

FINDEX NOTES

#2014-7

The Global Findex Database 2014

Financial Inclusion in South Asia

South Asia has made strong progress in financial inclusion, particularly among the poor and women. Forty-six percent of adults in the region have an account at a financial institution or through a mobile money provider, up from 32 percent in 2011. However, more than 40 percent of accounts in the region are dormant. Drawing on new data from the 2014 Global Financial Inclusion (Global Findex) database, this note measures the extent of account ownership in the region and explores how accounts are used. It concludes by outlining ways governments and the private sector can increase account ownership among the region's unbanked, and encourage greater use of existing accounts.

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Financial inclusion—access to and use of financial services—is critical in reducing poverty and achieving shared economic growth. When people can participate in the financial system, they are better able to start and expand businesses, invest in their children's education, and absorb financial shocks. Before 2011, little was known about the financial system's global reach, including how many people owned accounts and the extent to which such groups as women and the poor were excluded. The first Global Findex database was a landmark, delivering unprecedented insights into how people in more than 140 economies were saving, borrowing, making payments, and managing risk.

Three years later, the second edition provides an update on the indicators collected in 2011 while adding new data on mobile money and domestic payments. As in the first edition, indicators are constructed with survey data from interviews with nationally representative and randomly selected adults age 15 and older—about 150,000 people were surveyed in 143 economies during the 2014 calendar year.

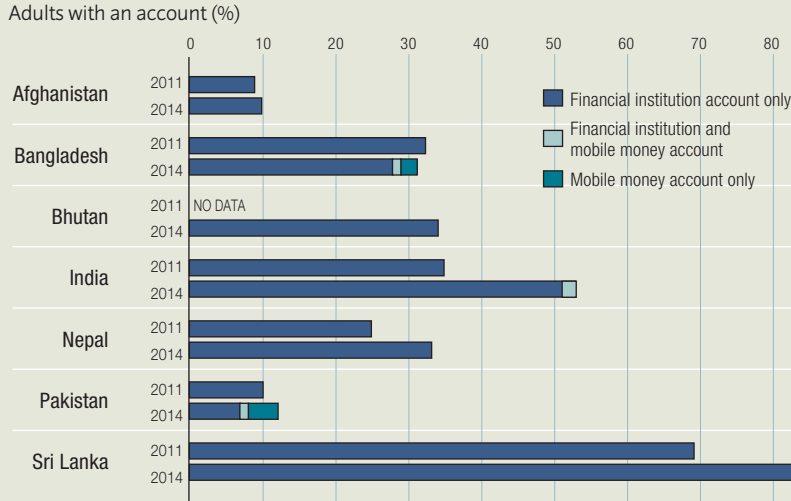
Account Ownership on the Rise

South Asia has experienced one of the fastest growth rates in regional account ownership. Since 2011, account penetration increased by 14 percentage points to 46 percent, bringing nearly 185 million adults into the ranks of the financially included. India was mainly responsible for this growth: Account ownership there increased by 18 percentage points to 53 percent, ushering in 175 million adults. The only other country in the region boasting similar growth is Sri Lanka, where the percentage of adults with an account increased by 14 percentage points to 83 percent. This growth is comparable to that seen in developing economies overall, where account ownership increased by 13 percentage points to 54 percent. Nepal showed a slightly lower increase in account ownership, with the share of adults increasing by 8 percentage points to 34 percent. There was virtually no growth in accounts in Afghanistan, Bangladesh and Pakistan. Worldwide, 62 percent of adults have an account in 2014, up from 51 percent in 2011.

Unlike Sub-Saharan Africa, where mobile money accounts contribute considerably to higher account ownership, the growth in South Asia is largely a result of the increase in accounts at a financial institution, such as a bank, credit union, cooperative, or microfinance institution. Just 3 percent of adults have mobile money accounts in South Asia. Within the region, mobile money account ownership is

FIGURE 1

Financial institution accounts drive account ownership increase in South Asia between 2011 and 2014



Source: Global Findex database.

