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THE STATE OF FINANCIAL INCLUSION IN PERU: REPORT ON THE RESULTS OF FINDEX 2011*

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INTRODUCTION

The World Bank's Global Financial Inclusion Index (Global Findex), which is based on surveys of more than 150,000 people in 148 of the world's economies,¹ is designed to aid in understanding the state of financial inclusion in the participating countries. With these surveys and the subsequent development of indicators, the state of financial inclusion in each country was assessed; these data also allow comparisons between countries or regions.

The importance of such an effort lies in the new strategies being implemented, mainly in developing countries, to move people out of poverty and extreme poverty. Many countries have launched poverty-reduction policies based on strategies that draw people into different markets, including the financial market, on the premise that access to services such as savings and insurance will help them cope with negative events and avoid reversals in income levels or asset accumulation. The use of credit is also important for starting and strengthening new enterprises and businesses.

The Findex results for Latin America and the Caribbean (LAC) are mixed, depending on the country and its level of development; that is also true for Peru's results, which are near the LAC aver-

* The complete document is available at the Capital Project: <www.proyectocapital.org>.

1. <<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTFINRES/EXTGLOBALFIN/0,,contentMDK:23172731~pagePK:64168182~piPK:64168060~theSitePK:8519639,00.html>>.

** With the collaboration of Lucas Stiglich.



age in some cases and far below the average in others.

This *Inshort* provides an initial analysis of the indicators reported by Global Findex for Peru, analyzing them and the progress that is being made in financial inclusion in the country.

ANALYZING THE GLOBAL FINDEX INDICATORS FOR PERU

Peru shows low access to accounts in formal financial entities

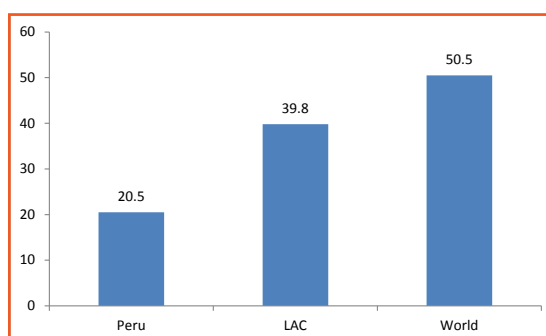
One of the first and most important results that should be highlighted – related to analysis of financial inclusion – is that barely 20 percent of the population age 15 and over has access to an account in a financial institution; this means that of every five people age 15 and over, four have no account in any formal financial institution.² In terms of population, according to Findex, just 3,810,925 Peruvians age 15 and over have accounts in a financial institution. This figure is 19 percentage points below the LAC average (39 percent) and 30 percentage points below the world average (50 percent).³

2. According to the Census, there are 19,054,624 Peruvians age 15 and over.

3. We must remember that averages conceal significant results in countries that are more developed in the area of financial inclusion. In LAC, the country with the best result is Brazil, where 56 percent of people ages 15 and over have access to an account in a formal financial entity, followed by Costa Rica with 50 percent. Nicaragua and El Salvador have the worst results, both with just 14 percent of people age 15 and over having access to an account in a formal financial entity.

Figure 1

People with accounts in a formal financial institution in Peru, Latin America and the Caribbean, and the world (%)



Source: FINDEX 2011

Compiled by authors

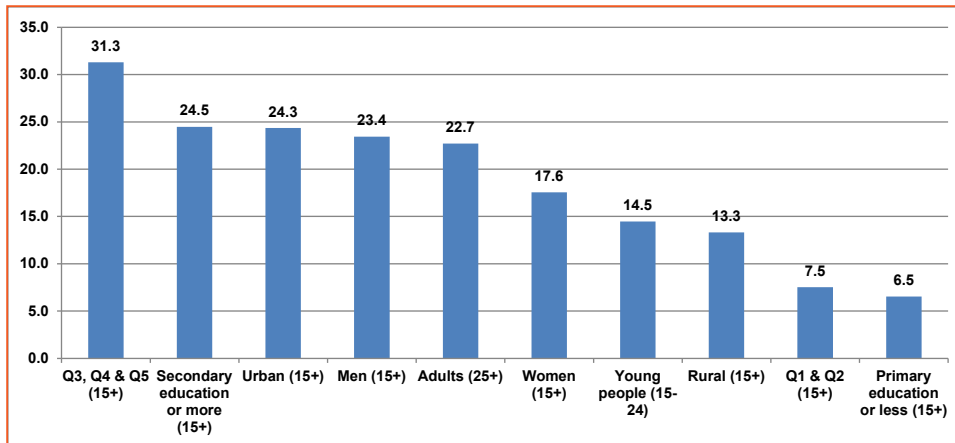
This situation, however, is not uniform among the various demographic groups. If the population is grouped by characteristics (income, education, age, gender, geographic area), some groups show a higher percentage of people with accounts, while in other groups, the rate of affiliation with accounts in formal institutions is miniscule.

