

Economic Watch

Financial Inclusion - Peru

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Economic Analysis

Unidad Inclusión
Financiera y Perú

David Tuesta
david.tuesta@bbva.com

Rosario Sánchez
rdpsanchez@bbva.com

E-money: an estimate of potential demand

- **The Electronic Money Act, approved in 2012, provides an opportunity for extending banking usage through electronic devices,** such as cell phones. The high degree of national penetration of mobile devices - an accessible instrument used on a daily basis by most of the population - offers an attractive channel for expansion in financial services.
- **Only 20% of people say that they have an account in a financial institution,** according to the Global Findex survey. Most of this group (93%) has secondary or tertiary education and 41% belong to the highest income quintile. For low-income sectors, the financial system is not attractive, or is at least not yet seen as an attractive option. Economic channels such as e-money via ordinary cell phones (not smartphones) as well as an information campaign highlighting the benefits of bank use would be essential to increase inclusion levels.
- **An estimate of the potential demand for e-money is obtained** from the difference between levels of coverage for those with phones and those already in the system (e.g. as measured by those who state they have a bank account on the Global Findex survey).
- **At income quintile level the potential averages around 40%,** with the widest gaps being in quintiles 2 and 3, where it reaches above 50%. Taking into account educational levels, the widest gap tends to be in groups with secondary education, where the difference is around 70%.
- **In general, these figures offer the conclusion that there is a major opportunity for developing mobile banking,** taking advantage of the wide use of such devices, much more common at present than banking access, especially among those groups who are currently excluded. Experience in other countries suggests a way forward that could be adapted to Peru's economy, taking advantage of the current level of mobile communication technology in the country, as soon as there is a regulatory framework to promote this channel.

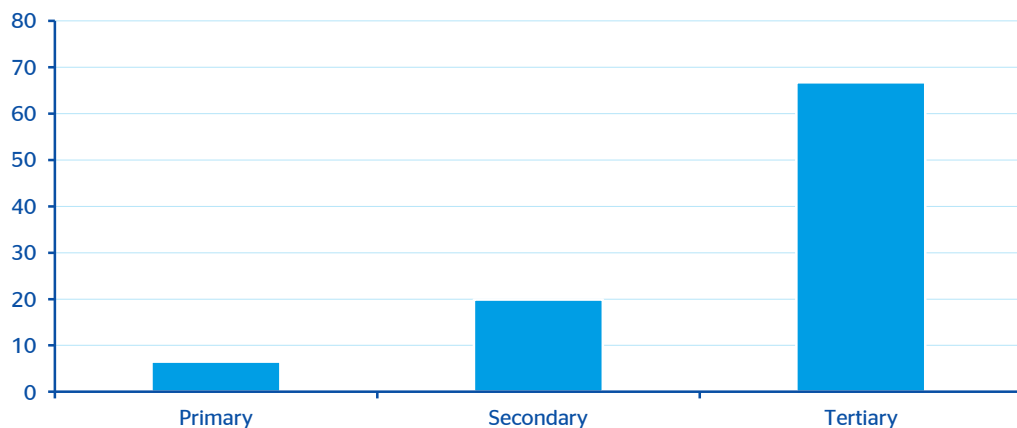
1. On-line banking and use of mobile devices

1.1 Banking penetration and on-line banking

Access levels to the financial system are still very low. According to survey data from Global Findex, only around 20% of people have an account at a financial institution. The educational and income variables are directly linked to increased access to accounts at financial institutions and are key factors for achieving higher inclusion levels.

