GPFI Global Partnership for Financial Inclusion

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Bringing smart policies to life

Global Partnership for Financial Inclusion (GPFI) country case studies: VOLUME 1

The Use of Financial Inclusion Data in South Africa, the Philippines and Peru

A contribution from the Alliance for Financial Inclusion (AFI) network of developing country policymakers

In January 2014, the following case studies were prepared by **The National Treasury of South Africa**, **Bangko Sentral ng Pilipinas**, and the **Superintendencia de Banca, Seguros y AFP (SBS) of Peru** in collaboration with the **Alliance for Financial Inclusion's (AFI) Financial Inclusion Data Working Group (FIDWG)**, on behalf of the Data and Measurement Subgroup of the **Global Partnership for Financial Inclusion (GPFI)**.

The Use of Financial Inclusion Data Country Case Study: SOUTH AFRICA The Mzansi Story and Beyond

Prepared by: **The National Treasury, South Africa** and the **AFI Financial Inclusion Data Working Group** on behalf of the Data and Measurement Subgroup of the Global Partnership for Financial Inclusion

The Use of Financial Inclusion Data Country Case Study: PHILIPPINES Policy on Micro-deposits

Prepared by: **Bangko Sentral ng Pilipinas, The Philippines** and the **AFI Financial Inclusion Data Working Group** on behalf of the Data and Measurement Subgroup of the Global Partnership for Financial Inclusion

The Use of Financial Inclusion Data Country Case Study: PERU Fine-Tuning Regulation Based on Access Indicators

Prepared by: **Superintendencia de Banca, Seguros y AFP, Peru** and the **AFI Financial Inclusion Data Working Group** on behalf of the Data and Measurement Subgroup of the Global Partnership for Financial Inclusion

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Case Studies on the Use of Financial Inclusion Data

The GPFI has recognised the importance of reliable data on which to base informed financial inclusion policies and interventions since its inception. The Data and Measurement sub-group gave substance to this by providing a framework for data collection, encapsulated in the initial G20 Basic Set of financial inclusion indicators, subsequently expanded to the more holistic G20 Financial Inclusion Indicators.[1] These indicators capture the financial inclusion dimensions of access, usage and quality of service provisioning, both for individuals and for small enterprises. Using existing data to populate the indicators[2] has provided a solid basis for countries to assess the state of financial inclusion and focus national data collection efforts.

The objective of driving financial inclusion forward has resulted in a focus on financial inclusion targets, at both global and national levels. As indicators of financial inclusion are crucial to an informed approach to targets (and policy formulation in general), the Data and Measurement sub-group developed an approach to target setting based on financial inclusion archetypes and a note on global and national targets[3] and what each of these should focus on. During this work it became apparent that there is neither a single approach to policy formulation and target setting that is applicable to all countries nor an ideal model that all countries can benchmark themselves against and set policies and targets accordingly. Each country is unique, with a specific set of circumstances, priorities and capabilities to deal with in the national policy framework of the country. The golden thread linking successful policy interventions would appear to be the use of the indicators, supplemented with relevant data on specific issues or areas of focus, informing financial inclusion policy makers on actions, policies and targets.

Building on the GPFI concept of peer learning, the sub-group viewed that the best way to demonstrate how data translates into evidence-based policies in specific context would be case studies of countries' experience in the use of financial inclusion data. The Alliance for Financial Inclusion (AFI) played a key role in canvassing members of the AFI network and coordinating the work to complete the country case studies. Apart from demonstrating the use of data in the financial inclusion development of the countries, a useful by-product of the case studies is the description of particular elements of each country's financial inclusion journey. It is hoped that the use of financial inclusion data and indicators, as well as the description of which and how issues were addressed would be informative for the readers of the studies.

This first volume examines case studies from three countries in Africa, Asia and Latin America (South Africa, the Philippines and Peru), to explore unique country experiences by region. Seven countries total took part in this case studies series, and subsequent volumes are forthcoming.

It is the intention that more case studies will be added in the future, increasing the richness of the available shared experiences. The GPFI would like to thank the countries that have already contributed to this effort to provide real-life examples of the advancement of financial inclusion through informed action. Readers who would like to explore the case studies in more detail are encouraged to contact the authoring organisations through the Alliance for Financial Inclusion (AFI) Financial Inclusion Data Working Group. The contact details can be obtained from the AFI website www.afi-global.org.

Key themes from the case studies

Although countries' own financial inclusion journeys are highly context-specific, a number of common themes emerge that highlight the usefulness of data and elements of 'best practice' in using data to inform policy making.

- **Data as an enabler of target setting**
  Quantitative data enables countries to set national-level targets in financial inclusion, monitor progress towards meeting the targets, and adjust them over time.
- **Contesting status quo assumption**
  Data could improve policy outcomes, partly because it can expose incorrect beliefs held by policymakers that would otherwise go uncontested.

[1] http://www.gpfi.org/data

[2] http://datatopics.worldbank.org/g20fidata

[3] GPFI. *Financial Inclusion Targets and Goals: Landscape and GPFI View*, October 2013.

- **A mutually reinforcing relationship between data collection and policy formulation**
  The relationship between data and policy is not necessarily one-way, but rather a virtuous cycle where efforts in the latter can also reinforce efforts in the former. An introduction of new policy sometimes entails a collection of more detailed and precise data for impact evaluation or supervision purpose. At other times, it even catalyses the creation of a new administrative unit charged with collecting and analyzing data.
- **Collaboration in data gathering**
  During data collection, collaboration among policymakers, stakeholders, and data experts is critical for the success of evidence-based policy formulation, especially where the government faces capacity constraints. Collaboration leverages participants' unique and complementary skill sets, thereby bringing efficiency to the whole process.
- **Partnership in Policy Formulation and Financial Products Design**
  Evidence-based policymaking and stakeholder engagement should be viewed as complementary activities, rather than as substitutes. Partnership with stakeholders can improve the robustness of policy changes because they often bring crucial insights not revealed by the data. Secondly, such partnership can help secure stakeholders' buy-in, which is essential for the policy's success.

SOUTH AFRICA
The Mzansi Story and Beyond

Country Context

At the beginning of the millennium South Africa was still very much a country in transition. Whilst the establishment of democracy in 1994 and the resultant constitutional changes and developmental initiatives gave hope to millions of people, economic exclusion was still the reality for a large proportion of South Africans. The Government recognized at the time that access to financial services is one of the key stepping stones on the path to sustainable economic development. As a clear governmental policy objective was (and remains) redressing the skewed development of the past, increasing pressure was being brought to bear on financial service providers to actively extend access and improve usage of appropriate financial services by all South Africans.

The financial services sector in South Africa is well developed and characterised in most sectors by well-established private companies, with significant infrastructure and sophisticated operational capabilities, a wide range of products covering multiple markets segments and typically well-capitalized. The banking sector was a prime example of this, with the four major retail banks at the time dominating the local retail market with a market share of approximately 90%. The banks were cautious at that stage though, as the consequences of a credit bubble implosion has just led to a run on some smaller banks and the demise of one of the most prominent smaller bank. Although there were some notable movements to engage lower-income segments, the banks by-and-large focussed on middle-and upper-income individuals and established business and corporate clients. The concentrated nature of the industry also did not engender a sufficiently competitive environment promoting innovation, which meant that new business models and innovative access means were not high on the agenda.

State-owned financial services enterprises are the exception in South Africa, given the dominant position of the private sector. However, the Postbank has been a financial services division of the South African Post Office for many years. Although not a full bank, it offers savings and transactional services through the national Post Office network.

Financial Inclusion Status in 2004

South Africa has a number of data sources on the uses of financial services. In the case of banks, some supply-side data are available from the banks themselves, the industry representative body (the Banking Council of South Africa, renamed the Banking Association of South Africa), the regulator (the South African Reserve Bank), the Payments Association of South Africa and independent payments service providers. Demand-side data is measured through a number of national surveys, the most pertinent being the annual FinScope surveys conducted by FinMark Trust, a South African NGO focusing on advancing financial inclusion now extending its services to other African and Asian countries. FinScope survey results are validated through comparison with other national surveys, notably the All Media and Products Study of the South African Audience Research Foundation, formerly the South African Advertising Research Foundation.