The most significant differences are related to income and education

According to the analysis of income quintiles used by Global Findex, 31.3 percent of people in the three highest income quintiles have an account in some formal financial institution, compared to 7.5 percent of the people in the two lowest income quintiles. This contrasts with global results, where 47 percent of people in the two lowest income quintiles have an account in a formal financial institution, while the rate for LAC is 25 percent.



Figure 2: People with an account in a formal financial institution (%)

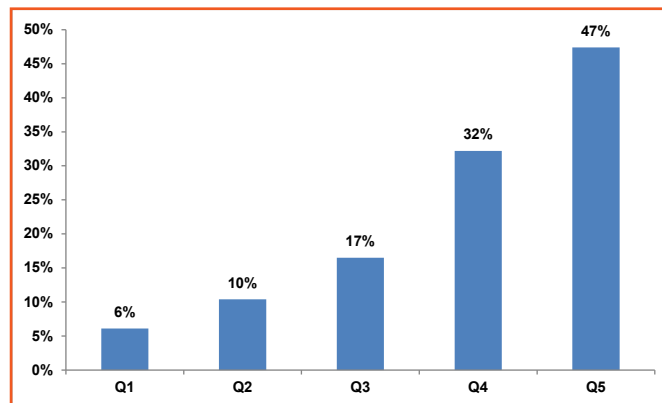


Source: FINDEX 2011
Compiled by authors

Further exploration of the differences by income level shows that the percentage of people who have an account in a formal financial institution increases steadily as income increases: quintiles with higher incomes have higher percentages of people with accounts in a formal financial institu-

tion. In the highest quintile, 47.4 percent have accounts in a financial institution, a figure very close to the global average (50.5 percent), while in the lowest quintile, only 6.1 percent have accounts in a formal financial institution.

Figure 3
Percentage of people with account in a formal financial institution, by income quintile



Source: FINDEX 2011
Compiled by authors

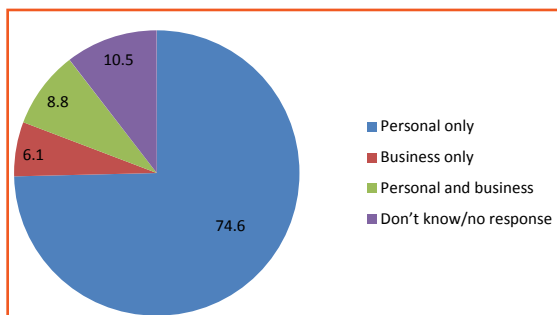
Analysis of the gap in terms of education (see Figure 2) shows an equally stark difference: while 24.5 percent of people who have completed secondary school have at least one account, a figure

below the Latin American average (42 percent), among those who have completed primary education or less, that figure drops to 6.5 percent, far below the average for Latin America (30 percent).

In Peru, most people who have accounts use them to receive wages

Among people who have at least one account, the main reason for having it is to carry out personal transactions (83.4 percent), rather than for business (14.9 percent).

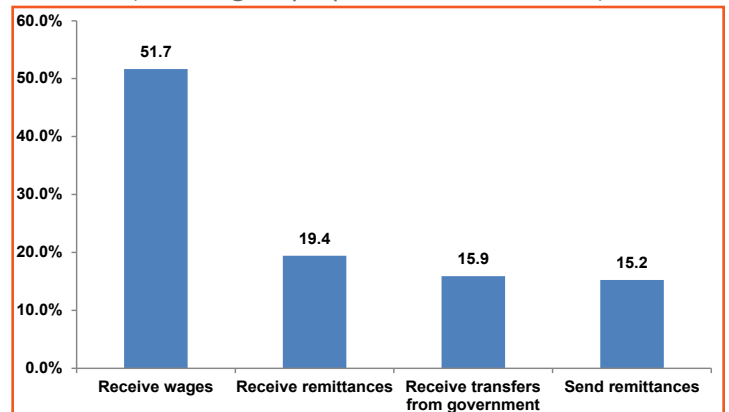
Figure 4
Use of account
(Percentage of people who have an account)