Chart 1

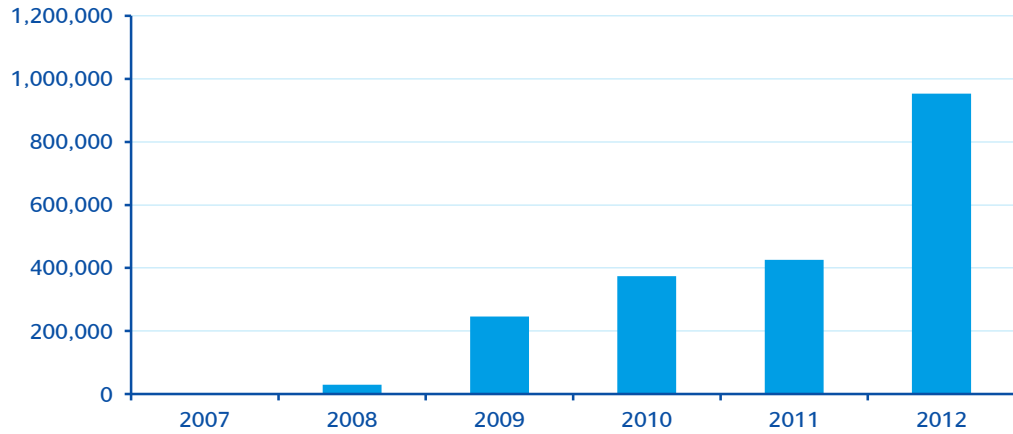
¿Do you currently have a personal or joint account at any bank or any other financial institution?
By level of education



Source: Global Findex

In January 2013, the Electronic Money Act was approved in Peru. The idea of creating e-money, the mobile wallet and new applications to be developed over mobile banking is that, in addition to other channels, they allow better service for customers and a wider range for non-customers, i.e. increasing inclusion levels. At the end of 2012, transactions made via mobile telephony only represented 0.1% of all banking transactions. At present, mobile banking in Peru has mainly been used as a service channel offering balance queries, account and credit or debit card transaction enquiries, topping up cell phones, or receiving text alerts on salary payments or purchases. There are also various applications developed for smartphones to locate ATMs or service points, consult transactions, pay electricity, cable, or water bills, etc. Banks are currently working on extending transactions that can be carried out through mobile banking, especially with the introduction of the e-wallet.

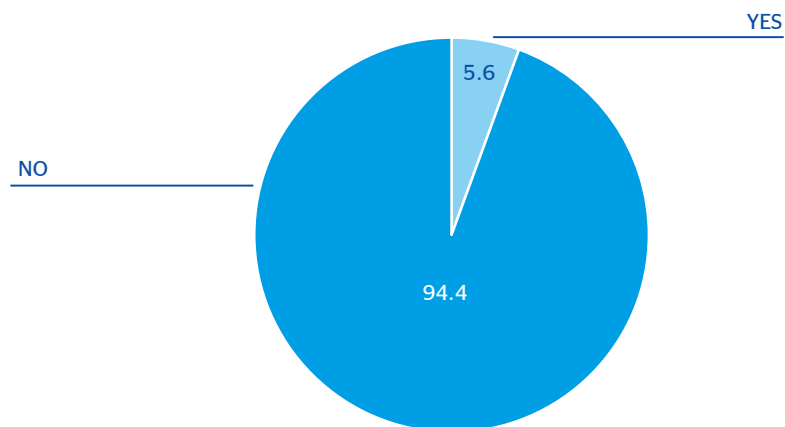
Chart 2
Number of mobile banking transactions at banks



Source: Asbanc

According to data extracted from the 2011 ENAHO, internet use for on-line banking transactions is not very common. In fact, only 5.6% of those who used internet stated they have used it for an on-line banking transaction, with a difference between men and women (6.5% and 4.4% respectively). This gap widens slightly when we look at the results taking into account the area where the people live. In the Metropolitan Area of Lima, the percentage is 7% while on the central coast and in the central mountains, these numbers drop to 2.4% and 3.4% respectively.

