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The Global Findex Database 2014

Bringing the 2 Billion Unbanked into the Financial System

Recent years have seen explosive progress in financial inclusion. Worldwide, 62 percent of adults have a financial institution or mobile money account, up from 51 percent in 2011. But 2 billion poor adults remain excluded from the financial system, with unmet needs and untapped market potential. Drawing on new data from the 2014 Global Financial Inclusion (Global Findex) database, this note profiles the unbanked and explains how governments and the private sector can help bring them into the financial system.

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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.

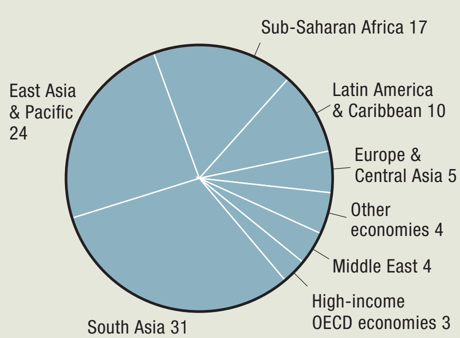
The Unbanked Are Concentrated in Asia and Sub-Saharan Africa

Since 2011, new technologies, innovative business models, and ambitious government reforms have combined to cut the ranks of unbanked adults by about a fifth—or 500 million. Yet 2 billion adults, or 38 percent of all adults worldwide, remain excluded from the financial system today. The vast majority of them live in developing economies, where 46 percent of adults are unbanked, compared with just 6 percent of adults in high-income OECD economies.

FIGURE 1

Asia and Africa are home to most of the world's unbanked

Adults without an account by region (%), 2014



Note: "Other economies" include high-income non-OECD economies, Algeria, and Tunisia.
Source: Global Findex database.

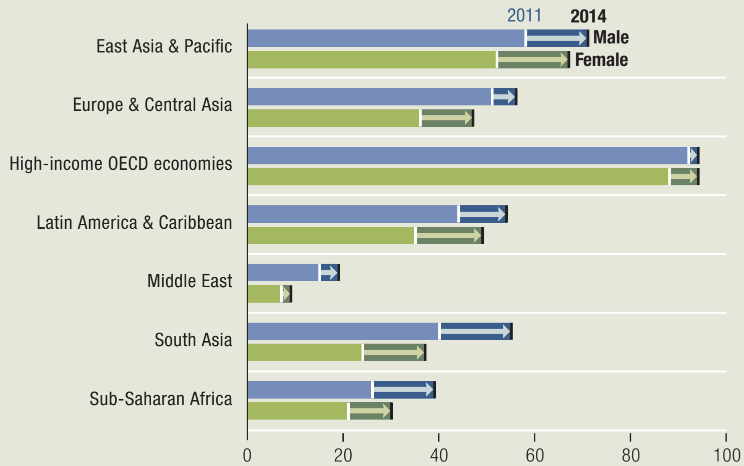
South Asia and East Asia and the Pacific are home to more than half the world's unbanked (figure 1). In South Asia, about 625 million adults lack access to an account; in East Asia and the Pacific, about 490 million do. Indeed, just three Asian countries—India, China, and Indonesia—together account for almost 40 percent of unbanked adults globally. India is home to 21 percent of the world's unbanked and about two-thirds of South Asia's. China accounts for 12 percent of unbanked adults globally and Indonesia for 6 percent; together they are home to 7 of every 10 unbanked adults living in East Asia and the Pacific.

Sub-Saharan Africa, with about 350 million unbanked adults, accounts for 17 percent of the global total.

FIGURE 2

Persistent gender gaps in account ownership

Adults with an account (%), 2011 and 2014



Source: Global Findex database.

The Unbanked Are Disproportionately Poor and Female

While global growth in account ownership has been impressive, notable gaps persist between some groups. There are striking differences by gender (figure 2). Worldwide, 42 percent of women are unbanked, compared with 35 percent of men—a gender gap of 7 percentage points, just as in 2011. In the developing world, the gap reaches 9 percentage points—also unchanged from three years ago. But it varies widely across regions, ranging from 18 percentage points in South Asia to 4 percentage points in East Asia and the Pacific. Overall, women make up 55 percent of the world's unbanked population.

