline a complete picture of the nature and characteristics of financial inclusion in the region. This information is essential for identifying weaknesses in financial market development and serves as a basis for elaborating effective inclusion strategies. As will be seen, despite the steps taken in the region to achieve greater participation of the population in the formal financial sector, levels of inclusion in all its dimensions continue to be low, although with substantial differences among the economies. A considerable amount of the population continues to use the informal financial sector for making their transactions, particularly loans.

Keywords: financial inclusion, access, use, Latin America, Caribbean

JEL Codes: D14, G23, G28, I22,O16

INTRODUCTION

The problem of access to financial services among the poorest sectors of the population is nothing new. Since the end of the 18th and the beginning of the 19th century financial institutions of a social nature began to emerge with the ability to promote financial access for saving and credit to low-income individuals and small and medium-sized firms (SMEs). These institutions take the shape of cooperatives, savings banks and credit unions, among others. Their model expanded gradually, gaining importance in both developing and developed countries. At the end of the eighties and the start of the nineties more financial entities began to appear in the region, such as microfinance institutions, cooperative banks and other types of non-governmental organizations that work in the field of granting financing to those segments of the population. These entities are collectively known as of *finanzas populares* or *finanzas de desarollo* (popular or development finances), and generally have the same goal: the inclusion of population segments that are not served by the traditional banking sector.

Despite the long history of these financial institutions it was not until the start of the year 2000 that the topic of financial access became of utmost importance as a common objective on the agendas of G20 countries, governments, ministries of finance, international bodies and central banks, among others[1]. The main reasons for this are: *a)* the appearance of a series of studies demonstrating the high level of correlation between poverty and exclusion from the formal financial sector[2], *b)* concerns among the bodies responsible for financial stability stemming from the fact that some types of financial inclusion can become a source of instability (Roa, 2013), and *c)* that commercial banks have started to see it as a niche for expanding their business. It was at that point when the problem of access to financial services began to form part of a wider concept: *financial inclusion*[3].

Nowadays the majority of international organizations responsible for financial inclusion have established internationally accepted definitions and indicators. The different definitions and indicators proposed demonstrate the multidimensional nature of financial inclusion. This nature contains elements from the supply and the demand side of financial products; the basic dimensions being access, usage and, more recently, the nature or quality of the first two.

This paper presents a general overview of financial inclusion in Latin America and the Caribbean, employing data for the three dimensions to outline a complete picture of their nature and characteristics in the region. This information is essential for identifying weaknesses in financial market development and serves as a basis for elaborating effective inclusion strategies. As will be seen, despite the steps taken in the region to achieve greater participation of the population in the formal financial sector, levels of inclusion in all its dimensions continue to be low, although with substantial differences among the economies. A considerable amount of the population continues to use the informal financial sector[4] for making their transactions, particularly loans.

The paper is structured as follows. The first section analyzes the concept of financial inclusion based on the definitions of different international organizations re-

1 The Alliance for Financial Inclusion, set up in 2009, is a global network of financial policymakers in developed and developing countries working together to increase the access of poor people to financial services. The World Bank and the Organization for Economic Co-operation and Development (OECD) along with their institutions currently lead financial inclusion tasks at the international level.

2 See Burguess and Pande (2005), Zhan and Sherraden (2011), and Bruhn and Love (2012).

3 The former General Secretary of the United Nations, Kofi Annan, in a speech that he gave on December 29, 2003, and the government of the United Kingdom in a budget report for 2004 (HM Treasury, 2004) were the first to use the concept of financial inclusion.

4 The informal financial sector includes various informal savings and credit arrangements encompassing a wide variety of financial transactions that are not subject to regulation or supervision from the corresponding government bodies. As explained by Mansell (1995) "most of their financial activity is carried out in an illegal environment, without authorization, without supervision, tax free and, generally, unrecorded in registries and data". The formal sector on the other hand is made up of financial institutions and instruments that are subject to some kind of financial regulation or supervision by any of the state regulatory agencies.

sponsible for the topic. The second section presents supply and demand side indicators on the access and use of financial products in Latin America and the Caribbean taken from various sources. The third section shows information from the region on the main ingredients for designing a framework of reference to measure the nature or quality of access and usage. Finally, we give our conclusions and discuss the most important results.

1. FINANCIAL INCLUSION

1.1 Definitions

Although at the beginning there was no consensus on the definition of financial inclusion[5], nowadays some international organizations involved in the topic have provided internationally accepted definitions and indicators. For instance, the Global Partnership for Financial Inclusion (GPFI) and the Consultative Group to Assist the Poor (CGAP) define financial inclusion as (CGAP, 2011): "refers to a state in which all working age adults, including those currently excluded by the financial system, have effective access to the following financial services provided by formal institutions: credit, savings (defined broadly to include current accounts), payments, and insurance". The definition also mentions that effective access "involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider,

[5] Some authors or institutions use the concept of *bancarization*. This concept is a little confusing because it can be understood as the use and access of financial services offered exclusively by commercial banks. However, the widely accepted definition considers bancarization as "the establishment of stable and broad relationships between financial institutions and their users as regards a range of available services" (Morales and Yañez, 2006). In this way it encompasses not only commercial banks, but also financial institutions.

with the result that financially excluded customers use formal financial services rather than existing informal options". The term financially excluded "refers to those who do not have access to or are underserved by formal financial services". Meanwhile, responsible delivery "involves both responsible market conduct by providers and effective financial consumer protection oversight", and finally institution "refers to a financial service provider that has a recognized legal status and includes entities (and, in some countries, even some individuals) with widely varying regulatory attributes, subject to differing levels and types of external oversight".

Another of the bodies most involved in financial inclusion topics is the Organization for Economic Co-operation and Development (OECD) through the subgroup International Network on Financial Education (INFE) created in the middle of 2008. The INFE defines financial inclusion as "the process of promoting affordable, timely and adequate access to a range of regulated financial products and services and broadening their use by all segments of society through the implementation of tailored existing and innovative approaches including financial awareness and education with a view to promote financial wellbeing as well as economic and social inclusion". (Garcia et al., 2013).

The Alliance for Financial Inclusion (AFI) has supported various efforts for measuring financial inclusion in different countries where its multifaceted nature has stood out. In particular, it stipulates that financial inclusion should be defined based on four dimensions: access, usage, quality and wellbeing. They consider access as "the ability to use available financial services and products from formal institutions" and usage as "the performance and depth or extent of financial services and product use". Quality should demonstrate if the attributes of products and services are in line with customer's needs and whether product development takes such needs into account: "the measure of quality would therefore be used to gauge the nature and depth of the relation between the financial service provider and the consumer as well as the choices available and their levels of understanding of those choices and their implications". Finally, wellbeing is understood as "the impact that a financial device or service has had on the lives of consumers" (AFI, 2011).

Only a few years ago in Latin America and the Caribbean (LAC) three countries, Mexico, Brazil and Colombia, were the first to elaborate annual reports on financial inclusion and include it as a priority topic on their agendas. The National Council for Financial Inclusion (*Consejo Nacional de Inclusión Financiera*, CNIF) was created in Mexico in October 2011. In its fourth financial inclusion report for Mexico, the first LAC country to prepare such reports, the CNIF (2012) defines financial inclusion as "the access and usage of financial services under appropriate regulation that guarantees consumer protection schemes and promotes financial education for improving the financial abilities of all segments of the population". In its last annual report on financial inclusion (Banco Central do Brasil, 2011), Brazil defines the latter as "a process by which the population effectively accesses and uses financial services that are adapted to their needs and contribute to their standard of living" and, referring to Mexico's report, it insists on the need for "policies aimed at promoting financial inclusion should include factors of regulation, financial education and consumer protection". Meanwhile, the first Report on Financial Inclusion by Colombia's Financial Superintendent and Banca de Oportunidades (2012) uses the same definition as the AFI and its multifaceted approach.

1.2 Multidimensional nature of financial inclusion: access, usage and quality

Definitions demonstrate how financial inclusion is a multidimensional concept, including aspects from the supply and demand-side of financial products, with its basic dimensions being access and usage, and more recently *the quality or nature of access and usage.*

Lack of *access* is evident among those who when they do not find financial instruments and services in line with their needs are excluded from the formal financial sector. Lack of *access* has traditionally been defined as a type of observable obstacle or barrier resulting from frictions associated to the financial sector: high transaction costs, uncertainty regarding the results of projects, and asymmetric information between lenders and borrowers. These frictions mean that none or very few of the financial services offered are appropriate for a large majority of potential customers, producing a contrast between the active use of financial services by one group and little or no use of them by another. Information frictions lead to barriers such as the demand for guarantees, documentation or high costs that the majority of the population cannot pay. On other occasions it is high transaction costs, especially in rural and scattered areas, that make opening a branch or point for offering financial services unattractive. This substantially reduces the supply of financial services to population living in such zones.

