BBVA | RESEARCH

FINANCIAL INCLUSION IN ARGENTINA

DECEMBER 2016

AN OVERALL VIEW

The MIFI index

- An inclusive financial system maximizes usage and access, while minimizing the barriers that block financial exclusion (as a proxy of quality)

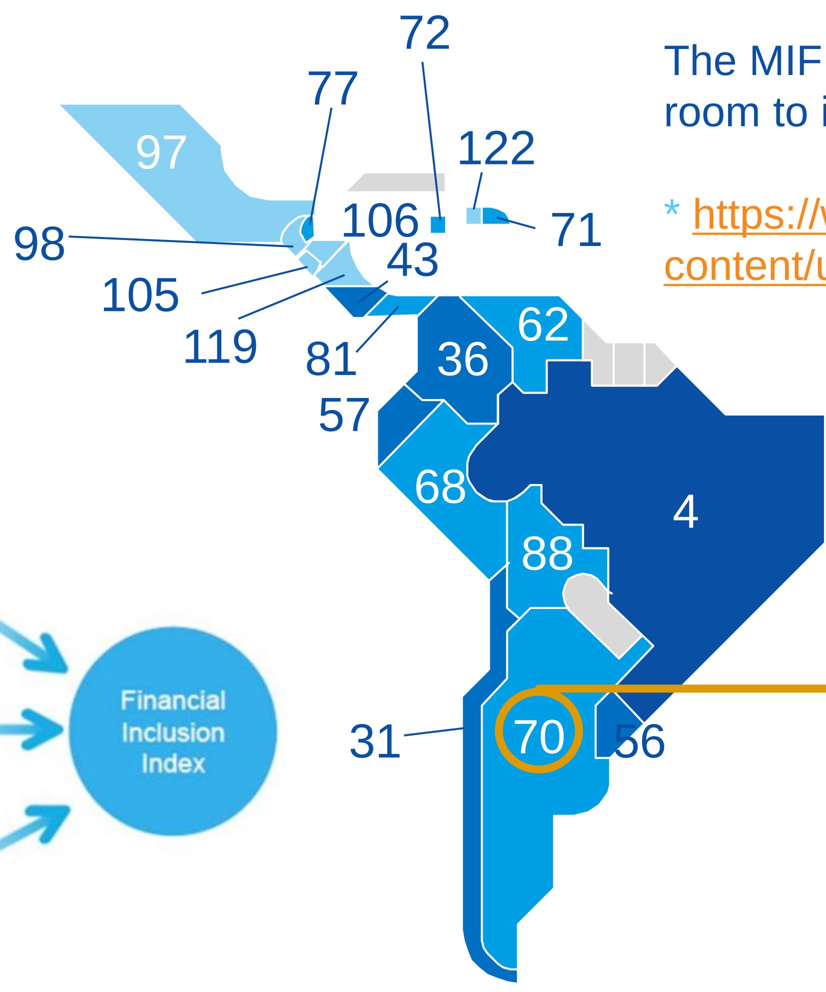
- The Multidimensional Index for Financial Inclusion (MIFI) computes the degree of inclusiveness for a financial system across economies and over time

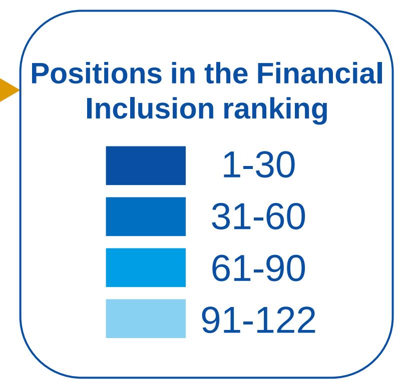
- MIFI assesses usage, access and quality across 18 indicators and 137 countries (140 for 2011). Weights assigned to the dimensions are determined endogenously by employing a two-stage Principal Component Analysis

