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FINDEX NOTES

The Global Findex Database

New Data on Saving, Borrowing, and Managing Risk

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According to new data from the Global Financial Inclusion (Global Findex) database, 22 percent of adults worldwide report having saved at a formal financial institution in the past 12 months, while 9 percent report having originated a new formal loan. The data also show deep disparities across regions, economies, and individual characteristics in how people use financial services. The database can be used to track the effects of financial inclusion policies globally and develop a deeper and more nuanced understanding of how people around the world save, borrow, make payments, and manage risk.

Inclusive financial systems can play an important part in reducing poverty and inequality. They enable poor people to save and to borrow—allowing them to build their assets, to invest in education and entrepreneurial ventures, and thus to improve their livelihoods. And they allow poor people to smooth their consumption and insure themselves against the many economic vulnerabilities they face—from illness and accidents to theft and unemployment.

Yet until now little had been known about the global reach of the financial sector—the extent of financial inclusion and the degree to which such groups as the poor, women, and youth are excluded from formal financial systems. Systematic indicators of the use of different financial services had been lacking for most economies.

The Global Findex database provides such indicators, measuring how people in 148 economies save, borrow, make payments, and manage risk. These new indicators are constructed with survey data from interviews with more than 150,000 nationally representative and randomly selected adults age 15 and above. The survey was carried out over the 2011 calendar year by Gallup, Inc. as part of its Gallup World Poll. This note highlights Global Findex data on savings behavior, the sources and purposes of borrowing, and the use of health and agricultural insurance to manage risk.

Saving

Saving to cover future expenses—education, a wedding, a big purchase—or to provide against possible emergencies is a universal tendency. Globally, 36 percent of adults report having saved or set aside money in the past 12 months.[1] Adults in high-income economies are the most likely to do so, followed by those in Sub-Saharan Africa and East Asia and the Pacific (figure 1).

Worldwide, 22 percent of adults report having saved in the past year using an account at a formal financial institution. Formal savings behavior varies across regions as well as by individual characteristics. Men, adults in higher income quintiles, and those with

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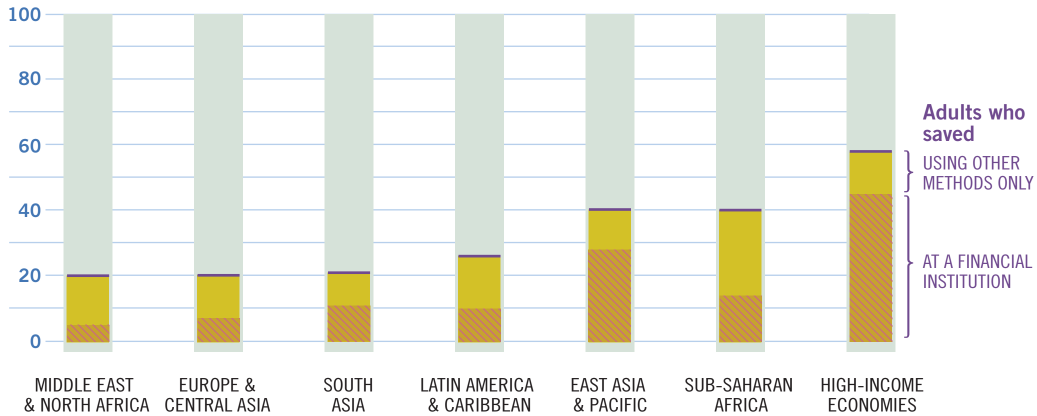
FIGURE 1

Formal and informal saving

Adults saving any money in the past year (%)



Source: Demirguc-Kunt and Klapper 2012.

more education are more likely to report having saved at a bank, credit union, or microfinance institution in the past year. In developing economies adults in the richest income quintile are on average more than three times as likely to save formally as those in the poorest—and in high-income economies nearly twice as likely.

Having a formal account does not necessarily imply formal saving; even among account holders there is great variation in the use of formal accounts to save (figure 2). Worldwide, about 43 percent of account holders report having saved or set aside money using an account at a formal financial institution in the past 12 months. In high-income economies, East Asia and the Pacific, and Sub-Saharan Africa about half of account holders report having done so. This suggests that in these groups of economies the ability to save in a secure location may be an important reason why people open and maintain a formal account.

Many adults, despite having a formal account, save solely using other methods. These people, who might be classified as "underbanked," make up 12 percent of account holders worldwide. Those choosing to use an informal savings method rather than their formal account may do so because the costs of actively using their account are prohibitive—as a result of such barriers as balance and withdrawal fees and physical distance. It is also possible that wage accounts set up by employers cannot easily be used to save.

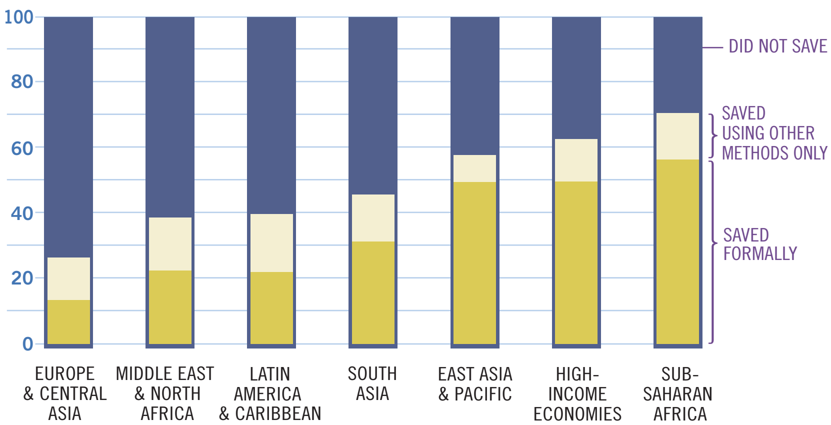
In developing economies large shares of people who save are clearly choosing alternatives to formal accounts to do so. What are the main alternatives being used?