According to Beck and De la Torre (2007), limitations or barriers are usually of a geographic nature (remote and scattered rural areas), socioeconomic (high costs, discrimination because of gender, ethnicity or others, etc.) and opportunity (lack of guarantees or belonging to a well-connected network). Another classification for these limitations is used by Honohan (2004), who distinguishes between price barriers (overly expensive financial services), information barriers (information asymmetries in the granting of loans that prevent contracts being made), and barriers of products and services (services that are not offered despite being very highly demanded by certain groups).

As for usage, when the decision of not to use financial services is determined by inter-temporal preferences and investment opportunities, the lack of use of financial services by some individuals is not necessarily a problem (Beck and De la Torre, 2007). Nevertheless, when private agents do have access to financial services, but make little or no use of them for reasons such as lack of knowledge or financial education, lack of savings, employment or income, lack of confidence in financial institutions, fear of becoming indebted, or as a psychological result of systematic discrimination in the past (self-exclusion), then scarcity or lack of use is a problem of financial inclusion. Problems of access and usage are therefore of a different nature. While the problem of access essentially stems from market failures that limit the supply of financial services, the problem of usage is mainly explained by demand and supply-side factors for financial services.

Besides access and usage, the most recent definitions of financial inclusion emphasize the importance of the characteristics of these dimensions. Thus, the third dimension that is beginning to be employed for defining financial inclusion is linked to the nature and characteristics of the access and usage of financial services, i.e., to their quality and effectiveness. The different bodies involved in measuring financial inclusion underline the importance and difficulty of designing indicators that measure this dimension. The task of elaborating them is starting to make progress (CGAP and WB, 2010; AFI, 2011). Although, there are still no specific indicators, all agree that the framework of reference for measuring this dimension should include topics such as the diversity and adaptability of the product to customers, the variety and alternatives of financial services, proper regulation and supervision of financial products and services, as well as financial consumer protection policies and financial education.

The importance of the latter dimension is included in the main current financial inclusion policies, where besides traditional measures, such as promoting saving or financing to SMEs, financial consumer protection, financial education and regulating microfinance institutions play an important role in most developed and developing countries (CGAP and WB, 2010). Some works also point to the importance of the latter dimension for ensuring that financial stability and inclusion are compatible objectives (Roa, 2013). The crisis showed how financial inclusion policies that are too energetic, with a clear lack of specific strategies and objectives can have very negative effects (subprime mortgages for turning all families into homeowners). Tensions therefore emerged between financial stability and greater financial access for the population. Regulating popular institutions and new financial products, as well as financial inclusion and education policies, would appear to be crucial for not jeopardizing stability.

The following sections review the current status of the different dimensions of financial inclusion in LAC based on recent studies and data. In order to avoid duplicating information, the original sources are mentioned by presenting a summary and a general overview. The section also refers to the antecedents and evolution of financial inclusion in LAC, given that they describe the nature of financial inclusion since its beginnings in the region, particularly the lack of financial regulation and supervision of popular financial institutions in some countries.

2. DATA FOR ACCESS AND USAGE IN LATIN AMERICA AND THE CARIBBEAN

The main institutions and bodies responsible for financial inclusion emphasize the importance of obtaining data for designing, implementing and assessing the programs. However, standard measurements are still not being used for the different dimensions of the concept. In practice, each country uses different indicators and methodologies. On the international stage, organizations such as the International Monetary Fund (IMF) and the Word Bank have undertaken enormous efforts for designing and conducting surveys in various countries that allow comparisons to be made between the different regions, as will be seen below.

The indicators for access mostly consist of the financial infrastructure and the different distribution channels for available financial products: branches of bank and non-bank entities (microfinance institutions, savings banks and cooperatives, development banks, etc.), ATMs and counters. Such indicators usually measure in geographic or demographic terms. The aim of access indicators is to identify potential barriers related to transaction costs or physical proximity, but they do not include or discriminate against other barriers related to information costs. The main source of information for these indicators comes from the supply-side: regulated financial institutions, such as banks, cooperatives, and microfinance and other institutions. The data is generally obtained through periodic surveys applied to the institutions and the financial regulators and supervisors, which limits the scope of the information to regulated institutions. The IMF is one of the most important bodies that collects supply-side data.

Indicators for usage take into account information on the number of individuals that have at least one type of financial saving, credit, insurance or payment system product, and their frequency and duration of use over time. This information comes from both the demand and supply side of financial products. On the demand side, data is gathered from household surveys or focus groups, as well as surveys of SMEs. The World Bank is one of the most important bodies gathering information on usage from the demand-side. Indicators for usage generally do not allow for discriminating whether the barriers preventing the use of financial services are on the supply or demand side. For that reason, proxies are mostly used as indicators for access.

The AFI (2011) has recently proposed standard indicators for measuring the access and usage dimensions of financial products. Table 1 shows detailed information on the indicators suggested by said body.

The AFI also emphasizes that although indicators for quality have still not been elaborated (partly because they are more complex) it is essential to begin developing a framework of reference for measuring the quality of access and usage.

2.2 Supply-side studies: access and usage

The main supply-side sources are the reports and surveys conducted among financial entities by central banks or superintendencies. Besides those organizations, some second tier financial institutions, such as microfinance associations, federations or confederations, also gather country data. There is generally much less information on non-bank entities than on commercial banks due to the fact that the former are either unregulated or regulated by delegated regulatory agencies that do not issue periodic reports. As mentioned, supply-side studies provide information on the access and usage of financial products.

On the supply-side, the project of the International Monetary Fund stands out. The Financial Access Survey (FAS) started in 2010 and includes data from 2004. The FAS is the only source of supply-side data that includes information for access and usage indicators, and that enable international comparisons to be made. The database contains annual data from 187 countries, 32 of which are in Latin America and the Caribbean. Central banks receive data from regulated institutions. The latter comprise deposit receiving entities such as commercial banks, credit unions and financial cooperatives, microfinance institutions and other financial institutions such as insurance corporations.

Although the IMF's database generates variables that are comparable across

Table 1

CORE SET OF AFI INDICATORS

Dimension	*Definition of the dimension*	*Core indicator*	*Proxy indicator*	*Definitional comments*
Access	Ability to use formal financial services, i.e., minimum barriers to opening a bank account • Physical proximity • Affordability	1. Number of access points per 10,000 adults at a national level segmented by type and relevant administrative units 2.1 Percentage of administrative units with at least one access point. 2.2 Percentage of total population living in administrative units with at least one access point.		Regulated access points where cash-in (including deposits) and cash-out transactions can be performed. Demand-side indicators of distance may help here, but would be nationally determined.
Usage	Actual usage of financial services/ products • Regularity • Frequency • Length of time used	3.1 Percentage of adults with at least one type of regulated deposit account 3.2 Percentage of adults with at least one type of regulated credit account	3.a Number of deposit accounts per 10,000 adults 3.b Number of loan accounts per 10,000 adults	Adult is 15 and older, or an age defined by country. Define "active accounts" and seek to measure in future.

Source: AFI (2011)

countries, information from the jurisdictions in LAC makes it difficult to offer an overview of financial inclusion in the region. This is due to the fact that some countries do not report all the variables or report fewer observations over time than others. For that reason, the status and trends of financial inclusion in some economies of the region are briefly summarized for the banking system and cooperatives.

Data is available on the access and use of commercial bank products for the seven largest economies of the region (LA7): Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. It is important to point out that for the different indicators, described below, the performance of the remaining countries of the region is lower than that for LA7.

If we study the information available on access to bank financial services, it can be seen how key indicators have risen during the period. The number of ATMs has grown 10.49% every year since the crisis, reaching a total of 54.84 ATMs in 2011[6]. Moreover, bank branches have increased by 6.12% per year, reaching 26.10 branches. The number of bank branches and ATMs is similar to those in other countries, but much lower as compared to developed countries and Eastern Europe.

