The Use of Financial Inclusion Data Country Case Study: **PERU**

Fine-Tuning Regulation Based on Access Indicators

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January 2014

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1. Country Context

In recent years, Peru has been recognised as one of the most dynamic economies in Latin America. Economic growth averaged 6.5% over the last decade and has remained strong despite the fluctuations caused by international crises. By the end of 2012, the country´s GDP amounted to US$ 206,387 million, while GDP per-capita (PPP) reached US$ 6 568. Prudent fiscal and macroeconomic policies have resulted in a low and stable inflation and a budget surplus. The inflation rate averaged 2.9% during the last ten years, the lowest ratio in the region, while the non-financial public sector recorded an economic surplus equivalent to 2.2% of 2012 GDP. The impressive economic growth experienced by the country has also had a positive impact on poverty reduction. The poverty rate declined from 58.5% to 25.8% between 2004 and 2012, while extreme poverty rate dropped form 16% to 6%.

The Superintendence of Banks, Insurance Companies and Private Pension Funds (SBS) has long recognized financial inclusion as a policy priority, understanding that financial inclusion can be a critical engine for the social and economic development of the country, while helping to deepen financial markets. After defining financial inclusion as *the access to and usage of appropriate financial services for all segments of the population*, the SBS adopted major measures and actions in the last few years with the purpose of expanding the access to and usage of financial services. The course of action has been focused on five key areas: regulation and supervision, transparency, consumer protection, financial education and coordination with other public institutions. Besides promoting competition and stability in the financial system, the regulatory framework has created incentives to increase financial inclusion. Improvements in regulation has encouraged the development of financial products and services appropriate to all segments of the population (such as microcredit, micro-insurance, simplified deposit accounts and payments based on E-money) and the use of low-cost delivery channels (such as retail agents and, recently, mobile phones).

Improvements in the regulatory framework have been accompanied by full disclosure of information about financial services. In this regard, new regulations on transparency of information for the financial system (SBS Resolution N° 8181-2012) and insurance system (SBS Resolution N° 3199-2013) have contributed to improve the quality of the information provided to users, so that they can make informed decisions based on available information that is easy to understand and according to their needs. Likewise, the SBS has implemented preventive and corrective measures in order to ensure transparency and fairness in the contractual process. In addition to these efforts, the SBS has been working to increase the level of financial education of the population with the aim of improving users’ capacity to understand and use available information to make thoughtful and beneficial financial decisions for themselves and their families. With this objective, the SBS launched a training program for school teachers from urban and rural areas in 2007, based on an agreement with the Ministry of Education to educate high school students on topics about the financial system, insurance and pension funds. By June 2013, the program has trained 5 669 teachers and is expected to have covered all regions of Peru by the end of 2013. Moreover, the SBS has developed financial literacy programs with the objective to empower consumers in basic finance topics. In 2013 alone, more than 13 000 people participated in these programs.

In conjunction with these initiatives, the SBS focussed on measuring financial inclusion and monitoring the effectiveness of the implemented policies. To this end, the SBS defined a basic set of indicators to measure the major dimensions of financial inclusion. There are a number of projects underway to augment existing data with information from the demand side, so as to gain deeper insight into the current state of financial inclusion in the country. Current indicators are based on supply side data, mainly on the access to and usage of, as well as the coverage and penetration of, financial services. Informed by these indicators, the SBS implemented major regulatory changes in the past few years. As highlighted in this case study, one of the most important changes has been the introduction of banking agents, a channel that has contributed to greater financial access across the country.

The access indicators provide evidence that the introduction of agents resulted in a significant expansion in the financial network. Between June 2004 and June 2013 the number of service points in the financial system (branches, ATMs and banking agents) increased to almost 32,000, resulting in the service points per 100,000 adults increasing from 20 to 188. Usage indicators also indicate significant improvements in the use of financial services. Between June 2004 and June 2013, the percentage of adults who have obtained formal credit from financial institutions rose from 14% to 30%. Similarly, the number of individuals holding a bank account increased from 9 million to 20 million during the same period.

