ASPECTS ON FINANCIAL ACCESS

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Abstract

Financial inclusion—providing access to financial services for all— has gained prominence in the past few years as a policy objective for national policymakers, multilateral institutions, and others in the development field. To assist policymakers in designing effective policies and register global progress in financial inclusion, there were collected indicators of financial access in countries around the world, respectively over 190 countries. It presents indicators of access to savings, credit, and payment services in banks and in regulated nonbank financial institutions— reviewing some policy initiatives that support financial inclusion. Measuring access— getting more and better data on regulated financial institutions is a first major step in setting up strategies and policies. To guide monetary policy and monitor systemic risks, financial regulators in all countries collect information on the values of deposits and credit. But the studies indicate that fewer than 70 percent of countries collect information on the number of bank deposit accounts. And even fewer countries have information on regulated nonbank institutions—only 30 percent of countries could provide information on the number of deposit accounts in cooperatives, specialized state financial institutions, and microfinance institutions. Data on the number of loans are even more limited. The first step is to start regularly collecting a set of standardized indicators for all regulated financial institutions in a country. These indicators include the number of deposit accounts and loans, the number of deposit clients and borrowers, and the number of financial access points, such as branches, agents, and automated teller machines. Regulators can facilitate data collection by setting clear guidelines for reporting key access data and weighing the benefits of better data with the costs of compliance. Similar to the approach for monitoring systemic risks, a focus on larger institutions is justified, especially among nonbank financial institutions, which often lack necessary systems to report the data.

Key words: finance, microfinance, credit.

In order to design effective policies and to realise progress, policymakers need to measure financial access. There is no consistent set of global financial access indicators to allow both comparison across countries and over time while a growing number of countries collect data on the availability and use of financial services,. The World Bank, analyse the most recent and comprehensive set of global financial access indicators collected through a regulator survey in 139 countries. It must overcome the challenges in collecting comprehensive global indicators and describes the access to financial services in countries around the world.

Differentiating between the access to and use of financial services is a basic challenge in measuring financial access. Individuals may choose not to open a bank account or to borrow even if these services are available, reducing use relative to access. Such voluntary exclusion is difficult to measure, however, because it is not directly observable. So, researchers rely on indicators of use as an approximation for access.

MATERIAL AND METHOD

The question is what are the best indicators of financial access? In a perfect conditions they would be the numbers of people, households, and firms saving, receiving credit, making payments, and using other financial products from various sources, both formal and informal. These indicators would allow a breakdown by income, firm size, and location. And if they were collected regularly using a consistent methodology, they could be compared across countries and time. But such global indicators do not exist today.

For several countries some access indicators are available from country level household and enterprise surveys. These surveys provide a wealth of information on household and firm behavior and are used for setting and evaluating policies for improving access to finance at a national or subnational level. There is growing number of countries implement national household surveys that now include questions about financial access.

It appears to be difficult or impossible to compare survey results across countries because of differences in questions and methods.

There are other limitations also. Most national surveys are not conducted regularly and may not be comparable from year to year, because questions and household samples change over time. Household surveys are costly, often requiring interviewers to travel across the country to collect the data. They can take a year or more to implement. And there are problems about sampling and the representativeness of results, especially in large countries.

An alternative is to collect information on the use of financial services through regular reporting by financial institutions to the financial regulator, so-called supplyside data. Many financial regulators collect information on the number of deposit accounts and the number of loans. Closely correlated with the data from household surveys,

Such data can be a good basis for indicators of access to financial services. So, a growing number of countries collect these data regularly as part of standard reporting. This is the approach used by World Bank reports.

RESULTS AND DISCUSSIONS

There are several advantages to using data collected by regulators as a basis for global financial access indicators. First, the approach helps ensure data consistency over time because the data are collected monthly or quarterly by the regulator using a consistent methodology and can be cross-checked with other databases available to the regulator, such as credit registries. Second, it is not subject to potential sampling biases, because data collection through standard reporting covers the entire regulated financial system. Third, regulators gather data on actual financial obligations, reducing potential inaccuracies related to mistakes and omissions by survey respondents. Fourth, the cost of collecting such data is relatively small because it leverages existing data collection processes. The basic financial access indicators are relatively easy to calculate and report for institutions using standard information systems.

But supply-side data have limitations. They cover only the regulated financial system, excluding informal financial services, which can have a larger number of clients, especially in low-income countries. In addition, the number of accounts in the financial system often overstates the number of account holders by a factor of two or more due to multiple accounts. Even in countries that count the number of depositors and borrowers, it is usually impossible to avoid doublecounting individuals with accounts and loans in multiple institutions or counting a large number of dormant accounts. Moreover, many regulators do not collect financial access data, or do so only on an ad hoc basis.

For credit this problem can be solved by extracting data from credit registries. A credit registry merges information at the loan level to provide the consolidated debt for each borrower and can provide the total number of unique borrowers and their respective debt. Such aggregation is not possible for deposits, because information on deposits in most countries is protected by strong bank secrecy provisions, making it impossible to collect data on individual deposits and deposit holders.

Overall, however, using household surveys in combination with regulatory data can improve data consistency and quality. By systematically collecting regulatory data using a consistent methodology, regulators can routinely monitor developments in financial access. Harmonizing the methodology for key financial access indicators would also allow for a more precise international comparison and analysis.