An assessment of basic financial inclusion in South Africa based on FinScope data revealed the following for formally banked adults in 2004:

Figure 1: % of Formally Banked South African Adults 2004

Source: FinMark Trust FinScope 2004

The banked figure has been steadily increasing over the previous decade, but this increase was slow and the extent of usage remained heavily skewed to higher-income individuals, as shown in Table 1:

Table 1: % Formally Banked, by LSM[4] 2004

LSM group	% Formally Banked
1-2	24
3-4	32
5-6	48
7-8	81
9-10	94

Source: FinMark Trust FinScope 2005

[4] LSM is the acronym for living standards measure, widely used in South Africa as an index of social welfare. It does not include but correlates closely with income. The higher the LSM, the higher the standard of living.

Table 2: Cash Expenditure by LSM 2005

LSM group	% Households	% Cash Expenditure
1-2	19.3	2.5
3-4	17.6	9.0
5-6	17.5	23.2
7-8	12.2	18.6
9-10	13.5	46.7

Source: Martins, JH (2006)

The survey results (Table 1) confirmed that low-income groups had a far lower formally banked rate than the national average. Table 2 showed the relative "buying power" of the groups and showed the gap that existed for LSM groups 3–6, where there was a clear need for financial services, but low usage. The national goal of transformational development, particularly in disadvantaged groups, was not being enabled through financial inclusion.

The Mzansi Initiative

1. The Financial Sector Charter and Public-Private Collaboration

The slow pace of development in the low-income market segments contributed to a national concern. The banking industry, both in response to the pressure from government and a growing realization that economic transformation constitutes a sound and responsible business objective, with financial inclusion a key component of such an objective, responded by committing to the Financial Sector Charter (FSC).

The FSC was formalized in 2004 and was essentially a social pact between government, labour, organized civil society and the financial services sector to both transform the sector and for the sector to play a quantifiable and meaningful role in steering the use of financial services towards specific developmental objectives. The FSC was codified and contained undertakings and targets for a variety of development objectives, including increased usage of financial services, improved access to these services and a commitment to (with an associated target expenditure) on-going financial literacy efforts. The financial access targets are listed in Annex A. Participation in the Charter was voluntary, although most major financial institutions participated for the period during which the Charter was operative (2004–2008). Industry targets were disaggregated into organizational targets through the industry representative bodies.

Monitoring was done on a structured basis through regular reporting, overseen by a FSC Council. For banking products for example, the individual banks reported take-up of the products (e.g. the Mzansi bank account) and the distribution of its sales and transactional infrastructure to the industry representative body, the Banking Council of South Africa, later renamed the Banking Association of South Africa (BASA). These figures were then reported to the FSC Council who ascertained compliance to agreed targets. Meeting (and exceeding) the targets improved the standing of participating financial institutions in terms of obtaining state and related business.

The government was represented in the Charter process by National Treasury. The primary reason for this is that National Treasury carries the mandate for financial sector policy and has a particular focus on financial sector development and financial inclusion. Lessons from the Charter process have been and are being incorporated into policy measures and initiatives by National Treasury. General input into the process was obtained from other government department and agencies, notably the transformational objectives from the Department of Trade and Industry.

2. Mzansi Account

To meet their FSC commitments the banking industry decided on a joint approach, with a basic bank account and a local remittance service being the first two agreed products. For the basic bank account, the four major banks and the Post Office/Postbank jointly developed the Mzansi brand geared towards the low-income segment. All other banks were invited to join this initiative, but for a variety of reasons none of the smaller banks took up the offer.

The lack of knowledge about the low-income market amongst the four major banks was the main rationale behind this innovative collaboration. It was reasoned that market development through extensive advertising and awareness campaigns would be necessary and that it would be cost-effective to share these costs, as well as the costs associated with product development. There was no doubt also an element of risk-sharing involved in the decision to co-operate, as it was not known how viable and acceptable this initiative would be, hence some reputational risk was associated with this effort.

Because of the South African Competitions Act, neither pricing nor product features for Mzansi account could be decided jointly. The approach was therefore to agree some principles on which features and pricing could be based. The agreed principles centred on the following:

Brand	Prominent use of the Mzansi brand, through the use of the associated logo and value-for-money proposition.
Card-based	The account had to have an associated debit card, with normal debit card functionality and operational in the fully interoperable South African payment environment.
No "penalty" for using other banks' infrastructure	In South Africa the use of another bank's (other than the issuing bank) infrastructure, particularly ATMs, results in a premium service fee having to be paid by the user. The agreement was that this premium will be waived and the interbank fees were adjusted to reflect this agreement.
Affordable	There was an agreement that a defined basket of transactions will not exceed an agreed amount that was deemed affordable by the target market. This upper limit was significantly lower than the cost for typical bank products.
No monthly or management fee	Most transactional accounts attract some set monthly fee in South Africa. It was agreed that the Mzansi account will not attract this fee.
One free cash deposit	Cash deposits (as opposed to electronic or cheque deposits) typically attract a fee in South Africa. It was agreed that Mzansi account holders will have one free cash deposit transaction per month.
Use of Post Office branches	Mzansi account holders could withdraw funds and do basic enquiries at Post Office branches, irrespective of the bank involved in the issuing of the account.
Use of AML/ CFT exceptions	It was agreed that Exemption 17 (see below) will be incorporated in the opening procedure of all Mzansi accounts.

Since banks were concerned, unnecessarily as it turned out, that there will be an erosion of revenue in their existing low-income products, both maximum balances and a limited range of transactions were introduced by individual institutions. Over time this proved counter-productive as these limitations reduced transaction volumes and reduced Mzansi revenue, as compared to established products, so the transaction limitations were gradually removed.

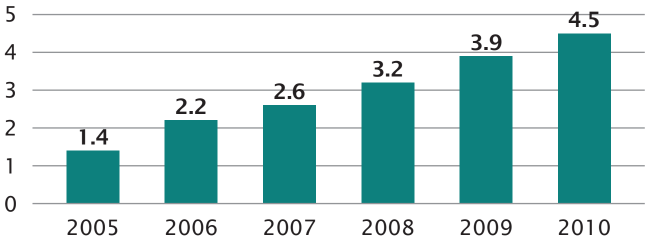
South African AML/CFT legislation was introduced in 2001 in the form of the Financial Intelligence Centre Act. Although the regulations did define appropriate measures for lower risk situations, these were not practical for the roll-out of a product like the Mzansi account. An agreement was reached with the regulator to introduce an adjustment (Exemption 17) that would still ensure that all clients are identified and verified, but that physical address details need not be verified. This was particularly relevant for the low-income segment, as a large percentage of potential clients simply did not have a verifiable address. The fact that a national identity system, with appropriate documentation, was well-entrenched aided significantly in efficient client on-boarding.

The roles of the Post Office and the Postbank need some clarification. The Postbank participated as an issuing bank and converted most of their existing savings account base into Mzansi accounts over time, taking advantage of the reduced interbank fees associated with the use of ATMs (Postbank had no ATM base). The Post Office, apart from providing the transactional network for the Postbank, also made their network available for transactional use by all Mzansi account holders.

During the first year significant joint marketing was undertaken, with joint awareness campaigns and literacy efforts. Thereafter marketing efforts and awareness campaigns were undertaken individually by each institution, but still using the established Mzansi brand.

The take-up of the product, depicted in Figure 2 below, exceeded expectations. This prompted the participating banks to continue promoting the product past the 2008 end date of the FSC.

Figure 2: Number of Mzansi accounts opened (4 major commercial banks) in millions



Source: The Banking Association of South Africa (2011)

The Postbank did not report sales figures separately, but the registration of all Mzansi accounts at Bankserv (now BankservAfrica), the major payment systems operator in South Africa, enabled a reliable estimate of at least 6 million Mzansi accounts opened in total. Given an adult population of approximately 30 million at the time, this was a significant achievement. This number, coupled with the market feedback that 72%[5] of the signed-up base stated that the Mzansi account was the first bank account that they opened, meant that the objective of attracting unbanked people was largely being met.

[5] Based on *The Mzansi Bank Account Initiative in South Africa*, a report commissioned by FinMark Trust and undertaken by Bankable Frontier Associates LLC in 2009.

