

Regulatory issues and financial inclusion in LatAm

David A. Tuesta

Chief Economist, Financial Inclusion

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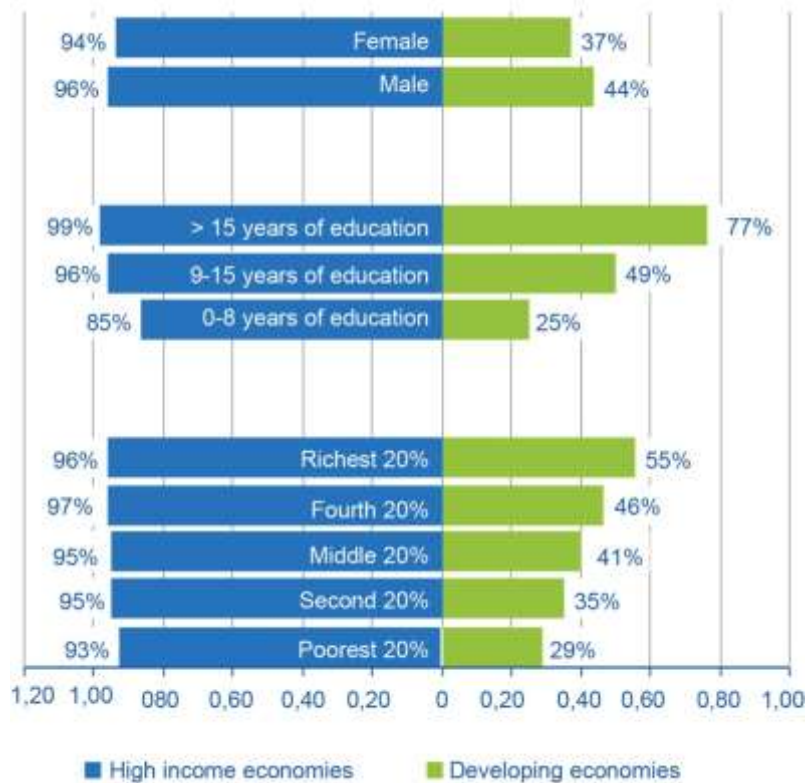
- **Financial inclusion in LatAm – the state of the art**
- Key components in FI regulation
- Introduction of regulations in some LatAm countries
- Closing comments

Financial Inclusion: significance and importance

- «... effective access to saving, credit, payments and insurance through a formal service provider» (CGAP)
- Financial Inclusion, but not at any cost. It must be sustainable and affordable
- FI's contribution to sustained growth, wellbeing, saving, women's empowerment, productive investment and reduced likelihood of falling into the poverty trap

