Barriers to Banking

Higher barriers to banking, including physical access, affordability, and eligibility, are negatively correlated with economic and financial development

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The minimum amount to open a checking account in Armenia is equal to almost 11% of GDP per capita, while no minimum amount is required in Georgia. The fees for transferring US$250 internationally are almost US$28 in Moldova but only US$3.2 in Belarus. While most people in the developed world take access to banking services for granted, price and non-price barriers prevent large parts of the population in developing countries and emerging markets from accessing and using formal banking services.

Financial exclusion can retard economic growth, increase poverty and inequality and moreover, generate persistent income inequality or poverty traps. Previous research has established the importance of banking sector depth for GDP per capita growth, productivity growth, poverty, firm growth and entry rates.

We survey the extent of barriers to the banking services across three dimensions — physical access, affordability, and eligibility in the five largest banks, which constitute at least 30% of the market in terms of total loans or total deposits, in 58 countries, including 15 countries from Eastern Europe and Central Asia (see Table 1).

Physical access refers to the number of points of service delivery and their convenience. Affordability refers to the costs in terms of minimum balances and fees that bank clients need to pay to obtain financial services. Finally, eligibility refers to the criteria (documentation or other requirements) that determine who can access financial services and who cannot.

Barriers to Banking Significant in Some Countries

Our data show that variations in barriers to banking are substantial in different countries. While banks in 18 out of the 58 developing countries (such as Croatia, Lithuania and Turkey) do not impose any minimum balances for checking accounts, such balances are higher than 10% of GDP per capita in Armenia. There is a high correlation between the amounts needed to open and to maintain checking and savings accounts, although on average the amounts are significantly lower to maintain than to open an account.

Table 1. Financial Market Indicators for Selected Countries from Europe and Central Asia

Country	Private Credit to GDP, %	Number of branches per 100,000 people	Number of loans per 1,000 people	Number of deposits per 1,000 people
Albania	8.8	2.11	4.42	161
Armenia	6.1	7.59	41.23	111
Bosnia Herzegovina	n/a	3.86	114.09	429
Bulgaria	30.5	13.87	73.85	1351
Croatia	52.6	23.36	n/a	n/a
Czech Republic	30.3	11.15	n/a	1923
Georgia	8.3	3.14	n/a	n/a
Hungary	43.5	28.25	n/a	n/a
Lithuania	22	3.39	58.86	1166
Poland	n/a	8.17	773.87	n/a
Russia	n/a	2.24	54.11	1892
Slovak Republic	29.7	10.28	n/a	n/a
Slovenia	42.1	2.19	n/a	n/a
Turkey	16.9	8.50	264.51	1114

Furthermore, the cost of transferring a small amount of funds internationally (a typical transfer of US$250) on average across all surveyed countries amounts to US$15.82, yet it stands at a low of US$3.2 in Belarus and at a high of US$28 in Lithuania.

Many factors effectively prevent large parts of the population from accessing banking services including the number of documents required to open an account for a new client (at least three in Turkey), the minimum amount of loans for small and medium-sized companies (a whopping 2,480% of GDP per capita in Georgia), and the cost and time to make a decision on a consumer loan.

Financial and Economic Development Negatively Affected

As expected, we find that higher barriers to banking are negatively correlated with economic and financial development. On the other hand, lower barriers are associated with greater financial sector outreach:

- Banks in countries with a higher demographic branch penetration demand lower minimum balances and fewer documents to open accounts, set lower minimum SME loan amounts, are quicker at processing loan applications, and charge lower fees for using ATM cards.
- Banks in countries with higher loans per capita are more likely to accept applications outside headquarters, in particular, by phone or Internet, and take fewer days to process SME applications.
- Banks in countries with more deposits per capita demand lower minimum balances and lower fees, require fewer documents to open such an account, set lower minimum amounts for consumer and SME loans, charge lower fees for consumer loans for using ATMs, and are faster in processing loans.
- The share of adults with access to a financial account is higher in countries where banks demand lower minimum balances and fees on savings and

checking accounts, where they demand fewer documents to open such accounts, where the consumer and SME minimum loan amount is lower, where loans are processed more quickly, where loan applicants are more likely to be able to use non-traditional channels, and where ATM fees are lower.

