Financial Inclusion and Financialization: 
Latin American Main Trends after the Great Crisis

Eugenia Correa and 
Alicia Girón

Abstract: In recent decades, the World Bank (WB) and the International Monetary Fund (IMF) have promoted policies and programs for financial inclusion (FI). This article studies the meaning of the inclusion proposal as well as the main results. The most important argument of this policy is the increase of local savings as the basis of investment and growth. Although this objective has not been achieved, inclusion remains a current policy. In reality, FI has been driven by an underlying agenda, as has been the case of other policies from the same sphere of interests that the Washington Consensus authored at the beginning of the 1990s. Although this denomination has been abandoned due to the loss of prestige it has achieved in the region, its main objectives continue to be promoted by many governments. Also, FI has been a vehicle for deepening financialization.

Keywords: financial inclusion, financialization, Latin America, inequality

JEL Classification Codes: F43, F63, G21, G28

Financial inclusion (FI) policies have intensified worldwide since the great crisis of 2008, with significant increases especially through mobile phone accounts in countries in Africa and Asia. According to the World Bank in 2017, 69% of the adult population in the world has at least one financial services account. This still leaves 1.9 billion adults without access, most of whom are in Mexico and countries in Asia and Africa (Demirgüç-Kunt et al. 2018). In Latin America, 54% of the adult population has at least one bank account, while 254 million adults are without financial services.

FI policies have received an important boost insofar as they are considered essential to raise savings and expand credit where it can be productive and efficient. In addition, universal access to banking services is one of the sustainable development goals of the United Nations for 2020. There are four major FI areas that are analyzed in this work, including: payments, savings, credit, and insurance.

The area of payments and transfers has increased banking penetration, to the extent that government programs, including pensions, as well as the payment of salaries in the
public and private sectors, have required the opening of accounts. Many services can now be paid online or via cell phone or in banks and not directly with the service provider. Hence, the most successful area of FI has been this one, although it reaches its limits with the reduction of social spending and the enormous amount of population occupied in the informal sector.

Since the 1990s when the policies of financial inclusion are generalized, the saving rate with respect to world GDP remains at around 24%, while in Latin America it is below 20%. Even in several countries in the region this rate is currently below its level compared to that observed in the 1960s. For example, this is the case of Argentina, Bolivia, Brazil, Colombia, Guatemala, Honduras, El Salvador, Peru, and Paraguay (World Bank 2018). The rate of bank deposits with respect to GDP worldwide doubled in the last twenty-five years, amounting to 50%. However, this rate for Latin America is still low.

The financial inclusion has not yet managed to generate a floor of income for the population, because each new economic crisis reduces the middle classes. They become new poor, so that access to financial services does not constitute a “buffer” to curb rising unemployment and falling incomes.

At the same time, the distribution of personal income improved minimally only for a few years, especially when social programs intensified. However, according to ECLAC the functional distribution of income has worsened. Therefore, to the extent that ownership of assets is a fundamental factor that reproduces inequality, the distribution of wealth is even more inequitable (Economic Commission for Latin American Countries [ECLAC] 2017).

Thus, it was expected that financial inclusion would bring “incremental offers and complementary solutions to tackle poverty, to promote inclusive development, and to address the Millennium Development Goals” (Chibba 2009). However, this has not happened. Instead, we have other results, which expected or not, have been changing the place of financial services in the economy. In the first part of this work we can observe some of the main tendencies in the FI of the last almost twenty years, especially in the four areas of inclusion (payments, savings, credit, and insurance) and some of the lines of action that are being considered in recent years. In the second part, it is argued that FI has become a vehicle for financialization currently, for which the cases of microfinance and the reform of the Pension System are briefly presented. The FI has not fostered the growth of production and employment and has become an obstacle to development. Another underlying objective is to achieve greater control of flows subject to taxes, and thereby increase tax collection with the increase of the tax base without increasing taxes. However, although this has advanced in some countries of the region, it will not be analyzed in this work.