Source: FINDEX 2011
Compiled by authors

In addition, more than half the people who have accounts tend to use them to receive their wages (51.7 percent), which suggests that most of the people interviewed opened their accounts because their employers required it (and not of their own initiative). Also of concern is that accounts are rarely used to receive and send remittances: approximately one of every five people (19.4 percent) uses his or her account to receive remittances, and 15.2 percent use them to send remittances. This also points to the informal circuit in which resources sent to and from the households of migrants (international and national) are handled.

Figure 5
Types of recurrent transactions
(Percentage of people who have an account)



Source: FINDEX 2011/ Compiled by authors

It is also important to note that 15.9 percent use their accounts to receive funds from recurring transactions with the government, either because they provide some product or service to government agencies or because they participate in social programs. In that sense, the government plays an important role as a promoter of financial inclusion in the country.

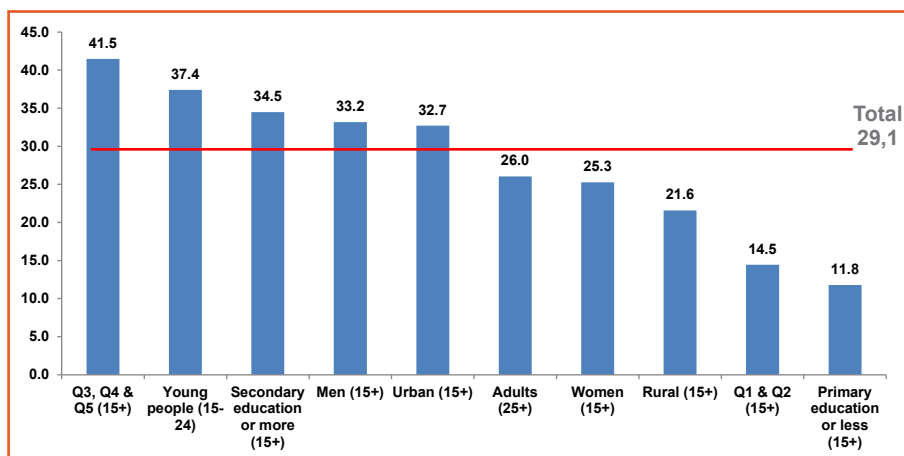
A percentage of savings is not captured by formal financial institutions

Findex shows that 29.1 percent of people said they had saved money during the year before the survey; nevertheless, only 13.4 percent of respondents said they had saved in a formal financial institution during that period. This shows that there is a willingness to save, but only a small amount is captured in formal financial institutions.

Once again, we also see that people with low incomes and those with low educational levels save the least; while 41.5 percent of people in the top three income quintiles saved during the year before the survey, only 14.5 percent of those in the two lowest income quintiles did so. And while 34.5 percent of people with a secondary education or more saved in the past year, only 11.8 percent of those with a primary education or less did so.



Figure 6
People who saved money in the past year
(%)



Source: FINDEX 2011
Compiled by authors

In Peru, the people with the highest incomes and young people are the groups in which a larger percentage of people saved in the past year.

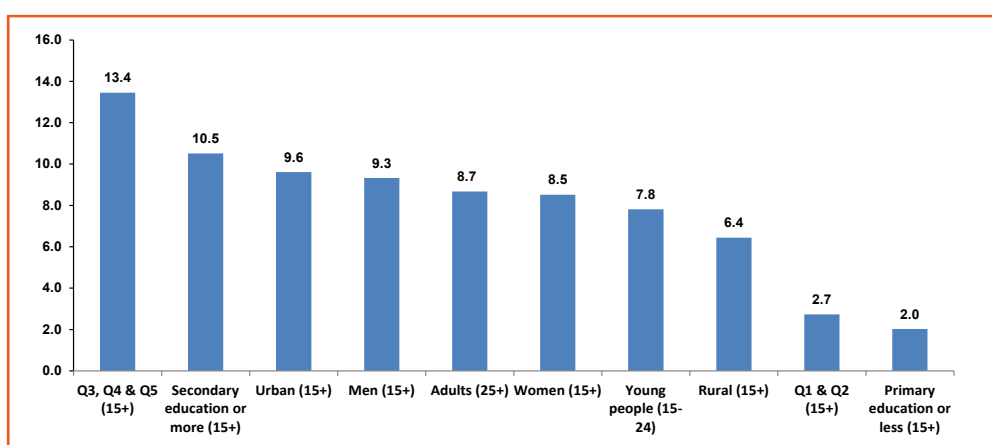
Analysis of data related to saving in a formal financial institution shows that the education and income gaps are even greater:

