

# OVERVIEW

*Financial Access 2010* is the second in a series of annual reports by CGAP (Consultative Group to Assist the Poor) and the World Bank Group to monitor statistics for financial access around the world and to inform the policy debate. The series was launched in response to the increasing interest in financial inclusion among policy makers and the development community. The first report, *Financial Access 2009*, introduced statistics on the use of financial services in 139 economies and mapped a broad range of policies and initiatives supporting financial inclusion.

Building on last year's data, *Financial Access 2010* reviews survey responses from 142 economies, updates statistics on the use of financial services, and analyzes changes that took place in 2009—a turbulent year for the financial sector in most economies. In addition, *Financial Access 2010* expands on last year's work by reviewing three policy areas relevant to the current financial access debate: financial inclusion mandates, consumer protection in financial services, and access to finance by small and medium enterprises (SMEs). The report does not intend to suggest that these three topics are the most important ones for financial inclusion. Rather, these topics are timely because much of the discussion in the aftermath of the financial crisis centered on the role of the government in financial services, financial consumer protection regimes, and the urgent need for jobs. Consequently, the report seeks to clarify the role of financial regulators in implementing policies to support the financial inclusion agenda. For the first time, it provides a detailed overview of the main features of financial consumer protection regimes, a topic of great interest to policy makers in the aftermath of the financial crisis. *Financial Access 2010* also surveys availability of data on SME financing to contribute to the global effort to improve the measurement of SME financing led by the G-20.<sup>1</sup>

*Financial Access 2010* aims to contribute to the efforts to measure financial access at the country level worldwide, to develop a consistent database, and to present the data in a coherent manner for future analyses. At the same time, the report recognizes that not all institutions that serve low-income and poor people report to the financial regulators. However, evaluation of specific policy interventions is beyond the scope of this report.

The positive relationship between financial development and economic growth is well documented in the literature.<sup>2</sup> In more recent years, the debate has expanded to include the notion of financial “exclusion” as a barrier to economic development and the need for building inclusive financial systems.<sup>3</sup> Recent empirical evidence using household data indicates that access to basic financial services such as savings, payments, and credit can make a substantial positive difference in poor people's lives.<sup>4</sup> For firms, especially SMEs, lack of access to finance is often the main obstacle to growth.<sup>5</sup>

## ACCESS TO BASIC FINANCIAL SERVICES CONTINUED TO IMPROVE, ALBEIT AT A SLOWER RATE, AS THE FINANCIAL CRISIS TOOK ITS TOLL

Nearly 60 percent of the economies experienced a contraction in real per capita income in 2009 as a result of the deepening of the global financial crisis. Worldwide volume of deposits and loans shrank, with a median decrease of 12 percent in the ratio of deposit value to gross domestic product (GDP) and a median decrease of 15 percent in the ratio of value of loans to GDP. Despite this fact, *Financial Access 2010* finds that use of basic deposit services expanded, showing a 4 percent median growth rate in the number of deposit accounts per 1,000 adults. Use of credit services suffered more from the crisis, and on average, the number of loans per 1,000 adults remained broadly unchanged between 2008 and 2009.

A simultaneous increase in the number of accounts and decrease in the value of deposits support the view that access to savings and payment services is a basic need. The use of these services is inelastic with respect to the macroeconomic conditions. This finding underscores the need to promote access to basic payments and savings services as essential tools in an increasingly digitized and globalized world.

Physical outreach of the financial system, consisting of branch networks, automated teller machines (ATMs), and point-of-sale (POS) terminals, expanded in 2009. ATM and POS networks expanded faster than bank branches. The macroeconomic situation strongly influenced changes in retail infrastructure, and economies hit by the crisis saw bank branches close.

Low- and middle-income countries lag behind high-income countries in terms of the number of bank branches, ATMs, and POS terminals. However, the number of ATMs exceeded the number of bank branches for the first time in low-income countries. New technological developments and the expansion of electronic payments through mobile and Internet banking offer hope for bringing financial services closer to clients.

Even though access to deposit services continued to expand, data analysis points to the importance of macroeconomic and financial stability for access. Further research is needed to better understand the transmission channels and potential feedback loops between financial stability and access and to identify policy solutions aiming to balance both objectives in a sustainable manner.

**FINANCIAL INCLUSION MANDATES ARE ON THE AGENDA OF MANY FINANCIAL REGULATORS AND REFORM EFFORTS ARE WIDESPREAD, BUT IMPLEMENTATION CAPACITY IS OFTEN LIMITED**

Over the past year, government interest in financial inclusion has heightened in many countries. This interest spans from promotional activities to encourage savings or access to financial services in rural areas to the establishment of new regulations or financial capability programs. Data from the *Financial Access 2010* survey show that in 90 percent of economies, at least some aspect of the financial inclusion agenda is under the purview of the main financial regulator. Consumer protection and financial literacy issues, often as a part of standard conduct of business regulations and supervision mandates, are the most common areas of focus across all income groups and regions. Financial regulators in low- and middle-income countries are more likely to focus on promoting access to deposit and credit services.