Table 1: Financial Inclusion Indicators

	2004	2006	2008	2010	2013
% of adults with at least one loan outstanding from a regulated financial institution	14	18	21	24	30
Number of borrowers per 1,000 adults	144	178	209	237	295
Number of depositors* per 1,000 adults	544	616	600	740	1078
Number of service points per 100,000 adults**	20	23	64	83	188

Source: SBS

**The number of depositors may be overestimated since it corresponds to the sum of depositors across institutions and one person may have accounts in more than one institution.*

***Includes branches, ATMs and banking agents.*

Despite these remarkable achievements, the gap to be filled in financial inclusion is still wide, mainly in rural and low population density areas, where financial institutions do not find it profitable to offer services through the current channels and products available in the market. To address this, regulation has been fine-tuned over time, with the aim of enabling financial access to the underserved and un-served segments of the population. The latest improvements include the expansion of the allowed operations for banking agents (basic accounts) and the regulation of E-money.

The following section presents an overview of the available financial inclusion data, relevant sources and collection initiatives currently underway for improving existing data. The third section highlights how financial access data has been used to inform policy directions and how Peruvian regulation has been fine-tuned over time to enhance the scope and depth of outreach of financial services. The analysis focuses on the introduction of banking agents in 2005 and further regulatory adjustment to enhance their spread across the country. The last section presents a few remarks and key lessons on the use of financial inclusion data for policy formulation.

2. Financial Inclusion Data

According to the definition adopted by the SBS in 2006, financial inclusion in Peru can be measured along three dimensions: “access”, “usage” and “quality”. Available data collected from financial institutions via regular reporting provide extensive information on the access to financial services, such as the availability of services points and the geographical penetration of financial infrastructure. Nonetheless, data on the usage and quality of these services is still limited. Current the supply-side data includes the number and location of branches, ATMs and banking agents, the number of borrowers and the number of depositors. In addition to financial inclusion data related to the financial system, the SBS also uses key information about insurance and pension systems, such as the number of policy-holders and number of pensioners.

Based on this information, the SBS developed a core set of indicators in 2007, organised in the three categories mentioned above: access to financial services, usage of financial services and depth of outreach of financial services, at both national and regional level. The indicators to measure financial access in the country are the number of service points (branches, ATMs and banking agents) per 100,000 adults and the number of service points per 1,000 km^2. Additionally, these indicators are calculated for each type of channel (number of branches, number of ATMs and number of banking agents per 100,000 adults) and at different geographical levels (departments, provinces and even districts). These indicators have revealed the impressive growth of the financial network across the country. Total access points increased from 20 per 100,000 adults in June 2004 to 188 per 100,000 adults in June 2013, while the percentage of districts with access to financial services rose to 43%, serving 87% of the total population. The data also revealed that banking agents have become the main channel used by financial institutions to expand their retail networks, especially in areas where opening a branch would be costly. By June 2013, the financial system had over 24,000 banking agents across the country.

The core indicators on the usage of financial services are the percentage of adults with formal loans, percentage of adults holding deposit accounts, number of borrowers per 1,000 adults and number of depositors per 1,000 adults. Other usage indicators include: debtors as a percentage of the economically active population, cardholders as percentage of adult population and the percentage of borrowers with elementary education. A major limitation in usage indicators is on the depositors-side, given restrictions in data collection due to bank secrecy. Given that one person could have more than one deposit account across financial institutions; the number of total depositors may be overestimated. Between June 2004 and June 2013, the percentage of adults with formal loan accounts has increased from 14% to 30%, revealing a significant improvement in the use of financial services. A similar trend was observed in the case of the number of depositors. Data on the usage dimension also include indicators on the number of policy holders and pensioners as percentage of economically active population. Additionally, the SBS has developed complementary indicators to measure the depth of outreach of financial services, such as the average size of deposit and loan amounts relative to GDP per capita.

Core indicators are publicly available in the “Report of Financial Inclusion Indicators”, which is published biannually in the SBS institutional website[1]; the first issue was based on the information of December 2010. Besides this report, the SBS is working on the implementation of a Map of Financial Inclusion that will provide key regional information, related to socioeconomic aspects, financial services, financial infrastructure and potentialities. The main purpose of the Map is to contribute to the knowledge of potential demand for financial services and to help policymakers and service providers to identify opportunities for expanding the coverage of financial services across the country and defining actions to promote financial inclusion. This Map will be available in the institutional website by the end of the first semester 2014.