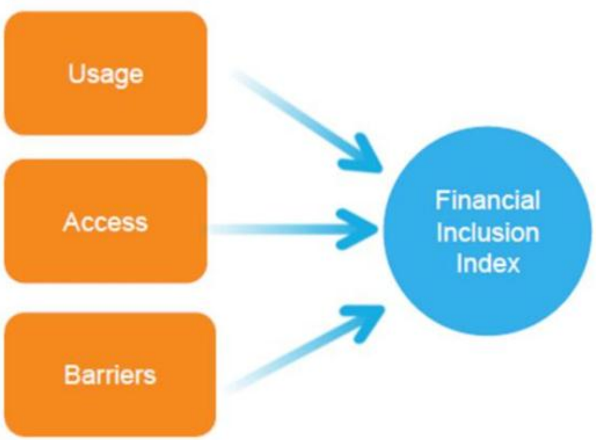
Financial Inclusion in Latin America

The MIFI* ranking shows that Argentina has room to improve in terms of financial inclusion

* https://www.bbvaresearch.com/wp-content/uploads/2016/05/180516-MIFI-ing.pdf







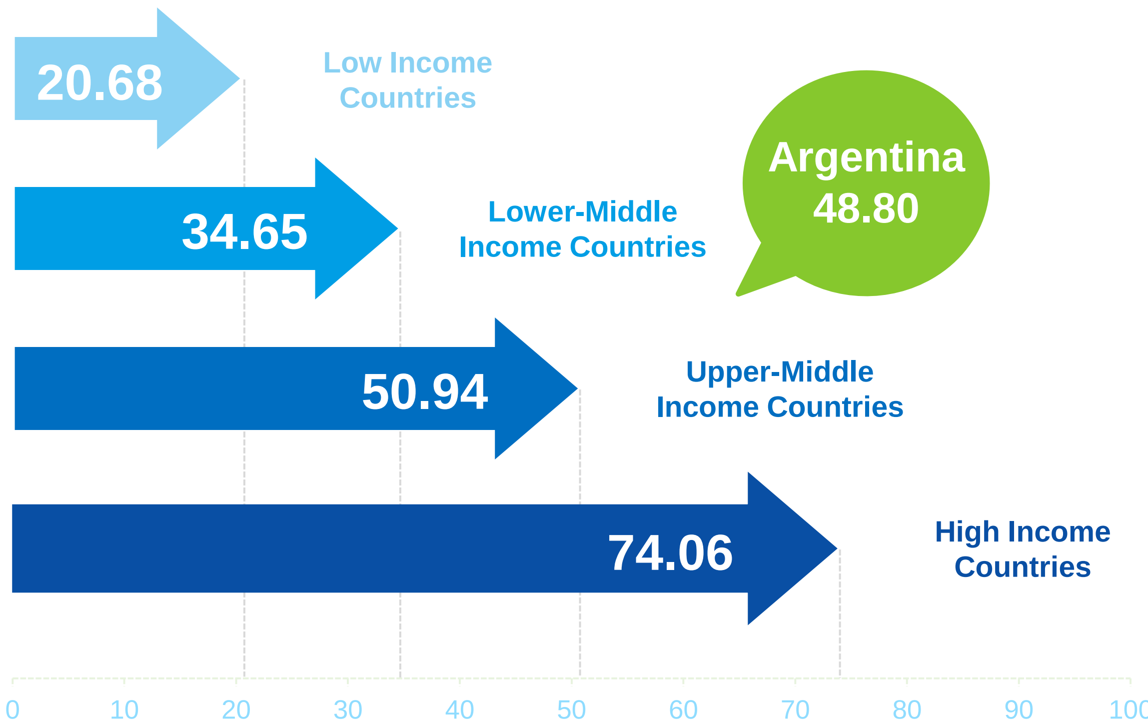
Financial Inclusion by Dimension

	Uruguay		Argentina		Peru		Chile	
Dimensions/137	Ranking/137	Δ 2011-2014	Ranking/137	Δ 2011-2014	Ranking/137	Δ 2011-2014	Ranking/137	Δ 2011-2014
FII	56	2	67	5	68	11	31	23
Use	32	7	88	4	78	1	26	30
Access	73	3	63	7	5	17	11	6
Barriers	72	1	70	12	129	0	85	11

- Usage of formal financial services is relatively low compared with its peers
- Improving access to formal financial services is key to foster financial inclusion
- There has been an improvement in perceived barriers by the unbanked