- 13.4 percent of people in the top three income quintiles saved in a financial institution

in the year before the survey, while only 2.7 percent of people in the bottom two income quintiles did so.

- 10.5 percent of people who had completed secondary school or more saved in a financial institution in the past year, compared to 2 percent of people with a primary education or less.

Figure 7
People who saved in a financial institution in the past year
(%)

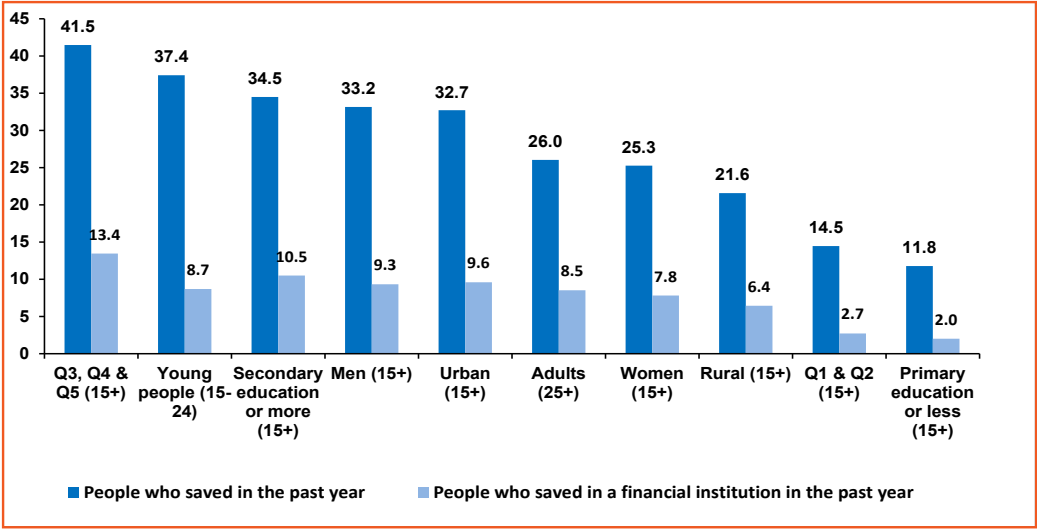


Source: FINDEX 2011
Compiled by authors

Analysis of the gaps between the percentages of people who saved and those who did so in a financial institution, broken down by demographic group, shows that those with less education and lower income levels tend to save less in financial institutions, compared with other types

of saving. While in nearly all the groups, about 30 percent of people who saved did so in a financial institution, that figure is just 18.6 percent for people in the two lowest income quintiles and 16.8 percent for those with a primary education or less.

Figure 8
People who saved and people who saved in a financial institution in the past year (%)



