

Financial Services in Nuevador*

**what's happening south of the
border ?**

Tova Maria Solo Senior Urban Specialist

World Bank

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***Nuevador: A composite country prepared especially for The Atlanta Fed Consumer Banking Conference. It shows the most extreme data from several Latin American countries such as Colombia, Mexico and Brazil as of 2003/4**

Nuevador – the financial sector is thin and shallow



Assets – US\$ 100 billion, 120%GDP

Domestic Credit– 25% GDP

Ratio of GDP/Credit Nuevador -6/1

(Ratio of GDP/Credit USA 1/6)

**But the financial sector reaches only 20%
80% are UNBANKED**

In Nuevador:

Sector consolidation –

7 Banks have 99% of assets

The Banks aren't lending....

50% of income from services..

And from investments.. In govt paper

And in the Stock Market

Deposit insurance.. Not really there

(and discouraged by the experts)

Nuevador ...

The financial cost of the Unbanked

Costs to Unbanked:

USA - 2.5% - 4% of income.. Nuevador - 5% - 25 % of income

Costs to the Financial Sector – in transactions and efficiency loss:

Rough estimate – US\$ 1 billion saved at home – not reinvested – cost to import

Transaction costs for Cash = 5 X Checks = 15 X

Electronic

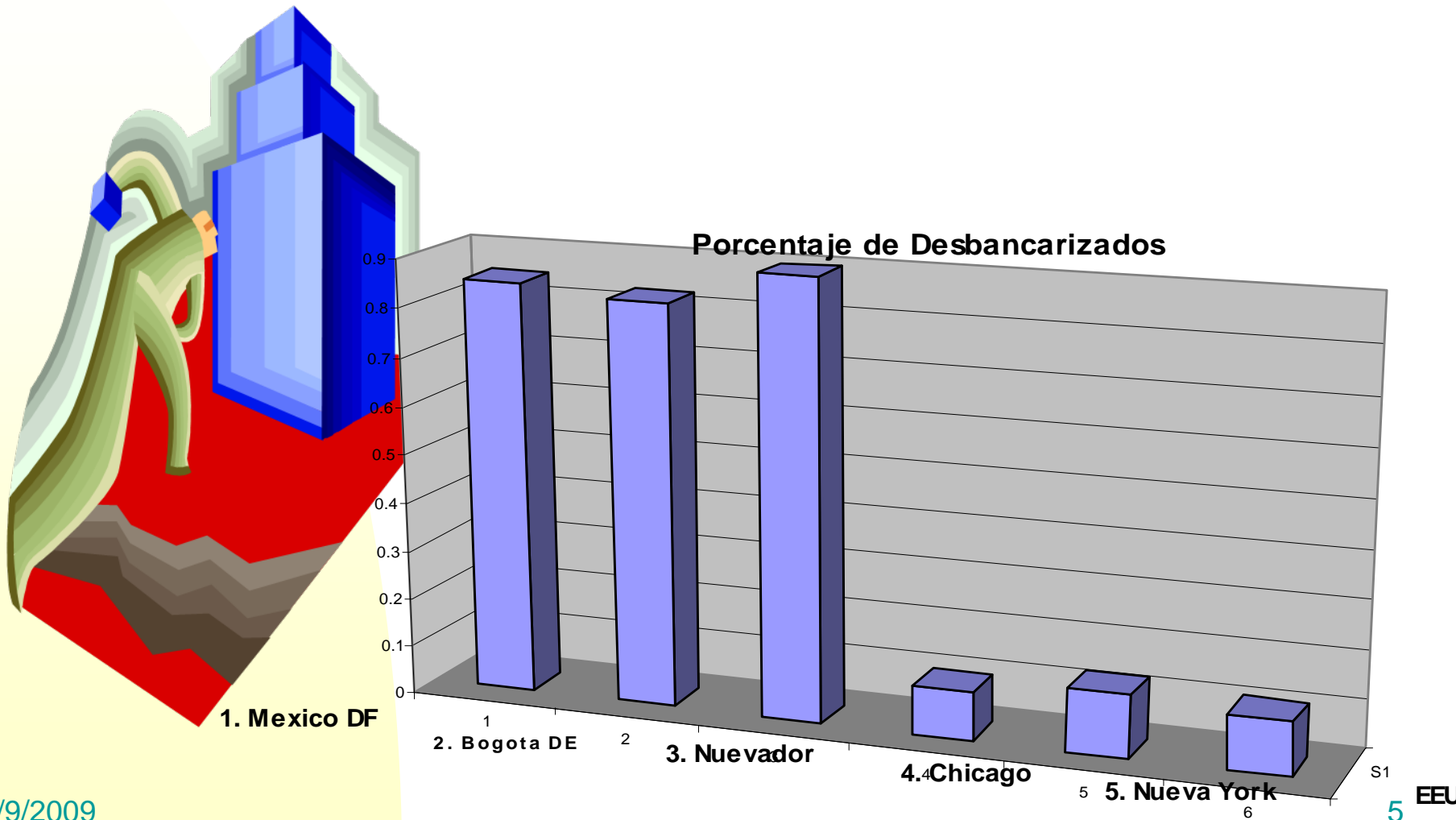
Development Costs

Reduced aggregate savings

Reduced productive reinvestments of savings

Increased income inequality through upward redistribution of income

Nuevador vs US- How many Unbanked?



Nuevador vs US- Who are the Unbanked?

Similarities

Below median income

USA -79%

Nuevador 90%

Less than high school

USA -56%

Nuevador - 51 %

**Marginalized socio-
economically**

Nuevador

(informal sector) 60%

USA (Latino and Afro

American) 90%

Differences

Percentage of Unbanked

Nuevador (La Capital) 75%

USA 9.1%

(Percentage of Unbanked is markedly greater in Nuevador)

Home Ownership of Unbanked

Nuevador (own home La Capital) 63%

USA (New York City and LA) 7.8%

(Surprisingly home ownership is markedly greater in Nuevador)

Nuevador vs US- Why are the Unbanked..... Unbanked?

	USA	Nuevador
■ Don't need account – no savings	53%	7%
Fees and minimum balance too high	45%	70%
■ Want to keep records private	22%	2%
Not comfortable/don't trust banks	18%	16%
■ Inconvenience – location and hours	10%	2%
Banks require documentation*	10%	3%