As for the usage of banking system financial services, it can be seen that during 2011 the number of deposit accounts in LA7 was slightly more than double the amount of credit accounts (1,258.78 and 579.88, respectively). However, measured as a percentage of GDP, deposits were almost the same as credits (34.21% and 35.77%, respectively). Although the values of both variables grew during the period after the crisis of 2009-2011, the increase in the number of credit accounts was almost double that of those for deposits (10.12% as compared to 5.17% per year). Credit and deposit accounts also grew 12.1% and 8.26%, respectively, as a percentage of GDP.[7]

In the case of credit unions and financial cooperatives, the FAS uses information for consistently analyzing six countries: Brazil, Chile, Colombia, Costa Rica, Jamaica and Peru. As an indicator for access, the number of branches in those countries decreased 1.07%, while the average number of branches is 2.98. Nevertheless, the region also exhibited wide diversity: Colombia had 0.61 branches, while Jamaica had 6.62. For usage, we again find that in 2011 the amount of deposit accounts was much larger than those of credit (333.08 and 56.10, respectively). However, there are enormous variations among countries in the subgroup. For instance, while there were only 22.84 deposit accounts in Colombia, in Jamaica there were 960.46. In the same way, while Chile had 2.43 credit accounts, Costa Rica had 151.69. A study of the trend between 2009 and 2011 shows that although the number of deposit accounts did not increase (0.65% per year) and that of credit accounts decreased by 3.30%, the value of the deposits and credits of these institutions as a percentage of GDP grew 5.71% and 2.51%, respectively.

In the case of the microfinance sector, the scarcity of data provided by the FAS means it is not possible to identify general trends regarding the access and use of financial products for the region or for a group of countries. Only Mexico, Peru and Brazil have some information on the sector. Nevertheless, several databases on payment systems, microfinances, credit unions and banks, among others, are included in the FAS.[8]

6 The study data given in this paper are for every 10,000 adults. The study also includes information for every 1,000 km2.

7 Takes into account the average across the countries of the average annual growth of each country from 2009 until 2011.

8 For a review and analysis of the databases see Financial Access 2011 (Ardic *et al.*, 2012).

In the case of microfinance institutions, the work of Pedroza (2011) from the Multilateral Investment Fund (FOMIN; member of the Inter-American Development Bank Group, IBD) stands out. That study systematizes information from different sources[9] and provides information on the access and usage of products offered by the microfinance sector in the region. As we will demonstrate further on, the paper also presents specific information regarding the regulation and oversight of microfinance intuitions.

Pedroza's study for the FOMIN emphasizes the growing size, variety and complexity of the different institutions making up the sector.[10] Microfinance institutions consist of the cooperatives and non-governmental organizations (NGOs) that report a microcredit portfolio, as well as downscale, greenfield and upgrade institutions[11]. It highlights the large scale and profitability of microfinance institutions at present, something that would have been difficult to imagine only a few years ago.

With respect to access, the number of institutions in the region (taking into account 17 countries) increased from 184 to 675[12]. The data shows a large degree of diversity between countries. For instance, Brazil had 184 institutions and Chile just six.

Data for usage shows that the microfinance portfolio in LAC rose from 1.2 million US dollars in 2001 to 15.2 million US dollars in 2010, while the number of customers during the same period increased from 1.8 million to 12.5 million individuals. The average loan grew from 659 US dollars to 1,216 US dollars in the period. However, in recent years growth has been much slower and has tended to stagnate slightly. The level of penetration for LAC[13] was 16% in 2010. Meanwhile, the highest levels of penetration by country were those of Bolivia with 43.5% and Peru with 33.9%, and the lowest were those of Argentina (0.8%) and Venezuela (0.5 percent).

With respect to the business environment, the best rated countries were Peru, Bolivia, El Salvador, Colombia, Ecuador

[9] FOMIN's research incudes data from the NGO Microfinance Information Exchange, Inc. (MIX), networks and national and international microfinance associations, information from FOMIN and IBD projects, and the gathering of primary data.

[10] There is generally no specific definition of microfinances. In most cases the type of products are mentioned: microcredit, microinsurance, microdeposits and others; or the characteristics of the products: small amounts, aimed at low income individuals excluded from commercial banks, financing business activities of small firms, and that the source of repayment is business activities (Cuasquer and Maldonado, 2011).

[11] Downscales: regulated institutions that added microcredit as a new line of business; greenfields: regulated institutions that focused on microcredit activities since the beginning; and upgrades: non-regulated financial institutions that became regulated.

[12] It is worth mentioning that the study uses a simple of regulated microfinance institutions, meaning that the total number shown in the study is less than the real number. See footnote 8.

[13] In this study, measured as the number of microcredit customers as compared to the number of individuals within the occupational category: employer and account holder (instead of the number of potential microcredit customers).

and Mexico, while the worst were Argentina, Haiti, Venezuela and Trinidad and Tobago. The business environment indicator includes two categories: *a)* the regulatory and practical framework, and *b)* the institutional framework. In terms of scope, efficiency and transparency, the best microfinance institutions are in Peru, Bolivia, Brazil, Mexico and Colombia.

The study shows in LAC, microfinance institutions' interest rates are generally higher than those of banks. The weighted average regional active interest rate[14] of microfinance institutions, including regulated and unregulated ones, is 30.7% per annum; almost more than double the bank rates in any economy of the region. Compared with other emerging countries these rates are very high and have been a characteristic of such institutions in LAC since the beginning. Among the arguments put forward for justifying these rates are the high information, transaction and operating costs in the region, besides the lack of competition.

A pioneering work on preparing supply-side databases with information on the banking sector is that of Beck et al., (2008), whose database gathers information from 209 banks of 62 countries (nine belonging to the region). The authors collected information on access to financial services for constructing measures on the barriers to deposit, credit and payment services. The study shows how there are different monetary barriers to bank access in LA7. Although the minimum balances required by banks in these countries were similar to other developing countries, commissions for deposits, consumer loans and mortgages were higher, particularly the latter. The levels of the remaining commissions were similar to other emerging countries. With regards to non-monetary barriers, the number of documents required to open a bank account in LAC was higher than the number of requirements in most countries. However, the number of access points for opening an account or requesting a loan was similar, even to the G7 economies.

It is also worth underlining a recent Felaban survey documented in Rojas-Suárez (2010) that explores the reasons underlying the lack of use of credit from the viewpoint of banks. According to that study, the main reasons limiting the use of bank credit from the viewpoint of banks are income levels, informality, the lack of financial culture and the lack of guarantees. Once again the factors that limit access are of an economic and social nature. In matters of access the main barriers are geographic.

2.3 Demand-side studies: usage

Demand-side studies provide information on the use of financial instruments. Until recently, most studies were based on general surveys conducted periodically by different countries that included a section of questions on the use of financial instru-

[14] Proxy indicator for nominal financial income with respect to the average gross loan portfolio.

ments (Navajas and Tejerina, 2007; Tejerina and Westeley, 2007; Bebczuk, 2008). This, coupled with methodological differences, meant it was difficult to make comparisons among countries. Bebczuk (2008) carried out a study to measure financial inclusion in Latin America reviewing this type of surveys from the end of the nineties up until the start of 2000. Among other things, and in line with the studies presented below, it concludes that levels of financial inclusion in the region are very low and that this is more due to demand-side than supply-side factors. In particular, it found that a lack of confidence and financial knowledge can be more important than supply factors, such as high commissions or minimum balances, when deciding not to participate in the formal financial sector.

In recent years, household surveys have been conducted that allow for measuring and comparing the use of financial instruments across countries of the region. One of these is conducted by the CAF, the Latin American Development Bank. This institution has been applying surveys to households for many years, but they were limited to comparative studies of a small group of countries in the region. In 2010 the CAF applied a survey to households on the access and quality of public services which included a series of questions on the use of financial services in 17 cities of the region. That study showed the limited use of formal financial instruments in the region (CAF, 2011) and we will now summarize its most important results.

On the side of saving, 53% of the households interviewed mentioned making some kind of saving. Less than 40% of such households did so through the formal financial system and over 80% answered that they used some type of saving from the informal sector. The coexistence of saving in the formal and informal sectors is more than evident in the region[15]. The average percentage of households that possessed a savings account was 51 percent.