Differences also emerge by household income. The poorest 40 percent of households within economies account for about half the world's unbanked—about 1 billion adults. Since 2011, the average gap in account penetration between adults in the poorest 40 percent of households and those in the richest 60 percent in developing economies has narrowed by 6 percentage points—to 14 percentage points. But this change was driven almost entirely by growth in account ownership among the poor in East Asia and the Pacific; in all other regions, the gap remained about the same.

Account ownership is closely correlated with wage employment in every region. Globally, almost 81 percent of adults who receive wage payments own an account, compared with only about 53 percent of those who do not receive them. Adults who do not work for wages make up 84 percent of the unbanked. Receiving wages is a common incentive for getting an account—in developing economies, about a quarter of adults who receive wage payments into an account opened their first account specifically for that purpose. But vast numbers of wage earners remain unbanked. Worldwide, 35 million adults are unbanked and receive government wages only in cash, while 280 million adults are unbanked and receive private sector wages this way.

Why Are People Unbanked?

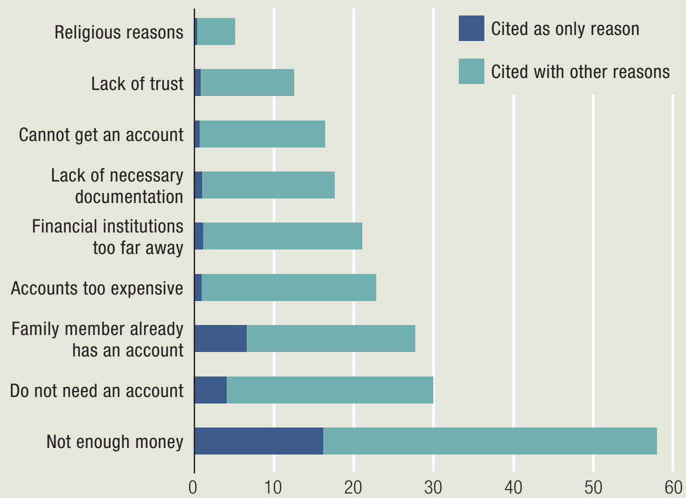
The Global Findex survey questionnaire gives respondents without an account at a financial institution the opportunity to explain why they do not have one. These respondents offer more than two reasons on average. Globally, the most common one is lack of enough money to use an account: 59 percent cite this as a reason for being unbanked, though only 16 percent cite it as the sole reason (figure 3).

The next most common reasons are that the respondent has no need for an account and that a family member already has one—with each of these cited by about 30 percent of those without an account at a financial institution. But just 4 percent say that lack of need is the only reason for not having an account, and only 7 percent cited a family member's ownership of an account as the only one, underscoring the unmet demand for financial services among the unbanked.

FIGURE 3

Self-reported barriers to use of an account at a financial institution

Adults without an account reporting barrier as a reason for not having one (%), 2014



Note: Respondents could choose more than one reason.
Source: Global Findex database.

In all developing regions except Europe and Central Asia, lack of enough money is the most commonly cited reason. Beyond this, the reasons most likely to be reported vary according to local conditions. In Sub-Saharan Africa, distance to financial institutions is the second most commonly reported barrier, cited by 27 percent. In the Middle East, 41 percent of adults without an account say they cannot get one. This likely reflects prohibitive costs and documentation requirements for opening an account.

Lack of trust in financial institutions can be common where there is a history of bank failures and currency devaluations. In Europe and Central Asia, about 30 percent of adults without an account cite lack of trust as a reason—three times the average share in other developing regions.