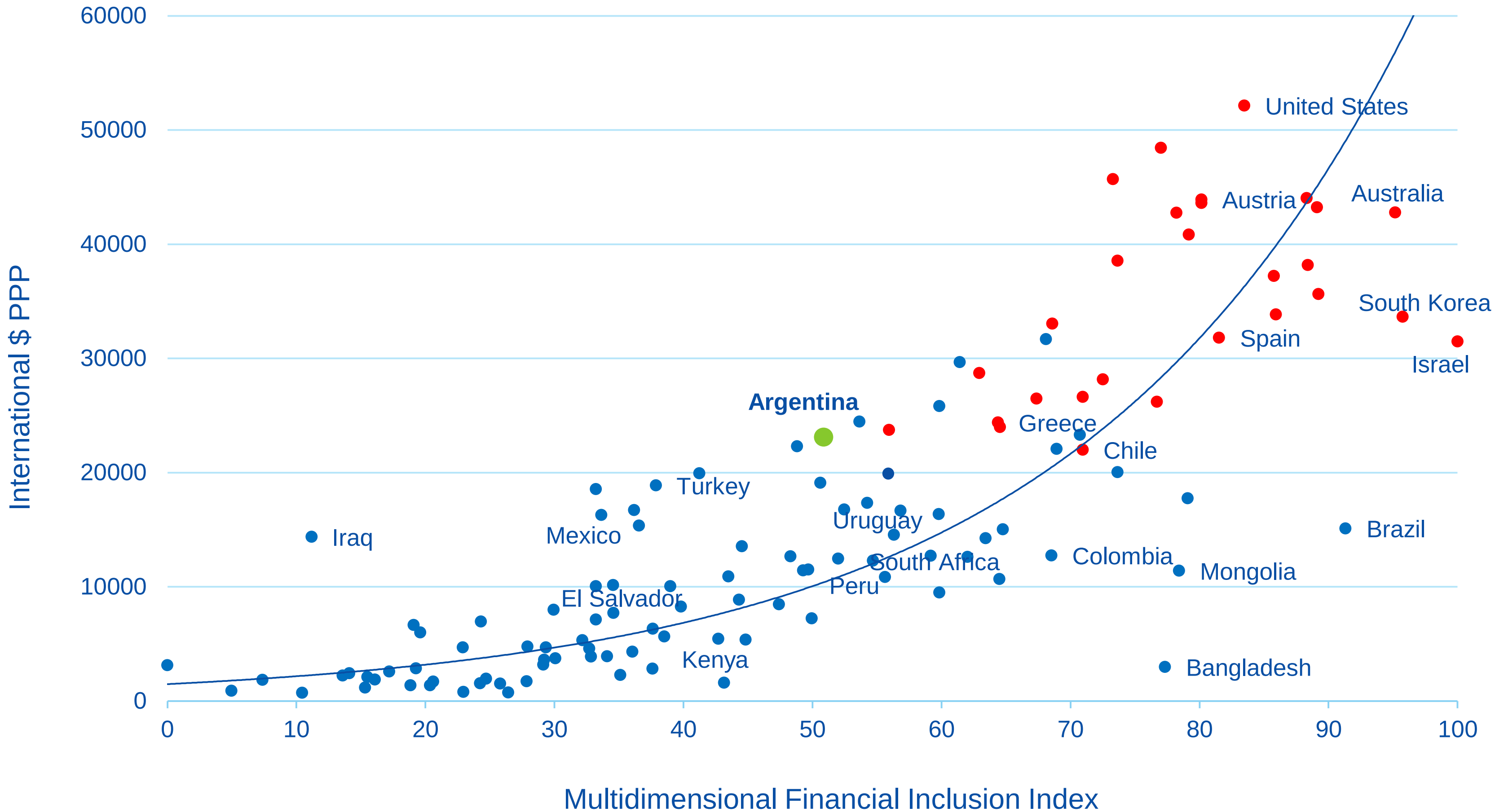
Comparison in terms of income

In terms of financial inclusion, Argentina is below the average of its income group