While supply-side indicators on access and usage of financial services have been helpful, they need to be complemented with demand-side data in order to get a clear picture of financial inclusion in the country, especially in regard to the usage and quality of financial services. Aware of this need, the SBS has undertaken some data collection initiatives in recent years. In 2011, the SBS developed a pilot financial literacy survey to obtain baseline information on the level of financial knowledge in the main regions of the country and identify needs on financial education. In 2012, with funding from the Inter-American Development Bank (IDB), the SBS undertook a pilot survey on access and usage of financial services to obtain information from the demand-side on the degree of financial inclusion achieved by the financial system and the barriers for the access and usage of financial services. The survey was intended to establish a baseline on the access of adult individuals to financial services and the factors affecting their use, as well as on the suitability of the products and services currently available in the market. It was undertaken in urban and rural areas of four departments, including the capital.

A second financial literacy survey has recently been launched with the support of the Development Bank of Latin America (CAF), with data collection underway. In addition to this initiative, the SBS is currently working on the development of a comprehensive study to obtain information on the level of financial education and the characteristics of the potential demand for financial services in urban and rural areas. The project aims at identifying opportunities for improving the regulatory framework and financial education programs and promoting the adoption of complementary actions by other public and private sector. Moreover, the World Bank is conducting a payment system

[1] http://www.sbs.gob.pe/app/stats/EstadisticaBoletinEstadistico.asp?p=49#

evaluation with the aim to build an understanding of how this market actually works and which channels the people use to make its payment transactions. The results of the study will be used to refine current policies to improve the level of financial inclusion in the country.

3. Financial Inclusion Policy Formulation

The improvements in the regulatory framework to enhance the scope and depth of outreach of the financial system have been carried out gradually, based on the performance and response of the market. By the mid-2000s, significant progress had been observed in making microcredit available and improving the transparency of the cost of financial services. However, the limited scope of the financial sector service network was also evident. By the end of 2005 there were 3,678 service points, including branches and ATMs, serving only 21% of the total districts. The high costs of traditional channels to deliver financial services were identified as a major constraint for the expansion of the network trough branches, especially in remote and low population density areas. It was clear that alternative low costs delivery channels were necessary to foster better access to financial services.

Close coordination between the SBS and the industry led to the issuing of a new regulation, allowing financial institutions to operate through banking agents. Regulation on this matter was first developed in 2005 (SBS Circular N° B2147-2005) and then replaced by a more comprehensive resolution in 2008 (SBS Resolution N° 775-2008), outlining the requirements for using this channel and the allowed operations. Later in 2013, when the regulatory framework for E-money was put in place[2], the SBS updated the regulation for banking agents (SBS Resolution N°6285-2013) clarifying the difference between banking agents, agent operators and agent aggregators (entities that already exist in the market), simplifying the requirements for operating through banking agents and expanding the allowed operations so they can function as cash in/out points for e-money services. According to Peruvian regulation, banking agents or the so called "Cajeros Corresponsales" are service points operating in establishments belonging to legal entities or individuals (different from financial entities) who offer permitted services under an agreement with and on behalf of supervised financial institutions or issuers of E-money. An agent operator is defined as the legal entity or individual owner of the establishment where banking agent operates, whereas an agent aggregator is defined as the legal entity that manages agent operators.

There are no significant constraints on the type of establishments financial institutions may choose as banking agents[3], provided that operators meet certain conditions, such as having no overdue debt in the system and having access to the necessary physical and human resources. Regulation also establishes that once financial institutions obtain initial authorization to use agents, prior approval for all subsequent agents is not required, thus facilitating its expansion.

Initially, banking agents were permitted to provide the following financial services: loan collection, withdrawals, transfers, cash deposits, and payments for good and services. They were also allowed to provide information about account opening and credit application, even though applying for such services through agents was not permitted. Banks were the first in using banking agents as service outlets. In the first phase of development of the agent network, most banks tended to use banking agents mainly to shift low-value transactions away from the more costly branch channel and to extend the reach of their existing branches. In this way, many of these agents were initially located near branches, in districts with an extensive presence of the financial system. In fact, data shows that during their first years of operation, banking agents were mainly opened in districts that already have access to a branch, an ATM or both. By the end of 2008, almost 36% of total districts

[2] In January 2013, the Government passed the Law N° 29985, which regulates the basic characteristics of E-money as an instrument for financial inclusion. In May 2013, through Supreme Decree N° 090-2013-EF, the Ministry of Economy and Finance approved the regulation of the Law. In October 2013, the SBS established the regulatory framework for E-money transactions and issuer companies (Resolution N° 6283-2013 and Resolution N°6284-2013).

