



The role of payments in financial inclusion

Regional Payments Week 2015
December 2015

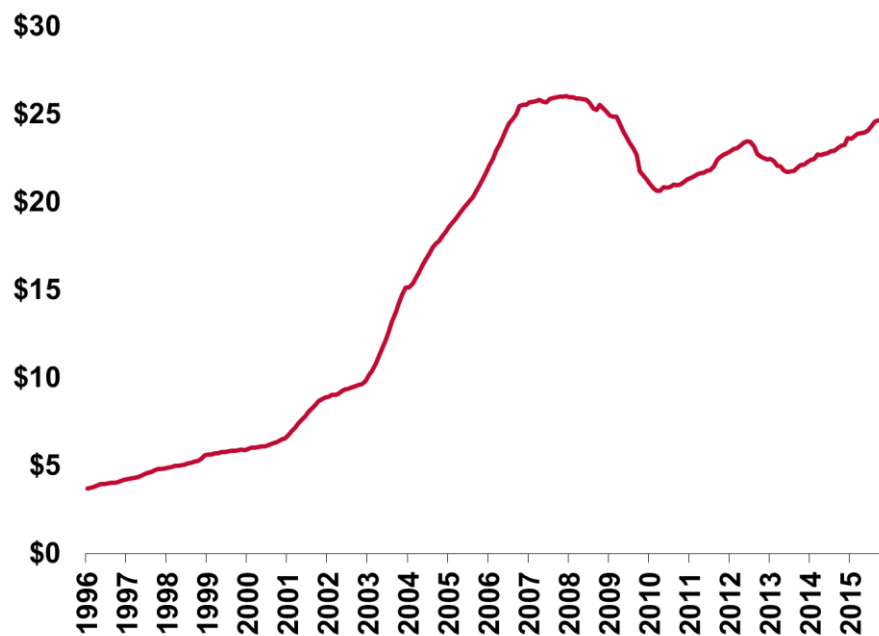


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Remittances and payment systems in Mexico