Chart 3
People who said they use internet: and have used it for on-line banking transactions

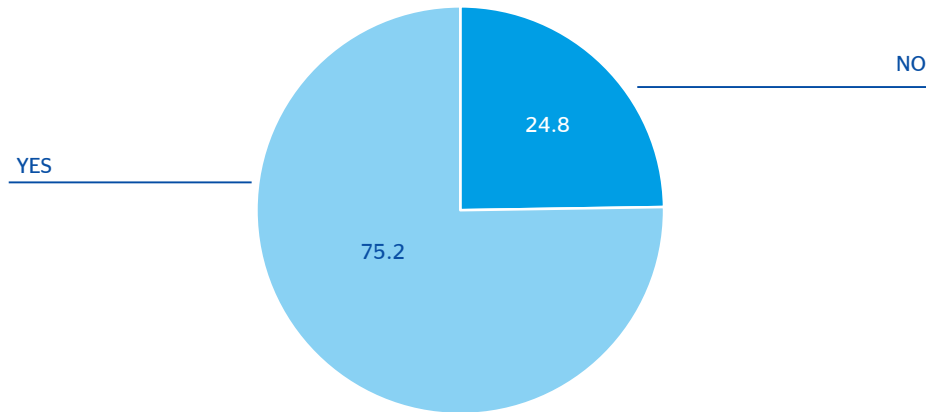


Source: ENAHO

1.2 Use of mobile devices

According to the 2011 National Household Survey (ENAH), 75% of households have access to mobile telephony. The high penetration level of cell phones is an opportunity for making it a channel to increase banking penetration via known and available platforms for users.

Chart 4
Does your household have a cell phone?

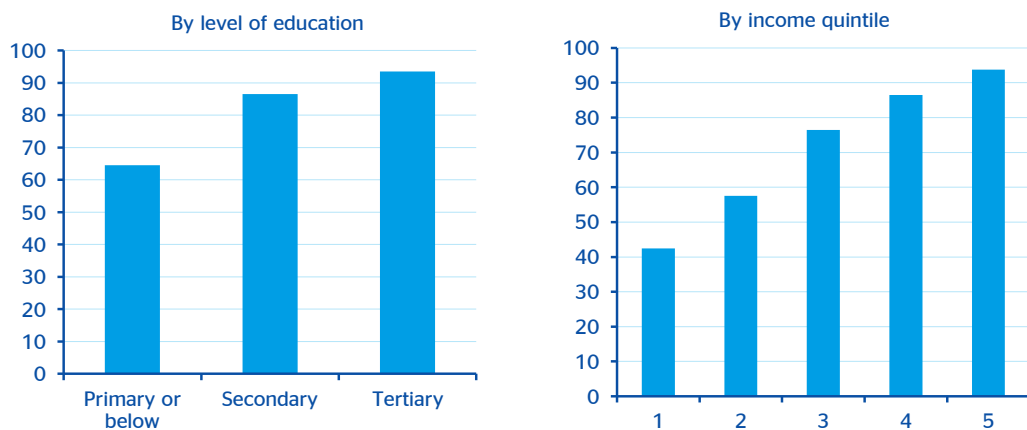


Source: ENAHO

Areas with a higher urban population such as the Metropolitan Area of Lima and coastal regions show higher mobile telephony penetration (on average, 15 pp higher) than more rural areas such as the mountains and forests (see chart below). Nevertheless, since in all instances mobile telephony penetration levels exceed those for financial services, we could say that the opportunities for banking penetration via this service (mobile banking with cell phone use) are broad across all geographical areas. Although the survey does not ask what type of cell phone people have, most are highly likely to be simple cell phones offering SMS functions but without internet access.

The qualification and income variables are again key factors in terms of access to basic services; here access to mobile telephony. As shown in the following charts, people with higher educational and income levels show higher cell phone ownership levels.