3. Increased Access as Part of the Initiative

Part of the FSC targets included improved physical access, both in terms of acquiring financial products (sales points), as well as transaction points. The overarching objective was to bring financial services within reach of everyone. The initial targets were agreed as follows:

- At least 80% of the target market (LSM 1–5) must be within 20km of a service point (branch or ATM)
- At least 80% of the same target market must also be within 20km of a transaction point (non-ATM, but where an electronic transaction can be performed)

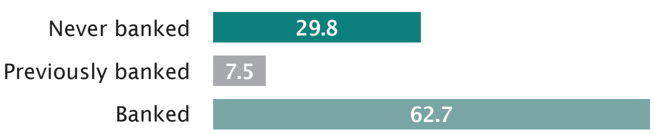
These targets were easily met and were later amended to 15km for service points and 10 km for transaction points soon after the commencement of the FSC. The revised targets were also met by 2008.

The measurement of progress towards the target and its subsequent upgrading were made possible by the monitoring of the points of presence through geospatial information mapping, matching the points of presence to population centers and densities. This exercise also relied on the banks to provide geocoded information on all points of presence to the industry representative body, who commissioned a 3rd party service provider to map this data to the available census data, with LSM categories, and provide a realistic measure of meeting the objectives.

4. Financial Inclusion Status in 2008

The financial inclusion status increased significantly from 2004 to 2008, the period covered by the FSC, as shown in Table 3 below.

Figure 3: % of formally banked South African adults 2008



Source: FinMark Trust FinScope 2008

Table 3: % Formally Banked by LSM

LSM group	% Formally Banked
1-2	31
3-4	50
5-6	62
7-8	84
9-10	97

Source: FinMark Trust FinScope 2008

The increase from 45.5% to 62.7% in formally banked adults was significant, as was the improved usage in LSM 3–6, considerably narrowing the usage gap with higher LSM as groups compared to 2004. These figures underscored the conclusion that the Mzansi account was primarily used by the intended market segments. The same survey data also indicated that the increase in the formally banked indicator was not only due to the number of Mzansi accounts introduced, but to the continued take-up of other low-income products offered by the banks.

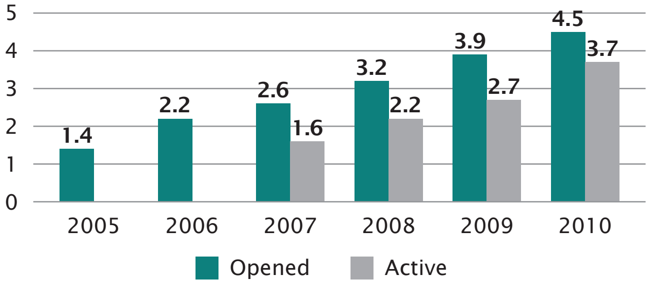
5. Was the Mzansi Account Successful?

The Mzansi initiative was successful in promoting take-up of bank accounts, but much less so in promoting their usage. There has been much discussion about the relatively low rate of usage of Mzansi accounts, the low average balances compared to other products, and the low rate of active accounts. There is no doubt that active use of the account, particularly for first-time users, requires on-going support and reinforcement. To what extent the lower average balances is the result of the lower LSM levels being the primary users as opposed to inadequate product features and insufficient client literacy engagement is a moot point; it is probably the result of a number of factors.

The measurement in 2007 of the relatively high percentage of inactive users resulted in increased awareness campaigns and more targeted sales efforts by the banks, leading to an active percentage (82%) by 2010 which exceeded the historical active percentage for low-income products. This is reflected in Table 4 below.

There is no doubt that the Mzansi account was a major contributor to the extension of financial services to the unbanked and the improvement in financial inclusion in the country. In the eyes of the users it legitimized the banks' entry into the lower income market and it gave the banks invaluable exposure to the dynamics of banking these segments. The issues of active usage, change in transactional behavior and improvement in the propensity to save remain as issues that that requires continued focus and intervention. At the same time, the Mzansi account also pointed to the limitations of a joint approach, especially as saturation levels were being reached. The necessary stimulus for innovation appears to be lacking in this environment, particularly as the banks perceived a "second brand" being created.

Figure 4: Mzansi Accounts opened vs. active accounts (4 major banks)



Source: The Banking Association of South Africa (2011)

What Happened After Mzansi?

1. Further Exploration of the Low-income Market

The Financial Sector Charter was not applicable after 2008, although banks continued to market the Mzansi product. However, momentum was certainly not the same as in the years immediately following 2004 and take-up levels declined. There was also feedback from the market that the Mzansi account was perceived as a "poor man's" account, because it was positioned separately from other bank products.

The banks, including innovative smaller banks, also intensified the exploration of new business models. There were some major initiatives in the mobile space, exploring different versions of a branchless banking model, with some of those initiatives still on-going. There were also a number of initiatives involving co-operation between retailers and banks, with some essentially offering a banking service through a retailer, whilst others focussed on more limited services, e.g. store-to-store remittances enabled through the banking infrastructure. Some of the initiatives were not successful, whilst others (the remittance service being one) continue to be successful to this day.

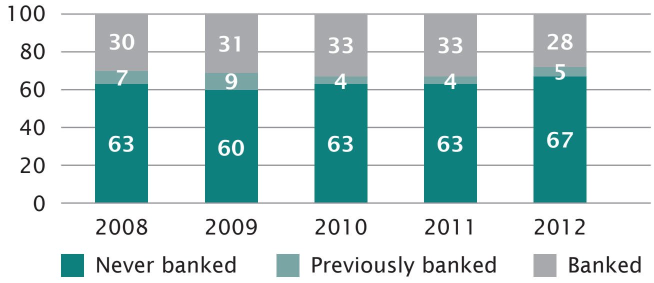
It is fair to characterize this period as one where institutions were using their newly-found appetite for the lower-income market to explore new territories with new partners, but the impact on improving financial inclusion in terms of the percentage of banked adults was negligible (see Figure 5 below). The effect of the global economic situation and the reduction in growth rates was a further exacerbating factor in this muted impact.

2. Financial Inclusion Status in 2012

Figure 5 below shows the stagnation in the increase in the formally banked following the end of the FSC period. The situation only started changing again in 2012, as new business models started to mature (e.g. functionally rich mobile access to the banking accounts) and as the further level of electronic distribution of social grants started having an effect.

What is encouraging is the continued increase in the points of presence, as evidenced in Table 4. This showed that institutions were investing resources in enabling greater use of low-income products like Mzansi. This increase is one of the reasons why multiple product usage is steadily increasing, although the percentage of banked people remained relatively static until 2011 (Figure 6).

Figure 5: % of formally banked South African adults 2008-2012



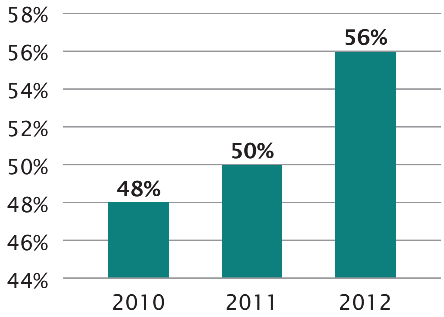
Source: FinMark Trust FinScope 2008-2012

Table 4: Points of Service 2008–2011

Year	2008	2009	2010	2011
Bank branches	4,625	4,579	5,162	5,443
Limited services outlets	1,485	1,409	1,609	1,697
Bank owned ATM	11,406	18,019	19,792	21,535
Total ATMs	16,180	23,090	24,659	27,673

Source: Annual Reports of seven retail banks and South African Post Office. Bank branches include Post Office branches

Figure 6: % adults with more than one product from a formal service provider



Source: FinMark Trust FinScope 2010-2012

Affordability was and remains a point of contention. What is however encouraging is that the cost-to-user index of low-income products has, in real terms, being declining over the last few years (Table 5). The cost of banking services as a whole (Table 6) displays much wider fluctuations in the cost-to-user index, but also displays a downward trend over the last few years. This decline for low-income products can be attributed to the improved business models and increased volumes and bodes well for continued increased usage.

Table 5: Inflation-adjusted index of the cost-to-user of banking services for low-income users, averaged over the cheapest offerings

Year	2010	2011	2012
Cost-to-user index	100.0	97.8	80.6

Source: Solidarity[6] Bank Charges Report and Statistics South Africa

[6] Solidarity is trade union in South Africa that commissions an annual survey of entry-level bank costs.