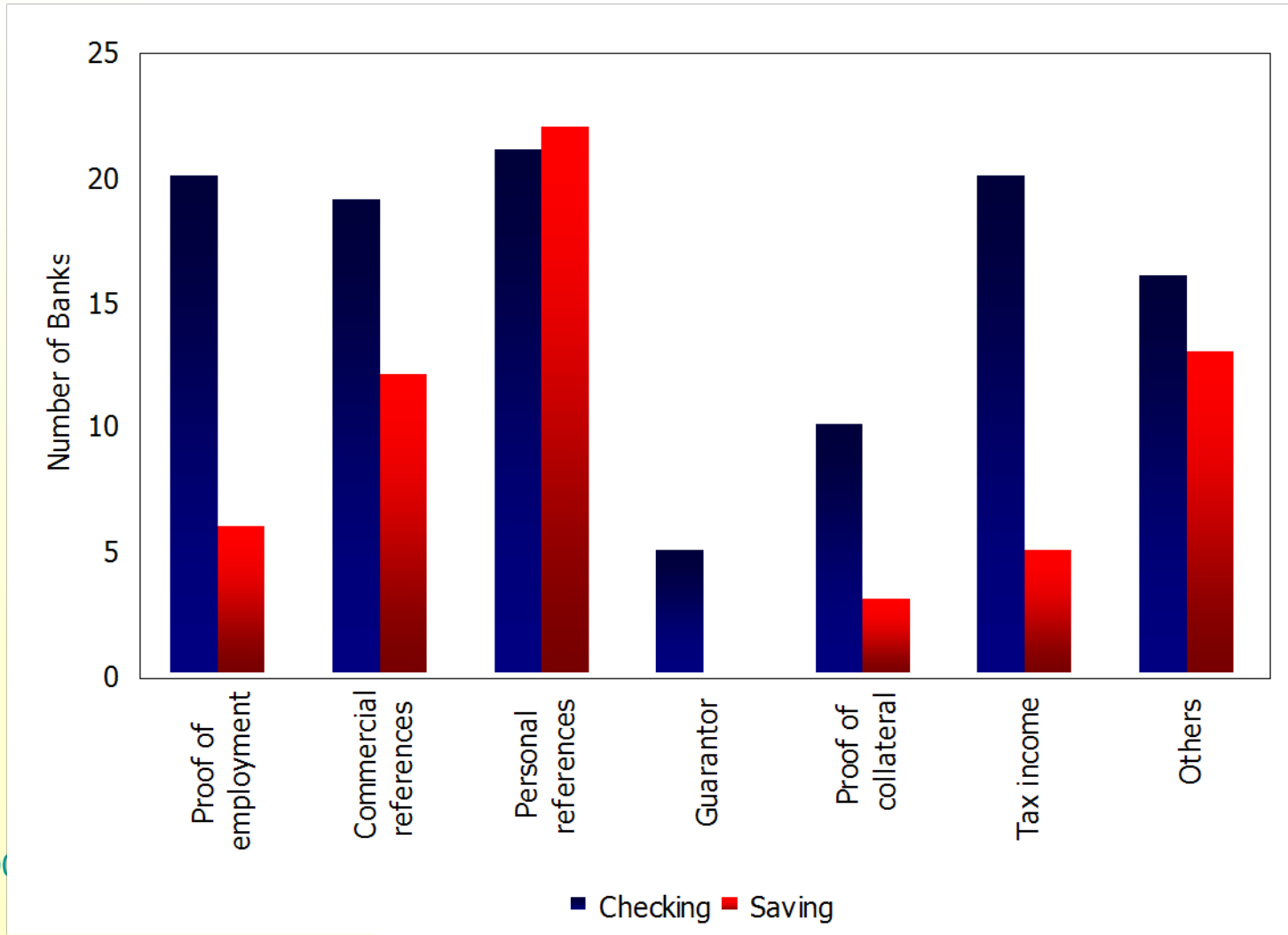
Costs for maintaining a basic savings account

	USA	Nuevador
Affordable to earners above (percentile):	NA*	75th

*(Based on income required to maintain an adult savings account in 2001 where interest earned matches bank fees
Assuming that 50% of monthly income can be maintained and 1% of monthly income can pay for maintenance fees
US conditions vary with state. Some states require banks to offer free savings products)*

Nuevador - Why are the Unbanked..... Unbanked?

** those pesky required documents*



Nuevador vs US- How do the Unbanked manage Without banks ?

