

**Summit of the Americas Center**  
**Florida International University**

**Expanding Financial Services  
in Latin America:  
“Banking the Unbanked”**

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# Banking the unbanked

**1. Access to financial services in Latin America**

**2. Solutions proposed for increasing banking access**

**3. Conclusions: Best practices in Mexico, Ecuador, Perú,  
and Colombia**

# Access to financial services in Latin America

The majority of the population in Latin America has no access to basic financial services

<b>Population older than 18 without access to any financial service</b>	<b>(%)</b>
España	2%
USA	10%
Brasil	57,20%
Colombia	58,80%
Ecuador (*)	66%
México	75%
Perú (**)	80%

Source: World Bank 2003 (\*) Orozco, 2006,  
(\*\*) Superintendencia Bancaria Perú (2006)

# Access to financial services in Latin America

The factors that explain the lack of access to financial services are related to the demand, regulation, and supply

**1- Price**

**2- Distribution networks**

**3- Risk methodologies and database analysis**

**4- Regulatory framework**

**5- Lack of trust in the financial system and financial education**

**SUPPLY OF  
FINANCIAL  
SERVICES:  
INADEQUATE  
BUSINESS  
MODEL**

# Access to financial services in Latin America

1- Prices for basic financial services are too high for lower income segments of the population in Latin America

1- Minimum balances

2- Maintenance costs of accounts, debit and credit cards

3- Transfer and withdrawal commissions

4- Other commissions

5- Interest rates

Prices are too high mostly due to inefficient business models and lack of competition in the financial industry

# Access to financial services in Latin America

2-Distribution networks are too limited to reach the population of Latin American Countries

Country	Branches/100.000
España	35,0
Brasil	14,6
Panamá	12,9
Guatemala	10,1
Argentina	10,0
Costa Rica	9,6
Chile	9,4
Ecuador	9,3
Colombia	8,7
México	7,6
Uruguay	6,4
El Salvador	4,6
Venezuela	4,4
Perú	4,2
Nicaragua	2,9
Bolivia	1,5
Honduras	0,7

→ **Traditional banking branches are too costly, so alternative distribution networks are needed to serve the population**

Source: World Bank, 2005

# Access to financial services in Latin America

## 3-Banking risk analysis methodologies are not adapted to Latin American Economies

- Only include stable and taxable cash flows (wages)**
- Do not include informal sources of revenue**
- Focus on already banked customers**
- Do not include socio-demographic variables**
- Are too slow and costly**
- Require guarantees not adapted to the informal economy**
- Credit Bureaus do not report non-banking credit experiences**

**Better use of technology and data is required in order to improve risk methodologies and obtain faster results**

# Access to financial services in Latin America

4-The regulatory framework can cause increases in costs, that affect the ability of financial institutions to offer financial services to the non affluent population

**Most common regulatory obstacles are:**

**1- Price Caps**

**2- Taxes on transactions**

**3- Supervision Costs**

**4- Inadequate system of guarantees**

**5- Government forced investments in non profitable activities**



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# Solutions proposed for increasing banking access

The solutions proposed would apply existing best practices in low cost banking and the better use remittances

**1- Specially tailored low cost financial products:  
electronic banking**

**2- Alternative distribution networks**

**3- Alternative risk methodologies**

**4- Optimization of remittances**

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**5- Economies of scale are needed in order to be  
able to afford the infrastructures required**

# Solutions proposed for increasing banking access

1 – ELECTRONIC BANKING can resolve the problem of prices (EFFICIENCY) and adequacy (SEGMENTATION)

Electronic banking products are the best financial products for segmenting the customer base

Electronic banking products are the most efficient in terms of maintenance costs



**Prepaid cards, debit cards, and credit cards are the financial products that better fit the needs for delivering specifically designed low cost financial services**

# Solutions proposed for increasing banking access

2- LOW COST DISTRIBUTION NETWORKS are needed to resolve the lack of banking branches in Latin America

## Cost comparison by distribution channel

Point of intermediation Financial Services	Estimated Cost (Thousand US\$)	Relative weight
Representative teller	5	1
ATM	35	7
Branch	200	40

Source: Superintendencia de Bancos y Seguros del Perú 2006

# Solutions proposed for increasing banking access

**3- ALTERNATIVE RISK ANALYSIS METHODOLOGIES must also use best practices in order to grant and follow up small credits**

## **Infrastructure and organizational changes**

**1- Inclusion of informal economy**

**2- Automated acquisition scorings**

**3- Behavioral scorings (automated following)**

**4- Decentralization of the credit risk analysis**

**5- Use of Credit Bureaux**

# Solutions proposed for increasing banking access

4- BANKING REMITTANCES flows and receivers will allow to exploit synergies between the banking and remittances industry

Comparing the value chain of the banking and remittances industry shows potential savings in common elements such:

The technology platform

Risk analysis

Financial services distribution network

Call center and Internet

Marketing and commercial campaigns

POS network and SME business

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# Conclusions

Using the framework described before, we found the following BEST PRACTICES

BEST PRACTICES	MEXICO	ECUADOR	PERU	COLOMBIA
LOW COST FINANCIAL SERVICES	HSBC/ BBVA	PICHINCHA	<b>BANCO DE CRÉDITO</b>	CAJA SOCIAL
ALTERNATIVE DISTRIBUTION NETWORKS	BANCO AZTECA	PICHINCHA	INTERBANK	<b>BANCOLOMBIA</b>
RISK ANALYSIS METHODOLOGIES	COMPARTAMOS	<b>BANCO SOLIDARIO</b>	MIBANCO	BANCOLOMBIA
BANKING REMITTANCES	<b>BANCO AZTECA</b>	BANCO SOLIDARIO	N/A	BANCOLOMBIA
ECONOMIES OF SCALE	<b>BANSEFI</b>	PICHINCHA	CAJAS	BANCA OPORTUNIDADES



**SPECIALIZED MFIs vs DOWNSCALING STRATEGIES**



# Conclusions

Banking access in Latin America is very low due not only to demand and regulation, but mostly due to supply inefficiencies

**Supply side factors can be resolved using existing banking techniques and the optimization of remittances**

- |                                    |   |
|------------------------------------|---|
| 1- Price of financial services     | 1- Electronic banking products                    |
| 2- Density of banking networks     | 2- Alternative distribution networks              |
| 3- Credit risk methodologies       | 3- Alternative credit risk analysis methodologies |
| 4- Non optimization of remittances | 4- Banking remittances                            |
| 4- Regulatory framework            | 5- Economies of scale and scope                   |



**THE SOLUTION IS TECHNICALLY FEASIBLE AND FINANCIALLY SOUND**