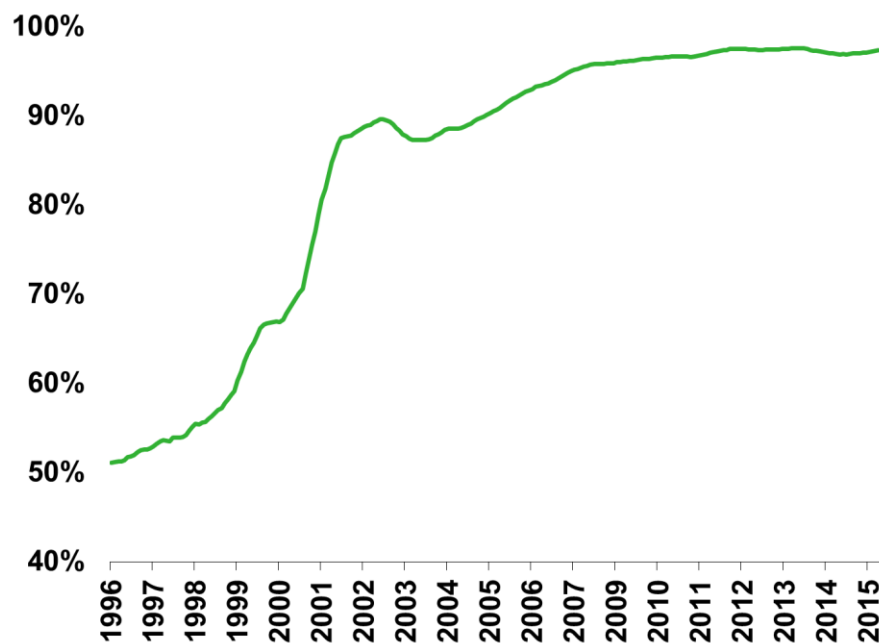
Remittances

Yearly flows in billions of USD



Remittances sent through electronic payments

% of total remittances

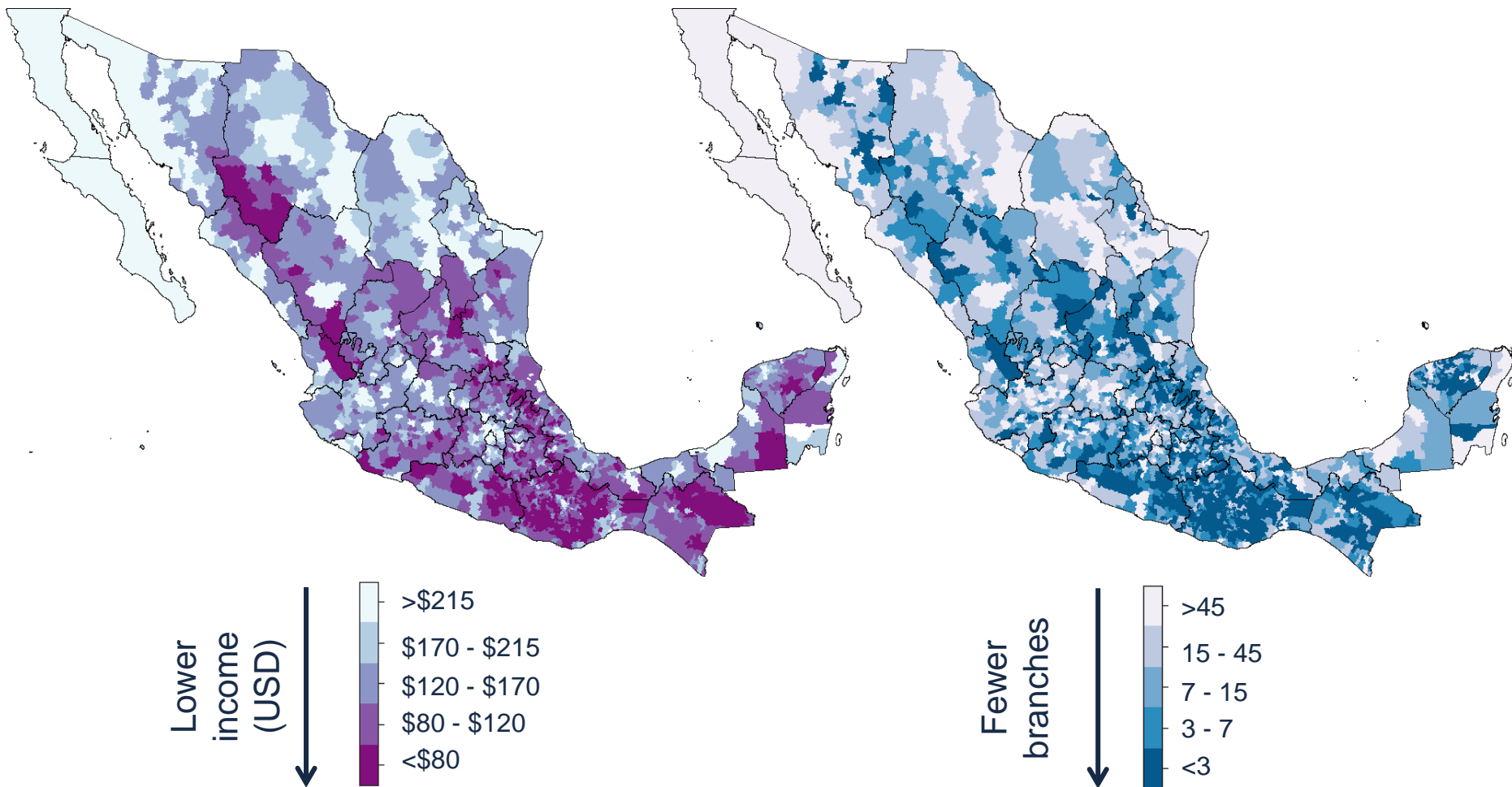


Data from the Bank of Mexico

Development and financial inclusion

Per capita monthly income

Bank branches^{1/}
per 10,000 adults