Table 6: Inflation-adjusted index of the cost-to-user of banking services (major banks)

Year	2005	2006	2007	2008	2009	2010	2011	2012
Cost-to-user index	100.0	92.7	89.1	98.2	119.4	127.8	132.8	104.3

Source: Finweek[7] Bank Charges Report and Statistics South Africa

3. Financial Sector Code

The FSC was replaced by the Financial Sector Code in 2012, which now places a legal requirement on all financial institutions to comply. The Code contains a negotiated set of updated objectives and targets, with reporting and monitoring done as previously for the FSC. Although Mzansi is still mentioned, the agreed product standards are now generic, dealing with affordability, appropriateness, clear communication of features and costs, non-discrimination, as well as some operational efficiency guidelines like payment inter-operability. The on-going focus on financial literacy and easy-to-use market-conduct support systems remain part of the agreed standards.

Key Lessons

- **A national forum or platform is a key enabler**
  The Financial Sector Charter and Code structures are probably uniquely South African constructs, given the historical imbalances from South Africa's past political structures that have to be addressed. However, similar national platforms are key elements in advancing financial inclusion in a sustainable and beneficial way. The buy-in of the financial institutions and the support of government and society are all necessary to move forward. The period between the end of the FSC and the beginning of the Financial Sector Code provides evidence that a lack of focus leads to a lack of momentum in advancing financial inclusion.
- **A holistic approach, with a developmental mind set, is required**
  Given the dependency of improving financial inclusion on an eco-system of enabling initiatives and basic infrastructure, it is imperative that the developmental links are established and addressed simultaneously, in as far as that is possible. Simply making sure someone has a bank account is but the beginning of the real challenge – the capability and opportunity to use this service to start actually improving lives are areas that have to be addressed.
- **Measurement, agreed indicators, targets and monitoring are prerequisites**
  It is pointless starting an initiative without an assessment of the current status. Similarly, informed and specific targets focus efforts and drive initiatives. Monitoring the effect of initiatives in a quantifiable way is the only way in which to realise that adjustments are necessary.
- **Adjust the approach over time, where necessary**
  Based on indicators, changes in the environment can be detected and should be acted on. The decline in the take-up rate for Mzansi accounts and the market feedback that perceptions were changing from positive to a "poor man's" product were clear indications that the end of the joint effort had been reached and that full competitive forces, within the agreed framework of the Financial Sector Code, should be utilized and encouraged.

Reference

Martins, JH. 2006. *Household Cash Expenditure by Living Standards Measure Group*. Journal of Family Ecology and Consumer Sciences, Vol. 34, 2006.

[7] *Finweek* is a South African financial publication that similarly commissions an annual survey of banking fees.

Annexure A: Financial Sector Charter

The following is not the complete Charter, but just those points directly pertinent to financial inclusion. It is quoted verbatim, except where references have been replaced with comments in italics.

Access to Financial Services

In terms of the Declaration of the Financial Sector Summit on 20th August 2002, it was agreed that strategies would be put in place to ensure that the financial sector is more efficient in the delivery of financial services, which enhance the accumulation of savings and direct them to development initiatives. Insofar as it relates to access to financial services, specific actions were agreed in relation to:

- Ensuring the provision of first order retail financial services including:
  - sustainable and affordable banking services;
  - contractual saving schemes; and
  - credit for small and micro enterprise and poor households.
- the development of sustainable institutions to serve poor communities;
- the regulation of Credit Bureaux;
- discrimination;
- HIV/AIDS; and
- supporting higher levels of savings and investment overall.

In respect of this charter, the financial sector commits itself to substantially increase effective access to first order retail financial services to a greater segment of population within LSM 1-5. The financial sector specifically undertakes:

by 2008 to make available appropriate first order retail financial service, affordably priced and though appropriate and accessible physical and electronic infrastructure such that:

- 80% of LSM 1-5 have effective access to bank services (*as defined*);
- 80% of LSM 1-5 have effective access to bank services products (*as defined*);
- a percentage (to be settled with the life insurance industry) of LSM 1-5 households have effective access to life assurance industry products and services (*as defined*);
- 1% of LSM 1-5 plus 250,000 have effective access to formal collective investment saving products and services (*as defined*); and
- 6% of LSM 1-5 plus 250,000 have effective access to formal collective investment saving products and services (*as defined*).

in accordance with the arrangements concluded with Government and DFI's (*as defined*) to originate the low-income housing loans, agricultural development loans, and loans to black SME's necessary to achieve the desire breakdown of targeted investments (*as established*). For the purposes of determining the value of loans originated in terms of this paragraph, any loan which falls within the definition of the first order retail financial services or product (*as defined*) will be taken into account.

Each sub-sector will determine, in consultation with the Charter Council how the sub-sector targets will be divided between the individual financial institutions in the sub-sector.

Each financial institution commits, from the effective date of the charter to 2008, to annually invest a minimum of 0.2% of post tax operating profits in consumer education. Consumer education will include programs that are aimed at empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles.

The financial sector furthermore commits to:

- the elimination of discrimination in the provision of financial services;
- supporting the establishment of third tier community-based financial organization or alternative financial institutions.

PHILIPPINES
Policy on Micro-deposits

Country Context

The Bangko Sentral ng Pilipinas (BSP), as the Philippine central bank, aims to maintain price stability conducive to balanced and sustainable economic growth. It is mandated to promote and preserve monetary stability and safeguard the soundness of the banking system.

In 2000, the BSP was mandated by the General Banking Law to recognize microfinance as a legitimate banking activity and to set the rules and regulations for its practice within the banking sector. The BSP experience in microfinance proved that low income segments can be effectively served by the formal financial system given appropriately designed and affordably priced products and services. At present, there is a wide range of products such as microfinance loans, micro-agricultural loans, microfinance housing loans, micro-deposits and micro-insurance available to the previously unbanked market. Building on these gains in microfinance, the BSP is pursuing the greater goal of expanding access to finance for all Filipinos especially for the still underserved and unserved market segments.

Financial inclusion remains a pressing challenge in the Philippines. The archipelagic nature of the country imposes geographical and physical barriers to financial access. To date, 610 out of 1,634 cities and municipalities do not have a banking office.[8] Even for areas with bank presence, the distribution of banking services is skewed toward highly urbanized and populous regions. For instance, Metro Manila alone accounts for 43% of the total number of deposit accounts and 68% of the amount of bank deposits.[9] Only 2 out of 10 households have a deposit account at a formal financial institution.[10]

The state of financial inclusion in the Philippines can be summarised as follows, using the G20 Basic Set of Indicators:

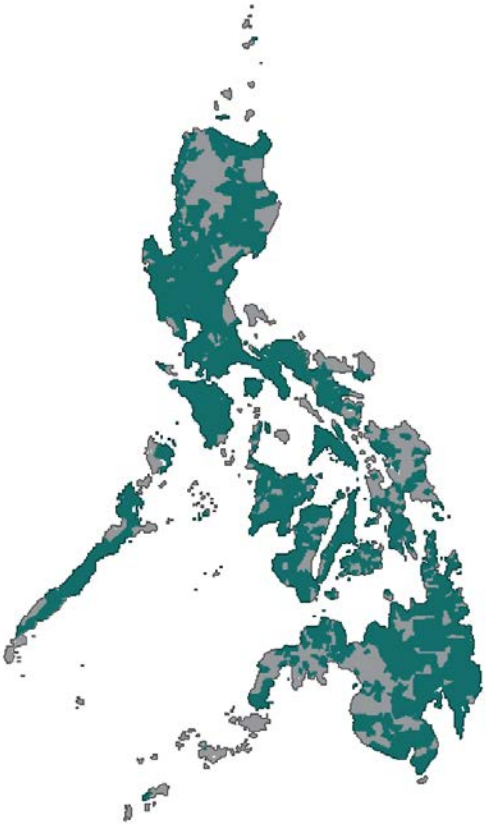


Table 1: State of Financial Inclusion in the Philippines

Categories	Indicators	
Formally banked adults	% of adults[1] with an account at a formal financial institution	26.6%[a]
	Number of deposit accounts per 1,000 adults	635[b]
Adults with credit by regulated institutions	% of adults with at least one loan outstanding from a regulated financial institution	10.5%[a]
Formally banked enterprises	% SMEs with an account at a formal financial institution[2]	97.8%[c]
Enterprises with outstanding loan or line of credit by regulated institutions	% SMEs with an outstanding loan or line of credit[2]	33.2%[c]
Points of service	Number of branches per 100,000 adults	14[b]

Note: a – Global Findex (2011), b – BSP (2012), c – World Bank Enterprise Surveys (2009) 1 – Adult population refers to the population aged 15 years old and above. 2 – The World Bank's Enterprise Surveys are administered to a sample of firms in the non-agricultural formal private company and covered small, medium and large companies.

