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(SUSTAINABLE) BANKING PENETRATION AND REGULATORY CHALLENGES IN LATIN AMERICA

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1. Banking penetration and public policy: financial inclusion
2. Barriers to financial inclusion: supply, demand and regulation are key
3. Branchless banking: a “test and see” model of regulation

- The Great Recession and public trust in the financial market: challenging the sustainability of the banking business model.
- And new technologies, more regulation, and lower spreads are defying banking profits.

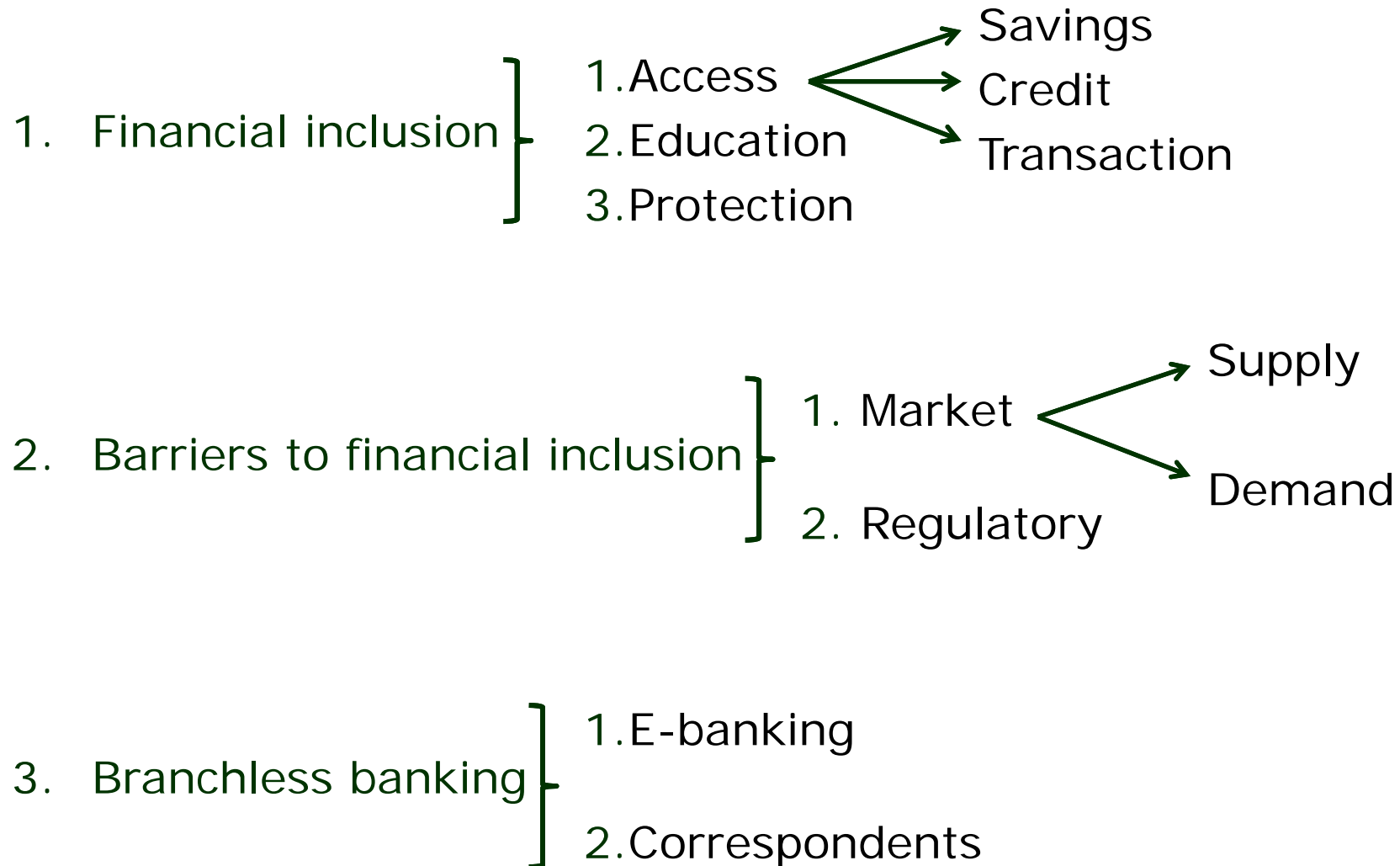
- As a regulator, maximize banking penetration is to maximize financial inclusion:
 - i. access
 - ii. financial education
 - iii. consumers' protection

subject to (given) financial stability

- A balance between inclusion and stability: credit quality (credit risk) and innovation (operational risk)