Overall in the developing world, 5 percent of adults without an account cite religious reasons for being unbanked. In a few countries with almost exclusively Muslim populations—such as Niger, Turkey, and Uzbekistan—around a quarter of adults without an account at a financial institution identify religious concerns as a barrier. In these countries, developing products compatible with the principles of Islamic finance could be a key to expanding account ownership.

How to Bank the Unbanked: Digitize Payments, Formalize Savings

The Global Findex data point to several promising ways that governments and the private sector can encourage the unbanked to own an account. One of the surest ways is by digitizing payments. Globally, more than 20 percent of the unbanked—more than 400 million adults—receive wages or government transfers in cash. Converting private sector wages from cash to digital payments could bring 280 million unbanked adults—14 percent of the global total—into the financial system. Shifting the payment of government wages and transfers from cash into accounts could cut the number of unbanked adults by 160 million—or 8 percent. Digitizing government payments could also benefit governments—by improving the security, transparency, and efficiency of these payments.

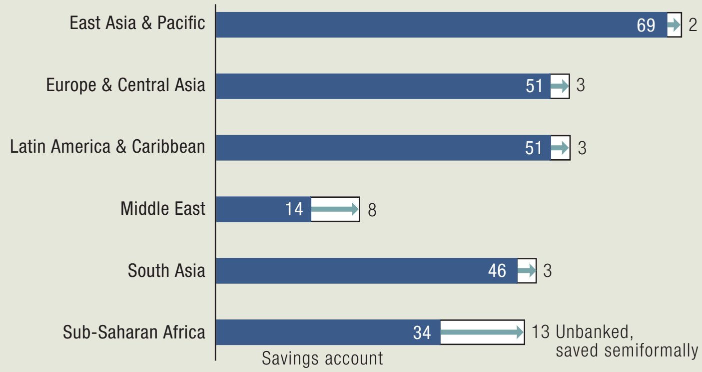
Another opportunity lies in payments for the sale of agricultural products. About 440 million unbanked adults in developing economies receive such payments in cash, including 125 million in Sub-Saharan Africa and 105 million in South Asia. Moving these payments into accounts could increase the security of the payments and lay an infrastructure for person-to-person payments such as domestic remittances.

Some unbanked adults in developing economies already use digital payment channels for domestic remittances: 5 percent of adults without an account—100 million—either send or receive remittance payments through a financial service provider, for example, a money transfer operator like Western Union. For these people, shifting to the use of an account for making and receiving payments should be easier than for those who have never made a digital payment and might hesitate to entrust their money to financial service providers. Even so, the 270 million unbanked adults in developing economies who send or receive domestic remittances using only cash represent an even bigger market opportunity.

FIGURE 4

Opportunity to expand account ownership by formalizing savings

Adults with an account or saving semiformally in the past year (%), 2014



Source: Global Findex database.

Digitizing payments and shifting cash payments into accounts is not without challenges, however. These include making up-front investments in payments infrastructure, ensuring that payment recipients understand how accounts work and can be accessed, and taking steps to guarantee a reliable and consistent digital payments experience. Also important is to educate new account owners on the basic interactions in a digital payments system—using and remembering personal identification numbers (PINs), understanding how to deposit and withdraw money, and knowing what to do when something goes wrong.

Beyond digitizing payments, formalizing savings practices offers another avenue to financial inclusion (figure 4). In developing economies, 160 million unbanked adults save "semiformally," through an informal savings club or a person outside the family. In Sub-Saharan Africa, moving these savings into accounts could increase account penetration from 34 percent to up to 47 percent and add up to 70 million adults to the ranks of the banked—including about 40 million women.

To enable a shift to formal saving, the challenge is to design financial products that meet the needs of the unbanked and make accounts a convenient and affordable alternative to semiformal ways of saving.

Conclusion

Helping 2 billion people reach financial services is an ambitious undertaking—but the Global Findex data help point a path forward. We know who the unbanked are, how they get by, and why they do not have an account. Aided by the insights captured in the data, governments and the private sector can take effective steps to help bring the unbanked into the financial system.

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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.