Assessing Financial Access Through Surveys of Users
An Example of Brazil

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How do we measure financial access? Despite the relatively high quantification of many aspects of financial systems, there has been a growing realization that information on the availability and use of financial services in different populations, whether countries or regions within a country, is scant. Efforts to measure the use of financial services are being organized from multiple perspectives. Information on the supply of financial services to a given community, through financial institutions such as banks, can be collected from regulators, such as central banks, or through surveys of banks themselves. But data from regulators cannot provide an answer to the question of who has access, and who does not. Even if a financial institution exists in a given location, it is not clear whether the poor of that region are being served. Data from financial institutions themselves can complement this, through knowledge of their clients, but are still limited in the extent to which they can capture information on those excluded from financial services.

Questions regarding the use of financial services had to varying degrees been incorporated in instruments such as the Living Standards Measurement surveys of the World Bank. As questions on finance are integrated into a larger exercise, the scope of the financial modules of these inquiries has necessarily been limited. Recently, a wave of more specialized surveys on financial access has been launched, in countries including Brazil, India, Colombia and Mexico, and prior to this, Nicaragua and Romania. Exercises have also been launched in a number of African countries by external agencies, such as the DFID. Going forward, if a harmonized approach is adopted, these could provide a means of comparing financial access across countries.

This article describes a survey of 2,000 urban residents of Brazil and explains how survey data were used to examine policy questions. Interviewees were individuals of 18 or above, selected on a probabilistic basis from census data. This ensured that the sample was representative of the population which it was drawn from. The survey first looked at general access to a formal financial institution, and then at specific financial services; including savings and deposits, credit and payments services.

Looking first at broad findings, the survey showed that while 43% of individuals interviewed had a bank account, a much larger number of persons used formal financial institutions through payment points offered by correspondent banks. This finding has prompted new inquiries into the scope for expansion of correspondent bank services, in Brazil and elsewhere. The survey also showed that most respondents used private banks (58%), despite the large presence of public banks in Brazil. Cooperatives or microfinance institutions had a very limited urban presence (four percent of respondents). Results also suggested that physical access was not an important issue, at least in urban areas. Almost three-quarters of respondents (73.5%) took less than 20 minutes to arrive at their bank.

Beyond such facts, the survey was also able to explore the dimensions of and reasons for financial exclusion. Around two-thirds of those who did not have an account claimed to want one (64%). Possible reasons for not having an account separated those difficulties due to banks’ characteristics, and those due to respondent characteristics. Among the former, high fees dominate – bank services are expensive for many persons. But, lack of documentation and difficulties in opening an account suggest that bureaucratic requirements are also important barriers. Maintaining an account can be even more difficult than opening it - almost a third of the persons sampled had had an account and had then closed it. The main reason cited for cancellation was the difficulty of maintaining a minimum balance (218 cases) combined with cancellation by the bank (also due largely to problems in maintaining the minimum balance) and high fees. This suggests that a large proportion of those who do not have access may not easily be able to afford to maintain a traditional bank account – and from a policy perspective, suggests that simplified but low-cost accounts may be valuable to many. (Such simplified accounts have since been introduced in Brazil, with a huge response in terms of increased account holders).

The survey suggested that deposit services are sought most of all for ‘security,’ and most depositors are not sensitive to returns. Over two-thirds of account holders cited security as the main reason for holding an account. Gaining access to other financial services was second, (10% of respondents), and rates of return were third. And people withdrew deposits mostly when they needed money, and not due to declining returns, or increased risk. In addition, credit services were sought by a low proportion of the population (15%), however only two-thirds of applications were accepted. Loans were sought most of all for family emergencies - consumption smoothing.
The role of public and private financial institutions in the provision of financial services. Many governments assume that due to market failures in financial markets, public banks have a special role to play in serving the poorer segments of society. Third, the study looked at the role of information on respondent characteristics in the provision of financial services, investigating the extent to which proxies for information on creditworthiness, such as income, wealth or the possession of collateral, could influence decisions regarding the provision of financial services.

Regarding the role of location, the survey showed a clear variation in a series of indicators of financial access across regions, but also at the level of individual neighborhoods. An examination of regional differentials indicated that the poorer North and Northeast of the country were more limited in access than the more affluent central or southern regions. But differences in access were also strong within local areas. Persons living in legalized areas, in regularized houses or apartments, and in larger homes, had significantly greater access, using a number of measures, compared to persons in informally constructed small homes in unregularized areas. This suggests that although there are indeed differences between the availability of financial services between regions of the country, placing financial institutions in each region or municipality in itself is not a sufficient condition for broadening access. There may well be important differences also within neighborhoods and districts of a municipality, region or state. Even if there is a financial institution present in a given location, its clients may be biased towards the better off persons. And conversely, areas benefiting from dense networks of financial institutions may still have pockets of the underserved.