Modern financial systems are complex, featuring great variety in regulated and unregulated financial service providers. Few countries have a single central supervisor or coordinating entity for all financial institutions. But the main financial authority, usually a central bank or bank supervisory agency, regulates nonbank financial institutions along with banks in about half the world's countries. The financial access survey conducted by World Bank collected information on a broad range of regulated financial institutions in 139 countries through a questionnaire to the main financial regulator, such as a central bank or a bank supervisory agency. When possible, the main financial supervisor also provided the data on regulated nonbank financial institutions supervised by other agencies in the country.

There are many types of regulated financial institutions in a country. To facilitate international comparison, it is neccesary that regulators to provide data grouped in four broad types of regulated institutions: banks (including state-owned banks), cooperatives and other member-owned organizations, specialized state financial institutions, and microfinance institutions. It collected information on selected financial policies and statistics on the number of deposit and loan accounts, the number of depositors and borrowers, and the value of deposits and loans.

If we took into accounts commercial banks, empirical study indicates that the data on use of financial services are not always available, even for banks, and much less for regulated nonbank financial institutions. Data on values of loans and deposits in commercial banks are the most comprehensive, available for more than 90 percent of countries. This information, part of standard reporting, collected from bank balance sheets, is used to monitor systemic risks and guide monetary policy—the core objective of a central bank. Information on the number of deposits is collected in only 64 percent of countries, and that on loans in only 50 percent. Developing countries collect these data more often than developed countries do.

The best indicator for measuring access to financial services is the number of depositors and borrowers. But only about 20 percent of countries surveyed have data on the number of depositors or the number of borrowers. Even when collected, the data for the total number of depositors double counts those with accounts in multiple banks. For credit the doublecounting can be solved by extracting data from credit registries, where available. Credit registries that merge information at the loan level to provide the consolidated debt for each borrower can provide the total number of unique borrowers and their respective debt.

Talking about financial cooperatives, an important provider of financial services around the world, are regulated by a financial regulator in only half the countries surveyed. In the other half they are either not regulated (25 percent) or are regulated by other ministries (17 percent), such as ministries of cooperatives. These ministries supervise all types of cooperatives, and few have the capacity to supervise all of them. In the developed countries, financial cooperatives evolved into mainstream financial institutions, and regulators differentiated them between the supervision of cooperatives and banks. In 76 percent of high income countries the bank regulator also supervises cooperatives, compared with 53 percent in developing countries.

Even where financial cooperatives are regulated, few countries can provide data on financial access. Where they are supervised by the main financial regulator, fewer than 60 percent have data on the values of deposits and loans, and just a third on the number of accounts and loans. The significant difference in data availability by region reflects varying levels of sophistication among cooperatives. Latin America has the best data coverage, with 80 percent of countries collecting data on values and 60 percent on numbers of loans and deposits. In Sub-Saharan Africa only 3 of 15 countries where the financial authority regulates cooperatives had data on numbers of deposits and loans. Many cooperatives are small, some struggle with basic accounting, and few have a management information system. It may not be possible to collect comprehensive data on all cooperatives, but many large cooperatives in most countries can provide data.

Specialized state financial institutions operate in more than 60 percent of the countries surveyed and range from non-deposit taking wholesale lending facilities to non lending postal banks. In 48 percent of these countries the main bank regulator supervises specialized state financial institutions. In 14 percent these institutions are supervised by other government agencies, such as ministries of finance for development banks and ministries of post and communications for postal banks. Even though specialized state financial institutions are an important provider of services, very few countries can provide data on the outreach of these institutions.

Defined not by the type of institution but by the market segment served is a specific challenge in measuring microfinance. For example, many cooperatives operate in rural and poor areas and provide microfinance services. In some countries banks enter the space traditionally served by microfinance, such as in India, Kenya, Indonesia.

In 57 countries microfinance institutions, usually deposit-taking, are defined for regulation purposes as a separate institutional type and regulated by the main financial authority. In at least 10 countries multiple forms of microfinance institutions exist, with at least one form regulated by another authority, such as the ministry of finance. Microfinance institutions are supervised by the main financial authority in more than 40 percent of developing countries. An exception is Africa, where central institutions than for other regulated institutions. Only a third of countries had data on the number of loans. Given the social focus of most microfinance institutions and their objective to improve outreach, they usually monitor the numbers of their borrowers and savers, as demonstrated by their self-reporting of such data to the Microfinance Information Exchange. Asking microfinance institutions to routinely report these data to the regulator could be valuable for monitoring access to financial services for the poor. But as for cooperatives, the regulator's ability to collect comprehensive data on microfinance institutions is constrained by limited resources and capacity.

CONCLUSIONS

There is no substitute for reliable data, so it is neccesary to improve data collection for measuring access.

Collecting country information on the use of financial services is essential to register progress and set priorities for action for national and international bodies. Regulators can facilitate data collection by setting clear guidelines for reporting key financial access data and by weighing the benefits of better data with the costs of compliance for different financial institutions. Similar to the approach for monitoring systemic risks, a focus on larger institutions in terms of the number of clients is justified, especially among nonbank financial institutions, which often lack systems to report the data. Where different regulators supervise various types of financial institutions, better coordination is needed to gather the data on access in the entire regulated system.

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