But financial regulators do not always have sufficient authority and resources to implement a broad financial access agenda. The survey uses the existence of an allocated team or unit as a

proxy for implementation capacity. On average, across the financial inclusion topics surveyed, only about 80 percent of economies with responsibility for a financial access area have an allocated team or unit implementing the policy. The capacity gap is larger in low-income countries, with the paradox that it is precisely in these economies that the agenda is broader. Taking a systematic approach and having a clear financial access strategy as an organizing principle for implementing financial access reforms may help in planning resources better. The *Financial Access 2010* data indicate that economies with financial inclusion strategies are more likely to cover more topics and have allocated resources.

**CONSUMER PROTECTION: LEGISLATION IS IN PLACE, BUT IMPLEMENTATION AND ENFORCEMENT ARE OFTEN LACKING**

One key message that can be taken from the global financial crisis has been the lack of sound financial regulations, including consumer protection. The number of legislative and institutional reforms introduced in recent years show that consumer protection has garnered the attention of policy makers worldwide. Many economies are introducing new regulations requiring information disclosure on financial products to the consumer and curtailing abusive practices against consumers. *Financial Access 2010* finds that in 118 out of 142 economies responding to the survey, some form of financial consumer protection legislation is in place.

But legislation is often broad and does not cover issues specific to the financial industry. Only half of the economies have legal provisions restricting unfair and high-pressure selling practices and abusive collection practices. The requirement to periodically disclose account information is present in half of the economies that have a requirement for account opening. In most cases, regulations do not apply to unregulated financial service providers.

Lack of resources, institutional capacity, and enforcement powers obstruct the effective implementation of consumer protection legislation. The data provided by financial regulators via the *Financial Access 2010* survey show a stark discrepancy between the stated requirements and the available enforcement powers, capacity, and mechanisms. Regulators in only about half of the economies are empowered to issue warnings or impose fines on financial institutions violating consumer protection regulations. A public notice of violation—one of the most effective deterrence tools—can be used in only about a third of economies. Regulation and supervision of consumer protection issues are often part of broader business conduct regulations and supervision mandates, with neither resources nor teams specifically dedicated to the issues of financial consumer protection. Among regulators with an oversight responsibility in consumer protection, only about two-thirds have an allocated unit or team working on consumer protection.

The success of enforcement also depends on active consumers who are willing to seek recourse when they feel they have been treated unfairly by financial institutions. Therefore, effective dispute resolution mechanisms are essential to implementation of the law. Yet such mechanisms are not very common: Only 58 percent of economies reported the existence of a third-party dispute resolution mechanism. Where available, the effectiveness of such mechanisms is hard to evaluate because not many economies keep track of the number of complaints received and disputes resolved.

#### **SME FINANCE: MANY REGULATORS COLLECT STATISTICS ON SME FINANCE VOLUMES, BUT LACK OF A CONSISTENT DEFINITION MAKES GLOBAL ESTIMATES CHALLENGING**

Ensuring that households have access to a broad range of financial services is a critical objective of the financial inclusion agenda. Expanding access to financial services to SMEs is another. For the first time, *Financial Access 2010* asked financial regulators whether they collect information on SME finance and how they define SMEs.

Financial regulators in two-thirds of economies report collecting SME finance data. In many countries, financial regulators are well placed to collect SME lending data as part of regular reporting by financial institutions. This year 50 economies provided data on the volume of SME finance using their national definition. Data analysis indicates that further efforts are necessary to define the criteria and processes for the collection of data on SME financing to facilitate cross-country comparison. The SME finance subgroup under the G-20 Financial Inclusion Experts Group,<sup>6</sup> bringing together international experts, development agencies, and governments to establish a comprehensive, consistent, and scalable framework to measure and track the progress over time of SME access to financial services in the developing world, is promising in this regard.

Based on the data provided by regulators this year, global volume of SME finance is an estimated \$10 trillion. To put this number into perspective, it is roughly two-thirds of the current size of the U.S. economy. The bulk of this estimated SME lending volume—70 percent—is concentrated in high-income OECD (Organisation for Economic Co-operation and Development) countries. The SME finance segment is small in relation to the size of the GDP in low- and middle-income countries compared with that of high-income countries. The median ratio of SME loans to GDP in high-income countries is 13 percent, compared with only 3 percent in developing countries.

#### **NOTES**

1. The Pittsburgh G-20 Summit (2009).
2. See, for example, Beck, Levine, and Loayza (2000), Beck, Demirgüç-Kunt, and Levine (2004), Demirgüç-Kunt and Maksimovic (1998), King and Levine (1993), and Klapper, Laeven, and Rajan (2006).
3. Beck, Demirgüç-Kunt, and Martinez Peria (2008b).
4. Caskey, Durán, and Solo (2006); Dupas and Robinson (2009).
5. Schiffer and Weder (2001); Cressy (2002); IADB (2004); Beck, Demirgüç-Kunt, and Levine (2005); Beck and Demirgüç-Kunt (2006); Beck, Demirgüç-Kunt, and Martinez Peria (2008a).
6. See the Pittsburgh G-20 Summit (2009), “Leaders’ Statement,” paragraph 41.