Examining survey evidence on the role of public and private banks yields mixed results. Public banks do provide more services in the poorer regions and for low income clients. Thus, 84% of individuals in the less well off North used mainly public banks, compared to around two-thirds of individuals in the Southeast. And 81% of persons in homes of less than 0.5 rooms per person used mainly public banks compared to 61% of individuals in houses of over 2 rooms per person. But the biggest reason for this contribution was in terms of payment services, through a single specialized correspondent chain of one public bank. The role of public banks in taking deposits and providing credit is less clearly distinguished from private banks, and their role in the regions, but also at the level of individual neighborhoods.

The analysis then looked at three policy issues. The first of these was the association between the location of the respondents and the availability of financial services. Government policy for the expansion of access has emphasized the importance of installing some financial institution or point of service in each municipality. The survey examined location both in terms of region of the country and in terms of better and worse off neighborhoods within a city. Second, the study examined the role of public and private financial institutions in the provision of financial services. Many governments assume that due to market failures in financial markets, public banks have a special role to play in serving the poorer segments of society. Third, the study looked at the role of information on respondent characteristics in the provision of financial services, investigating the extent to which proxies for information on creditworthiness, such as income, wealth or the possession of collateral, could influence decisions regarding the provision of financial services.

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The final section of the analysis was an evaluation of the relative importance of different factors affecting access, based on regression analysis. The analysis used a series of different measures of access and a range of different explanatory variables related to location as well as individual characteristics. Thus for example, with the probability of having a bank account as the measure of access, geographic region of the country, type of building and number of rooms per person, income and education level were all significant. Thus location is important in determining access, but location in terms of the micro characteristics of an area or neighborhood can be as important a discriminator for access, as location in terms of regions or municipalities.

Socioeconomic characteristics, especially income but also education and (for credit services) wealth, can be more important than region or location, at the users level, in determining financial access. A calculation of marginal effects showed that moving up from the bottom to the second quintile of income increases the probability of having a bank account by 11 percentage points, and increases the probability of using a bank (compared to a non-bank) as a primary financial institution by 62 percent. Persons educated beyond primary level almost double their probability of having a bank account compared to those without any formal education (a 97 percentage points increase in probability). Distinguishing between public and private banks, additional income lowers the probability of using public banks by 6 percentage points as compared to private banks; additional education lowers the probability of using public banks by 5 percentage points.

In terms of policy advice, the results suggest first that given the importance of factors such as income, education and wealth, in determining access, which may be due to asymmetries in information, factors which reduce such asymmetries in information can be important for the expansion of financial access. The importance of socioeconomic characteristics such as education, in determining access suggest that programs of financial education, financial mentoring, training and twinning and awareness building may also be important for raising financial access. Next, the survey showed that problems with maintaining balances,
costs, and self-exclusion, were relevant. Therefore another suggestion is that services which are specially designed and targeted for the less well off may help to address access. For example, basic accounts, minimum packages of financial services, simplified documentation requirements or special financial products, such as payroll loans, designed for low income persons, could be important for raising access.

Regarding location and financial access, the finding is that persons in less well off and more remote regions do face lower levels of access. However if service outlets are to be provided in all geographical areas, this can be hard to justify on economic grounds and thus public support may be justified. And providing financial outlets will not automatically ensure financial services for the poor of that region. Attention to product design for the less well off is still important. Also, location defined at a micro level in terms of neighborhoods, with service expansion targeted at areas or parts of a city with specific microeconomic characteristics (e.g. high concentrations of low income housing), may be more appropriate as a focus for new outlets. The provision of financial services in poor urban pockets may be a challenge equal to exclusion in remote regions.

A final suggestion is the introduction of more competition in those services where public banks dominate – e.g., housing or payments. Although the analysis did suggest that persons with lower levels of income tended to use public banks proportionately more, it also showed that along a broad spectrum of deposit and credit services, the roles of these institutions could be largely substitutable. Maintaining a differential role for public banks on the grounds of access may therefore have limited justification. Indeed, as persons become better off, they tend to prefer private services for a broad spectrum of financial transactions.

Specialized surveys on financial access have generated great interest among both policy makers, researchers, and the wider donor community. Although these can be expensive, as they require the collection of socioeconomic data to correlate with financial variables, such surveys can provide valuable information on financial behavior, on perceptions of constraints to access, and on actual difficulties to access to financial services, in the form of costs, time or distance. Such information can permit the exploration of specific policy related questions towards financial access. If at least the core questions of such separate exercises are comparable, this could provide a valuable instrument for exercises of benchmarking and cross country comparison.

Based on extracts from the following publications:

*Brasil: acesso a services financeiros: IPEA, Brazil, 2005*