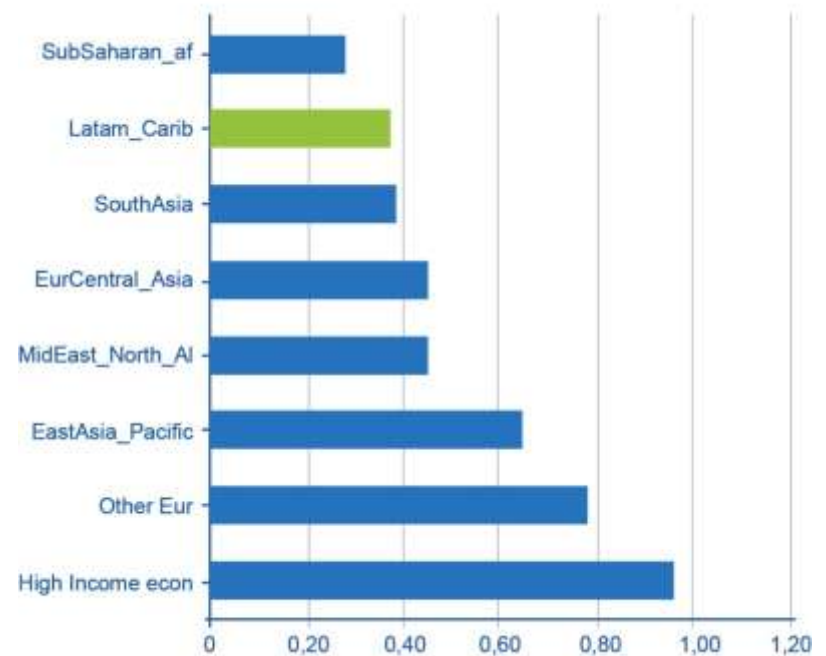
Financial Inclusion: global panorama

Financial Inclusion globally, development level and socioeconomic features



Financial Inclusion by geography

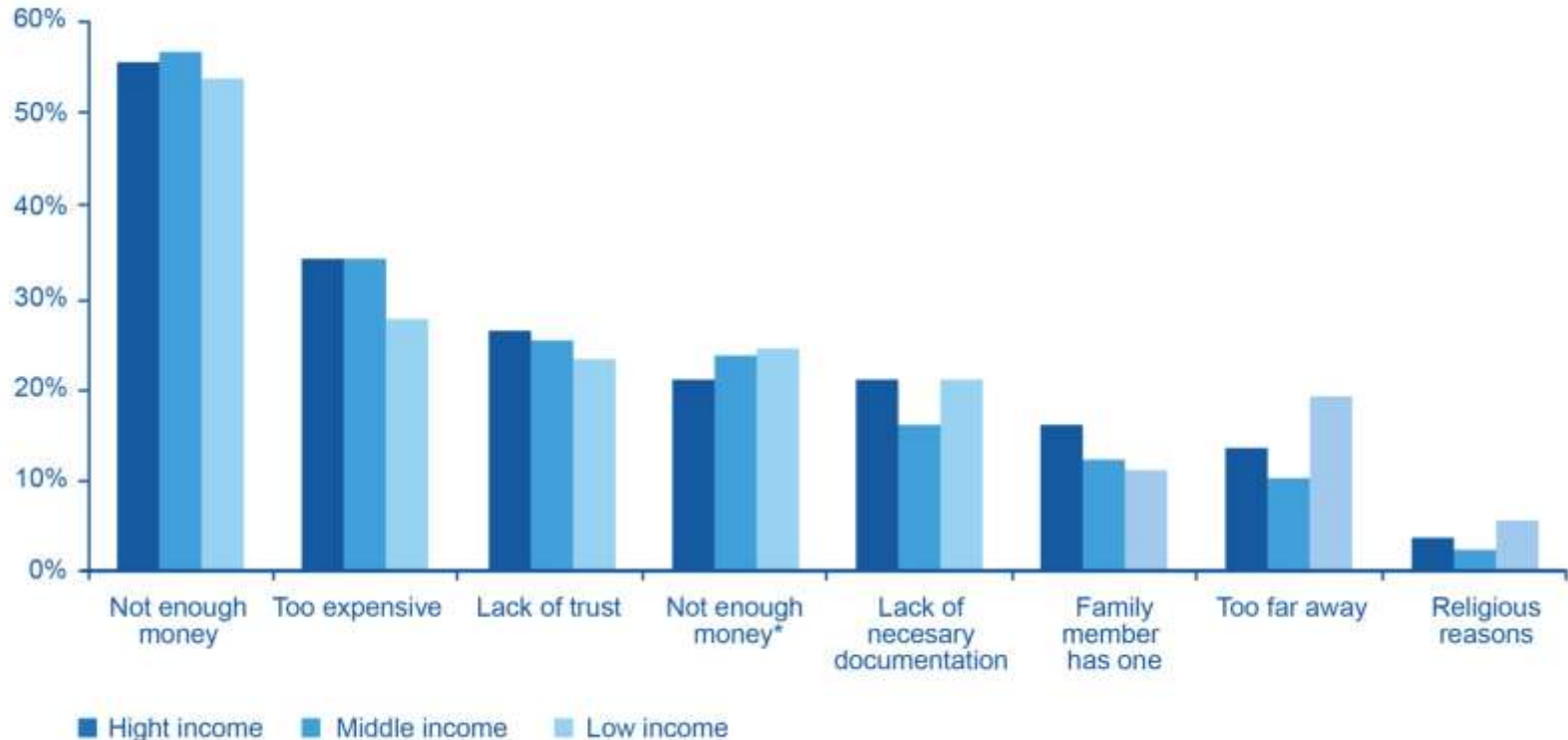
Source: BBVA Research with Global Findex



Barriers as perceived by the non-banked in Latin America - Global Findings

Multiple answers allowed

* Refers to the percentage of adults who reported only this reason
 Source: BBVA Research with Global Findex data