Source: FINDEX 2011
Compiled by authors

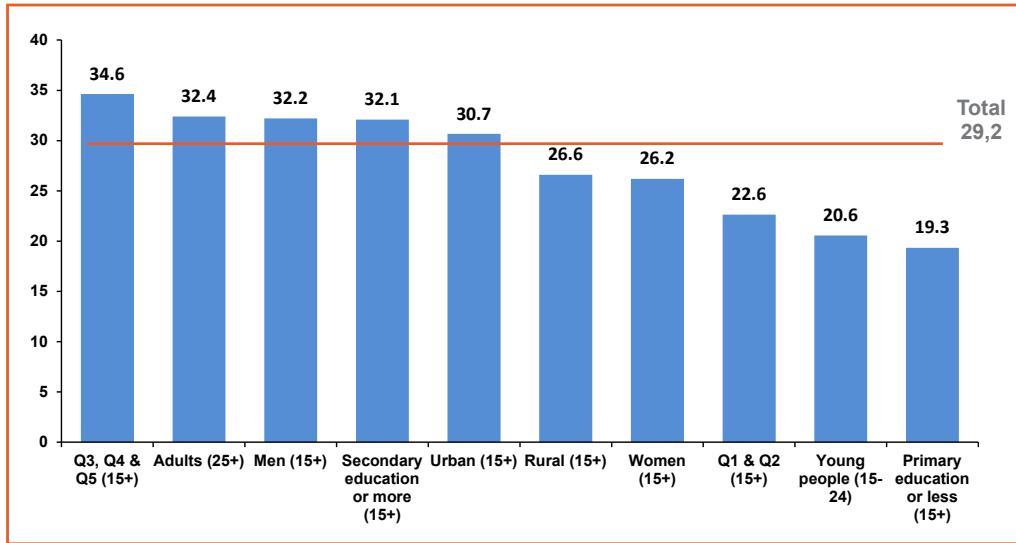
Credit has made moderate advances

Of people age 15 and over, 29.2 percent said they had received at least one loan (formal or informal) in the past year. Not surprisingly, the three highest income quintiles were the group with the largest percentage of people who obtained credit

in the past year (34.6 percent). The credit gap between groups, however, is not so great: in the group with the lowest percentage – those with a primary education or less – nearly one out of every five (19.3 percent) received a loan in the year before the survey.



Figure 9
People who obtained loans in the past year
(%)

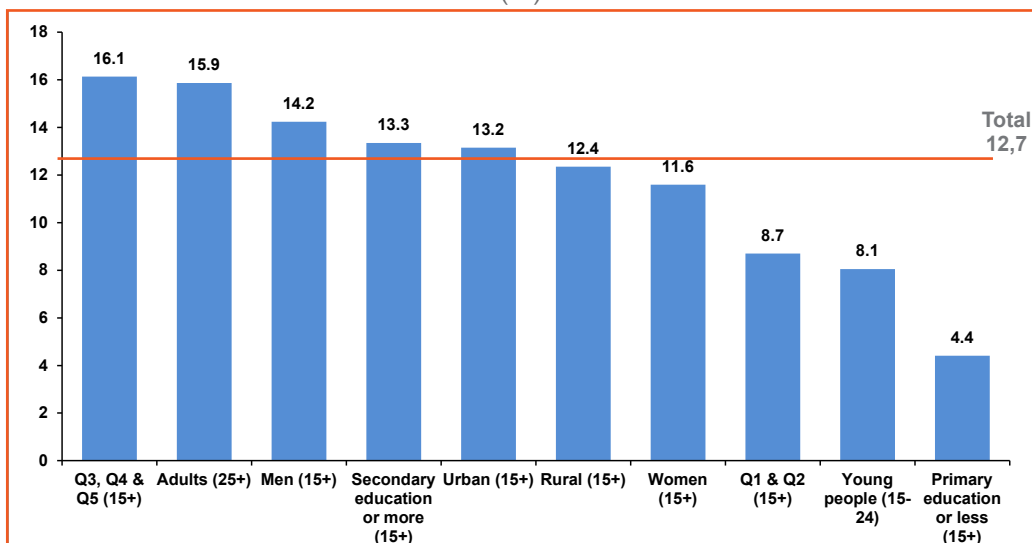


Source: FINDEX 2011
Compiled by authors

The gaps between groups increase, however, when we analyze the percentage of people who obtained a loan from a formal financial institution in the past year. Of all people age 15 and over, 12.7 percent said they had received a loan from a financial institution in the year before the survey. The groups with the highest percentages are the three

highest income quintiles (16.1 percent), those age 25 and over (15.9 percent) and those with a secondary education or more (13.3 percent), while the rate was only 8.7 percent among people in the two lowest income quintiles, 8.1 percent among young people (under age 25), and 4.4 percent among those with a primary education or less.