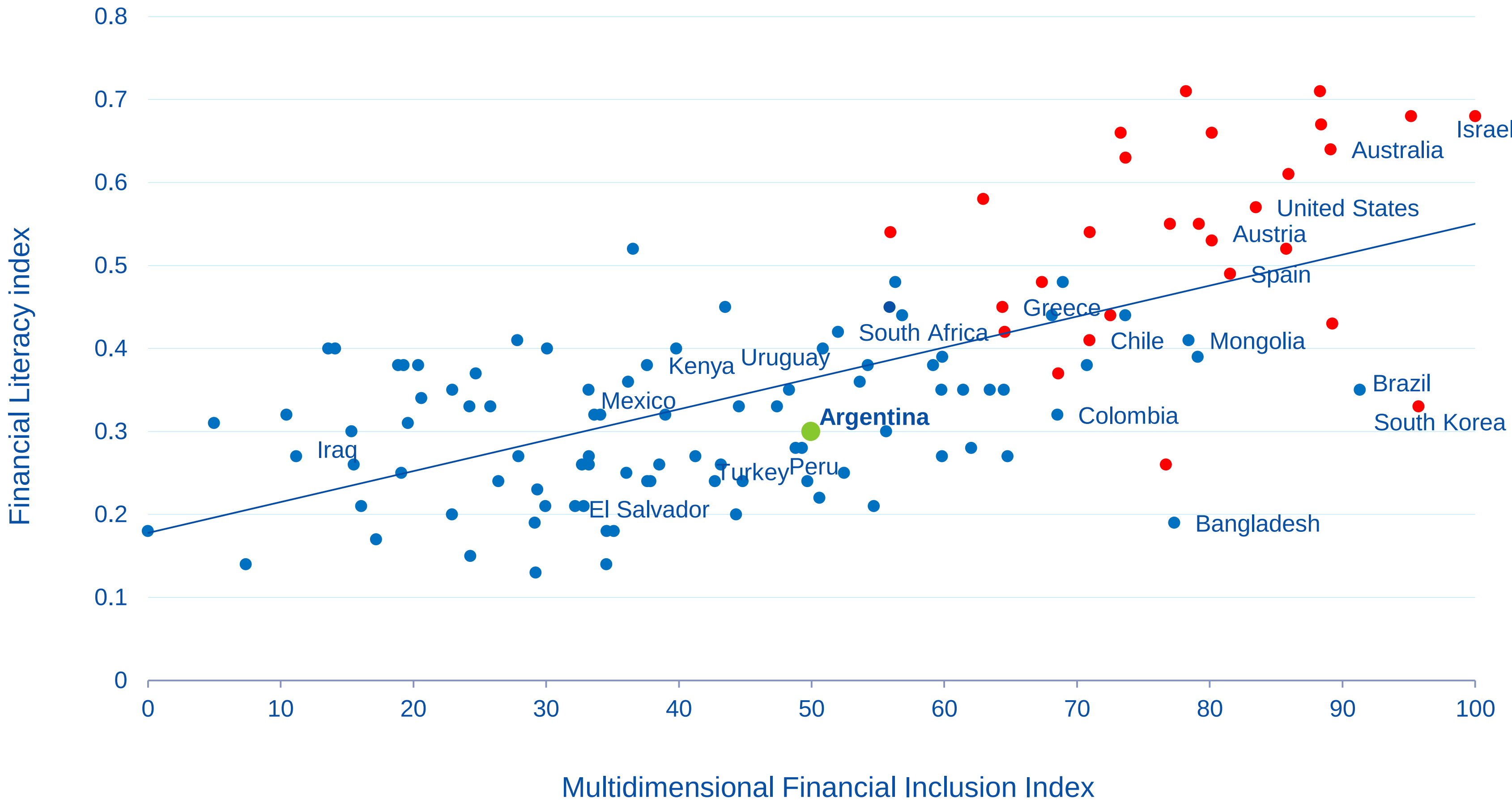


The numbers on the arrows represent the average levels of financial inclusion for the countries in each group

Financial Inclusion and Income, 2014



Financial Inclusion and Financial Literacy, 2014



* The Financial Literacy index is calculated as the percentage of adults who answer 3 o 4 basic financial literacy questions correctly. These questions are detailed in the appendix

ARGENTINA STEP BY STEP

Financial Inclusion: key Indicators

- There has been a dramatic increase in the adults with a bank account between 2011 and 2014
- It seems that bank accounts are used mainly for transactional purposes rather than saving. Borrowing has increased by 14%
- Personal access points are lees available while machine ones have increased by 24%
- There are improvements in the perceived distance, costs and trust