"test and see"

Roadmap





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Financial inclusion

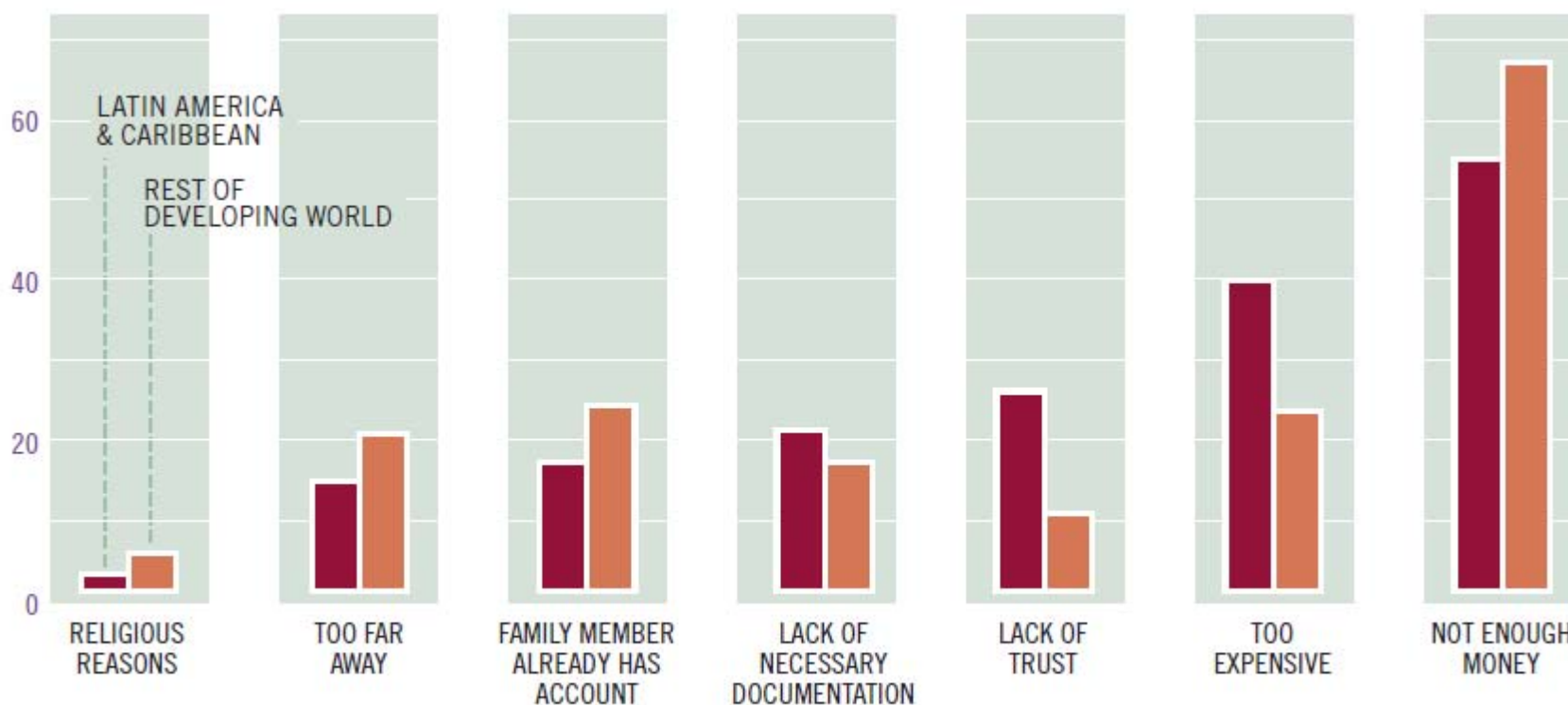
- Even in advanced economies there are gaps to close: 50% of adult worldwide are unbanked: DC 11%, EA&P 45%, E&CA 55%, LA 61% (The World Bank, 2012).
- Broadening the number of clients reduces the volatility of the system, as the crisis taught us.
- Challenge: we need more education (no debt overhang) and consumer protection (public trust).
- The government has a key role to play: (1) establishing a market infrastructure (credit bureaus, efficient money transfer systems, competition), (2) drafting appropriate regulations (less is more in financial regulation); and (3) favoring banking inclusion directly (through the payment of government benefits in bank accounts).