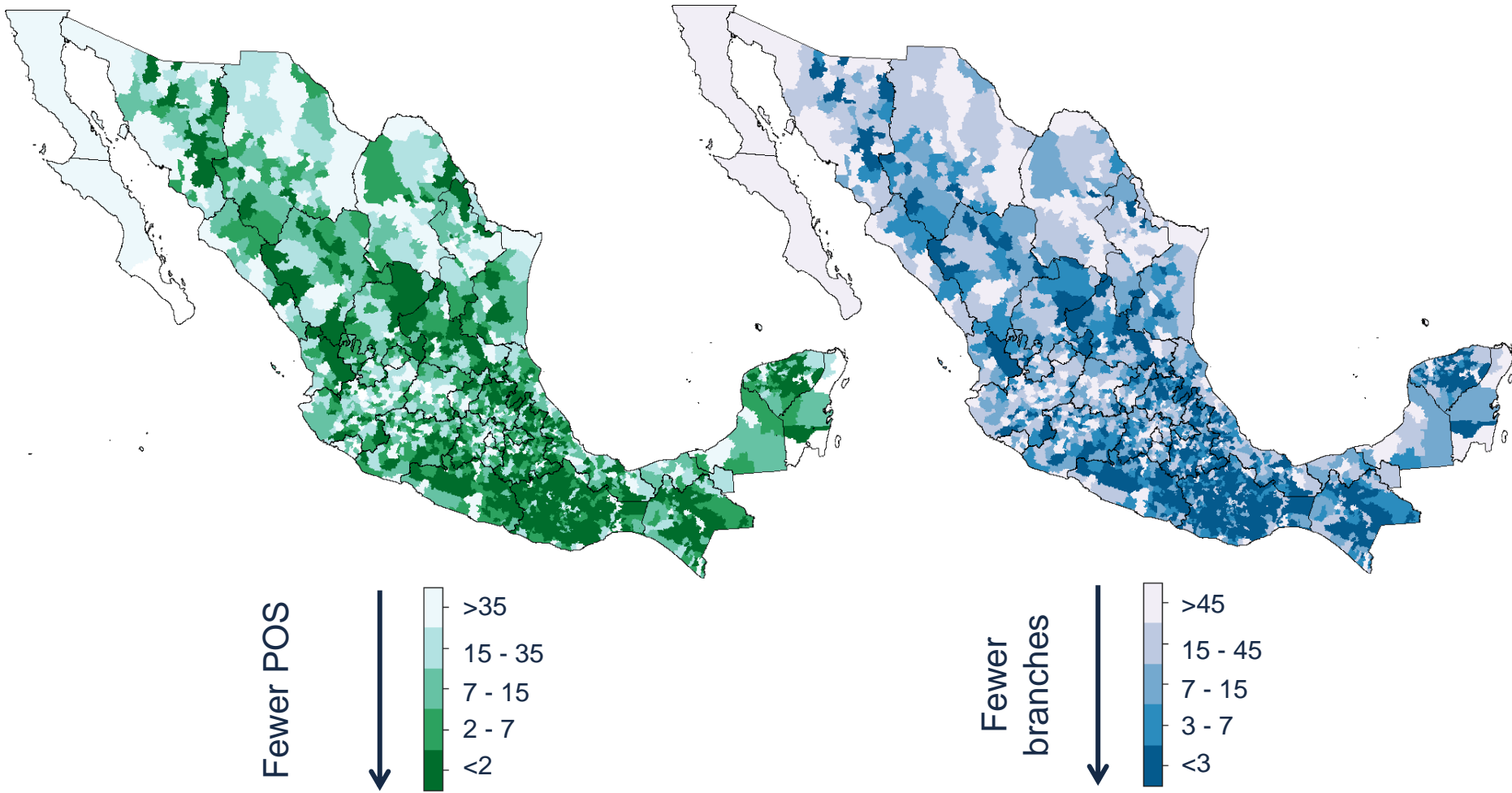
Data from the National Banking and Securities Commission and the National Council for the Evaluation of Social Development Policy. Income data from 2010 (converted to 2015 USD) and bank branches from 2013.

1/ Including commercial banks and Popular Credit and Savings institutions.