Savings clubs are one common alternative (or complement) to saving at a formal financial institution. A common form is the rotating savings and credit association—known as a *susu* in West Africa, an *arisan* in Indonesia, and a *pandero* in Peru. These clubs generally operate by pooling the weekly deposits of their members and disbursing the entire amount to a different member each week.

FIGURE 2

Savings behavior among account holders

Adults with a formal account by savings behavior in the past year (%)



Source: Demirguc-Kunt and Klapper 2012.

Community-based savings methods such as savings clubs are widely used in some parts of the world but most commonly in Sub-Saharan Africa. In that region 19 percent of adults report having saved in the past year using a savings club or person outside the family. Among just those who report any savings activity in the past 12 months, 48 percent use community-based savings methods. The practice is particularly common in Nigeria, where 44 percent of adults (and 69 percent of those who save) report using a savings club or person outside the family.

The popularity of savings clubs speaks to their advantages, but these arrangements also have downsides. Their essential characteristic—informality—is accompanied by risks of fraud and collapse (although formal accounts are not immune to these risks where explicit government-run deposit insurance is absent or inadequate, as it is in many developing economies). In addition, the cyclical nature of contributions and disbursements can be too rigid for some people and out of sync with their needs to deposit surplus income or quickly withdraw funds for an emergency.

A large share of adults around the world who report having saved or set aside money in the past 12 months do not report having done so using a formal financial institution, informal savings club, or person outside the family. While the Global Findex survey did not gather data on these alternative methods, they might include saving through asset accumulation (such as gold or livestock) and saving "under the mattress." These adults account for 29 percent of savers worldwide and more than half of savers in 55 economies.

Borrowing

Most people need to borrow money from time to time. They may want to buy or renovate a house, to invest in an education, or to pay for a wedding. When they lack the money to do so, they turn to someone who will lend it to them—a bank, a cousin, an informal lender. And in some parts of the world many people may rely on credit cards for short-term credit.

Globally, 9 percent of adults report having originated a new loan from a formal financial institution in the past 12 months—14 percent of adults in high-income economies and 8 percent in developing economies. In addition, about half of adults in high-income economies report having a credit card, which might serve as an alternative to short-term loans.[2] In developing economies only 7 percent report having a credit card.

Friends and family are the most commonly reported source of new loans in all regions, though not in high-income economies. In Sub-Saharan Africa 29 percent of adults report friends or family as their only source of new loans in the past year, while only 2 percent report a formal financial institution as their only source. In several regions more adults report borrowing from a store (using installment credit or buying on credit) than report borrowing from a formal financial institution. In high-income economies formal financial institutions are the most commonly reported source of new loans.

Why are people most likely to borrow? About 11 percent of adults in developing economies report having an outstanding loan for emergency or health purposes (a group in which less than 20 percent report borrowing only from a formal financial institution). Outstanding loans for school fees are most common in Sub-Saharan Africa, reported by 8 percent of adults in that region. Outstanding loans for funerals or weddings are reported by 3 percent of adults in the developing world as a whole, but are significantly more common in fragile and conflict-affected states such as Afghanistan, Iraq, and Somalia.[3]

Data on the use of mortgages show a large difference between income groups: in high-income economies 24 percent of adults report having an outstanding loan to purchase a home or apartment, while only 3 percent do in developing economies.

Managing Risk

Only 17 percent of adults in developing economies report having personally paid for health insurance, though the share is as low as 2 percent in low-income economies. Of adults working in farming, forestry, or fishing in developing economies, only 6 percent report having purchased crop, rainfall, or livestock insurance in the past year.

Conclusion

As the first public database of indicators that consistently measure people's use of financial products across economies and over time, the Global Findex database fills a big gap in the financial inclusion data landscape. The data set can be used to track the effects of financial inclusion policies globally and develop a deeper and more nuanced understanding of how people around the world manage their day-to-day finances. By making it possible to identify segments of the population excluded from the formal financial sector, the data can help policy makers prioritize reforms accordingly and, as future rounds of the data set become available, track the success of those reforms.

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1. The regional and worldwide aggregates omit economies for which Gallup excludes more than 20 percent of the population in the sampling either because of security risks or because the population includes non-Arab expatriates. These excluded economies are Algeria, Bahrain, the Central African Republic, Madagascar, Qatar, Somalia, and the United Arab Emirates. The Islamic Republic of Iran is also excluded because the data were collected in that country using a methodology inconsistent with that used for other economies.
2. Information is collected on the ownership of credit cards but not their use.
3. Data on the main purpose of outstanding loans were gathered only in developing economies because Gallup enforces a time limit for phone interviews conducted in high-income economies, limiting the number of questions that can be added to the core questionnaire. Respondents chose from a list of reasons for borrowing so it is possible that reasons not listed (borrowing to start a business, for example) are also common.

The reference citation for the Global Findex data is as follows:

Demirguc-Kunt, A., and L. Klapper. 2012. "Measuring Financial Inclusion: The Global Findex Database." Policy Research Working Paper 6025, World Bank, Washington, DC.