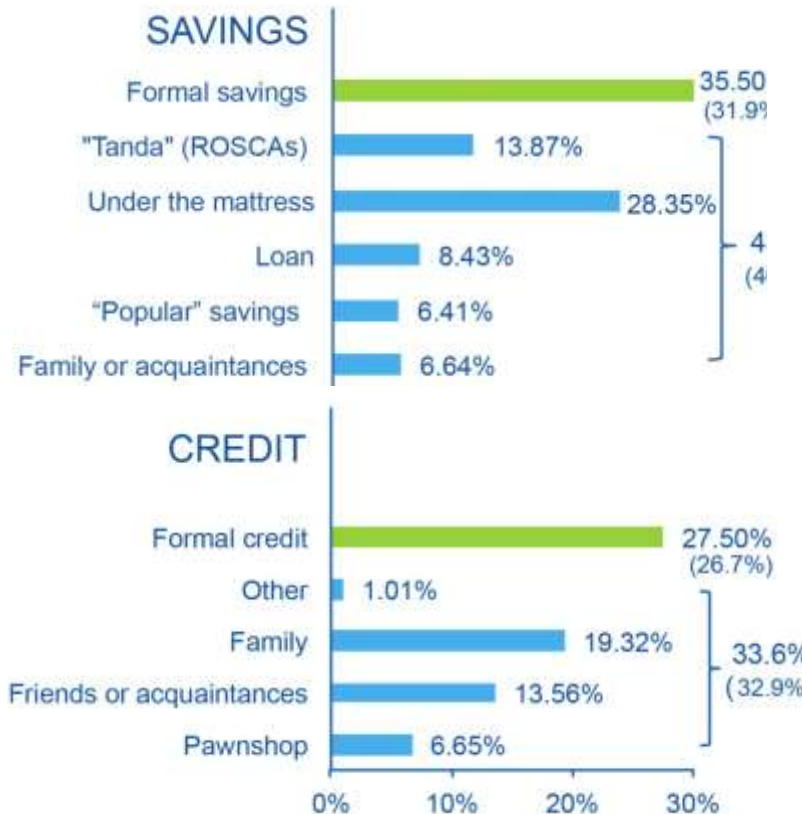


charts have numbers with commas (Spanish format)

Financial Inclusion in Mexico - ENIF

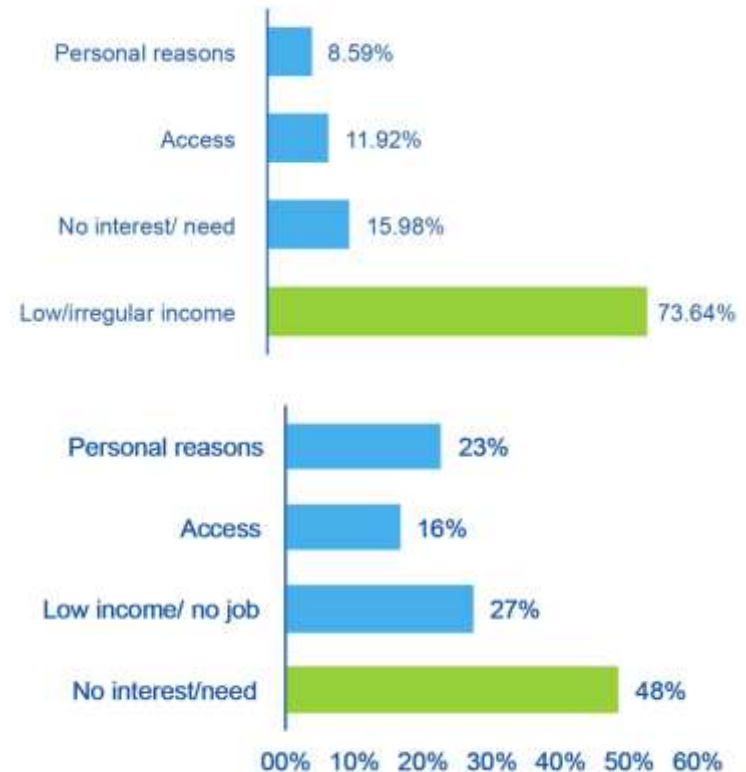
Savings methods and sources of credit

Source: BBVA Research with ENIF



Perceived barriers to using formal financial services

Source: BBVA Research with ENIF



Issues for debate

- The challenge of limited financial inclusion in LatAm
- Factors which may help to increase financial inclusion
- Barriers to financial inclusion
- What is the role of regulation?