Financial inclusion and payment systems

POS terminals
per 10,000 adults

Bank branches^{1/}
per 10,000 adults



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^{1/}Including commercial banks and Popular Credit and Savings institutions.

Outline

1 Conceptual framework of financial inclusion

- a) What is financial inclusion?
- b) Why is it important?
- c) What are the obstacles for financial inclusion?

2 Importance of payment systems for financial inclusion

- a) What are payment systems?
- b) Why are they important for financial inclusion?
- c) What has been done in Mexico?

3 Challenges

4 Final remarks

What is financial inclusion?

- Definition:^{1/}

“Access and use of formal financial services under an appropriate regulation that ensures consumer protection schemes and promotes financial education to improve financial conditions of all segments of the population.”

- Financial services offered by formal providers:



Loans



Savings



Payment of goods and services



Insurance

^{1/} Official definition of the National Counsel of Financial Inclusion

Why is financial inclusion important?



Households

It enables, in a cheaper, safer and more convenient way, to:

- + Gather savings to tackle future adversities
- + Borrow in times of need
- + Invest in productive projects (e.g., education)
- + Be insured against unwanted events
- + Pay for goods and services

Potential outcomes: Reduce **poverty**, increase **human capital**, reduce **inequality**



Firms

It enables, in a cheaper, safer and more convenient way, to:

- + Fund entrepreneurial projects
- + Expand existing firms
- + Be insured against unwanted events
- + Receive/make payments for goods and services

Potential outcomes: Increase **productivity**, increase **well-paid jobs**, reduce **informality**

What are the obstacles for inclusion?

Scenario

Barrier

ACCESS

Community without basic infrastructure
(e.g., access roads, electricity, mobile network)

Lack of public goods

Community with basic infrastructure, without formal financial infrastructure
(e.g., bank branches, ATMs)

High costs of providing financial services
(e.g., costs of transporting cash, risky environment)

Insufficient demand for financial services
(e.g., high transportation costs, low income, excessive requirements)

USE

Community with formal financial infrastructure, with excluded individuals

High prices

Lack of trust

Lack of information

Lack of adequate products

Popularity of informal schemes

Perception of insufficient income

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What are payment systems?

- Payment system:
 - **Instruments, procedures and funds transfer systems** to make **transactions** among different institutions and individuals



Why are payment systems important for financial inclusion?

- **Comments** about the pilot program “Mobile Payments” of Telecomm, in Santiago Nuyoó, Oaxaca
 - *“It used to be difficult to go to Tlaxiaco, the nearest city, and open a bank account, due to time and transportation costs. This is no longer true, now we have a bank account linked to our phone.”*

Beneficiary
 - *“I spend less because I don’t have to pay bus tickets. It took me some time to learn, but my daughter taught me.”*

Beneficiary
- Additionally, the relationship between receiving **remittances** and financial inclusion in Mexico has been explored by Li, et al (2014) and Demirgüç, et al (2011), both of which have found remittances to be strongly associated with greater use of bank branches, having bank accounts, and deposit amount.

Why are payment systems important for financial inclusion?

- Payment systems **reduce costs and increase security** of transactions
 - Example: electronic transfers vs. cash or check
- Payment systems act as a **link between financial service providers and potential users**
 - **Users:** a universal and everyday experience (making payments) introduces them to the formal financial system
 - **Providers:** can have lower costs to reach potential users that are currently excluded