Although holding savings accounts is positively related to income, their use does not increase significantly with level of income. The results suggest that although income is a determining factor for the use of savings accounts, there are circumstances in each country related to households' lack of information, the regulatory environment, public policies, and macroeconomic balances that considerably influence their use. For instance, the study shows how those that reported not having an account said that the main reason was because they had no income or employment, as well as, although to a lesser extent, their distrust of financial institutions. The latter is very significant in some countries due to financial crises and macroeconomic setbacks. There is a large group that report not seeing the advantages of having an account or not

[15] For a classification of the different informal financial services see the study of Mansell (1995).

knowing the requirements, underlining the lack of general financial knowledge as one of the main barriers to the use of financial instruments.

As for credit, usage was even scarcer. According to the survey, on average, 19% of those interviewed currently had a loan. 65% of the later received such credit from the formal financial sector, while 21% obtained it from family members, friends, moneylenders and pawn brokers. The use of credit increases with income, but only slightly, meaning that for most of the sample non-usage of formal financial instruments in the region is not exclusive to the poorest or middle and higher middle classes. In the case of economies with a well-developed micro financial system such as Bolivia, the use of credit from the formal financial sector via banks, microfinance institutions and cooperatives is very important.

The survey shows that the main reasons for rejecting a loan application were a lack of guarantees, insufficient income and bad credit history. It is worth mentioning that only 25% of those requesting a loan were rejected. With respect to the latter, households that had not requested a loan stated that they had not done so because they thought it was risky and feared falling into debt, followed by not having enough income or guarantees, and the lack of knowledge regarding the requirements. The study therefore shows how the reasons for not participating in the formal financial sector are not just economic (such as the lack of guarantees or income), but are also down to self-exclusion resulting from a lack of trust and financial knowledge.

With respect to the payment methods used, 80% of households answered that they were familiar with cheques, and 70% that they knew about credit and debit cards. The methods most used after cash (80% mentioned it as the most used) were debit cards. Only 10% used online transactions and just 2.3% mobile phone.

The survey also gathered information on insurance, mostly for health and employment. The percentages are generally very low, 45.8% of households had state health insurance and a little over 27% had private medical insurance. In the event of a personal emergency most of the sample would firstly use family members, friends and neighbors (66.1%), 10.6% the bank and 2.8% money lenders. Meanwhile, slightly more than 14% of households had lent to family members and 11.4% to friends in order to solve an emergency, demonstrating the importance of informal loans for all socioeconomic levels.

The most recent demand-side study is the Global Financial Inclusion (Global Findex Database) of the World Bank and the Bill and Melinda Gates Foundation (Demiguc-Kunt and Klapper, 2012). The Global Findex is a group of indicators that measure how adults from 148 countries make different financial transactions (savings, loans, payments and risk management). 150,000 surveys were carried out in 2011 and the information was published in April 2012. The survey consisted of 18 questions, and was applied to a random sample of adults over the age of 15 from each country.

In the case of LAC, the study highlights how despite the fact that the region has led some initiatives such as the expansion of microfinance or payment systems between the government and private individuals, over 250 million adults in the region are still on the margins of the formal financial system.

As for saving, in the region as a whole, 39% of those surveyed mentioned having an account in the formal financial system (bank, cooperative, credit union, post office or microfinance institution). However, the percentage varies; it was 14% in El Salvador and Nicaragua, and 71% in Jamaica. The use of accounts at formal financial institutions depends on personal characteristics. In particular, being male, having a tertiary education and higher income make it more likely to have an account at a formal financial institution. Although savings rates are very similar to those in the rest of the developing world (42%), only 26% mentioned having saved during the last 12 months; 10% reported having saved in the formal financial sector and 16% in the informal sector (family members, friends, informal saving groups or others).

Regarding the reasons for not using an account in the formal financial sector, the most common was lack of money (55%), followed by high costs (40%), lack of trust (28%) and lack of documentation (21%).

Accounts in the formal financial sector were generally opened for receiving payments from the government, not for saving. On this point it is worth mentioning that several LAC countries have been pioneers in developing conditional transfer programs. These programs are a potential opportunity for promoting financial inclusion given their target population (Marulanda et al., 2012). According to Cuasquer and Maldonado (2011), 17% of all those benefitting from transfers in the region received them in cash, 56% through prepaid cards and 28% in a deposit account. Nevertheless, as data from the World Bank shows, this does not imply a process of financial inclusion *per se*, and a significant amount of the deposit accounts are only opened for receiving the transfers and not for saving.

In the case of credit, 8% of adults mentioned having borrowed from a formal financial institution within the last year. A larger share (22%) reported having borrowed from friends or family members (14%) or other informal mechanisms[16]. The most common payment instrument

[16] Despite the fact that formal and informal financial markets coexist throughout the region, the data shows diverse landscape across the different countries. For instance, in Guatemala 42% of the population had a loan in the informal sector and 2% in formal financial institutions, while for Uruguay the same figures were 24% and 14% respectively. For saving, in Mexico 30% of the population mentioned saving at a formal financial institution and 21% in the informal sector, while the same figures for Colombia were 9% and 24% and 10% and 8% for Peru, respectively.

in the region is the credit card, with 18% reporting they had one. The study did not record the reasons why individuals did not borrow.

With respect to the use of new financial intermediaries, less than 5% of account holders mentioned using bank agents or correspondents for carrying out their financial transactions. In the case of new financial instruments, 3% reported using mobile phones for their financial transactions and a little over 10% using an electronic payment system. The most common way for making deposits was at a branch (57.5%), followed by ATMs (19.4%). Slightly more than 60% of the population made two deposits per month. As for the means for withdrawing money, just over 50% of the population mentioned using ATMs, followed by bank branches (33.1%). 53% of the population withdrew money twice a month, while 30.5% did so three or more times a month. The region generally appears to be far behind the rest of the developing world.

Regarding firms' demand for financial instruments, the World Bank regularly prepares an Enterprise Survey (ES). According to the ES (World Bank, 2010), over 90% of firms in the region have a deposit account. The study is divided into large firms and SMEs. Holding a bank account does not generally seem to be a problem even for the smallest firms. However, access to credit was low, and there is a substantial difference between large and small enterprises. The problem of access to credit as an obstacle for growing their business is mentioned more by SMEs than by large firms. The survey also shows that the decision not to participate in the formal financial market for funding their activities was very common throughout the region. 65% of small firms stated not having requested a loan in the last year, as did 42% of large firms. The reasons mentioned by firms, particularly SMEs, for not accessing credit were the difficulty of the loan application process, high interest rates, guarantee requirements and preconceptions that the loan would not be approved.

2.4 Supply and demand-side studies: access and usage

The CGAP and the World Bank (Financial Access report, 2010) elaborated a database on the access and use of financial instruments with both demand and supply-side data for financial products. To do this, they conducted a survey among the regulatory agencies of 142 countries in 2009. These bodies previously obtained their data from surveys of households, financial entities and firms. The surveys of households were the most used, followed by those of financial entities.

Information for access shows that compared to other regions, between the period from 2008 to 2009 retail networks, consisting of branches, ATMs and a financial institution's point of sales (POS) terminals, in LAC countries exhibited weak growth. In particular, POS did not grow, the number of bank branches expanded just 2% and

ATMs increased by slightly less than 10%. Nevertheless, the region has the largest number of ATMs per bank of all the emerging economies[17].

The number of commercial bank branches was higher (85%) compared to non-bank entities such as cooperatives (8%), specialized state financial institutions (4%) and microfinance institutions (3%). The fact that the majority of all the entities' branches were located in urban areas stands out. Branch coverage was much lower in rural areas, even for microfinance institutions and cooperatives. Commercial banks provide the highest rural coverage (85%), the coverage of non-bank institutions being much lower.

The survey only gathers information from financial institutions regulated by government agencies, leaving unregulated institutions to one side. Data was very scarce in most countries for institutions regulated by bodies other than the state regulator. Thus, as the study itself mentions, the data provided underestimates the size of the non-bank segment as compared to commercial banks. Despite the lack of data, there is evidence that the banking sector in the region is more important than non-bank entities, especially for households and SMEs (De la Torre *et al.*, 2012).

[17] It is worth pointing out, however, that the high number of ATMs in developing countries could be down to a lack of interconnection between the ATMs of the different banks. In developing countries money can commonly only be withdrawn from an ATM of your financial institution and not from others.

As for usage, for the period from 2008 to 2009, the amount of deposit accounts[18] at formal financial institutions grew by 8% and the number of deposits at commercial banks decreased 10%. Meanwhile, commercial bank loans as a percentage of GDP and the number of loans in commercial banks have declined 18% and 1%, respectively.