Our correlations suggest that barriers to banking go hand in hand with less physical access to banking offices and lower use of deposit and credit services by households and firms. However, some barriers seem to be more constraining than others.

Policy reforms, such as improving the general infrastructure and securing a free media are as important as financial sector reforms

Minimum account balances and account fees, minimum loan amounts, documentation requirements, reduced number of delivery channels for loan products and lengthy loan processing times seem to constitute true hurdles to accessing formal banking services. At the same time, loan fees, fees for international wire transfers and the use of ATM cards and geographic access barriers to opening deposit accounts are either not significant barriers because they can be circumvented through technological advances or they are not properly measured with our methodology, as they are not correlated with lower financial sector penetration rates.

Financial Exclusion — the Effects of Banking Barriers

In computing the share of the population that is excluded due to checking account fees, we assume that people cannot afford to spend more than 2% of their annual household income on financial services fees. While in terms of this, checking and savings accounts are affordable for almost the entire population in many countries, including all ECA countries, the fees observed in 10 countries in Africa and Asia effectively prevent at least 30% of the population from using such accounts.

Similarly, the requirement of a physical address or of a formal sector job as eligibility criteria to open an account excludes a lot of people in countries, where a large percentage of the population lives in rural areas and works in the informal sector.

What Explains Barriers across Banks and Countries?

Which policies might be more effective at reducing banking barriers? We find that:

- Bank size and thus economies of scale are important factors explaining barriers. Larger banks have fewer barriers for consumers and SMEs.
- The quality of physical infrastructure, which is associated with the costs of doing business for banks, can explain cross-country variation in many barriers to banking. Banks in countries with more power outages require higher minimum balances for savings accounts, require more documents to open accounts, impose higher minimum loan amounts, charge higher fees on consumer loans and for international wire transfers, and take longer to process SME loan applications.
- Factors traditionally associated with the development of the financial sector such as upgrading credit registries and improving the contractual framework are associated with lower barriers mostly for deposit services but, surprisingly, less so for lending services.
- Lower barriers to deposit services in the banking system are associated with greater foreign bank presence. Although we find that foreign banks themselves seem to charge higher fees than other banks, in foreign dominated banking systems fees on checking accounts are lower. Further, it is easier to open bank accounts, both in terms of the required documents and the geographic access. On the other hand, in systems that are predominantly government-owned, bank customers face greater restrictions in terms of where to apply for loans and the time it takes to have applications processed is longer. Government-owned banks, whose existence (despite efficiency problems) is often justified as providing access to the underserved groups, do not seem to have significantly lower access barriers compared to private banks.
- More contestable systems, measured by a higher share of new bank license applications rejected, are associated with lower barriers.
- Banks in countries with a less restrictive regulatory framework, less supervisory power and more reliance on private monitoring have fewer barriers.
- Non-financial factors, such as having an efficient infrastructure and free media, are also strongly associated with lower barriers.

Overall, although we cannot infer causality from cross-country data, our results show that traditional financial sector policies such as the upgrading of credit information systems and improvements in the contractual environment are likely to be associated with lower barriers, but more on the deposit side than on the lending side. However, non-financial sector policy reforms are equally important; these include improving the general infrastructure and securing a free and vibrant media for lowering barriers.

Table 2. Barriers to Accessing Consumer Loan Services

Country	Locations to submit applications (out of 5)	Min. loan (% of GDP/capita)	Days to process loan application
Albania	2.03	214.29	9.64
Armenia	2.00	14.74	4.83
Bulgaria	3.42	14.24	4.88
Croatia	3.43	3.90	2.42
Czech Republic	3.13	10.22	1.00
Georgia	2.46	34.53	3.31
Hungary	3.29	4.77	5.66
Lithuania	4.25	6.31	2.41
Slovak Republic	3.64	10.26	1.75
Slovenia	2.13	1.13	1.13

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