8 Bangko Sentral ng Pilipinas (BSP), Q2 2013.

9 Philippine Deposit Insurance Corporation (PDIC), Q2 2013.

10 BSP Consumer Finance Survey (2009).

Financial Inclusion Objectives and Targets

There are no authorities or organizations that are explicitly mandated or tasked to lead financial inclusion initiatives in the Philippines. The BSP, as the supervisor of the banking system (which accounts for more than 80% of the resources of the financial system), has been actively pursuing financial inclusion. As the central monetary authority and banking system regulator, the BSP knows that the achievement of both financial stability and financial inclusion requires energy, imagination and serious attention.

In the Philippine Development Plan (PDP) 2011-2016, there is a stated goal/vision for the financial sector to be a "regionally responsive, development-oriented and inclusive financial system which provides for the evolving needs of its diverse public". Consistent with this goal, the Philippines envisions an inclusive financial system with the following characteristics:

- Wide range of financial services that serve different market segments
- Financial products appropriately designed, priced and tailor-fitted to market needs
- Wide variety of strong, sound and duly authorised financial institutions utilizing innovative delivery channels
- Effective interface of bank and non-bank products, delivery channels, technology and innovation to reach the financially excluded

In its Maya Declaration announced during the 2011 AFI Global Policy Forum, the BSP set the following goals, in line with the above vision and characteristics:

- Pursue financial inclusion side-by-side with the promotion of price and financial stability
- Create the enabling environment to make it possible for all adults to have a deposit account
- Implement price transparency and fair dealing with clients
- Continue targeted financial learning programmes
- Create a financial inclusion data framework

Considering the importance of the support of and partnership with other agencies and organizations, the BSP is planning to champion financial inclusion across various sectors by convening relevant stakeholders to draft a *National Strategy for Financial Inclusion*. This strategy is consistent with what is envisioned in the PDP. The proposed financial inclusion strategy aims to provide a framework to enable government and the private sectors to take a coordinated and systematic approach toward a clear vision of building a financial system that is accessible and responsive to the needs of the entire population and will lead to broad based and inclusive growth.

Financial Inclusion Data and Measurement Initiatives

The BSP is currently building a comprehensive financial inclusion data framework to identify existing gaps, monitor progress and craft evidence-based policies. Following the recommendations of a data gap assessment report,[11] a dedicated information coordinator position that is responsible for collecting, collating and analyzing financial inclusion data was created. As a result, the maiden report on the state of financial inclusion in the country was published in 2012. The report provided baseline information on the levels and trends of financial inclusion in the Philippines.

The BSP created a Data and Measurement Working Group within the Inclusive Finance Steering Committee (IFSC), a bank-wide committee that was constituted to ensure a coordinated focus in pursuing programs supportive of financial inclusion. There is also institutionalized information sharing with other departments within the BSP as well as with other agencies that are handling inclusion-relevant data (e.g., non-banks, e-money, cooperatives, microfinance NGOs). Other key data initiatives include:

- Creation of a financial inclusion database
- Regular updates on the state of financial inclusion
- Quarterly financial inclusion publication
- Spatial mapping and geocoding of access points
- Preparatory work for national baseline survey and product catalogues

The Introduction of Micro Deposits

The BSP appreciates that microfinance consists of a range of financial services and that savings is quite often an enabler in the provisioning of credit. The BSP therefore endeavoured to develop a meaningful micro-deposit regulatory framework. The intention was to provide space and clarity for banks to offer this important product, to provide flexibility, to ensure sound delivery and to appropriately incentivise its offering. An example of the incentivisation is that these savings products can be opened in simplified bank branches called micro-banking offices (MBOs).[12]

[11] Prepared by Bankable Frontier Associates (BFA) through a technical assistance grant from the Alliance for Financial Inclusion (AFI).

[12] The establishment of MBOs addresses the problem of setting up a banking presence in areas where it may not be economically feasible to put up a full banking office. MBOs primarily cater to the banking needs of microfinance clients and overseas Filipinos and their beneficiaries.

In 2010, the BSP issued Circular 694 which expanded microfinance products to include micro-deposits (also known as microfinance savings deposits). Micro-deposits are savings accounts that cater to the needs of the basic sectors and low income individuals. These savings accounts remove the usual barriers faced in opening a bank account such as high maintaining balance and dormancy charges.

The initial issuance set the average daily balance (ADB) for micro-deposits at PHP 15,000 (approximately USD 348). The ADB ensures that the deposit is offered only to microfinance clients, thereby establishing a distinction between micro-deposit and regular savings account. The PHP 15,000 ADB limit is the rough equivalent of the average remittance of overseas Filipinos during that time.

In the implementation of the regulation, the BSP noted market feedback on the threshold that was set. Some banks reported that the savings of their microfinance clients are increasing. For banks who service these micro-deposits in their MBOs, accumulating savings on the part of the microfinance client becomes a disincentive because they will have to go to a regular bank branch once their average daily balance breaches the PHP 15,000 ADB limit. If left unaddressed, this situation may have a limiting effect on the extent of take-up of micro-deposits.

Since the feedback was just from a few institutions, the BSP wanted to get validation from data before amending the regulations.

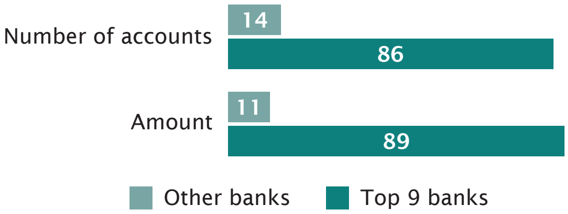
Analysis of Micro Deposit Account Balances

Appropriate data were critical to the proper analysis of the micro-deposit balance issue. For this case study, data on micro-deposits served as input in the decision making and policy formulation.

While the BSP has data on bank deposits, existing information on micro-deposits is limited to aggregate data.[13] There was a need to collect more granular data directly from banks offering micro-deposits to get to the right level of understanding on the issue. This highlighted the importance of engaging the stakeholders in policy formulation and adjustment through coordination and by allowing them to provide inputs.

In early 2013, the BSP conducted a survey among the top nine banks that make up the majority of the amount and number of micro-deposit accounts. As of the third quarter of 2012, the top nine banks comprised 86% of the total number of accounts and 89% of the total amount of micro-deposits.[14] These banks were requested to provide data on the sizing of their micro-deposit accounts (i.e., number of accounts and amount per deposit bucket).

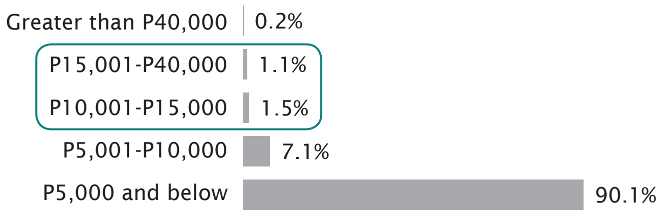
Distribution of micro-deposit accounts (All banks with microfinance 0perations)



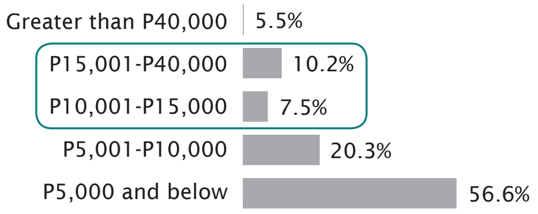
Source: BSP (2012, Q3)

The participation of selected banks in the survey by providing the requested information contributed much to the analysis. The data revealed that while 90% of the micro-deposits of these banks are below PHP 5,000, there are already a significant number of accounts that are breaching the PHP 15,000 ADB limit. About 1.3% of the total number of micro-deposit accounts exceeded the ADB threshold. This is equivalent to 15.7% of the total amount of micro-deposits. It was also noted that the number of accounts from PHP 15,001–PHP 40,000 is almost the same as the number of accounts from PHP 10,001–PHP 15,000.

Distribution of micro-deposit, by number of accounts per bucket (Top 9 banks)



Distribution of micro-deposit, by peso volume of accounts per bucket (Top 9 banks)



Source: Data submitted by the top 9 banks (2012, Q3)

These findings validated and quantified the feedback that the BSP initially received from some banks. The results suggest that microfinance clients are increasingly saving and there is a need to enhance the characteristics of micro-deposit accounts.