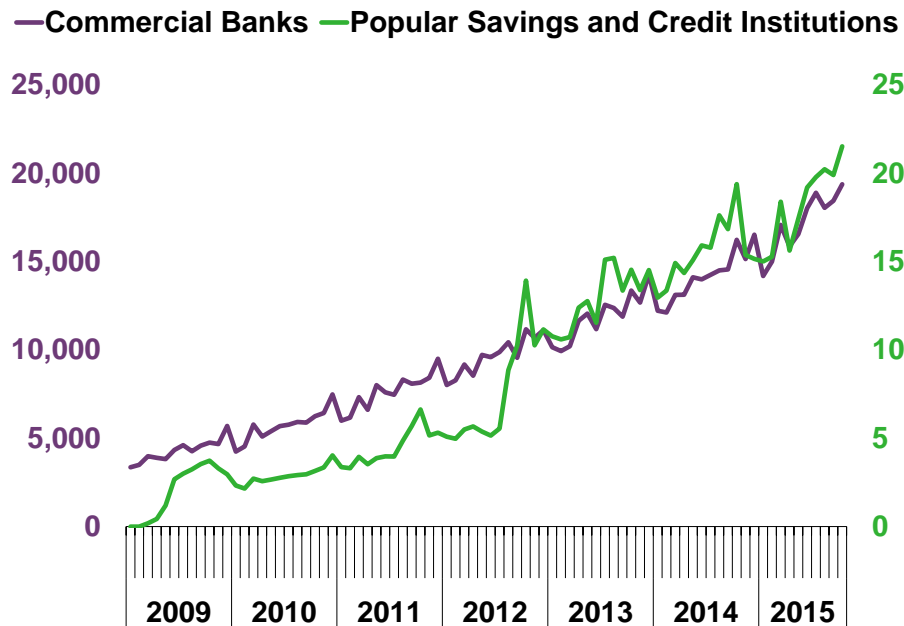
What has been done in Mexico?

Actions	Tackled access constraints					
	High costs of provision	High prices	Lack of trust	Lack of adequate products	High info. demands	Lack of financial education
Banking agents Stores are allowed to offer financial services on behalf of financial institutions	✓		✓			
Card payments switches Promotion of competitive, innovative and secure practices	✓	✓				
Tiered scheme for deposit accounts Accounts with less fees and information requirement		✓		✓	✓	
Mobile payments Link mobile devices to bank accounts and allow the fast and secure settlement of payments in SPEI	✓			✓	✓	✓
Federal Government payments Disbursement of wages and social programs through SPEI, to accounts with a debit card			✓			✓

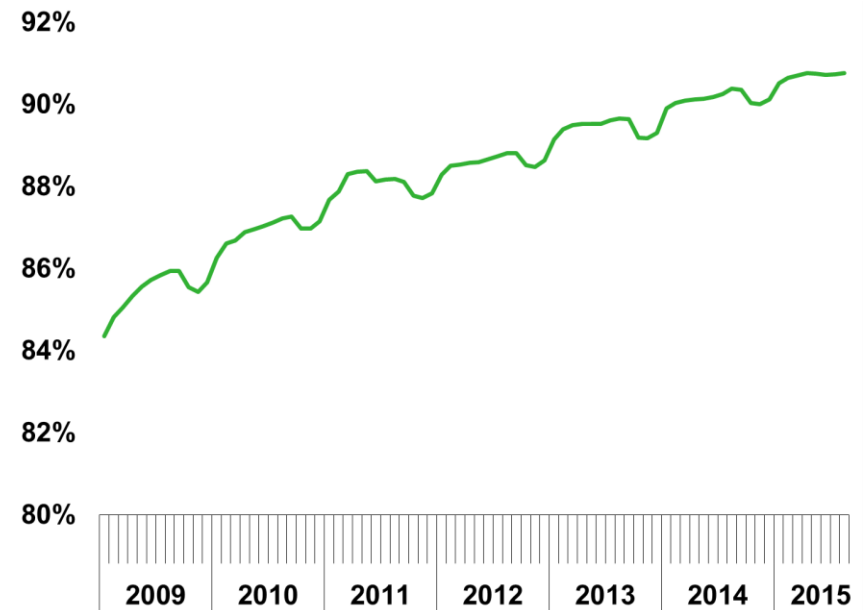
What has been done in Mexico?