Dimension	2011			2014			Variation		
Usage	**Israel**	**Argentina**	**Cambodia**	**Israel**	**Argentina**	**Cambodia**	**Israel**	**Argentina**	**Cambodia**
Account	0.91	0.26	0.04	0.90	0.50	0.22	-1%	92%	450%
Credit card	0.80	0.22	0.00	0.77	0.27	0.03	-4%	23%	-
Debit card	0.08	0.30	0.03	0.33	0.44	0.05	313%	47%	67%
Active account	0.90	0.26	0.03	0.87	0.44	0.06	-3%	69%	100%
Informal savers	0.20	0.21	0.30	0.09	0.19	0.63	-55%	-10%	110%
Formal savers	0.25	0.04	0.01	0.53	0.04	0.04	112%	0%	300%
Informal borrowers	0.14	0.07	0.36	0.07	0.06	0.27	-50%	-14%	-25%
Formal borrowers	0.17	0.07	0.19	0.41	0.08	0.28	141%	14%	47%
Savings ratio	0.55	0.16	0.03	0.86	0.18	0.05	56%	13%	67%
Loan ratio	0.42	0.42	0.33	0.64	0.44	0.45	52%	5%	36%
Access	**Israel**	**Argentina**	**Cambodia**	**Israel**	**Argentina**	**Cambodia**	**Israel**	**Argentina**	**Cambodia**
ATMs	111.10	47.91	5.87	126.11	59.45	10.71	14%	24%	82%
Commercial bank branches and Banking correspondents	20.10	13.15	4.16	19.11	13.30	15.00	-5%	1%	261%
Barriers	**Israel**	**Argentina**	**Cambodia**	**Israel**	**Argentina**	**Cambodia**	**Israel**	**Argentina**	**Cambodia**
Distance	0.01	0.03	0.15	0.01	0.01	0.46	0%	-67%	207%
Expensive	0.02	0.24	0.10	0.02	0.12	0.48	0%	-50%	380%
Documents	0.02	0.13	0.10	0.03	0.14	0.51	50%	8%	410%
Trust	0.02	0.17	0.15	0.02	0.10	0.31	0%	-41%	107%
No needed	-	-	-	0.06	0.19	0.48	-	-	-

Numbers represent either proportion of adults or percentages of change, except for access that represent access points per 100,000 adults.

Source: Global Findex (World Bank), FAS (International Monetary Fund) and Camera *et al.* (2015)

Informal credit

- Both family or friends and informal lenders have little importance in terms of informal borrowing
- Credit from stores is the main source of informal borrowing and has increased by almost 90% from 2011 to 2014

	2011			2014			Variation		
Loans/year	Israel	Argentina	Cambodia	Israel	Argentina	Cambodia	Israel	Argentina	Cambodia
Loan familly or friends	0.20	0.07	0.39	0.17	0.08	0.36	-15%	27%	-8%
Loan informal lender	0.02	0.07	0.13	0.02	0.06	0.18	0%	-18%	38%
Loan store	0.18	0.04	0.12	0.45	0.07	0.09	150%	89%	-25%

Numbers represent either proportion of adults or percentages of change

Source: Global Findex (World Bank)

REGULATION FOR FINANCIAL INCLUSION

How to go forward into financial inclusion? The role of regulation

Three fundamental principles:	• Similar regulation for similar functions • Regulation based on risk • Balance between ex-ante and ex-post intervention
Go forward into 3 key regulatory areas	• Competition policy • *Level playing field* • Know Your Customer policies (KYC)

Source: Center for Global Development (2016). *Regulations for improving financial inclusion*

The regulatory framework for Financial Inclusion in Argentina

The regulatory framework for improving financial inclusion is incipient, especially compared to other countries in the region

Financial Inclusion Strategy

There is not a formal strategy for financial inclusion
In 2015, the Central Bank launched a national plan for inclusive banking

Some regulatory initiatives in recent years…

2010: Free Simplified Accounts **(*Cuenta Gratuita Universal*)** for low-income population

2010: **Simplified Know Your Customer Requirements (KYC)**

2006: Law 26.117 defines **microcredit.** However, there is not a separate supervisory and risk management framework.