Figure 10
People who obtained loans from a financial institution in the past year
(%)

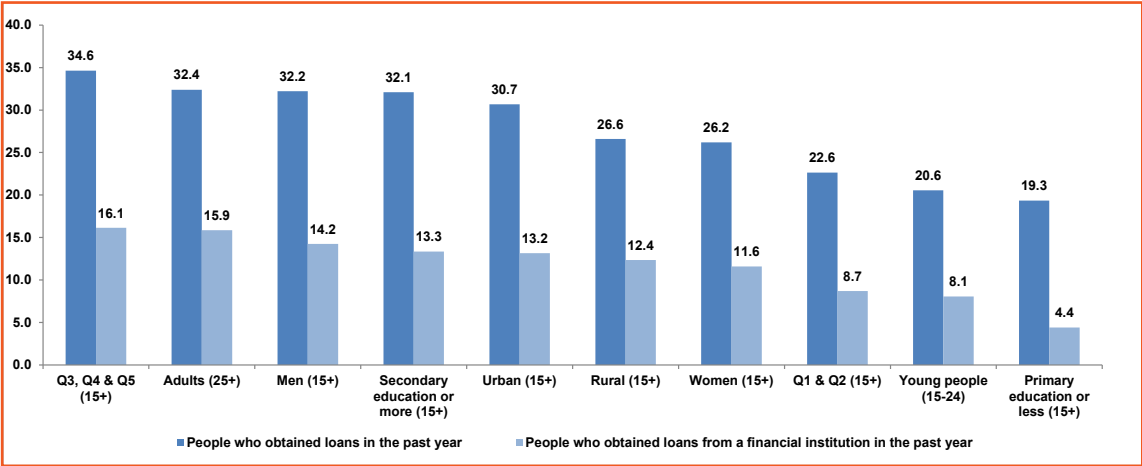


Source: FINDEX 2011
Compiled by authors

From the gap between obtaining loans in general and obtaining loans from financial institutions within each group, we can infer that educational level is important in determining whether a person goes into debt with a formal financial institution or another type of lender. While in nearly all

the groups, between 40 percent and 50 percent of all people who received some type of loan obtained loans from a formal financial institution, among those with a primary education or less, only 22.8 percent of those who obtained loans did so from a formal financial institution.

Figure 11
 People who obtained loans vs people who obtained loans from a financial institution in the past year (%)



Source: FINDEX 2011
 Compiled by authors

In formal credit, however, Peru exceeds the global average. While 9 percent of people age 15 and over worldwide received a loan from a formal financial institution in the 12 months before the survey, and in LAC the figure is 8 percent, in Peru that proportion is 13 percent. This average advantage, however, conceals internal inequality in access to credit: while worldwide, the percentage of people who received a loan from a formal financial institution is relatively uniform among the various demographic groups, in Peru there are large gaps, mainly in the breakdown by income (in the three highest quintiles, the percentage is nearly twice that of the lowest two quintiles) and educational level (among people with secondary education complete, the figure is 13.3 percent ,

while for those who only completed a primary education or less, it is 4.4 percent).

Findex found little information about the types of loans Peruvians have. It did, however, discover that 10 percent of people age 15 and over have more than one credit card and 1 percent of the credit is for mortgages.

The least advance in the country has been in insurance

Only 3.5 percent of people age 15 and over said they had paid for health insurance in 2011. The highest-income group had the largest percentage of people with health insurance, but it is still low, at 5.1 percent. Insurance is therefore the product least used by Peruvians, even insurance related to



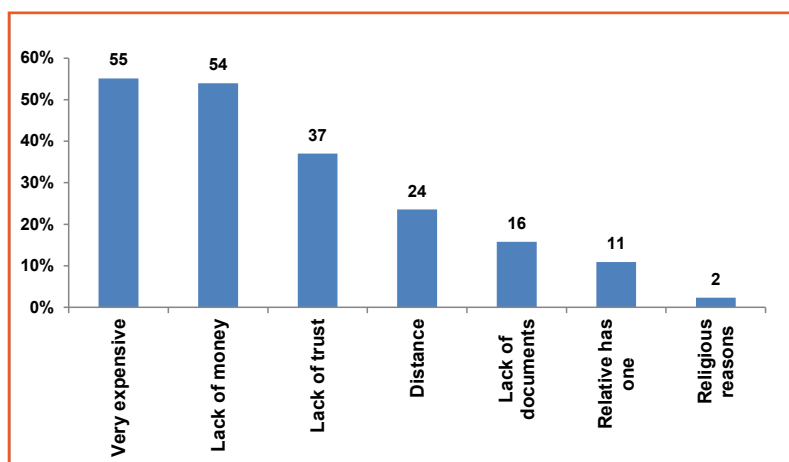
an economic activity such as agriculture, where it scores just 11.1 percent among those working in that activity (age 15 and over).

Given the interesting characteristics of Peru's financial and microfinance system, why have more people not been included?