We conclude this section by summarizing the most important indicators and sources we have presented. Table 2 shows the main indicators for access and the sources they were obtained from.

As mentioned, most indicators gather information on points of access and refer to the transaction costs associated with financial intermediation. Such indicators do not, however, allow for discriminating between other barriers limiting financial access such as those resulting from information asymmetry problems. This is an area where progress must be made in order to increase the access to financial products.

Table 3 summarizes the main indicators for usage presented above together with their sources. Just as in the case of access, it is necessary to elaborate more accurate indicators that allow for differentiating between the different barriers limiting the use of financial products in order to identify them and design programs to gradually eliminate them.

[18] Data shown in this paper is for every 1,000 adults.

Table 2

USAGE INDICATORS AND SOURCES FOR LAC

Indicators	*Sources*
Number of branches, ATMs and POS	CGAP and wb (2010): commercial banks, CACS, SFIs and MFIs
Number of ATMs (per 1,000km2 and per million adults)	FAS: commercial banks
Number of branches (per 1,000km2 and per million adults)	FAS: commercial banks and CACS
Number of institutions	FOMIN (Pedroza, 2011): MFIs

Note: CAC stands for savings and credit co-operative; SFI, for state-owned specialized financial institution; and MFI, for microfinance institution.

Table 3

USAGE INDICATORS AND SOURCES FOR LAC

Indicators	*Sources*
Deposits (% of GDP)	FAS: commercial banks and CACS-CGAP World Bank (2010): commercial banks, CACS, SFIs and MFIs
Credits (% of GDP)	FAS: commercial banks and CACS-CGAP World Bank (2010): commercial banks, CACS, SFIs and MFIs
Credit accounts per 1,000 adults	FAS: commercial banks and CACS-CGAP World Bank (2010): commercial banks, CACS, SFIs and MFIs
Deposit accounts per 1.000 adults	FAS: commercial banks and CACS-CGAP World Bank (2010): commercial banks, CACS, SFIs and MFIs
Number of customers	FOMIN (Pedroza, 2011): MFIs
Customer portfolio	FOMIN (Pedroza, 2011): MFIs
Average credit (USD)	FOMIN (Pedroza, 2011): MFIs
Degree of penetration (% of target population that uses the services)	FOMIN (Pedroza, 2011): MFIs

Note: CAC stands for Savings and Credit Co-operative; SFI, for State-owned Specialized Financial Institution; and MFI, for Microfinance Institution.

Finally, table 4 shows information presented on the usage of financial products and their sources, distinguishing between the usage of households and firms.

Table 4

USAGE INDICATORS (HOUSEHOLDS AND FIRMS) AND SOURCES FOR LAC

Indicators	*Sources*
Households	
Population with accounts in formal financial institutions (%)	CAF (2011) and Global Findex (2012): regulated bank and non-bank institutions
Population with savings	CAF (2011) and Global Findex (2012): financial institutions and informal mechanisms
Population with performing credit (%)	CAF (2011) and Global Findex (2012): financial institutions and informal mechanisms
Population with insurance (%)	CAF (2011) and Global Findex (2012): public or private
Methods of payment usage	CAF (2011) and Global Findex (2012): cheques, debit or credit cards, online banking, mobile phone banking, electronic payments and banking agents
Percentage of population using it	Global Findex (2012): atms, branches, banking agents and online banking
Frequency of use (times per month)	Global Findex (2012): atms, branches, banking agents and online banking
Enterprises	
Enterprises with a deposit account (%)	Enterprise Survey (World Bank, 2010): commercial banks
Enterprises that have requested a loan during the last year (%)	Enterprise Survey (World Bank, 2010): commercial banks

3. NATURE OR QUALITY OF FINANCIAL INCLUSION IN LATIN AMERICA AND THE CARIBBEAN

As we have shown, financial inclusion also consists of a broader dimension that includes the nature or quality of the access and usage of financial instruments. Although there are still no specific indicators for this third dimension, the bodies and players responsible for the topic of financial inclusion agree that the framework of reference for measuring this dimension should include proper regulation and supervision of financial products and services, as well as effective financial consumer protection and financial education policies.

The importance of this dimension is reflected in the topics that regulators and supervisors are responsible for, as well as in the reforms that countries are implementing regarding financial inclusion matters. Financial Access 2010 is one of the most complete studies on the topics of financial inclusion that the main financial regulators and supervisors are in charge of. Such topics include: *a)* financial consumer protection, *b)* financial education, *c)* microfinance regulation, and *d)* promoting saving, financing of

SMEs and rural financing[19]. In the case of LAC this study collects information from 26 countries[20]. In most countries of the region the regulatory agency is mainly responsible for the areas of financial literacy (73% of countries) and financial consumer protection (54%). Other topics related to financial inclusion are mentioned less frequently than in the other emerging economies (39%). In particular, and in a smaller number of economies, that the regulatory body is responsible for microfinance (31%), encouraging saving (27%), helping SMEs (35%), and promoting rural saving (19%). Nevertheless, only 33% of countries in the region have a financial inclusion unit inside their regulatory agency, and just 38% have a document about national financial inclusion strategy.

In response to the question about which areas reforms are being implemented in, the study shows that although a large number of economies are not implementing reforms, financial consumer protection, financial literacy, and over indebtedness have a strong presence. 38% of the countries mentioned implementing this type of reforms. Only 23% of the economies are carrying out reforms on inclusion topics such as microfinancing, financing and rural saving. The study shows how state regulators and supervisors are more responsible for topics related to the quality of financial inclusion than those for access and usage of financial instruments.

3.1 Regulation and supervision of cooperatives and microfinance institutions

Countries in the region generally face problems when supervising and regulating financial inclusion entities, such as credit cooperatives and microfinance institutions. Due to the lack of human and financial resources, regulatory and supervisory tasks are delegated to agencies such as industrial associations (Paraguay) or federations (Mexico). Nevertheless, delegated regulation remains within the sphere of state regulators. Delegated regulation was forbidden for many years, but at the start of the eighties it began to be allowed in several countries and is developing rapidly. Despite the fact that there have been some illegal regulatory pyramid schemes (the case of Colombia), nowadays it is considered the most effective way for extending financial regulation to non-bank financial entities.

According to Financial Access 2010, only half the cooperatives and slightly over half the microfinance institutions in the region are regulated by state regulatory agencies. Delegated regulation is not

[19] The recent financial inclusion reports of Mexico, Brazil and Colombia also provide information on most topics related to the quality dimension for these countries.

[20] Antigua and Barbuda, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Ecuador, El Salvador, Granada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Dominican Republic, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Uruguay and Venezuela.

sufficient either. The majority of such entities are outside the regulatory perimeter of superintendencies and central banks.

In the case of savings and credit co-operatives (*cooperativas de ahorro y crédito*, CAC) there has been a long history of zero or ineffective financial regulation[21]. Such entities began to emerge in LAC at the start of the 20th century mainly as a result of development strategies implemented by the church, the state or political parties. In most countries there was a boom in setting up CACs during the sixties and the first half of the seventies with the aim of opening up access to certain financial services to disadvantaged segments of the population. They had a high degree of penetration in most countries, even greater than at present in some of them. Their evolution, very similar to other financial entities, was determined by the shift towards a less state-dependent market-based financial system.

The co-operative system underwent a crisis in most countries during the second half of the seventies up until the beginning of the nineties. The reasons were a lack of regulation and control during those years (completely outside the supervision of bank superintendencies and the State), coupled with a series of frauds and a lack of internal consolidation. All the aforementioned led to a far-reaching and powerful deterioration in their image. Given their attributes as social and co-operative entities, radically different to that of the banking system, the institutions were only subject to control by state co-operative institutions that had no experience in supervision or regulation. This total lack of control led to the growth of a diverse and inefficient sector with very few qualified individuals in executive and managerial positions. All of this resulted in completely inappropriate deposit taking and credit granting policies. The growth of these entities was accompanied throughout Latin America by the creation of integrated structures, federations and confederations. However, the weakening of the latter as they ceased to receive external help in the seventies reduced their services and resulted in even less control of their evolution than had applied to the first co-operatives (Hubenthal and Gattelet, 1999).