[3] Banking agents can be pharmacies, supermarkets, internet kiosks, convenience stores and post offices, mobile service establishments, among others.

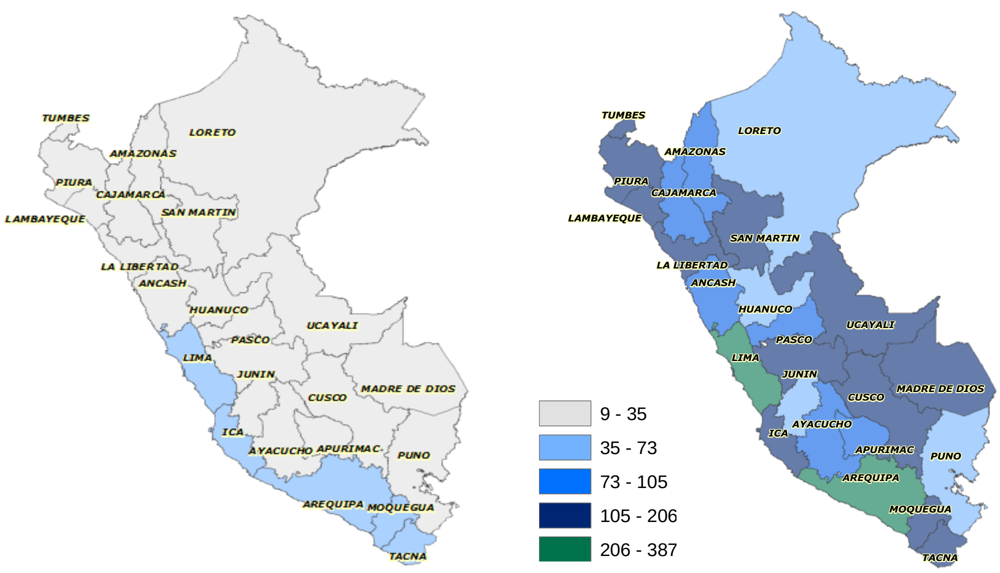
with access to financial services had a branch, ATM and banking agent, while 14% of them had at least one branch and one banking agent as service points.

Table 2: Distribution of districts with access to branches, ATMs and banking agents

	2005		2006		2008	
	Number	%	Number	%	Number	%
Number of districts	1,835	100.00%	1,835	100.00%	1,835	100.00%
Districts with access to financial services (branch, ATM or banking agent)	380	20.71%	437	23.81%	493	26.87%
As % of number of districts with access:						
Districts with one type of service point:	***256***	***67.37%***	***220***	***50.34%***	***217***	***44.02%***
Branch	256	67.37%	186	42.56%	154	31.24%
ATM	0	0.00%	6	1.37%	16	3.25%
Service Agent	0	0.00%	28	6.41%	47	9.53%
Districts with two types of service points	***124***	***32.63%***	***94***	***21.51%***	***100***	***20.28%***
Branch and ATM	124	32.63%	21	4.81%	16	3.25%
Branch and banking agents	0	0.00%	16	13.73%	68	13.79%
ATM and banking agents	0	0.00%	13	2.97%	16	3.25%
Districts with branches, ATMs and banking agents	***0***	***0.00%***	***123***	***28.15%***	***176***	***35.70%***

The following years were characterized by an impressive growth of the agent network across the country. The number of financial institutions using banking agents increased, while banks began to use agents to establish a presence away from its existing retail network. In addition to those agent networks, third-party platforms (recently defined as agent aggregator) appeared to link various banks and microfinance institutions to a common payment platform, which offer services on behalf of multiple financial institutions. By the end of 2010, there were 9,194 banking agents across the country and 17,488 total service points (96 per 100,000 adults), while the percentage of districts with access increased to 33% (81% of total population).