[13] The BSP data on micro-deposits do not include information on the number of accounts and amount per deposit bucket.

[14] There were more than 1 million micro-deposit accounts amounting to PHP 2.4 billion in 2012 Q3.

Policy Formulation

The Inclusive Finance Advocacy Staff (IFAS),[15] as the dedicated financial inclusion unit in the BSP, was primarily responsible for analyzing the data collected and formulating the appropriate policy solutions based on the findings. The data made it easier to propose the new threshold of PHP 40,000 because it was not arbitrary and was guided by existing data. The draft of the proposed amendment to the regulation was circulated to other relevant units in the BSP for their review and comments. Before the micro-deposit regulation was issued, the proposed amendment was submitted to the BSP Monetary Board[16] for their consideration and approval. Taking into account the compelling results provided by data, the Monetary Board approved the revised policy on the threshold amount. In May 2013, the BSP issued Circular 796 which amends the general features of micro-deposits by increasing the ADB to PHP 40,000 (USD 927). This responsive measure enhances the features of micro-deposits, to further encourage the microfinance clients to build up their savings.

Results So Far

The data contributed to one of the BSP's commitments in the Maya Declaration which is to create the enabling environment to make it possible for all adults to have a deposit account. The amendment of the micro-deposit regulation will encourage the low income market to save and put their savings into the formal financial system.

The stakeholders, particularly the rural banks, were receptive to the policy change. The Rural Banking Association of the Philippines (RBAP), for instance, stated that the increase in the ceiling for micro-deposits that can be deposited with MBOs "will protect rural poor depositors from helplessness during bad times and allow them to save more".

The BSP is seeing validation that the policy issuance on micro-deposits is the right move. Based on the end of June 2013 data, there are 186 banks with microfinance operations reaching more than 1 million clients. The savings of microfinance clients have reached PHP 8.87 billion, higher than the total amount of microfinance loans outstanding which is PHP 8.04 billion. This suggests that microfinance clients have transformed into net savers and are now attaining a certain level of financial independence.

The findings also supported the experience globally that savings, together with other financial products, are indeed equally as important as loans where microfinance services are concerned. Sometimes savings can be a viable service on its own, without a credit facility. The results likewise reaffirmed the important role of banks in microfinance since they are the ones who can generate savings from the general public (unlike NGOs and cooperatives).

After the enhanced policy on micro-deposits was implemented, the on-going focus is on the internal controls for MBOs since they will be receiving higher deposit amounts from their clients. The BSP is also regularly looking at the microfinance data of banks to monitor their levels and trends and identify possible gaps and/or opportunities.

Key Lessons

In the past, financial inclusion policies were informed mainly by anecdotal evidence and stories. While this approach has been helpful, the BSP recognizes the importance of having a reliable and robust financial inclusion data framework to inform decision making and policy formulation. With the recent initiatives to improve the collection of both supply-side and demand-side information on financial inclusion, the BSP envisions that data and deeper measurement will play a greater role in its financial inclusion policymaking.

The BSP sees regulations as a flexible framework that enables its supervised entities to best serve their markets in a safe and sound manner. The BSP recognizes that with the dynamism of the industry, it will require some changes in policies and regulations. These changes can be best be made through strong evidence-based policymaking to ensure the relevance and responsiveness of regulations.

Moving forward, the BSP is committed to continuously improve its financial inclusion data framework so that later on there will be solid evidence to assess progress and measure impact of regulations on financial inclusion.

[15] IFAS provides secretariat support and coordinates with the work of the IFSC.

[16] The Monetary Board is the highest policy-making body in the BSP.

PERU

Fine-Tuning Regulation Based on Access Indicators

Country Context

In recent years, Peru has been recognized as one of the most dynamic economies in Latin America. Economic growth averaged 6.5% over the last decade and has remained strong despite the fluctuations caused by international crises. By the end of 2012, the country's GDP amounted to US$ 206,387 million, while GDP per-capita (PPP) reached US$ 6,568. Prudent fiscal and macroeconomic policies have resulted in a low and stable inflation and a budget surplus. The inflation rate averaged 2.9% during the last 10 years, the lowest ratio in the region, while the non-financial public sector recorded an economic surplus equivalent to 2.2% of 2012 GDP. The impressive economic growth experienced by the country has also had a positive impact on poverty reduction. The poverty rate declined from 58.5% to 25.8% between 2004 and 2012, while extreme poverty rate dropped form 16% to 6%.

The Superintendence of Banks, Insurance Companies and Private Pension Funds (SBS) has long recognized financial inclusion as a policy priority, understanding that financial inclusion can be a critical engine for the social and economic development of the country, while helping to deepen financial markets. After defining financial inclusion as *the access to and usage of appropriate financial services for all segments of the population*, the SBS adopted major measures and actions in the last few years with the purpose of expanding the access to and usage of financial services. The course of action has been focused on five key areas: regulation and supervision, transparency, consumer protection, financial education and coordination with other public institutions. Besides promoting competition and stability in the financial system, the regulatory framework has created incentives to increase financial inclusion. Improvements in regulation has encouraged the development of financial products and services appropriate to all segments of the population (such as microcredit, micro-insurance, simplified deposit accounts and payments based on E-money) and the use of low-cost delivery channels (such as retail agents and, recently, mobile phones).

Improvements in the regulatory framework have been accompanied by full disclosure of information about financial services. In this regard, new regulations on transparency of information for the financial system (SBS Resolution N°8181-2012) and insurance system (SBS Resolution N°3199-2013) have contributed to improve the quality of the information provided to users, so that they can make informed decisions based on available information that is easy to understand and according to their needs. Likewise, the SBS has implemented preventive and corrective measures in order to ensure transparency and fairness in the contractual process. In addition to these efforts, the SBS has been working to increase the level of financial education of the population with the aim of improving users' capacity to understand and use available information to make thoughtful and beneficial financial decisions for themselves and their families. With this objective, the SBS launched a training program for school teachers from urban and rural areas in 2007, based on an agreement with the Ministry of Education to educate high school students on topics about the financial system, insurance and pension funds. By June 2013, the program has trained 5,669 teachers and is expected to have covered all regions of Peru by the end of 2013. Moreover, the SBS has developed financial literacy programs with the objective to empower consumers in basic finance topics. In 2013 alone, more than 13,000 people participated in these programs.

In conjunction with these initiatives, the SBS focussed on measuring financial inclusion and monitoring the effectiveness of the implemented policies. To this end, the SBS defined a basic set of indicators to measure the major dimensions of financial inclusion. There are a number of projects underway to augment existing data with information from the demand side, so as to gain deeper insight into the current state of financial inclusion in the country. Current indicators are based on supply side data, mainly on the access to and usage of, as well as the coverage and penetration of, financial services. Informed by these indicators, the SBS implemented major regulatory changes in the past few years. As highlighted in this case study, one of the most important changes has been the introduction of banking agents, a channel that has contributed to greater financial access across the country.

The access indicators provide evidence that the introduction of agents resulted in a significant expansion in the financial network. Between June 2004 and June 2013 the number of service points in the financial system (branches, ATMs and banking agents) increased to almost 32,000, resulting in the service points per 100,000 adults increasing from 20 to 188. Usage indicators also indicate significant improvements in the use of financial services. Between June 2004 and June 2013, the percentage of adults who have obtained formal credit from financial institutions rose from 14% to 30%. Similarly, the number of individuals holding a bank account increased from 9 million to 20 million during the same period.

Table 1: Financial Inclusion Indicators

Year	2004	2006	2008	2010	2013
% of adults with at least one loan outstanding from a regulated financial institution	14	18	21	24	30
Number of borrowers per 1,000 adults	144	178	209	237	295
Number of depositors* per 1,000 adults	544	616	600	740	1078
Number of service points per 100,000 adults**	20	23	64	83	188

Source: SBS

* The number of depositors may be overestimated since it corresponds to the sum of depositors across institutions and one person may have accounts in more than one institution.

** Includes branches, ATMs and banking agents.

Despite these remarkable achievements, the gap to be filled in financial inclusion is still wide, mainly in rural and low population density areas, where financial institutions do not find it profitable to offer services through the current channels and products available in the market. To address this, regulation has been fine-tuned over time, with the aim of enabling financial access to the underserved and un-served segments of the population. The latest improvements include the expansion of the allowed operations for banking agents (basic accounts) and the regulation of E-money.