Barriers to financial inclusion

Self-reported barriers to use of formal accounts

(% of non-account-holders reporting barriers for not having an account)



Source: Demircug-Kunt and Klapper 2012.

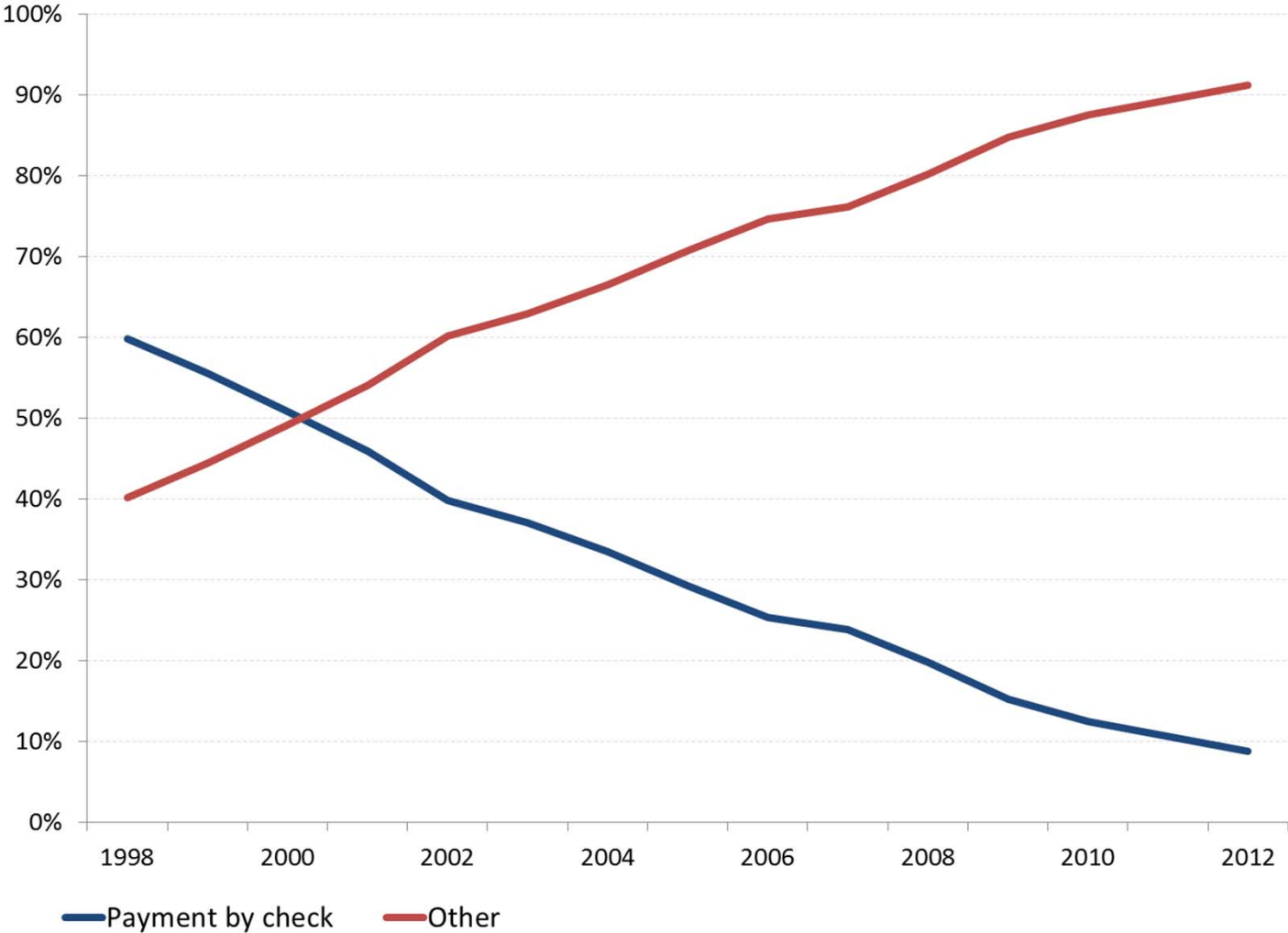
- Financial education: needed, but the “devil is in the details”. Better to target a specific audience and area of financial activity, and that training occurs just before the financial event (Hathaway and Khatiwada, 2008).
- Sustainable banking penetration: consumer’s protection, a necessary condition (empowered clients).
- Banks, clients, **and** regulators are key to achieve an equilibrium with financial stability and innovation.