Figure 1: Number of Service Points per 100,000 adults 2006 versus 2013



Although access was significantly improved through banking agents, these service points could not be used by financial institutions to attract new customers but only to serve existing customers. To address this limitation, considering the great performance and the very few problems reported by agents, the SBS decided to extend the operations permitted to agents, expanding commercial opportunities for financial institutions and the range of services for customers. In 2011, the SBS created a simplified regime of AML/CFT rules for low risk products and customers (Resolution SBS N° 2108-2011) and, in order to facilitate the provision of deposit accounts for the lower income segments of the population, the regulation defined "basic accounts" within the simplified regime. Basic accounts were defined as low-value accounts subject to strict transaction and maximum balance limits; account balance cannot exceed the equivalent to $720 and monthly transactions cannot exceed $ 1,440. Given the low risk of basic accounts, banking agents were allowed to open such accounts, requiring just the presentation of the national identification document. In this way, financial institutions were also given the opportunity to incorporate new customers through banking agents.

Market response to this regulatory change was slower than was originally expected. Within two years of the introduction of simplified accounts, some pilot projects have been conducted; however, at the moment these accounts are not fully operational. It is expected that the development of mobile services will enhance the use of these accounts. In order to effectively monitor the usage of these accounts, the SBS recently modified the reporting of the number of depositors so as to reflect basic account regulatory changes. Since September 2013, deposit-taking institutions must report the number of individuals holding these accounts, along with the other types of accounts (salary accounts, saving accounts and term deposit accounts), by geographical location. Even though problems of double counting and overestimation are still present due to bank secrecy rules, this report will provide key insights on usage of financial services from the depositor side, particularly low-value accounts.

Similarly to basic deposit accounts, basic electronic accounts were defined in the framework of the E-money regulation, which can also be opened at a banking agent. Therefore, it is expected that the banking agent network will continue to grow since agents are essential in supporting cash-in/cash-out transactions, a key component in the development of mobile financial services.

4. Key Lessons

- Having appropriate and high-quality information about levels and trends of financial inclusion is crucial for the design, implementation and monitoring policy actions to further deepen the outreach of the financial system. In fact, appropriate data sets which accurately gauge the state of financial inclusion can help policymakers to focus their actions on specific targets, and to monitor and evaluate financial inclusion initiatives. This represents a challenge for regulators, as they must ensure the consistency, reliability, accuracy and continuity of financial inclusion data, while covering their specific data needs.

- Data collection and measurement can vary in terms of sources and scope. However, each approach is useful and complements the other. Supply-side information can easily be obtained from supervised financial institutions, but it is not able to reveal the needs of non-clients that demand-side data can reveal. While supply-side data mainly reflects the services provided to customers in the financial system, demand-side data deepens insights about the barriers faced by the un-served population to access financial services. A key challenge for regulators and policymakers is to bring the data from these two sources together for policy formulation. At the moment, several projects are underway in the SBS with the intent to ascertain and analyse the level of financial inclusion in the country, based on information not only collected from the supply side but also from the demand side. This analysis will be used by the interagency committee for financial inclusion, formed by the SBS, Ministry of Economy and Finance (MEF), Ministry of Development and Social Inclusion (MIDIS) and Central Bank, to define the national strategy on financial inclusion.

- As financial inclusion levels improve, focus targets and data requirements evolve accordingly. In this sense, it is crucial that regulators make periodical diagnosis of available data to identify data needs and design strategies to fill the gaps. To this end, the SBS last year made a diagnosis of current reports required from financial institutions, insurance companies and private pension funds with the aim of identifying gaps in supply-side information. For instance, data gaps were identified regarding the number and volume of financial transactions, useful to understand the intensity of use of financial services. As a result, a new report was generated to collect this information.

- Finally, financial regulators should be aware that financial inclusion data might be used by different stakeholders and could encourage policy actions from different perspectives. Accordingly, a key aspect of data collection strategy is to establish mechanisms for data dissemination in order to provide useful information to market agents, taking into account their data needs. In this regard, the SBS is currently working on the development of the Map of Financial Inclusion to provide a set of diverse data, in addition to financial access data, to help policymakers and service providers in the identification of opportunities to enhance financial access across the country. Results of demand surveys will be publicly available in order to promote the adoption of complementary actions by the public and private sectors.