The regulatory framework for Financial Inclusion in Argentina: A renewed commitment in 2016

Argentinian government and the IADB are elaborating a comprehensive Financial Inclusion Strategy

New initiatives bring about positive expectations:

Dec 2015

Institutional deal to foster financial literacy (Central Bank and Education Ministry)

Mar 2016

Simplified accounts (*Caja de ahorros*) **+ debit cards without any cost for customers**
Digital onboarding is allowed

Free electronic cash transfers (via ATMs o *home banking*)

Jun 2016

Jun 2016: Mobile payment platform. Regulation for using the mobile phone as a wallet

Regulation to facilitate the opening of new bank branches
Mobile bank branches are allowed for all banks

Sep 2016

New law to allow checks to be electronically deposited (via mobile phone)

Nov 2016

Nov 2016: BCRA authorized the opening of ***cajas de ahorros* for underage youth**, to boost bancarization and financial education

Regulatory initiatives: Basic accounts

	Argentina	Brazil	Chile	Colombia	Mexico	Paraguay	Peru	Uruguay
Regulatory framework								
Natural and legal persons								
Digital on-boarding					Only for accounts level 1&2			
Limits to number of accounts owned	System: 1	System: 1		Entity:1	None	Entity: 1 System: 2	Entity: 1 System:4	System 1
Transactional limits (USD)	• Balance: 12500 Monthly deposit: 2000	• Balance: 880 • Monthly deposit: 880		• Balance : 2000 • Monthly deposit: 750	• Level 1: 340 • Level 2: 1020 • Level 3: 3400	• Monthly deposit: 2430	• Balance: 630 • Monthly deposit: 1250	• Monthly deposit: 830 • Monthly deposit: 2850

Regulatory framework in place / Allowed by the regulation

No regulatory framework in place / Not allowed by the regulation

Please refer to the Appendix for additional explanations

Source: BBVA Research according to national regulation

The challenge: technology and regulation aligned to achieve scalability

Launch of E-money products in Latin America 2010-2015

2010
Tcho Tcho, Haiti
mPeso, Nicaragua
Tigo Money, Paraguay
Cuenta Móvil, Chile

2011
Daviplata, Colombia
Movilway Ewallet, Venezuela
Bancamigo, Guatemala
Tigo Money, Guatemala

2012
Mi Billitera Móvil, Argentina
Billetera Móvil, Peru
Transfer, Mexico
Transfer Aval, Colombia

2013
Ahorro a la Mano, Colombia
Meu Dinheiro, Brazil
Zuum, Brazil
Envíos Personal, Paraguay
Lajancasjh, Haiti

2014
Orange mPeso, Dominican Republic
Movil Cash, Panama
Tu Dinero Móvil, Peru
Plata Móvil, Colombia

2015
Olhan Conta, Brazil
TIM Multibank Caixa, Brazil
Dinero Electrónico, Ecuador
BIM, Peru
VIVA solutions, Bolivia

Adult population LatAm: 460 Million → **E-money registered users:** 15 Million → **Active users:** 6 Million → **3,3% E-money penetration**

- Only **3 out of 37** e-money products have overpassed **2 mm of users,** so far
- **The transactions variety is limited.** 70% of the operations are to reload airtime and P2P
- **Challenge: SCALABILITY**

Fuente: AMI (2016)

In 2016 mobile payment regulation that fosters the use of mobile phone as a wallet. Apps are provided by banks
There is no e-money regulation for non-banking players

Regulatory challenges

1. **To create, formally, a comprehensive regulatory framework for financial inclusion: National strategy**
2. **Private and public coordination:** central bank, commercial banks, microfinance institutions, telecommunication companies, etc…
3. **To exploit the potential of mobile financial services**
4. **Minimize the side effects created by other policies**: tax on financial transactions, credit market interventions, etc.

Thank you!

https://www.bbvaresearch.com/wp-content/uploads/2016/05/180516-MIFI-ing.pdf

APPENDIX

Aspects Considered

Use

- **Accounts**: adjusted number of holders of accounts/cards with a formal financial institution or post office out of the total population: **corrected for dormant accounts/cards**
- **Savings**: Persons who save in the formal financial system, adjusted for level of formal/informal savings in the economy. We use the ratio:

$$Ahorro_i = \frac{ahorro\ formal_i}{ahorro\ informal_i}$$

- **Credit**: Persons with a loan in the formal financial system, adjusted for level of formal/informal credit in the economy. We use the ratio:

$$Crédito_i = \frac{préstamos\ formales_i}{préstamos\ informales_i}$$

Access

- **Access points:**
  - Personal service access points: Number of **bank branches** and **correspondents** (per 100,000 adults)
  - Access via machines: **ATMs** (per 100,000 adults)