The following section presents an overview of the available financial inclusion data, relevant sources and collection initiatives currently underway for improving existing data. The third section highlights how financial access data has been used to inform policy directions and how Peruvian regulation has been fine-tuned over time to enhance the scope and depth of outreach of financial services. The analysis focuses on the introduction of banking agents in 2005 and further regulatory adjustment to enhance their spread across the country. The last section presents a few remarks and key lessons on the use of financial inclusion data for policy formulation.

Financial Inclusion Data

According to the definition adopted by the SBS in 2006, financial inclusion in Peru can be measured along three dimensions: “access”, “usage” and “quality”. Available data collected from financial institutions via regular reporting provide extensive information on the access to financial services, such as the availability of services points and the geographical penetration of financial infrastructure. Nonetheless, data on the usage and quality of these services is still limited. Current the supply-side data includes the number and location of branches, ATMs and banking agents, the number of borrowers and the number of depositors. In addition to financial inclusion data related to the financial system, the SBS also uses key information about insurance and pension systems, such as the number of policy-holders and number of pensioners.

Based on this information, the SBS developed a core set of indicators in 2007, organized in the three categories mentioned above: access to financial services, usage of financial services and depth of outreach of financial services, at both national and regional level. The indicators to measure financial access in the country are the number of service points (branches, ATMs and banking agents) per 100,000 adults and the number of service points per 1,000km^2. Additionally, these indicators are calculated for each type of channel (number of branches, number of ATMs and number of banking agents per 100,000 adults) and at different geographical levels (departments, provinces and even districts). These indicators have revealed the impressive growth of the financial network across the country. Total access points increased from 20 per 100,000 adults in June 2004 to 188 per 100,000 adults in June 2013, while the percentage of districts with access to financial services rose to 43%, serving 87% of the total population. The data also revealed that banking agents have become the main channel used by financial institutions to expand their retail networks, especially in areas where opening a branch would be costly. By June 2013, the financial system had over 24,000 banking agents across the country.

The core indicators on the usage of financial services are the percentage of adults with formal loans, percentage of adults holding deposit accounts, number of borrowers per 1,000 adults and number of depositors per 1,000 adults. Other usage indicators include: debtors as a percentage of the economically active population, cardholders as percentage of adult population and the percentage of borrowers with elementary education. A major limitation in usage indicators is on the depositors-side, given restrictions in data collection due to bank secrecy. Given that one person could have more than one deposit account across financial institutions; the number of total depositors may be overestimated. Between June 2004 and June 2013, the percentage of adults with formal loan accounts has increased from 14% to 30%, revealing a significant improvement in the use of financial services. A similar trend was observed in the case of the number of depositors. Data on the usage dimension also include indicators on the number of policy holders and pensioners as percentage of economically active population. Additionally, the SBS has developed complementary indicators to measure the depth of outreach of financial services, such as the average size of deposit and loan amounts relative to GDP per capita.

Core indicators are publicly available in the “Report of Financial Inclusion Indicators”, which is published biannually in the SBS institutional website;[17] the first issue was based on the information of December 2010. Besides this report, the SBS is working on the implementation of a Map of Financial Inclusion that will provide key regional information, related to socioeconomic aspects, financial services, financial infrastructure and potentialities. The main purpose of the Map is to contribute to the knowledge of potential demand for financial services and to help policymakers and service providers to identify opportunities for expanding the coverage of financial services across the country and defining actions to promote financial inclusion. This Map will be available in the institutional website by the end of the first semester 2014.

While supply-side indicators on access and usage of financial services have been helpful, they need to be complemented with demand-side data in order to get a clear picture of financial inclusion in the country, especially in regard to the usage and quality of financial services. Aware of this need, the SBS has undertaken some data collection initiatives in recent years. In 2011, the SBS developed a pilot financial literacy survey to obtain baseline information on the level of financial knowledge in the main regions of the country and identify needs on financial education. In 2012, with funding from the Inter-American Development Bank (IDB), the SBS undertook a pilot survey on access and usage of financial services to obtain information from the demand-side on the degree of financial inclusion achieved by the financial system and the barriers for the access and usage of financial services. The survey was intended to establish a baseline on the access of adult individuals to financial services and the factors affecting their use, as well as on the suitability of the products and services currently available in the market. It was undertaken in urban and rural areas of four departments, including the capital.

A second financial literacy survey has recently been launched with the support of the Development Bank of Latin America (CAF), with data collection underway. In addition to this initiative, the SBS is currently working on the development of a comprehensive study to obtain information on the level of financial education and the characteristics of the potential demand for financial services in urban and rural areas. The project aims at identifying opportunities for improving the regulatory framework and financial education programs and promoting the adoption of complementary actions by other public and private sector. Moreover, the World Bank is conducting a payment system evaluation with the aim to build an understanding of how this market actually works and which channels the people use to make its payment transactions. The results of the study will be used to refine current policies to improve the level of financial inclusion in the country.

Financial Inclusion Policy Formulation

The improvements in the regulatory framework to enhance the scope and depth of outreach of the financial system have been carried out gradually, based on the performance and response of the market. By the mid-2000s, significant progress had been observed in making microcredit available and improving the transparency of the cost of financial services. However, the limited scope of the financial sector service network was also evident. By the end of 2005 there were 3,678 service points, including branches and ATMs, serving only 21% of the total districts. The high costs of traditional channels to deliver financial services were identified as a major constraint for the expansion of the network trough branches, especially in remote and low population density areas. It was clear that alternative low costs delivery channels were necessary to foster better access to financial services.

Close coordination between the SBS and the industry led to the issuing of a new regulation, allowing financial institutions to operate through banking agents. Regulation on this matter was first developed in 2005 (SBS Circular NºB2147-2005) and then replaced by a more comprehensive resolution in 2008 (SBS Resolution Nº775-2008), outlining the requirements for using this channel and the allowed operations. Later in 2013, when the regulatory framework for E-money was put in place,[18] the SBS updated the regulation for banking agents (SBS Resolution Nº6285-2013) clarifying the difference between banking agents, agent operators and agent aggregators (entities that already exist in the market), simplifying the requirements for operating through banking agents and expanding the allowed operations so they can function as cash in/out points for e-money services. According to Peruvian regulation, banking agents or the so called “Cajeros Corresponsales” are service points operating in establishments belonging to legal entities or individuals (different from financial entities) who offer permitted services under an agreement with and on behalf of supervised financial institutions or issuers of E-money. An agent operator is defined as the legal entity or individual owner of the establishment where banking agent operates, whereas an agent aggregator is defined as the legal entity that manages agent operators.

[17] http://www.sbs.gob.pe/app/stats/EstadisticaBoletinEstadistico.asp?p=49#

[18] In January 2013, the Government passed the Law Nº29985, which regulates the basic characteristics of E-money as an instrument for financial inclusion. In May 2013, through Supreme Decree Nº090-2013-EF, the Ministry of Economy and Finance approved the regulation of the Law. In October 2013, the SBS established the regulatory framework for E-money transactions and issuer companies (Resolution Nº6283-2013 and Resolution Nº6284-2013).

There are no significant constraints on the type of establishments financial institutions may choose as banking agents,[19] provided that operators meet certain conditions, such as having no overdue debt in the system and having access to the necessary physical and human resources. Regulation also establishes that once financial institutions obtain initial authorization to use agents, prior approval for all subsequent agents is not required, thus facilitating its expansion.

Initially, banking agents were permitted to provide the following financial services: loan collection, withdrawals, transfers, cash deposits, and payments for good and services. They were also allowed to provide information about account opening and credit application, even though applying for such services through agents was not permitted. Banks were the first in using banking agents as service outlets. In the first phase of development of the agent network, most banks tended to use banking agents mainly to shift low-value transactions away from the more costly branch channel and to extend the reach of their existing branches. In this way, many of these agents were initially located near branches, in districts with an extensive presence of the financial system. In fact, data shows that during their first years of operation, banking agents were mainly opened in districts that already have access to a branch, an ATM or both. By the end of 2008, almost 36% of total districts with access to financial services had a branch, ATM and banking agent, while 14% of them had at least one branch and one banking agent as service points.