**Financial Inclusion Main Trends**

Since the great crisis of 2008, there has been a renewed interest in the expansion of the banking and financial services consumer base (IMF 2010; Kendall, Mylenko and Ponce 2010). A part of this is considered, since decades ago, as financial inclusion, which is indispensable for economic growth (King and Levine 1993). It was even thought that the lack of economic development in the region was explained by the poor development of the financial system (Beck 2011, among others). Therefore, it was thought that development policies in our countries should be refocused towards promoting financial services.
The most important area of financial inclusion has been the payment operations of both the public and private sectors and households, with the introduction of the electronic payment system and the so-called “correspondent banking” model that allows retailers to act as intermediaries for some banking operations representing the largest banks established in the country (Dabla-Norris et al. 2015). This area of inclusion has advanced considerably, especially in Mexico and Latin American countries that receive remittances. But it has also been a business model adopted in Brazil and Argentina, although FI figures in Latin America don’t have enough breakdown.

A second area of inclusion has been to promote savings, although this has been much less successful, as the savings rate remains at around 18%. Nor has there been a trend of constant growth in developed countries, and the greatest promotion in financial services continues to be the increase in consumption.

A third area of financial inclusion is the granting of credit, increasing the banking client base. Credit to the private sector has increased during the past almost twenty-five years (1990-2017), with important decreases during periods of crisis, such as in Mexico (1994), Brazil (1998), Argentina (1999, 2018), Colombia (1999), Peru (1999), and Venezuela (2009), among others. In the midst of the important cycle of growth-contraction of credit, the one destined for families has been the most important, both for credit cards and mortgages. This last trend is much clearer since the international financial crisis of 2008 (The Global Economy 2018). The boost to microcredit has played a significant role in credit promotion policies. Many microcredit programs were created in the region since the 1990s. Companies were increased regionally among those sectors that were more unbanked and offering resources at high and unpayable interest rates. For this reason, many microfinance institutions reached their limits and have been rescued and receive subsidies from the governments. All this made it very difficult to reach the objectives of reducing poverty and achieving prosperity, which were the reasons why these initiatives were promoted (Bateman and Ha-Joon Chang 2012; Bateman 2013).

In Latin America, where there is a strong tradition of development banking, FI has meant that these banks modify their operations, abandon client direct services, and start acting as second-tier banks for the financial service of other banks, private commercial banks. For their total assets, the development banks in the region represent 27% nowadays but it used to be much higher.

The fourth area of financial inclusion is insurance. It is a market that has grown hand in hand with consumer credit (especially automobiles) and mortgage credit, to a lesser extent life and health insurances. This segment of financial services is closely linked to credit and this in turn to macroeconomic conditions and income distribution. As stated, it is expected to deepen the market to the extent that increases income and spending on infrastructure. It is a segment of financial services that is extremely difficult to advance in developing countries because the population with medium and high incomes is small and the former are highly susceptible to the decline with the economic activity. Thus, the growth of the sector depends on very contradictory conditions. “The success in this sector has been historically tied to high interest rates, rising disposable incomes and growing market penetration. While there are sharp regional variations in economic conditions and demands for insurance products, one common dominator is an underserved market in both the personal and commercial space” (Ernst & Young Global Limited 2017, 1).
Governments have used many formulas to promote FI. From the deregulation in the markets, for example, the commissions, to the granting of subsidies, bailouts, and transfers without compensation. Microfinance institutions, or the regulation of forced retirement savings, are other examples. However, it is still considered insufficient and transferring payments from the public sector to private commercial banks is still a plan. In turn, actions are being promoted for banking through cell phones, to the extent that only 54% of the adults have at least one account, but almost 80% have at least one cell phone. (Demirgüç-Kunt et al. 2017)

The consequences of these new tendencies in the FI have begun to be known after twenty years. Although, in an abstract way, all analysts could agree on the importance of FI for economic development, but in the era of financialization, as will be discussed in the next section, FI has been a force against economic growth. The FI has been a vehicle for financial deepening that involves the transfer to those markets of the surplus created in very diverse activities: the formation of new assets which profitability is also transferred, the establishment of new prices and margins that comprise the high financial costs, and even the transfer of important parts of the workers’ salaries.