There was a resurgence of CACs at the end of the eighties and beginning of the nineties. During the same years other popular financial institutions also appeared such as microfinance institutions, cooperative banks and various NGOs, among others. Many emerged and evolved from a CAC, by changing their legal or administrative status for example. Some grant loans, others only accept deposits, while some carry out both activities. All of them generally have the same objective: the inclusion of segments of the population that

[21] All these institutions have regulatory frameworks of a social, but not financial nature. For this reason, when we talk about unregulated institutions we refer to those that are not subject to financial regulations or oversight by state regulatory agencies.

are not served by the traditional banking system. A large number of them suffer from the same weaknesses: a lack of regulation and inefficiency.

Arzbach et al., (2012) prepared a paper for the German Cooperative and Raiffeisen Confederation (DGRV) where they describe the current outlook regarding the supervision and regulation of CACs in 18 LAC countries. All the countries of the sample have a cooperative law that regulates all CACs equally. The study shows that only 27% of all the CACs in the sample are subject to specialized supervision by a central bank or superintendency. With the exception of Brazil, where the central bank supervises CACs, only 281 out of more than 5,260 of such institutions in Latin America and the Caribbean are overseen by a superintendency or central bank, and half of those 281 are only supervised by auxiliaries or non-supervisory agencies.

With respect to their regulation, the study shows how in some countries CACs are regulated by the general banking law and in a large majority of them the regulations are very vague or generalized. A third option, which has started to prevail during recent years in some countries, is the enactment of special decrees or laws specifically for the activities of CACs. This legislation, coupled with the increasingly greater importance of specialized supervisory tasks of upgraded cooperative institutes or departments[22], could be a positive step for the smooth functioning of such entities. There is still some way to go, however, and effective supervision of these entities is becoming increasingly necessary, particularly in order to raise financial consumers' confidence in them.

Microfinance institutions stand out as more recent financial inclusion entities than CACs. These institutions emerged with microcredit: a financial instrument that consists of granting small loans to very low income segments of the population through a group or individual credit granting structure. Institutions that emerged for granting microcredit in the sixties, such as Grameen Bank in Bangladesh, evolved to offer a wider range of credit, saving and insurance products and services to that segment of the population, leading to the emergence of microfinance institutions (Armendàriz and Morduch, 2010). At the start of the year 2000, the microfinance sector evolved from a small group of institutions (mainly not-for-profit) to a range of different types of institutions where for-profit institutions began to stand out. The existence of widely available resources, a flexible regulatory framework and the high interest rates tolerated by a market with little supply, generated an appropriate environment for fostering the creation of institutions wishing to engage in the business of granting loans to the lowest income groups.

Results in the microfinance sector have varied widely in LAC. The majority do not manage to be self-sufficient and go

22 Entities aimed at undertaking specialized supervision beyond purely legal statutory control.

bankrupt when they cease to receive donations or subsidies. Nevertheless, those that manage to make profits and establish themselves independently –such as the Banco Solidario in Boliva or Compartamos in Mexico– have done so at the expense of their outreach to the lowest income groups: offering very high interest rates and imposing restrictions on loan applications that the poorest cannot fulfill. Thus, microcredit in the region is mainly oriented towards businesses with insufficient access to financial services and households that do not participate in the banking sector with levels of income above the poverty line[23] (Berger *et al.*, 20017).

The most recent trends indicate that microfinance institutions are increasingly being seen by professional investors as a profitable investment opportunity and they have started to attract foreign investment (Sengupta and Aubuchon, 2008). In this evolution, such institutions changed from being governed by altruistic principles to the pursuit of financial and operational excellence, and began to join the formal financial sector. Growth has been generally steady throughout the region, especially compared to the expansion of other institutions. They have also been less vulnerable to the recent financial crisis. It is important to point out, as mentioned previously, that there are significant differences across countries of the region as regards the evolution of this sector.

The greater complexity and size of the microfinance sector have been accompanied by various supervisory and regulatory initiatives, particularly after some problems of non-performing loans and over indebtedness. The work elaborated by FOMIN (Pedroza, 2011) gathers data from different sources to provide a sample of 675 microfinance institutions from 20 LAC countries for 2010, and shows that only 180 of such institutions were regulated and supervised by a superintendency or equivalent financial authority. Regulating these institutions mainly depends on their nature, which is increasingly more varied and complex. NGOs and cooperatives with microcredit portfolios are the most common and least regulated types of entities, particularly the former.

The Global Microscope report prepared by the Economist Intelligence Unit with the collaboration of the FOMIN and the CAF, has been providing information on the institutional and regulatory frameworks, and practices of the microfinance sector in LAC for six years. The report of 2012 (Economist Intelligence Unit, 2012) suggests that the main obstacles to regulating the sector stem from the strong requirements and restrictions of some regulatory frameworks, as well as the enforcement of relatively high capital requirements, which are very difficult to

[23] For more information and data on the microfinancing model in Latin America, and particularly microcredit to businesses, see the study by CAF (2011).

fulfill for a large number of such institutions. The study emphasizes the successful case of Peru for its sophisticated world class regulatory environment, followed by Bolivia. The establishment of an appropriate regulatory framework has been one of the key factors in the robust and steady development of microfinance institutions in those countries. Regulation of these entities in said countries has been made more flexible in order to encourage them to become formal, while at all times paying attention to prudential standards and proper risk management. For those countries in particular, the development of mechanisms that supply reliable and complete information on lenders is noteworthy. At the other end of the sector's performance are countries such as Venezuela, Trinidad and Tobago and Ecuador. The study shows that regulatory frameworks have performed relatively well in the region as compared to other emerging countries, but obstacles still exist for setting up regulated microfinance entities, and although regulatory changes have taken place (especially in Brazil, Chile and Nicaragua) their effects are still not perceptible.

The study of the CAF (2011) also includes data on the regulation of microfinance institutions. As shown by other studies, it demonstrates the increasingly wider variety of institutions operating in the sector: NGOs, cooperatives, non-bank financial institutions (NBfis) and microfinance banks. The particular shape that the microfinance institution takes depends on each country's legislation. Their institutional form is mostly related to whether they are regulated or not by the bank supervisory agency. Thus, for instance, 45% of co-operatives, 63% of NBfis and just 2% of NGOs are regulated. Microfinance banks provide the widest range of services and all of them are regulated. At the other end of the spectrum are the NGOs, which are the least regulated and offer more restricted financial services. Since 2007 commercial banks have also started to participate in this segment with a downscale structure. The study shows that the regulation of small and medium-sized microfinance institutions is very low compared to other emerging countries. Regulation for NGOs (upgrade) is seen as an area of action for public policies aimed in that direction.

3.2 Regulating new financial instruments and intermediaries

As mentioned above, new financial inclusion instruments and entities have emerged during recent years. In most of region, use of these and its regulation is just beginning. There are no specific works that provide information for the region on the regulation of the new players and instruments. Moreover, only very few countries have information available. For this reason, we provide an overall summary of the information found together with a description the new instruments and intermediaries for financial inclusion.

Intermediation by non-financial firms through department stores seems to be expanding rapidly in the region. Large supermarkets or department stores grant consumer loans through credit cards. However, several cases of fraud (due to the lack of prudential standards, as in the case of Chile) and bankruptcy (greatly affecting the financial intermediaries that lent to them, as in the case of Comercial Mexicana in Mexico) have come to light recently. As shown in De la Torre et al., (2012), extending the perimeter of financial regulation to these enterprises is not viable and for this reason some kind of delegated supervision is being proposed.

The other new financial intermediaries are banking agents. During the last ten years regulators have started to allow banks to operate under this figure. Instead of using branches, the model consists of financial entities offering financial services such as account deposits and withdrawals, paying loans and services, and making national and international remittance transfers with agents in businesses such as drugstores, gas stations, neighborhood stores, supermarkets or post offices, among others. Transactions are carried out from customer to her bank throughout the agent in real-time, and in the corresponding accounts according to the type of operation taking place. The financial institution is responsible to the customer for all the operations made through its agent. Financial institutions are able to increase their coverage at a lower cost and customers have an option that is more accessible because of its greater penetration and reduced costs.

Banking agents are less common in LAC as compared to other emerging countries (especially in Asia) and it is permitted only for commercial banks and no other financial inclusion entities. A large number of countries have still not adopted specific regulations for this figure. In the region, the case of Brazil, and recently Peru, Colombia, Mexico, and Ecuador stand out, where regulators are playing an active role (Ontiveros et al., 2009). Mobile branches are more common in the region than in Asia (except China and India), Eastern Europe and the G7 economies. Mobile branches involve financial intermediaries, generally commercial banks, offering financial services on buses or semi-trailers.