Table 2: Distribution of districts with access to branches, ATMs and banking agents

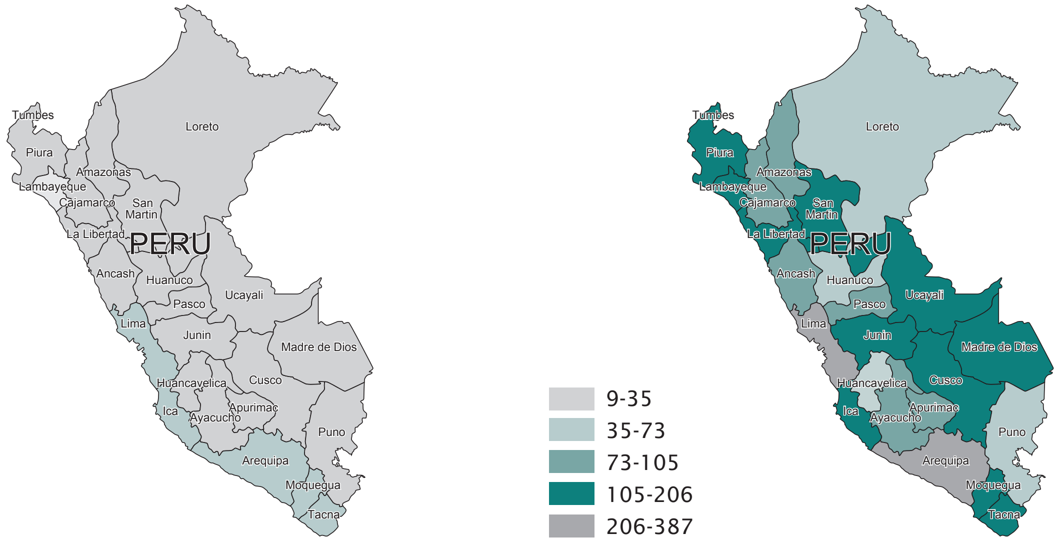
Year	2005		2006		2008	
	Number	%	Number	%	Number	%
Number of districts	1,835	100.00	1,835	100.00	1,835	100.00
Districts with access to financial services (branch, ATM or banking agent)	380	20.71	437	23.81	493	26.87
As % of number of districts with access:						
Districts with one type of service point:	**256**	**67.37**	**220**	**50.34**	**217**	**44.02**
Branch	256	67.37	186	42.56	154	31.24
ATM	0	0.00	6	1.37	16	3.25
Service Agent	0	0.00	28	6.41	47	9.53
Districts with two types of service points	**124**	**32.63**	**94**	**21.51**	**100**	**20.28**
Branch and ATM	124	32.63	21	4.81	16	3.25
Branch and banking agents	0	0.00	16	13.73	68	13.79
ATM and banking agents	0	0.00	13	2.97	16	3.25
Districts with branches, ATMs and banking agents	**0**	**0.00**	**123**	**28.15**	**176**	**35.70**

The following years were characterized by an impressive growth of the agent network across the country. The number of financial institutions using banking agents increased, while banks began to use agents to establish a presence away from its existing retail network. In addition to those agent networks, third-party platforms (recently defined as agent aggregator) appeared to link various banks and microfinance institutions to a common payment platform, which offer services on behalf of multiple financial institutions. By the end of 2010, there were 9,194 banking agents across the country and 17,488 total service points (96 per 100,000 adults), while the percentage of districts with access increased to 33% (81% of total population).

Although access was significantly improved through banking agents, these service points could not be used by financial institutions to attract new customers but only to serve existing customers. To address this limitation, considering the great performance and the very few problems reported by agents, the SBS decided to extend the operations permitted to agents, expanding commercial opportunities for financial institutions and the range of services for customers. In 2011, the SBS created a simplified regime of AML/CFT rules for low risk products and customers (Resolution SBS Nº2108-2011) and, in order to facilitate the provision of deposit accounts for the lower income segments of the population, the regulation defined “basic accounts” within the simplified regime. Basic accounts were defined as

[19] Banking agents can be pharmacies, supermarkets, internet kiosks, convenience stores and post offices, mobile service establishments, among others.

Figure 1: Number of Service Points per 100,000 adults 2006 versus 2013



low-value accounts subject to strict transaction and maximum balance limits; account balance cannot exceed the equivalent to $720 and monthly transactions cannot exceed $1,440. Given the low risk of basic accounts, banking agents were allowed to open such accounts, requiring just the presentation of the national identification document. In this way, financial institutions were also given the opportunity to incorporate new customers through banking agents.

Market response to this regulatory change was slower than was originally expected. Within two years of the introduction of simplified accounts, some pilot projects have been conducted; however, at the moment these accounts are not fully operational. It is expected that the development of mobile services will enhance the use of these accounts. In order to effectively monitor the usage of these accounts, the SBS recently modified the reporting of the number of depositors so as to reflect basic account regulatory changes. Since September 2013, deposit-taking institutions must report the number of individuals holding these accounts, along with the other types of accounts (salary accounts, saving accounts and term deposit accounts), by geographical location. Even though problems of double counting and overestimation are still present due to bank secrecy rules, this report will provide key insights on usage of financial services from the depositor side, particularly low-value accounts.

Similarly to basic deposit accounts, basic electronic accounts were defined in the framework of the E-money regulation, which can also be opened at a banking agent. Therefore, it is expected that the banking agent network will continue to grow since agents are essential in supporting cash-in/cash-out transactions, a key component in the development of mobile financial services.

Key Lessons

- Having appropriate and high-quality information about levels and trends of financial inclusion is crucial for the design, implementation and monitoring policy actions to further deepen the outreach of the financial system. In fact, appropriate data sets which accurately gauge the state of financial inclusion can help policymakers to focus their actions on specific targets, and to monitor and evaluate financial inclusion initiatives. This represents a challenge for regulators, as they must ensure the consistency, reliability, accuracy and continuity of financial inclusion data, while covering their specific data needs.
- Data collection and measurement can vary in terms of sources and scope. However, each approach is useful and complements the other. Supply-side information can easily be obtained from supervised financial institutions, but it is not able to reveal the needs of non-clients that demand-side data can reveal. While supply-side data mainly reflects the services provided to customers in the financial system, demand-side data deepens insights about the barriers faced by the un-served population to access financial services. A key challenge for regulators and policymakers is to bring the data from these two sources together for policy formulation. At the moment, several projects are underway in the SBS with the intent to ascertain and analyse the level of financial inclusion in the country, based on information not only collected from the supply side but also from the demand side. This analyzis will be used by the interagency committee for financial inclusion, formed by the SBS, Ministry of Economy and Finance (MEF), Ministry of Development and Social Inclusion (MIDIS) and Central Bank, to define the national strategy on financial inclusion.

- As financial inclusion levels improve, focus targets and data requirements evolve accordingly. In this sense, it is crucial that regulators make periodical diagnosis of available data to identify data needs and design strategies to fill the gaps. To this end, the SBS last year made a diagnosis of current reports required from financial institutions, insurance companies and private pension funds with the aim of identifying gaps in supply-side information. For instance, data gaps were identified regarding the number and volume of financial transactions, useful to understand the intensity of use of financial services. As a result, a new report was generated to collect this information.
- Finally, financial regulators should be aware that financial inclusion data might be used by different stakeholders and could encourage policy actions from different perspectives. Accordingly, a key aspect of data collection strategy is to establish mechanisms for data dissemination in order to provide useful information to market agents, taking into account their data needs. In this regard, the SBS is currently working on the development of the Map of Financial Inclusion to provide a set of diverse data, in addition to financial access data, to help policymakers and service providers in the identification of opportunities to enhance financial access across the country. Results of demand surveys will be publicly available in order to promote the adoption of complementary actions by the public and private sectors.

Global Partnership for Financial Inclusion

www.gpfi.org

The Global Partnership for Financial Inclusion (GPFI) is the main platform for implementation of the G20 Financial Inclusion Action Plan. The group engages partners from G20 and non-G20 countries, private sector, civil society, and others.
It is chaired by the G20 troika countries, currently Korea, France, and Mexico.
The GPFI is supported by three implementing partners: the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP), and the International Finance Corporation (IFC).

Alliance for Financial Inclusion (AFI)

www.afi-global.org

AFI is a global network of central banks and other financial inclusion policymaking bodies in developing countries. AFI has been given the mandate to foster the participation of non-G20 developing countries in the G20's Global Partnership for Financial Inclusion as an implementing partner.

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