Barriers

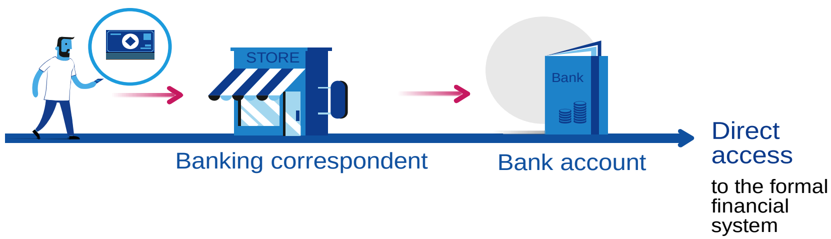
(Reasons for Involuntary Exclusion)

- **Confidence:** number of individuals not holding a bank account because they do not trust the formal financial system, out of the total population
- **Affordability:** number of individuals not holding a bank account because they find it very expensive, out of the total population
- **Distance:** number of individuals not holding a bank account because they find the access points too far away, out of the total population
- **Documentation:** number of individuals not holding a bank account because they believe they do not have the necessary documents to be able to open one, out of the total population

Classification of banking correspondents

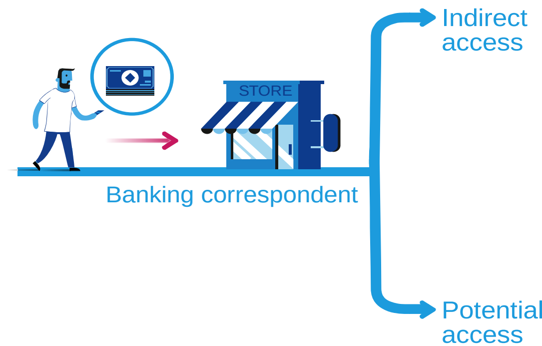
Pure

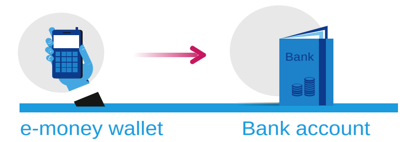
banking correspondents enter into direct agreements with banks to offer financial services on their behalf.



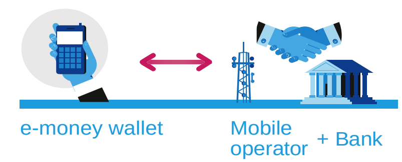
Hybrid

banking correspondents offer financial services on behalf of non-bank electronic money issuers which, at the same time, have agreements with banks guaranteeing indirect or potential access to the formal financial system.