Financialization and FI as an Obstacle to Development

The FI has generated, since decades ago, problems for the economies of the region. The shortage of savings and capital has been a constant. For example, Robert McNamara (1968) proposed increasing aid to combat poverty with the support of private financing since the 1960s. Later, even before the debt crisis of the 1980s, structural adjustment and deficits to continue private external financing were proposed (McNamara 1980). This formula of international financial inclusion has generated, in the developing countries, successive crises and has been a constant source of outflows to pay the creditors even with predatory credit practices. External credit has, as in the case of other credit flows, a procyclical behavior that eventually annuls the productive capacities reached (Girón 2007). In these cases, the FI very quickly created financial exclusion conditions for governments and companies, when countries had to declare a payment suspension and even be marginalized from new financing flows, as in the cases of Mexico, Argentina, Brazil, and other countries in the region at different moments. Although external indebtedness can be considered as a process of financial inclusion and exclusion, its analysis requires understanding in the context of credit expansion in foreign currency.

On the other hand, financial deregulation and the marked decrease in public credit gave a boost to the expansion of private domestic credit. In the largest economies in the region and since the years of the great crisis, this expansion has been towards consumer credit: credit cards, car loans, mortgages. Credits that make securities with high returns for the funds and also commissions for the banks with small risks.

As another element of credit development, microcredit has been incentivized by the World Bank. It has sought to capture the population with informal activities. Although it is partly guaranteed by land and other assets, these are loans at very high interest rates and very short terms. For this reason, they are useless for production and trade. They extract resources from the poorest populations and do not result in real economic transformations in the places where they are applied. Thus, microcredit, instead of contributing to the formalization of economic activities, has been a promoter of informality. For this reason,
The credit promotion on credit cards with high interest rates has very quickly derived in the establishment of credit reporting systems or credit bureaus. In these, borrowers have lost their reputations and their possibilities of taking more credits, thus being excluded from the most important area of financial services.

A dramatic example of the FI in many countries of the region has been the institutionalization of workers’ forced savings through a change in the pensions systems. This reform was undertaken in the 1990s with liquidity objectives, bank balance sheets management, and positioning in the market. In addition, it was estimated that very soon informal jobs would be reduced, further expanding the number of clients. This assumption was not fulfilled because the population in informal jobs continues to be above 45% regionally, and in some countries it is 80% of the labor force. The intergenerational solidarity schemes were viable even with demographic changes, with some parametric adjustments. Even so, the institutional changes were carried out in the 1990s in order to have personal saving schemes, even when in Chile (the first country that implemented it in the 1980s) it was failing. Thus, the workers’ savings funds became an active resource to support banks, both in the provision of liquidity and in the stabilization of the bond market. A flow of resources towards these funds from this scheme of mandatory savings of workers is estimated at about $8 billion dollars per year, covering only ten countries in the region that carried out the reform (Correa 2015). With job insecurity, a part of these funds is not demanded as workers enter and leave the labor force. In addition to the high deregulated commissions charged year after year, these funds are the first to depreciate with market volatility. Moreover, the transformation of pay-as-you-go to personal saving has had a budgetary cost that in conditions of balance of public spending has meant the decrease of other items of social expenditure, such as health and education. Thus, austerity policies that have cleared the path of financialization are implemented as social policies, such has been the case of reforms for FI.

In the case of insurance, the result of these reforms is even more complex and uncertain. For example, health insurance is changing medical protocols significantly, with criteria of profitability and efficiency. The “waste insurance” emerged under the umbrella of deregulation and has also conquered a market of low-income consumers and high unsatisfied health needs. Real estate and automobile insurance depend on the dynamics of these markets, but they are a cost that is imposed with very few limitations on consumers. With any economic slump (i.e., increase in unemployment and/or decrease in income) these consumers could be financially excluded.

