

Half the World is Unbanked

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Using cross-country data from previous research studies the authors estimate the size of the world's adult population that doesn't use formal (and semi-formal) financial services. They find that over half of the world's population (2.5 billion adults) did not use formal financial services for either saving or borrowing purposes and that nearly 90% of this population lives in Asia, Africa, Latin America and the Middle East. They analyze the effects that various drivers of inclusion (including socio-economic status, a country's level of urbanization and the presence of an effective regulatory and policy environment) have in enabling the provision of financial services and find that improvements in these factors can help to serve low income populations on a larger scale.

Measuring the Unbanked

The authors draw on existing data to approximate the number of unbanked adults in the world. Their demand-based model included four components of country level data: 1) existing research on the percentage of adults that have access to credit or savings accounts (Honohan, 2008); 2) population country data from the United Nations Human Development Index; 3) World Bank data on global incomes; and 4) the Human Development Index online databases. This data focused specifically on the demand for financial services (as opposed to access to financial services) among adults (as opposed to examining total household data).

The authors had complete adult population and usage data for 95% of the population. To estimate the total number of unbanked adults even across countries for which they did not have data they used a "scaling up" that involved creating a multiplier for each region of the world by dividing adult population in all countries in the region by the adult population for those countries for which they had financial service usage data. The ratio obtained was multiplied across those countries with incomplete data to approximate financial usage across a region.

Results

The authors find that almost all of the 2.5 billion people in the world lacking access to financial services reside in

Africa, Asia, and Latin America, and the majority (60%) of these adults resided in East and South Asia. Based on the population breakdown by income level the authors found that out of a population of 1.2 billion adults using formal financial services, a third, or 800 million people are in the lowest income category (i.e. living on under \$5/day). The highest proportion of these adults live in East and South Asia and a smaller proportion live in Sub-Saharan Africa and the Arab states. The researchers found that apart from socioeconomic and demographic factors, the main drivers of inclusion were an effective regulatory and policy environment and enabling the actions of financial service providers.

Policy Implications

The sheer size of the potential market for financial services (2.5 billion people) is an incentive for policy makers and regulators to become more active in financial service provision. Often it is believed that people living at or close to the poverty line will not be active users of financial services but as the study shows there is a large number of adults living on less than \$5/day who use formal financial services and as the market grows the challenge will be to service the demand in a sustainable, ethical and socially relevant manner.