As for the new instruments, use of electronic payments systems is increasingly widespread throughout the region. This instrument includes cards used with point of sales terminals, electronic purses and online services, among others.

Applications (apps) are another recent instrument for financial inclusion; which allow for carrying out credit and debit transactions against an account opened at a financial institution via mobile phone. This instrument substantially reduces transaction costs, particularly in rural and remote areas. Mobile financial services emerged later in Latin America and the Caribbean than in other emerging economies, despite there not being any significant differences in mobile technology rates or levels of penetration. Although it is very scarcely used, increasingly more financial entities are trying to employ this technology for extending financial inclusion in LAC based on international experiences. Although slightly later than in other emerging economies, Latin America and the Caribbean are now making progress in developing regulatory environments and standards for using mobile phones in financial transactions. Efforts made by Brazil, Mexico and Peru are noteworthy, among others (Ontiveros *et al.,* 2009).

De la Torre et al., (2012) discuss the risks of financial innovation and confirm that the region has generally followed a very conservative approach in this area. New financial products have to be submitted for prior approval before being allowed and regulators only approve products they have understood well. This has meant some of the products considered most risky to be kept out, but has also constituted a barrier to new instruments for financial inclusion such as mobile phones and electronic payments. Finding a balance between innovation and stability is a challenge to be fulfilled by all economies, not just those in Latin America and the Caribbean.

3.3 Financial consumer protection

In the case of consumer protection, Financial Access 2010 presents a unique and complete overview of different financial consumer protection policies. Although supervisory structures vary between countries, it is common for different government institutions to participate in the regulation, supervision and application of laws associated to financial consumer protection. In particular, central banks, superintendencies, securities commissions and other financial consumer protection regulators participate in applying the legislation. The study shows that in 56% of region's countries the main financial regulators are responsible for at least some aspects of financial consumer protection. This percentage is low when compared with high income OECD countries (79%) as well as with emerging economies (almost 70%), except in Southern Asia. The study includes 26 economies from the LAC region. Almost all the countries in LAC (20) have some kind of financial consumer protection framework, although only slightly over half (15) have a consumer protection framework that refers to financial services.

According to this paper, an efficient financial consumer protection framework covers three dimensions: *a)* protecting consumers against unfair and misleading practices by financial service providers, *b)* transparency, and *c)* recourse mechanisms to address complaints and resolve disputes. All LAC countries in the study have at least one law against unfair practices. In particular, all the economies have restrictions on deceptive advertising and almost all (23) have legislation against breaches of confidentiality. 19 economies have established some kind of transparency mechanism, and the majority of transparency requirements apply to opening accounts and not to providing periodic information. As for entities subject to disclosure requirements at the account opening stage, 19 countries reported applying such mechanisms to banks, 18 to regulated financial institutions and only nine to unregulated financial institutions[24]. Regarding requirements for periodic statements, 13 countries reported demanding them from banks, 11 to regulated financial institutions and only two to unregulated entities. The gap between regulations for unregulated financial institutions and other entities is substantial for all LAC countries, as in the other economies.

In general, the regulatory bodies in charge of consumer protection do not normally have a specific unit or team dedicated to financial consumer protection. The agencies responsible for financial consumer protection have a dedicated unit in only 48% of LAC countries.

As in the case of the other economies, regulatory agencies have limited powers to enforce compliance with consumer protection legislation in LAC. In around 50% of the economies, the agency has the authority to issue warnings to financial entities or impose fines and penalties. Other warning measures are only applied in under 20% of the economies. The low quality of actions indicates that there are no effective mechanisms for supervising and applying the legislation. Moreover, as in other economies, monitoring actions in LAC basically consist of on-site inspections of financial institutions and much less often publicity controls or operating a complaints hotline. With regards to dispute resolution mechanisms, 67% of the economies have them in place; although only Mexico and Peru have an entity exclusively specialized in finance for investigating complaints and mediating fair agreements.

The study concludes that on average high income countries have the widest consumer protection framework, and that LAC economies are closely behind them, above all with regards to fair treatment requirements and recourse mechanisms.

De la Torre *et al.*, (2012) show that the group of countries consisting of Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay, are ahead of any other developing countries in terms of the scope and accessibility of credit reporting. Ne- vertheless, with respect to the protection of lender and borrowers' rights by legislation on guarantees and bankruptcy, the performance of the

[24] The survey asked regulators to determine if there were any information disclosure requirements, not if they were responsible for applying them. For this reason there is information on unregulated financial institutions, it being likely that those taking part in the survey were not aware of regulations affecting unregulated entities.

region is below that of the majority of developed and developing countries.

3.4 Financial education

International recognition of the importance of financial education has led to the development of increasingly more initiatives and greater recognition from policymakers in Latin America and the Caribbean as well. Financial education allows individuals to improve the management of their personal finances and make better financial decisions. Moreover, as mentioned previously, financial education contributes to removing or reducing demand-side barriers to financial inclusion. All of this affects the economy in general and fosters the stability and development of financial systems.

Recently, the OECD International Network for Financial Education (INFE), the Central Bank of Colombia, the CAF and the Financial Institutions Guarantee Fund of Colombia (García *et al.*, 2013) published a report on the main financial education initiatives in LAC and the overall regional trend. The study shows that despite the lack of surveys and other empirical studies[25] that provide sufficient evidence on the needs and shortcomings of financial education in the region, it is possible to identify a series of overall trends. There is generally a deep lack of knowledge about basic economic concepts such as inflation or interest rate, and the relation between risk and reward. Higher income individuals and men have greater financial knowledge, although women are mainly responsible for household budgeting and appear to manage money and accounts better over the short term. The majority of the population does not save for retirement, while low income groups do so in the informal sector. The same takes place with credit, where a large proportion of the population uses family members and friends.

In order to identify the most important initiatives in the region, a survey was applied to 28 institutions from 16 LAC countries. The institutions were mainly central banks, superintendencies, ministries, deposit insurance corporations and others. Despite the enormous diversity of the region some common characteristics stand out.

The survey's results show how Brazil, El Salvador, Mexico and Colombia have designed national financial education strategies, and the first three of these countries have already implemented them. The remaining economies have some of the conditions in place for developing a strategy, including different collaborations with other public institutions, but have still not started work on the task. The survey shows that those leading the development of these national strategies are, in order of importance, central banks, superintendencies, ministries of education and

[25] The countries with most available information are Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico and Peru. The overall trends are extracted from the information of those countries.

finance, deposit insurance companies and other government agencies. These national strategies generally form part of others aimed at financially empowering consumers through access to financial services and financial consumer protection, among others.

The study shows how the financial education programs developed by 81% of those surveyed mainly focus on financial and economic education, followed by financial consumer protection (63%) and financial inclusion (56%).

On the other hand, financial education programs in 63% of the countries are aimed at the public in general, which is in contrast to other international experiences. International evidence shows how a lack of programs adapted to different segments of the population could hamper their chances of success. Nevertheless, the outlook is not totally negative: 81% of countries reported having programs for secondary education, 63% in universities, and 50% for primary education.

Out of the 17 countries that have conditional transfer programs, nine provide different types of financial education programs. In fact, LAC has been a pioneer in developing conditional transfer programs for low income households. As has been seen, this type of program offers a great opportunity for promoting financial inclusion. However, many times the lack of success in this area comes down to low levels of financial knowledge (Cuasquer and Maldonado, 2011).

The study ends by highlighting a number of recommendations related to: *a)* the lack of national and regional co-operation of these programs, *b)* that lack of programs for assessing their results (except in Brazil, Peru and Dominican Republic), *c)* the need for greater co-operation with the public sector, and finally, and *d)* the need for developing financial education programs focused on different segments of the population that take into account their specific requirements, such as the population excluded from the financial sector or the rural population. On this point it emphasizes that the majority of surveys and empirical studies are applied to populations in urban areas, which tend to have higher levels of education and financial access.

CEMLA and Banco de la Republica, Colombia (Roa *et al.*, 2014) applied two surveys among central banks and superintendencies of the region, regarding their participation in financial education and inclusion programs. The study shows that central banks are the main promoters of financial education programs in most countries of the region. These institutions make alliances or coordinate with other public and private players for developing such programs. The central banks offer a wide variety of programs and services, including general talks, web pages, educational material, contests and theater. The main target groups are primary and secondary school students, followed by the general public. The latter is linked to the fact that an increasing number of central banks are promoting the inclusion of financial education in the school curriculum.