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Important components

- **Competition**
- **Financial education**
- **Technology: its impact on channels and payment methods**
- **Consumer protection: transparency, privacy, others...**

- **Regulation**
- **“Nudges”**
- **Exclusion barriers**

Interaction between all elements. They are not mutually exclusive

Competition

- To create an environment that allows the financial services offering to be “extensive” and appropriate for the customer
- Search for the best value for money as a result of the fight between service providers to win a bigger market presence
- Market errors

Financial education

- Need to empower the consumer in decision-taking
- Consumers must feel comfortable and take responsibility for their personal finances
- Different approaches: When? Under what circumstances? Educational methodology? Expected results?
- Long-term effects

Technology, infrastructure and channels

- Technology, a multiplier for bringing the financial system closer to the customer and their experience
- Correspondents, mobile internet banking and electronic money
- The digital era
- From omnichannel banking to digital banking
- Arrival of new non-banking “digital players” offering financial services

Consumer protection

- Complexity of the financial world and its products
- Ignorance and lack of ability on the part of the customer
- Transparency
- Privacy and data protection (a more sensitive problem in today's Big Data era)

Regulation / Supervision

- Accommodating factor for the issues mentioned
- Regulation, a proactive or a reactive player?
- Regulation and its circumstances: idiosyncratic, institutional, political, factors: price controls? Limits/caps?
- KYC / AML / Macroprudential regulation / Cybersecurity / Identity / Authentication / Privacy...
- Technology and regulatory adaptation

“Nudges”

- Incentives which change the behaviour of the financial system and behaviour towards the financial system
- Fiscal incentives
- Tax incentives
- Matching schemes
- Obligatory or nearly obligatory to participate in the financial system

Barriers

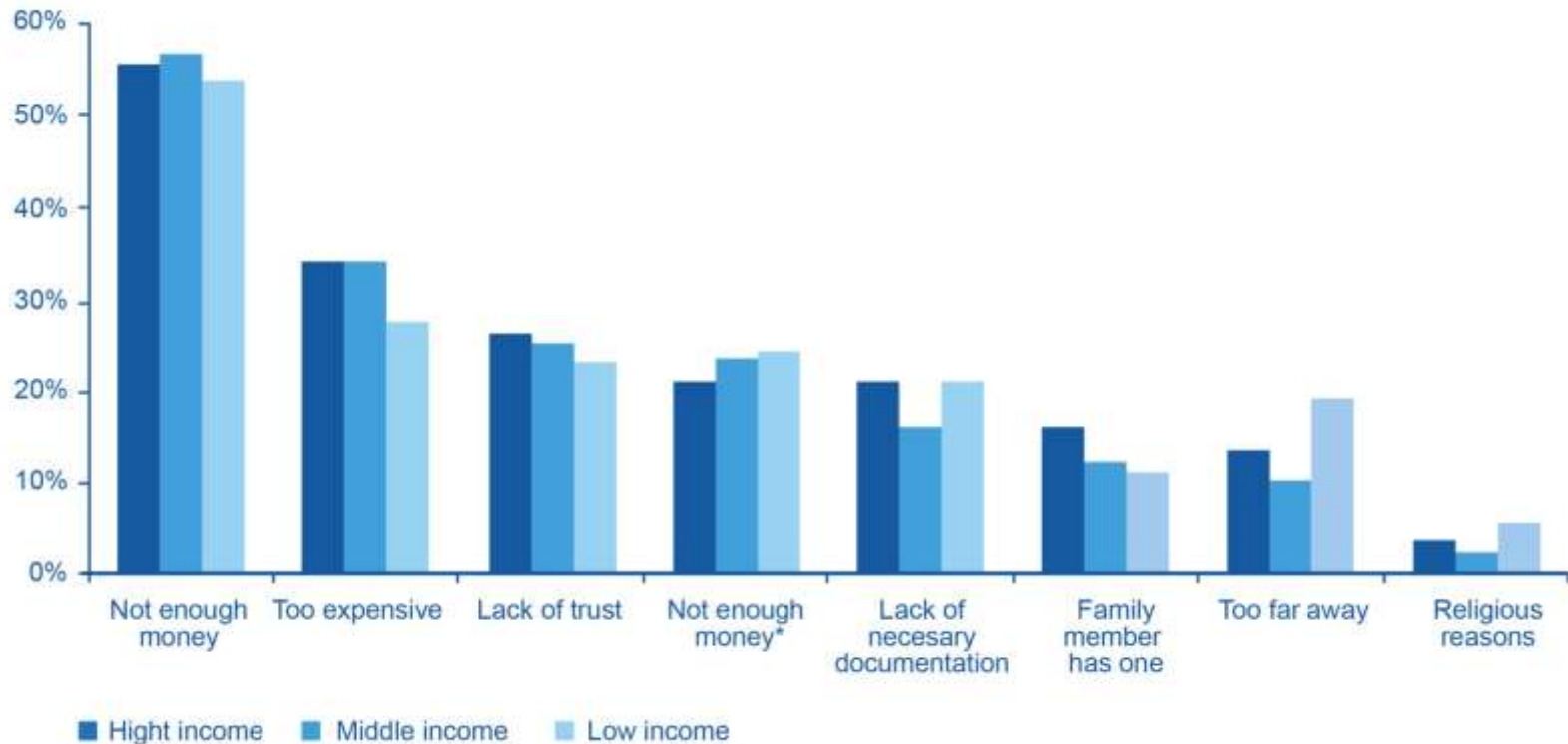
- Socio-economic barriers; income levels, trust in the financial system, cultural, religious, cost-related
- Microeconomic barriers: efficiency
- Macroeconomic barriers: wealth of the economy, stability of the financial system
- Institutional barriers: informality, failings in the social contract

