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Banking on Progress in Peru

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Shopping center in Lima, Peru: Access to financial services is improving in Peru—offering more methods to obtain credit and pay for goods (Photo:Elias Alfageme/El Comercio de PERU/Newscom)

By Yen Nian Mooi

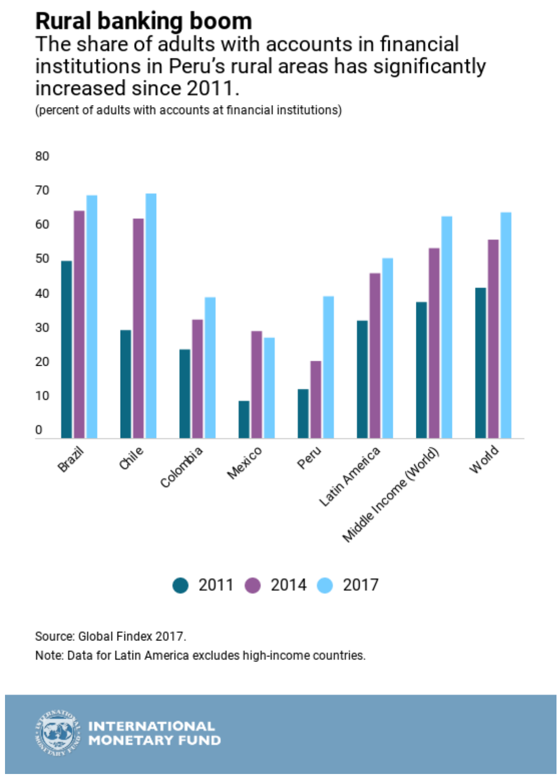
Do you remember how you last paid for something? Was it by cash, credit card, or perhaps a mobile app? Are you able to send money to different cities without it being too expensive? The answers to these questions can indicate your access to financial services. Without good access to these services, it would be challenging for people to fulfil their economic and social needs.

More people in Peru have gained access to financial services in recent years, with bank account ownership increasing by nearly 50 percent since 2014. But more than half the population still remain left out.

To close this gap, and build on recent progress, the government can enact policies to leverage fintech further to expand financial inclusion in Peru. This would give more Peruvians better access to financial services – offering more methods to save, obtain credit, and pay for goods and services.

Access granted

As noted, Peru's bank account ownership increased to 43 percent in 2017, up from 29 percent in 2014 and 20 percent in 2011. This jump was driven by a large increase in rural accounts, which almost doubled from 23 percent to 41 percent between 2014 and 2017.



An expansion in delivery channels has contributed to this improvement. In the past decade, there has been better access to financial institutions, with the total number of branches quadrupling.

Both banks and non-banks increased their presence across most regions in Peru. New channels of delivery also have emerged in recent years, such as mobile money and online platforms.

Indeed, much of the progress in financial inclusion can be attributed to the supportive policies enacted. As a signatory to the Maya Declaration, Peru is part of a network of policymakers committed to improving financial inclusion policy and regulation. In July 2015, the government launched the National Financial Inclusion

Strategy, which set a target of 50 percent account ownership by 2018, and 75 percent by 2021.

The Global Microscope Survey consistently ranks Peru amongst the top countries for having a favorable and fostering environment for financial inclusion.

Amongst the advances in regulation supportive of financial inclusion is a law on electronic money, passed in 2013. This has enabled the private sector to set up a fully interoperable mobile money platform and launch a mobile money product, *Billetera Móvil* (BiM) in 2016.

Challenges to financial inclusion

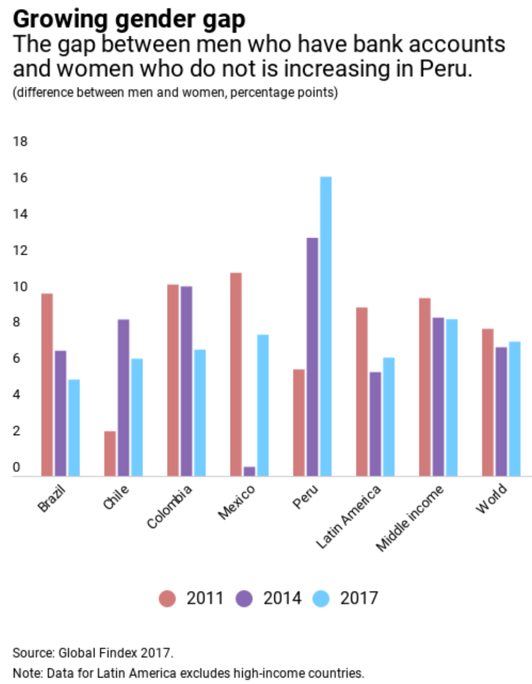
Despite considerable progress, gaps remain. For instance, the number of bank accounts in the in Peru is still below the Latin America average of 54 percent and global average of 69 percent.

Gender gaps in account ownership have also increased, with the difference between the share of men and women having accounts widening from 13 percent to 17 percent between 2014 and 2017.

The stage of financial inclusion and depth also does not fully align with domestic fundamentals. IMF research shows that there is a large negative gap for financial inclusion of households with respect to domestic fundamentals.

Furthermore, private credit at around 40 percent of GDP is one of the lowest in the region, and below the expected level for a country of Peru’s income and population levels.

And according to the Global Findex Survey in 2017, respondents who did not own accounts cited high costs as the main reason.



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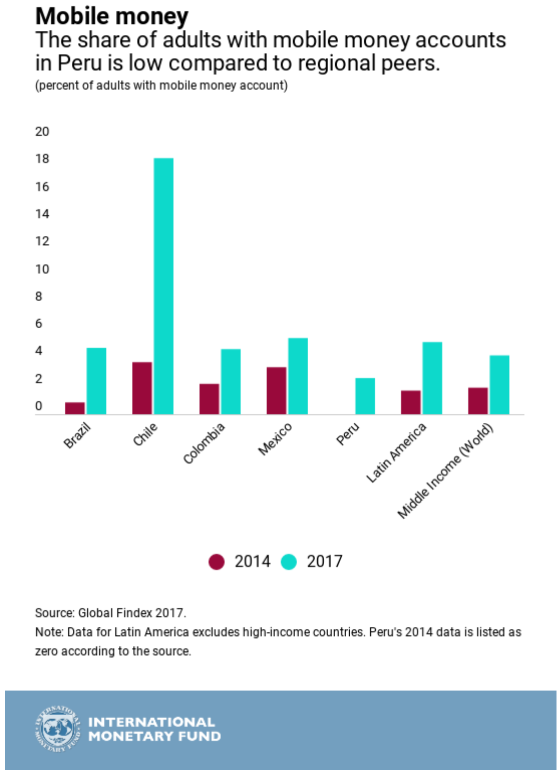
More financial access needed

In Peru, reaching populations in geographically remote and poor areas has been a difficult task, but there is an opportunity for fintech to provide new solutions for improving financial inclusion.

Supporting mobile payment technology can be useful, as the share of adults with a mobile money account is still very low despite the high rate of mobile penetration even in the rural areas (at above 70 percent).



Initiatives such as mobile money, *Billetera Móvil*, are moving in this direction, though its uptake has fallen short of expectations due to implementation challenges. A reform of the operational model would be useful to boost adoption and usage of this product.

The digitization of government payments, both in government-to-person (such as social program disbursements, and salary payments) and person-to-government payments (like tax collection, and license fee payments) could also help boost transactions.

Policymakers will need to strike a balance between supporting innovation and safeguarding the financial system, to fully reap the digital dividend that fintech offers.

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