- Popular Savings and Credit institutions, which provide services to those segments of the population that are typically excluded, are able to use SPEI to process payments at a low cost and in a expedient way

Number of payments in SPEI
Monthly payments, thousands



Volume of payments < 100k MXN (6,250 USD) in SPEI
% of total payments



Data from the Bank of Mexico

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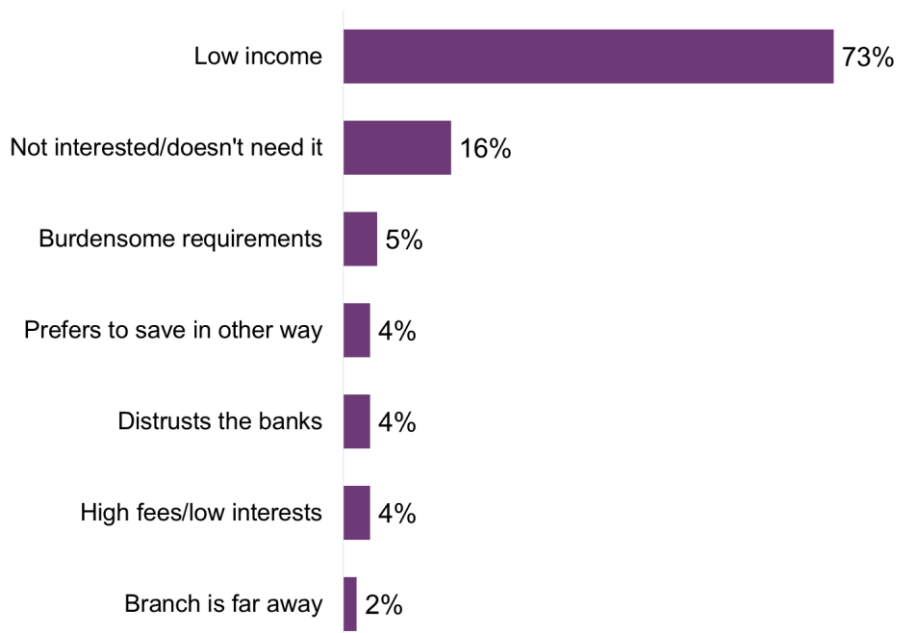
Challenges

Tackle barriers to access and use

- **Improve diffusion of the benefits** of using the financial system and electronic payments
- **Promote competition** to improve quality and lower prices of payments and other financial services