**Conclusion**

The FI policies intensified in the years after the great crisis. Four FI areas were considered and their greatest success in payments and transfers. This article argues that although the explicit objectives of the FI have not been achieved, other results appeared: the greater transformation of wealth and regional surplus into financial assets and the increase of the banking sector’s income by commissions and bank balance sheet management. The underlying objective of more information and control of payment and credit flows for taxation, although it has been very important for FI, is not yet studied in this short article.
References

Bateman, Milford. 2013. “The age of Microfinance: Destroying the Economies from the Bottom.” Ola Financiera 15 (2). Available at www.olafinanciera.unam.mx/new_web/15/index.html. Accessed on October 16, 2018.
Bateman, Milford and Ha-Joon Chang. 2012. “Microfinance and the Illusion of Development: from Hubris to Nemesis in Thirty Years.” World Economic Review Vol 1: 13-36.
Beck, T. H. L. 2011. “The Role of Finance in Economic Development: Benefits, Risks, and Politics.” European Banking Center Discussion Paper No. 2011-038. Tilburg: European Banking Center.
Chibba, Michael. 2009. “Financial Inclusion, Poverty Reduction and the Millennium Development Goals.” The European Journal of Development Research 21, no. 2 (April): 213–23.
Correa, Eugene. 2015. “Budgetary Impact of Social Security Privatization: Women Doubly Unprotected.” International Journal of Political Economy 44 (4): 260-276. DOI: 10.1080/08911916.2015.1129839
Dabla-Norris, Era, Yixi Deng, Anna Ivanova, Izabela Karpowicz, Filiz D. Umsal, Eva VanLeemput and Joyce Wong. 2015. “Financial Inclusion: Zooming in on Latin America.” IMF Working Papers 15/206.
Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess. 2018. The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Washington, DC: The World Bank.

ECLAC (Economic Commission for Latin America and the Caribbean). 2017. Social Panorama of Latin America, 2016. (LC/PUB.2017/12-P). Santiago. Available at https://repositorio.cepal.org/bitstream/handle/11362/41599/4/S1700566_en.pdf. Accessed November 15, 2018.
EY (Ernst & Young Global Limited). 2017. 2017 Latin American Insurance Outlook. Available at www.ey.com/Publication/vwLUAssets/ey-2017-latin-american-insurance-outlook/$FILE/ey-2017-latin-american-insurance-outlook.pdf. Accessed October 12, 2018.
Girón, Alicia. 2007. “Financing of Development. External Debt and Financial Reforms Rethinking the Theory of Development in a Context of Globalization. Tribute to Celso Furtado, edited by Gregorio Vidal and Arturo Guillen, 125-142. Buenos Aires: CLACSO.
IMF (International Monetary Fund). 2010. World Economic Outlook: Rebalancing Growth. Washington, DC: International Monetary Fund.
Kendall, Jake, Nataliya Mylenko, and Alejandro Ponce. 2010. “Measuring Financial Access around the World.” Policy Research Working Paper 5253. Washington, DC: The World Bank.
King, Robert and Ross Levine. 1993. “Finance, Entrepreneurship and Growth: Theory and Evidence.” Journal of Monetary Economics 32, no. 3 (December): 513-42.
McNamara, Robert. 1968. “Address to the U.N. Economic and Social Council, United Nations, NY, December 5, 1968.” World Bank. https://openknowledge.worldbank.org/handle/10986/24294 License: CC BY 3.0 IGO.
McNamara, Robert. 1980. “Address to the Board of Governors.” World Bank, Washington, DC. Office of the President (EXC). https://openknowledge.worldbank.org/handle/10986/25797 License: CC BY 3.0 IGO.
Morales Resendiz, Raúl. 2017 “The role of payment systems and services in financial inclusion – the Latin American and Caribbean perspective” Bank for International Settlements. Available at www.bis.org/ifc/publ/ifc47l.pdf. Accessed July 10, 2018.
TheGlobalEconomy.com: Economic Indicators over 200 Countries. Available at www.theglobaleconomy.com/texts_new.php?page=aboutus. Accessed November 5, 2018.
World Bank 2018. Megadata Indicators. Gross Domestic Savings (% of GDP). Available at https://data.worldbank.org/indicator/NY.GDS.TOTL.ZS. Accessed October 20, 2018.