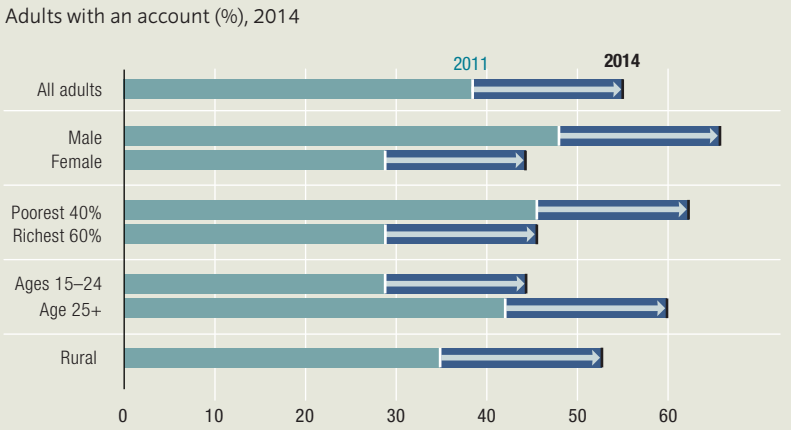
most common in Pakistan and Bangladesh. Six percent of adults in Pakistan reported having a mobile money account, and 4 percent of adults reported having only a mobile money account. In Bangladesh, 3 percent of adults reported having a mobile money account (figure 1).

Even Increase in Account Ownership Across Demographic Groups; Women Left Behind

A closer look at new account owners in South Asia reveals little variation in the distribution of growth across groups of individuals. The overall growth in account penetration—about 14 percentage points—was evenly reflected across all groups of individuals for which the data are broken down (figure 2).

FIGURE 2

Inequality persists amid account ownership gains in South Asia



Source: Global Findex database.

While the growth in account ownership may be even across different groups of individuals, large disparities persist within these groups. In fact, South Asia has the largest absolute gender gap among developing regions: only 37 percent of women have an account compared with 55 percent of men. At 18 percentage points, this gender gap is nearly twice the gap in developing economies on average. With 360 million women lacking an account in South Asia, including 250 million in India, this group makes up nearly 60 percent of the unbanked in the region. India has the region’s largest gender gap, at 20 percentage points. Pakistan stands second (16 percentage points), and

Afghanistan and Bhutan tie for third (about 12 percentage points) for the largest gender gaps in the region. Sri Lanka is the only country in the region with no gender gap.

Just 38 percent of adults living in the poorest 40 percent of households have an account while 52 percent of those in the richest 60 percent of households do. This is similar to the average gap seen in developing economies, where 46 percent of poorer adults and 60 percent of richer adults have an account. These gaps extend to different age groups as well—older adults are more likely to have an account than younger adults.

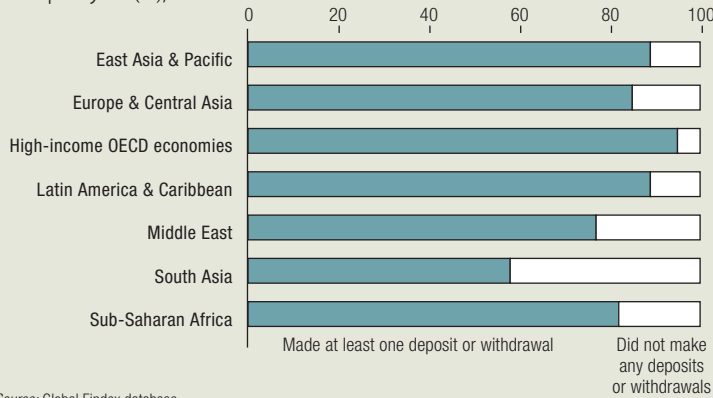
Many Accounts, but Little Use

Beyond access, the real benefit of financial inclusion comes from the use of accounts. In spite of increased access to banking services, South Asia performs poorly when it comes to active use of these accounts. More than 40 percent of adults with an account in South Asia reported making zero deposits or withdrawals for a year or more and are classified as dormant account holders—the highest share of dormant accounts among all developing regions (figure 3). By comparison, the average across developing regions is less than 20 percent, while in high-income OECD economies the dormancy rates are as low as 5 percent on average. Within the region, India and Afghanistan have the highest dormancy rates with more than 40 percent of accounts dormant, followed by Bangladesh and Sri Lanka with more than 30 percent. Not

FIGURE 3

South Asia has world's highest dormancy rate

Adults with an account by whether deposits or withdrawals made in the past year (%), 2014



Source: Global Findex database.

surprisingly, women and the poor have especially high rates of dormant accounts in South Asia: 51 percent of women have dormant accounts in South Asia compared with 35 percent of men; and 55 percent of adults from the poorest 40 percent of households have dormant accounts compared with 35 percent of adults in the richest 60 percent of households.

India alone accounts for about 195 million of the 460 million adults with a dormant account around the world. One likely explanation is the launch of a government-led nationwide scheme in the second half of 2014 that led to more than 125 million new bank accounts being opened. However, ac-

According to government data, about 40 percent of these accounts still show zero balances, partly because these accounts were not linked to any recurring payment mechanism such as wage payments or government transfers. Another potential explanation is low debit card use in the region, and a reliance on less accessible and expensive options such as bank tellers for withdrawals.