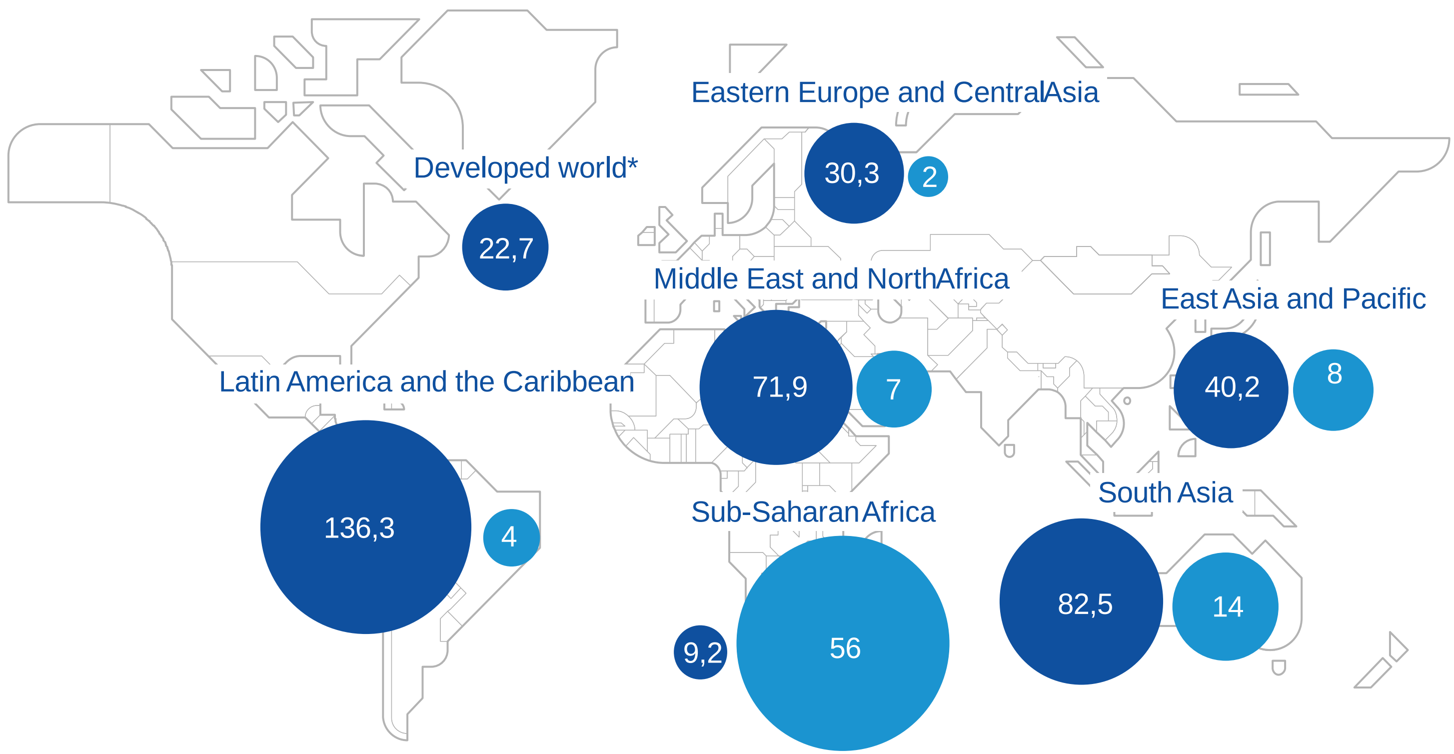


Takes place when it is possible to make transfers from e-money accounts to bank accounts. Financial inclusion depends on the demand-side taking the initiative.



Occurs when the e-money product is offered by a non-bank institution in partnership with banks. In this case, banks have access to the customers' database and may exploit it to offer banking products.

Banking correspondents 2014



● Pure banking correspondents per 100,000 adults ● Number of e-money providers that may potentially use hybrid banking correspondents

*Developed world comprises Australia, Canada, United States, New Zealand and Western European countries

Financial Literacy: The approach by Lusardi y Mitchell

- **NUMERACY**: Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

  [More than $102; Exactly $102 ; Less than $102 ; Do not know; Refuse to answer]

- **COMPOUND INTEREST**: Suppose you had 100 US dollars in a savings account and the bank adds 10 percent per year to the account. How much money would you have in the account after five years if you did not remove any money from the account?

  [more than 150 dollars; exactly 150 dollars; less than 150 dollars; don't know; refused to answer]

- **INFLATION**: Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?

  [More than today; Exactly the same; Less than today; Do not know; Refuse to answer]

- **RISK DIVERSIFICATION:** Please tell me whether this statement is true or false. "Buying a single company's stock usually provides a safer return than a stock mutual fund."

  [True; False; Do not know; Refuse to answer]

Regulatory initiatives: Basic Accounts

- **Regulatory framework**: existence of a dedicated regulatory framework for basic accounts in place in the country

  Regulatory framework in place | *No regulatory framework in place*

- **Persons and companies:** regulatory frameworks for basic accounts usually restrict the opening of these accounts for natural persons, but some countries have gone one step further by allowing the opening by small firms.

  Natural and legal persons | *Only natural persons*

- **Digital onboarding:** regulatory framework allows for the opening of basic accounts through electronic means

  Allowed by the regulation | *Not allowed by the regulation*

- **Limits to number of accounts owned.** Regulatory frameworks for basic accounts usually define a maximum number of accounts an individual may own, and this can be set either at the entity level (i.e: an individual may only own one basic account in each entity) or at the system level (i.e: an individual may only own one basic account in the entire financial system)

  System: 1 – An individual may only own one basic account in the entire financial system | *Entity: 1 – An individual may only own one basic account in each entity*

- **Transactional limits.** To match the lower requirements in terms of KYC and customer identification, regulatory frameworks usually set limits to the maximum volume of monthly transactions (*Monthly deposit*) or to the balance held in the account (*Balance*), consistent with the income levels of poor population