Surveys reveal that the central banks generally participate less in financial inclusion than in education programs. Around half of the central banks that have financial inclusion programs cited the following as such: financial education, developing standards and regulations for new financial inclusion products and institutions, and creating simplified products. In particular, the banks pointed out regulations for mobile and electronic payments, and banking agents. A small group of central banks mentioned promoting the rights of financial consumers.

Unlike the central banks, almost none of the superintendencies lead national financial education strategies, although they do take part in the most important national financial education committees or alliances. The content of the programs the superintendencies are in charge of mainly concerns the rights and duties of financial consumers and topics related to saving, budgeting and credit. As for financial inclusion programs, the superintendencies mentioned they were implementing financial inclusion programs, demonstrating the high level of participation of such institutions in this type of programs. Whilst the central banks participate more in financial education programs than those of inclusion, the superintendencies appear to be involved equally in both types of programs. The superintendencies reported that their main financial inclusion strategies are regulating banking agents, basic accounts, mobile banking and electronic money.

The results of the survey on the financial inclusion strategies central banks are responsible for of are in line with Financial Access 2010. Central banks of the region have a smaller role and participate less than in financial education programs. Only half of the banks surveyed include financial education programs as part of wider national strategies related to financial inclusion. In particular, they believe the financial education programs they are implementing promote and facilitate participants' access to financial products and services. Besides financial education programs, slightly under half the central banks have other financial inclusion programs and strategies. The majority of these are related to standards and regulations for new products and types of financial entities such as mobile phones, simplified accounts, microfinance institutions, electronic payments and banking agents.

Financial Access 2010 mentions that the regulators role in financial education programs is often one of coordination, consultation with private partners and financial institutions, or, less frequently, implementation. As mentioned, the regulator is responsible for financial education in 73% of the economies. All the countries where the state authority is in charge of financial education programs also have a team exclusively dedicated to it.

To end this section, table 5 summarizes the information discussed regarding the basic factors for developing a framework of reference that allows for measuring the quality and nature of the access and use of financial services. They also show the sources they were obtained from.

As the work of the AFI (2011) mentions, despite the greater complexity implied by developing this type of indicators, steps should be taken in that direction, given that the nature of financial inclusion will determine its effectiveness, as well as other economic phenomena such as financial stability.

Table 5

REFERENCE FRAMEWORK AND SOURCES FOR QUALITY INDICATORS IN LAC

Topics	*Sources*
Regulation and supervision of CAC	DGRV (Arzbach et al., 2012); and CGAP and World Bank (2010)
Regulation and supervision of MFIs	FOMIN (Pedroza, 2011); Economic Intelligence Unit (2012); and CGAP and World Bank (2010)
Regulation and supervision of new instruments and intermediaries	De la Torre et al., (2012) and Ontiveros et al., (2009)
Financial consumer protection	De la Torre et al., (2012); and cgap and wb (2010)
Financial education	OECD, BCC, CAF and FOGAFIN (García et al., 2013); Roa et al., (2014); and CGAP and World Bank (2010)

4. REMARKS AND CONCLUSIONS

The aim of this paper has been to describe the overall trends of financial inclusion in LAC based on its different dimensions. In the case of the region, different studies show that financial inclusion in terms of access, usage and quality is low compared to developed countries and some emerging economies, particularly as regards usage and quality.

Levels of access are comparable to other emerging economies, with a sustained growth in the number of points for making transactions, especially ATMs. Nevertheless, levels of access are far behind those of more developed economies. The most important barriers in LAC are the high commissions charged on loans and deposits, as well as geographical barriers.

It is noteworthy that most branches belong to banks, even in rural areas, while the majority of branches are located in urban areas. The number of branches of other entities such as microfinance institutions and cooperatives is small, except for some countries where those sectors are well-developed. In commercial banks are generally much more important in the region than non-bank institutions, despite the lack of data on the latter. This fact is probably related to the loss of trust in such institutions after a long history of bankruptcy and bad management, besides the high interest rates they charge on loans and their high costs.

It can be concluded from the demand and supply-side studies that the degree of usage of financial instruments is very limited, for both saving and credit, but particularly for the latter. This applies to households as well as small and medium-sized firms. A large proportion of the population turns to the informal financial sector for requesting a loan. The use and knowledge of cards is very extensive. However, new instruments for financial inclusion, such as banking agents or mobile phone banking, have just started to penetrate the region. Their use is very limited as compared to other emerging economies, such as Asia. The development of such financial instruments in the region will be crucial for achieving greater access, especially in remote or difficult locations. It is noteworthy how the reasons for the limited use of formal financial instruments are not just economic ones: lack of trust, financial knowledge, documentation, and a fear of going into debt are equally important.

As for the nature of financial inclusion, the regulation and supervision of entities and instruments for inclusion still needs to be addressed. It is worth highlighting the history of substantial gaps in the case of co-operatives, which mostly remain outside the perimeter of state regulatory and supervisory agencies. In the case of microfinance institutions, the variety and size of such entities have led to various regulatory and supervisory initiatives that have been very successful in some countries. Nevertheless, a large proportion of countries in the region are in the process of implementing some kind of regulation or have still not carried out the reforms required for it.

Regulating the new instruments for financial inclusion, as in the case of microfinance institutions and cooperatives, is essential for their proper functioning. Moreover, some national and international bodies have started to warn that innovation in financial services and the entrance of new agents require central banks and superintendencies to establish a regulatory environment that adapts to this new reality, without jeopardizing financial stability. The regulatory tensions between financial inclusion and stability have grown as a result of the international financial crisis, and this might lead regulators to implement more conservative measures, as has happened in the region. The main challenge will be finding a balance between fostering inclusion and guaranteeing the stability of the financial system.

With respect to financial consumer protection, we have seen that the majority of countries have some type of consumer protection framework, although a smaller number have a framework of reference for financial services. In general, there are no effective mechanisms for supervising and applying the legislation.

Levels of financial and economic literacy in the region are very low. Most countries are only just taking their first steps towards developing specific national strategies. Nevertheless, state regulatory and supervisory agencies are in charge of these last two topics of financial inclusion, consumer protection and financial education, along with the reforms for strengthening those areas. Rural saving or microfinances are less important in the reforms.

This study shows the importance of taking into consideration the multidimensional nature of financial inclusion in order to understand the specific characteristics of the region and its needs. Using this information as a basis is essential for designing policies that promote inclusion. We believe that all the dimensions should be included in an overall strategy instead of being considered as separate goals. For instance, financial education and consumer protection policies as well as those for regulating and supervising financial entities and instruments can promote trust in formal financial institutions. It should be remembered that a lack of trust in such institutions is one of the main reasons behind the absence of participation in the formal financial sector. Taking into account the different dimensions would require a coordinated effort by the different players in each dimension.

It is also worth emphasizing the finding that formal and informal financial markets coexist on a daily basis throughout the region, particularly for credit. Despite the greater flexibility of procedures and requirements in popular financial institutions compared to banks, and the high interest rates normally charged by informal money lenders, the population still decides to continue participating in the informal financial sector. The success of that sector among the low income population is linked with the economic and non-economic barriers to access and usage mentioned throughout this paper. Unlike the formal financial sector, the informal sector is willing to accept types of guarantees that are more viable for the poorest sectors (employment, small plots of land, livestock, etc.) or joint and social guarantees. On the other hand, informal lenders tend to have much more information on the characteristics and behavior of their customers and vice versa. Relationships among the inhabitants of rural and underdeveloped areas are very close: *everyone knows each other*. It is therefore possible to implement social penalties and censures that reduce information and transaction cost, and foster participation in the informal financial sector.

We therefore believe that identifying the behaviors or mechanisms of those serving the population excluded from the formal financial sector for carrying out their financial transactions could be important for designing alternative financial mechanisms that reach the majority of the population. One of the basic tools in the struggle against poverty during recent years, such as group microcredit, is to a large extent based on such behaviors. Group microcredit and the elements associated to it (producing information and social penalties) are considered a mechanism for guaranteeing repayment.

Finally, it is important to point out that many financial inclusion programs have been based on studies and successful experiences of other countries with very different cultures and histories. The result has mostly not been what was expected. The fact that human behavior is influenced by anthropological, cultural, historical and social factors, among others, has meant the results obtained in theoretical and empirical studies should not be generalized for all individuals; these will depend on the country or region being studied and its own idiosyncrasies.

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