Even beyond dormancy, use of accounts for digital payments is fairly low. Just 27 percent of account holders in South Asia use their account to make or receive payments digitally—the smallest share among developing regions. Although the most common use of accounts in South Asia is for formal savings—23 percent of adults with an account save formally—this percentage is much lower than the average of about 40 percent in developing economies. Within South Asia, Bhutan and Nepal are two outliers: 58 percent and 46 percent of adults with an account, respectively, reported saving formally.

When it comes to receiving or making payments, the use of cash far outweighs the use of accounts. Only 19 percent of wage recipients receive wages into an account in South Asia. In developing economies, by contrast, 41 percent of wage recipients reported receiving their wage payments into an account. An even smaller share of adults in South Asia makes payments to businesses or the government from an account. Only 5 percent of those making payments for school fees do so and 8 percent paying utility bills do so, the second lowest rate among all regions. The picture is similar with regard to sending or receiving domestic remittances: Cash is the most common option for sending or receiving such payments. Sending or receiving a domestic remittance payment through an account is typically the second most common option, followed by using over-the-counter money transfer agents.

Poverty Blocks Account Ownership in South Asia

Despite rapid increases in account ownership, South Asia is still home to about 625 million of the world's 2 billion adults without an account, making up about a third of the global total. India alone is home to 21 percent of the world's unbanked adults and about two-thirds of South Asia's.

By asking the unbanked why they lack an account, the Global Findex exposes barriers to financial inclusion. On average, they give two reasons. The most common is lack of enough money to use an account. Globally, 59 percent cited this as a reason for being unbanked, although only 16 percent cited it as the sole reason. Within South Asia, the figures are similar. Regionally, the second most common reason—cited by 38 percent of the unbanked—is that someone in the family already has an account. This was reported most often in India and Bhutan, where about 11 percent reported it as the only reason for not having an account. In general, women were more likely than men to cite this reason.

Digitizing Payments Could Increase Account Ownership and Use

Data show that digitizing payments can spur an increase in both the number of accounts and their use. By shifting private sector wages and government wages and transfers into accounts (as opposed to paying them in cash), governments and the private sector in South Asia could bring up to 110 million adults under the umbrella of the banked. Given that almost one in four adults in these countries receive their income from the sale of agricultural products, shifting payments for the sale of agricultural products into accounts could increase account ownership by a similar number: up to 110 million adults. This could improve the efficiency of payments by increasing their speed and reducing the cost of sending and receiving them. Digitizing payments could also enhance the security of payments and thus lower the incidence of associated crime, and it could reduce the possibilities for corruption by making payments more transparent.

Cash and over-the-counter transactions for sending or receiving domestic remittances also offer a sizeable untapped market: about 90 million unbanked adults in South Asia send or receive remittances in cash or using over-the-counter services. This includes 25 million unbanked adults in Pakistan.

Encouraging formal saving practices is another way to increase account penetration. Almost two-third of savers in South Asia use semi- or informal means to save, such as informal savings clubs or gold or live-stock. In fact, just shifting the semi-formal savings of unbanked adults from savings clubs into accounts could add more than 30 million account holders in South Asia.

There are also huge opportunities to increase the use of accounts in South Asia. About 270 million account holders still pay school fees and utility bills in cash in South Asia; this amounts to 43 percent of account holders who pay utility bills in cash and a quarter of account holders who pay school fees in cash. Channeling such payments through existing accounts could reduce dormancy rates and, at the same time, ramp up digital payments in the region.

Conclusion

In South Asia, account penetration grew by 14 percentage points and 46 percent of adults in the region now have an account. However, at 18 percentage points, South Asia has one of the largest gender gaps in the world. Additionally, it remains home to 625 million adults without an account—31 percent of the global total of unbanked adults. Many, both banked and unbanked, also continue to make payments in cash. Digitizing such payments offers great potential and can spur an increase in account penetration and the use of accounts. By presenting detailed data on how adults save, borrow, make payments, and manage risk, the Global Findex database reveals ways that governments and businesses can help adults in the region more fully benefit from financial services.

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The reference citation for the 2014 Global Findex data is as follows:

Demirguc-Kunt, Asli, Leora Klapper, Dorothe Singer, and Peter Van Oudheusden. 2015. "The Global Findex Database 2014: Measuring Financial Inclusion around the World." Policy Research Working Paper 7255, World Bank, Washington, DC.

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