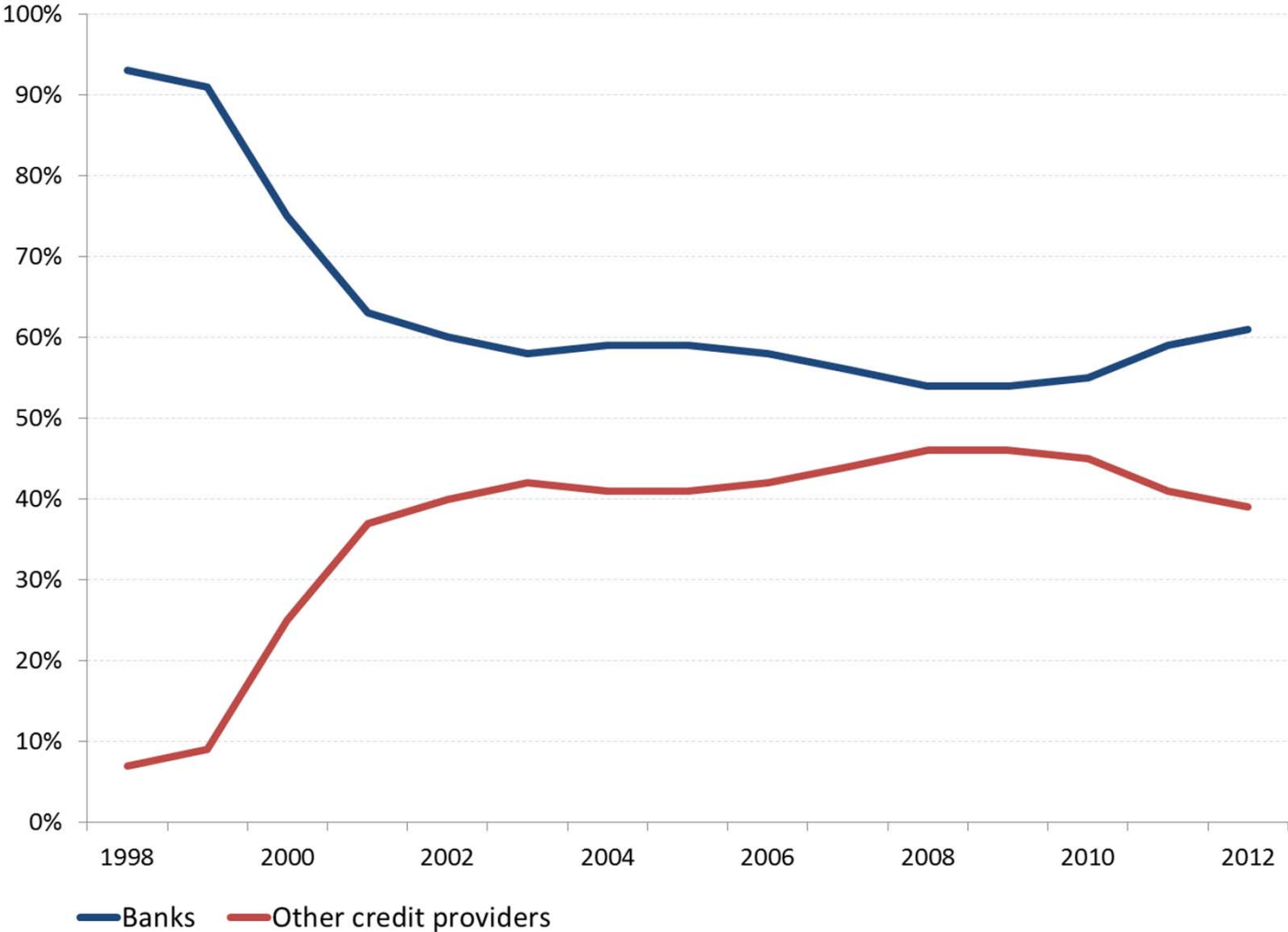
Branchless banking

- A large and sustained increase in
 - (1) Electronic medium of exchange
 - (2) Non-banking credit providers (retail chains)
- Unbanked with a cell phone 1.7 billion in 2012 (GSMA 2012)