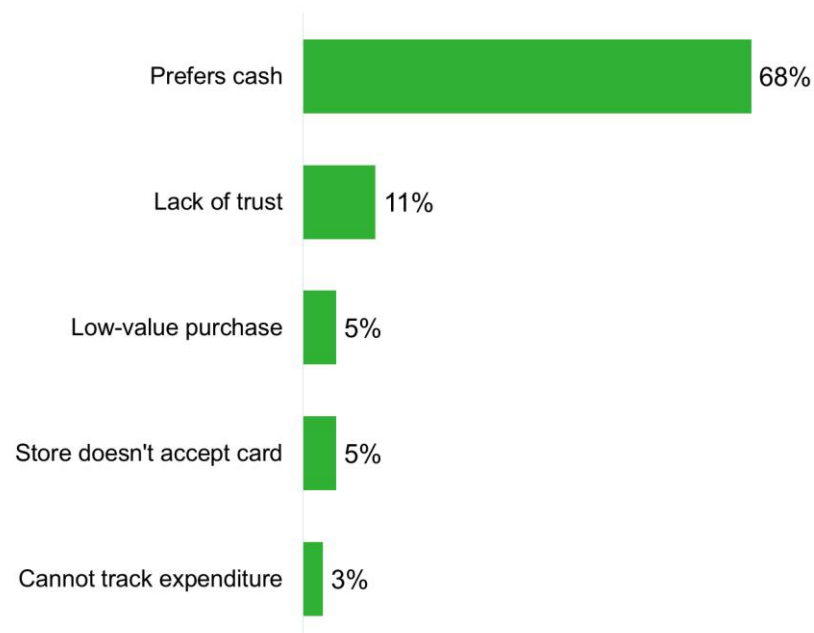
Reasons for not having a bank account

% of individuals without an account



Reasons for not paying with debit card

% of individuals who don't pay with debit card



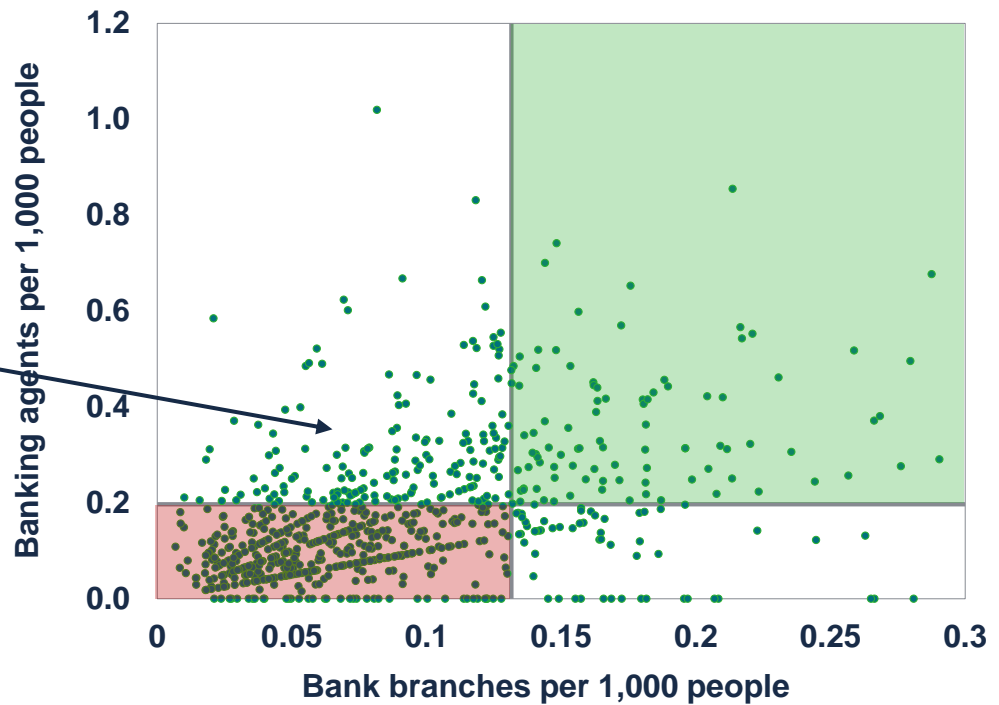
Data from the National Survey of Financial Inclusion (2012). Percentages need not add 1 since answers are not mutually exclusive.

Challenges

Extend the network of banking agents

- **Reach excluded communities** with banking agents.

Municipalities where the banking agent network should be extended

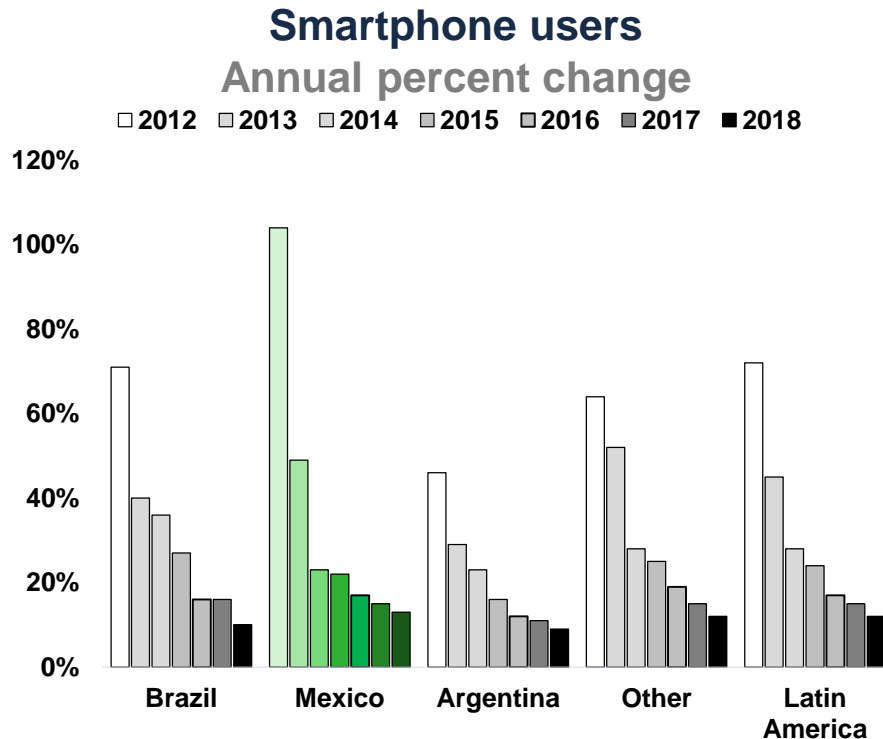


Data from CNBV, INEGI and CONAPO. Each point is a municipality.