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Progress in financial education

- An area where the region still has a lot of scope for continued progress
- Interesting initiatives/pilot schemes in Brazil, Chile and Mexico (recent announcement of the national programme for financial education)
- Important in defining capacitation objectives and methodology

Progress in generating competition

- Concerns about the issue. Laws and supervisory competition bodies throughout the region
- On a more practical level, we have recent FI legislation in Uruguay, Paraguay, Peru, Mexico and the proposed law in Colombia, which seeks to give room to new players in the financial services arena with simplified licences and lower entry costs (lower capital contributions, simplified regulation)
- Competition debate and “level playing field”

Progress in consumer protection

- Throughout LatAm regulators are strengthening policies to promote greater transparency in contracts, commissions and interest rates
- Particularly significant: Colombia's Transparency Law, Uruguay's law on Public Order and protection against misleading advertising, active role of Sernac in Chile, Procompetition in Venezuela and Indecopi (Peru) ombudsman for financial customers
- Simplification of commissions in Peru
- Caps on charges and commissions (particularly in Chile, Colombia, Venezuela, Paraguay). What can we expect of the caps?

Progress in infrastructure, channels, technology

- Widespread development in the region of correspondents. Regulation has been adaptable, as has progress made and use in Brazil (pioneer in the 70s and comprehensive regulation in the 90s), Colombia and Peru.
- Pushing forward in the use of basic mobile phones to conduct financial transactions (money transfers), together with complementary correspondents and electronic payment methods (cards)
- Regulations on electronic money in Brazil, Mexico, Peru and Uruguay are particularly interesting. Forthcoming law in Colombia

Regulation (1)

- Specific Financial Inclusion laws in Brazil, Peru, Paraguay and Uruguay. Law in progress in Colombia
- Pushing forward in the concept of proportional regulation
- AML and KYC
- Facilitation for progress in electronic money and correspondent agents
- Interesting initiative in Uruguay with mechanisms for incentivising and obligation in the financial system, on both the supply and demand sides

Regulation (2)

Promotion of electronic money, with three regulatory models in the region:

1. Electronic Money is treated like a **banking deposit** and as such **can only be offered by banks**, although the law can permit regulation with simpler compliance for banks specialising in electronic money (as in the case of Mexico)
2. Electronic Money **is not classified as a deposit** and may be **offered by a non-bank** under a supervisory authority's licence (as in Peru and Brazil)
3. Electronic Money **is classified as a deposit** but can be **offered by a non-bank**, thus generating interest rates, and is thus subject to deposit insurance regulations (forthcoming law in Colombia)

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Closing comments

- Financial inclusion is starting to take an important position on global policy agendas and of course on those in Latin America
- There is a necessary level of concern in LatAm in view of the low level of banking penetration in the region
- Key elements for progress in the area of regulating financial inclusion that must be borne in mind: (1) contributory factors (competition, financial education, infrastructure and consumer protection); and (2) exclusion barriers

Closing comments

- The introduction in certain countries of incentives and requirements to use the financial system is an interesting development
- The part regulation has to play: interventionist or facilitating. Thoughts on the caps for interest rates and commissions and the help or harm they do to financial inclusion
- Regulations in the past few years have intensified in LatAm with the presence of exclusive financial inclusion laws strongly underpinning proportional regulation and supported by development of products using mobile banking and correspondents

Thank you very much
david.tuesta@bbva.com

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