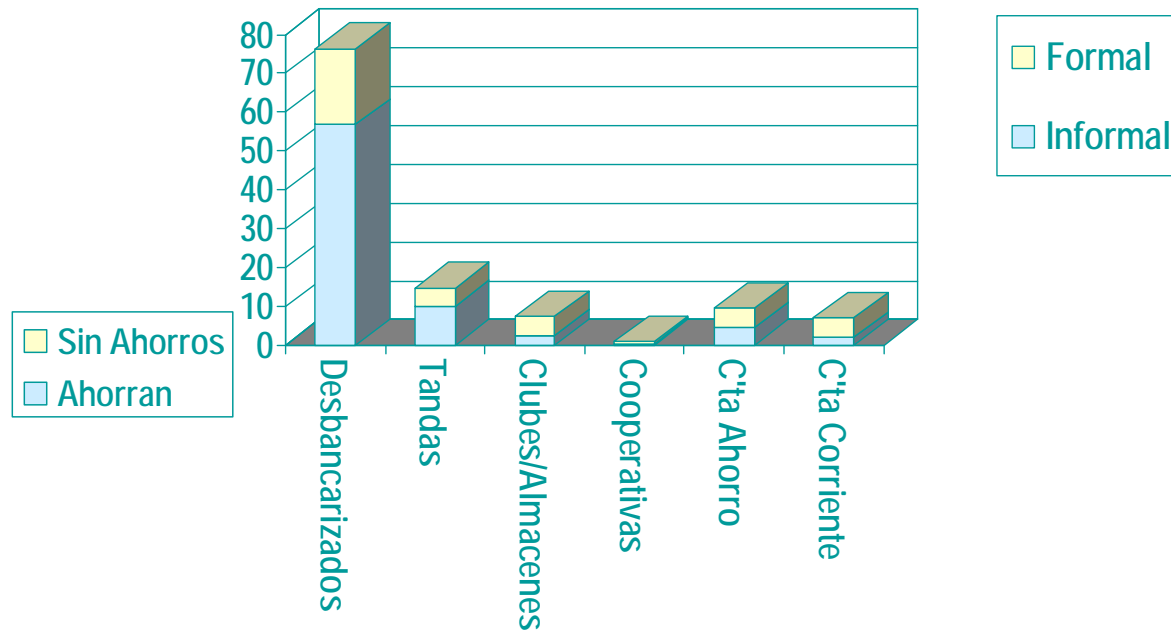
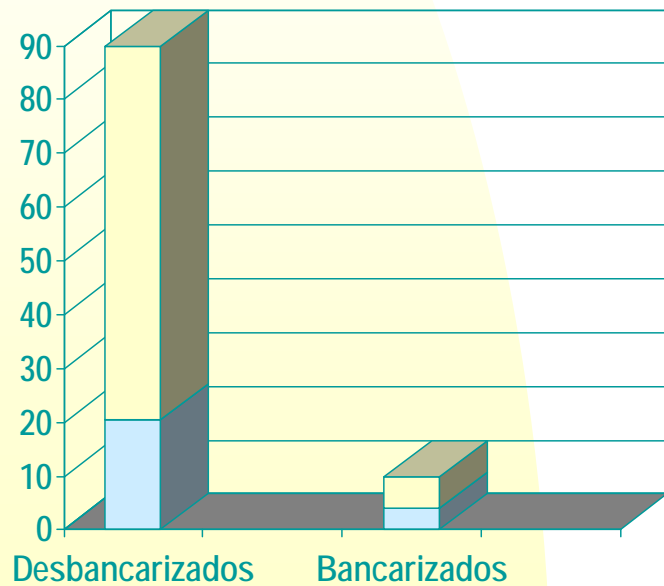
How do they save ?

	US	Nuevador
Informally: Tandas/ Cadenas/clubs, Under the Mattress, in the cookie jar Saleable items: Jewelry, electrodomestic	20.5%	28%
Home ownership	8%	63%
No financial savings	68.6%	56%

Nuevador Who saves and how much?.. In 2002..

The Unbanked- US\$ 500 million (in cookie jars)

The Banked US\$ 500 million (in savings accts)



Nuevador vs US- How do the Unbanked manage Without banks ?

How do they make payments?

	USA – Nuevador	
Cash and in person	36%	95%
Money order/bill payment services	35%	NA
Check payments	2-3%	5%

USA–What it costs

\$600/year for a median income household

Nuevador – What it costs

Time : 2-4 days per month plus travel or 5% min wages

Nuevador vs US- How do the Unbanked manage Without banks ?

How do they borrow ?

	US	Nuevador
Family or friend	25%	9%
Bank	6%	4%
Finance Company	3%	3%
Car dealer	2%	NA
Retail store*	2%	49%
Mortgage company	0.3%	NA
Individual(who charges interest)	0.4%	26%
Government	NA	6%
Cooperative, Credit Union, NGO	NI	5%

Nuevador a key change from the Retail Store* to the Retail Bank...

**At Banco Azteca, FAMSA, WALMART,
EL EXITO you can open an
account for \$5 and a thumbprint ...**

**New players in the financial sector have led to
\$1.5 billion in savings in 2004 ... compared with
\$500 million in traditional banks**

Nuevador The Good News:

**Anyone can open a savings account,
earn interest and make electronic payments
– and the Banks are interested....**

Nuevador The Not So Good News:

**No deposit insurance, no regulation,
no financial education, no competition to
drive down the price of credit,**