Chart 5
Cell phone ownership by educational level and by income quintile

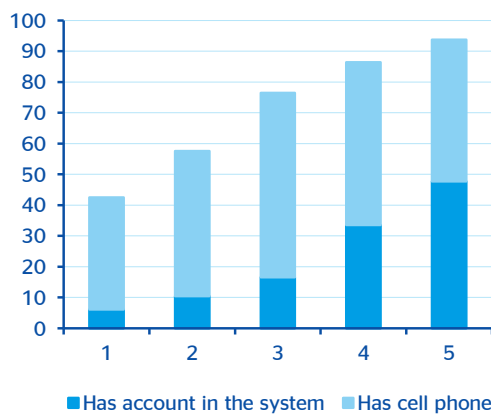


Source: ENAHO

2. Potential mobile banking market

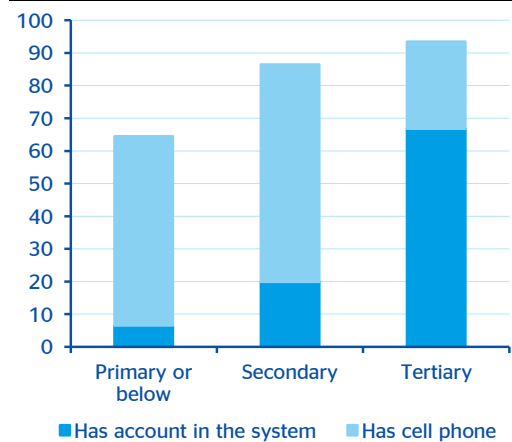
An estimate of potential demand for e-money among those without a bank account can be obtained by calculating the difference between coverage levels of those with cell phones (and therefore who would have immediate access to e-money) and those already in the banking system (measurements such as those who state they have a bank account on the Global Findex survey), in both instances broken down by income and qualification level. It is worth mentioning that although this would be an estimate of potential demand for these services, there are those who despite having a tool to access the financial system (which here would be mobile telephony) would not use the service due to issues of trust, culture or limited cell reception, as stated above.

Chart 6
Potential market by income quintile



Source: ENAHO, Global Findex, BBVA Research

Chart 7
Potential market by educational level



Source: ENAHO, Global Findex, BBVA Research

Analyzing the information by income quintile level, we can see that the potential for developing mobile banking averages around 40% with the widest gaps being in quintiles 2 and 3, where it comes to over 50%. These are precisely the groups with high mobile telephony penetration but where banking penetration has been very low. The lowest income quintile shows a potential of over 30%.

When this information is segmented into educational levels, the widest gap tends to be in those with high school studies where the difference is around 70%. This is due to a combination of high cell phone penetration and low access to the banking system. Those with primary education, in turn, show a coverage gap of around 60%, while those with a tertiary education show a gap of around 30%.

In general, these figures offer a conclusion that there is a significant opportunity for developing mobile banking, taking advantage of the wide prevalence of devices, much higher than current banking access, especially for those groups who are currently excluded. The experience of other areas that have followed this path could be extrapolated for Peru's economy, taking advantage of the current level of mobile communication technology in the country, introducing a regulatory framework geared towards this end.

3. Conclusions

- We have used public surveys to discover the main socioeconomic characteristic of individuals as well as the determining factors for preferences regarding the use of mobile banking and connected services. Mobile banking and e-money are not currently in wide use in Peru. In fact, the Act which regulates the issue of e-money, was recently approved in January 2013, and provides interesting possibilities for the development of the sector.
- According to the Global Findex survey, around 93% of people who state they have an account at a financial institution have a secondary or tertiary educational level and 41% belong to the highest income quintile. For low-income sectors, the financial system is not attractive, or is at least not yet seen as an attractive option. Financial channels such as e-money over normal cell phones (which, according to the 2011 ENAHO, have a penetration of around 50% in lower income households), in addition to service points at non-banking correspondents and others added by the EEDs, would be key to lifting inclusion levels.
- Potential demand, measured as the difference between levels of coverage for those with cell phones and those already in the system, is around 40%. In the case of income quintiles 2 and 3, this percentage is above 50%, while for those with secondary education the gap widens to 70%. We could therefore say there is a major opportunity for developing mobile banking, taking advantage of the wide prevalence of mobile devices, which amply surpasses current financial system access levels. The experience of other countries that have introduced these channels could be an example for the Peruvian market, taking advantage of the current level of mobile communication technology in the country.

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