Horizontal and vertical lines represent population-weighted mean of the variable, for municipalities in the 10 states with the least margination index.

Growth of mobile phone users in Latin America

- Adoption of smartphones has experienced an **important growth** in Mexico, which is expected to continue



	2012	2013	2014	2015	2016	2017	2018
Brazil	71%	40%	36%	27%	16%	16%	10%
Mexico	104%	49%	23%	22%	17%	15%	13%
Argentina	46%	29%	23%	16%	12%	11%	9%
Other	64%	52%	28%	25%	19%	15%	12%
Latin America	72%	45%	28%	24%	17%	15%	12%

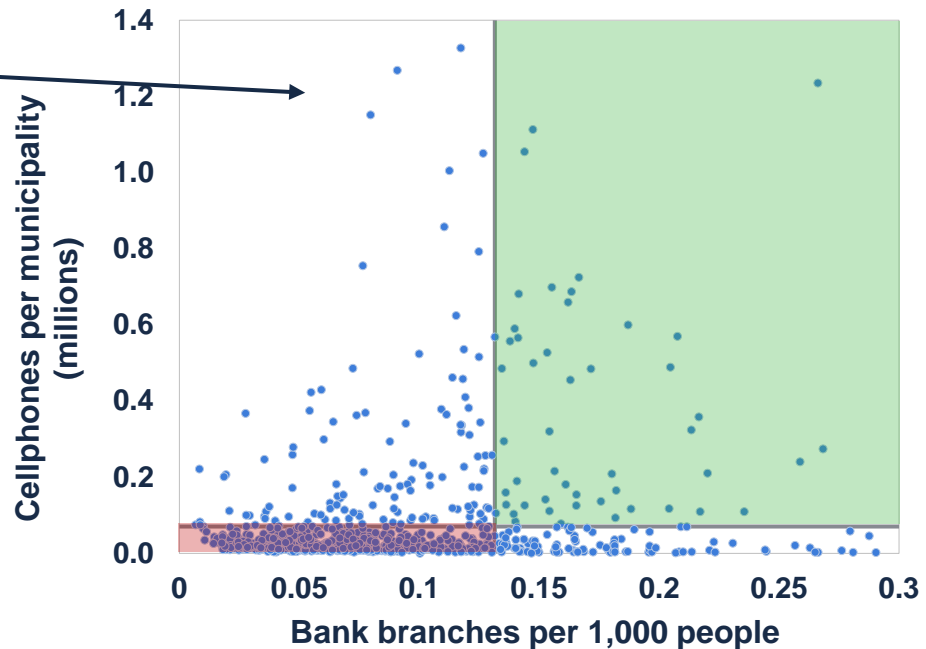
Data from e-Marketer

Challenges

Exploiting the mobile network's potential

- **Take advantage of the existing network** to offer financial services to the excluded population
- **Extend the mobile network** to remote locations

Municipalities with potential to be attended with mobile payments



Data from CNBV, INEGI and CONAPO. Each point is a municipality.

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Final remarks



Financial inclusion is still an important challenge in Mexico: only 36% of adults have a savings account^{1/}



Payment systems are an important tool in the task of financial inclusion:

- They reduce the costs and improve security of transactions
- They act as a link between the excluded population and financial institutions



Despite regulatory changes that have been implemented to improve financial inclusion, there are still tasks to be done:

- Extend and take advantage of the mobile network to provide financial services
- Develop innovative business models to increase the profitability of attending the currently excluded population

1/: National Survey of Financial Inclusion, 2012



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