Transactions processed by banks



Consumption credits by source



Mobile banking: large potential

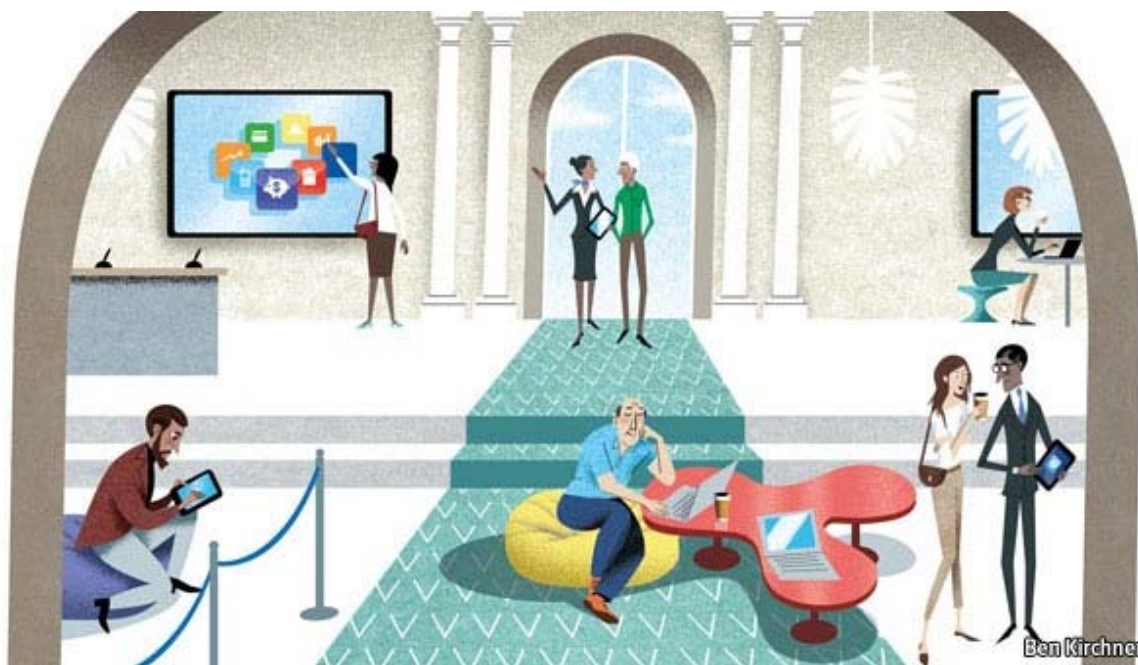


	Deposits	Payments
Chile	0,9%	1,0%
LA	1,9%	1,9%
LDC	9,1%	2,7%

Source: The World Bank, 2011

Obvious but not true, so far

“If your bank could start over, this is what it would be” (marketing campaign for the launch in 1999 of Wingspan, an internet bank). The following year the bank was gone.



And, 10-20% more branches today than a decade ago. Internet has made more branches, more convenient.

- A need for customer skill to deal with computers and browsers. For beginners, internet banking is really time consuming and frightening.
- In many instances, a simple mistake, like clicking a wrong button, may create a big problem.
- Increasing number of fraudulent bank websites.

- A new SBIF norm allowing consumer loans through subsidiary companies generates more flexibility, but the increase of clients through these commercial establishments faces an information challenge.
- Credit bureaus needed: the SOE in Chile.

“Putting in place extensive regulations without first observing and understanding how the market is developing can often result in a regulatory framework that is ill-tailored to the risks involved. A more effective approach is to “test and see” – permitting branchless banking business schemes on an ad hoc basis, conditional on measures addressing identified risks. As the market develops and risks are further clarified, regulators will be better positioned to issue more detailed and effective regulation”.

- Innovation and stability: a balance needed to ensure sustainable inclusion **easier said than done**
- Regulators, banks, and clients are key to achieve this balance between preserving financial stability and developing cost reducing innovations that foster financial inclusion.
 - **The regulatory model: “test and see”**
 - **The banking model: leadership**
 - **The main message: financial inclusion (access, education AND protection) = sustainable banking penetration**



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