We can approach this question by analyzing the financial system costs that discourage the opening

of accounts, as the following figure shows (55 percent said it is very expensive). Data also indicate that these people's subjective perceptions reflect a lack of knowledge of the financial system. This hypothesis is reinforced when we consider that 37 percent of the people who do not have accounts responded that one reason for not opening an account was a lack of trust in the financial system, as the following figure shows.

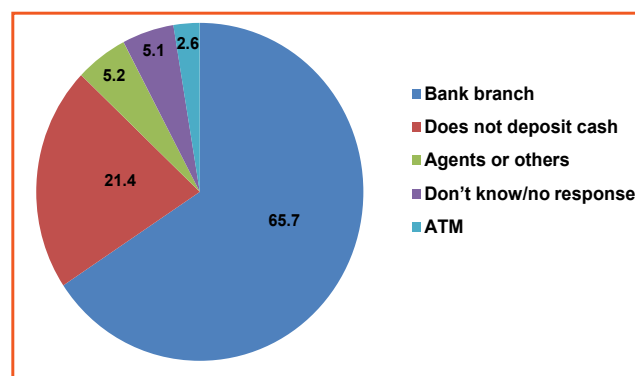
Figure 12
Reasons for not having an account
(Percentage of people who do not have an account)



Source: FINDEX 2011
Compiled by authors

In Peru, the cost is associated not only with the characteristics of the financial product, but also with the transaction costs (transportation, time, etc.) implied by having and using an account. Fin-dex sheds light on this additional cost, as 65.7 percent of Peruvians age 15 and over said they make deposits at bank offices, while just 5.2 percent use agents or retail stores and only 2.6 percent use ATMs for that purpose. It is noteworthy that there is a gap between Peru and the rest of the region and the world regarding the use of ATMs for deposits: in Latin America and the Caribbean, 19.4 percent of people with accounts in the financial system habitually use this means of making deposits, while worldwide the figure is 13.6 percent.

Figure 13
Means of deposit normally used
(Percentage of people who have an account)



Source: FINDEX 2011
Compiled by authors

Therefore ...

here are 15,243,699 potential customers for some financial service, but there is still much work to be done in the areas of:

- Appropriate products for these people, as the existing ones are perceived as very expensive or not appropriate for their needs.
- Means of access to the financial system, because the most frequent point of contact is a bank branch (for both deposits and withdrawals), and corresponding non-bank agents and ATMs or other means have a very low level of penetration.

It is important to take advantage of the current propensity for saving, since 29 percent of Peruvians age 15 and over have saved money in the past year, although not necessarily in the financial system. The same is true of access to credit, as 34.6 percent of people borrow money, but only 12.7 percent do so in the financial system, as they prefer other means that are more expensive and less secure, such as those offered by informal lenders.

The relationship between limited access and gender, income and education is cause for concern. Women, the poorest people (income quintiles 1 and 2) and those with the least education (primary or less) continue to have the least access to the financial system and are most likely to resort to informal markets, which are more expensive and insecure. But there are two potential groups that are not currently served: the rural population and young people (under age 25).

The Peruvian government has made progress in addressing this problem with supply-side mechanisms to facilitate the opening of branches and ex-

pansion of the financial system network through corresponding tellers and shared offices. Progress has also been made in regulation of mobile banking, which would give people in remote areas access to financial services. On the demand side, there has been progress with various financial education programs (through government programs since 2000) that have built skills and trust in the financial system. These programs have had an impact on public policies aimed mainly at vulnerable populations, although they still lack a strategy for widespread attention to that population. There also have been advances in this area through private-sector initiatives of various NGOs (Care, IEP, Aflatoun, GRADE), foundations (Citi Foundation) and financial institutions (municipal and rural savings banks and other banks), which point to the development of innovative models for financial education (radio, soap operas, comics, fairs, etc.) that reach the target audience and an audience of people not included in the financial system.

The efforts made so far, however, do not respond to an overall national policy; future reforms to promote financial inclusion should therefore consider:

1. Mechanisms for inclusion of those who are currently excluded especially the rural population, young people and women.
2. Improving information and financial education mechanisms to break the barrier of exclusion related to distrust.
3. Working on consumer protection.
4. Promoting creation of networks for serving users and the population that currently does not use the system.



There is a need for a National Strategy that integrates these issues, and which can precisely outline

the tasks to be accomplished and the responsibilities of the public and private stakeholders involved.●

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