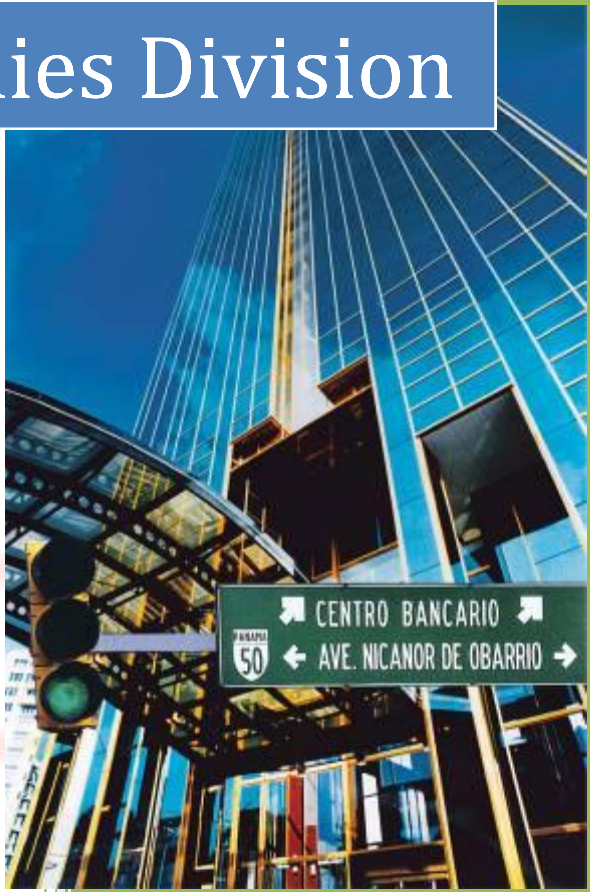
SBP 1998
Superintendencia
de Bancos de Panamá

Financial Studies Division



Access to Banking in Panama

January

2014

I. Concept of financial inclusion or penetration

Financial inclusion or penetration is an indicator of the level of formal access that the population and small entrepreneurs, be they micro or small businessmen, have to financial services in a country[1].

We can also refer to financial inclusion as the safe and convenient access to financial products and services by disadvantaged and vulnerable people such as those of low-income, from rural zones or without formal identification documents. The above is a two-way relationship, as shown below.

There is evidence that financial inclusion:

- Is an effective instrument for combating poverty;
- Helps level out household consumption over its life cycle;
- Reduces the impact of income shocks to households through better risk diversification.

It is necessary to try to measure this indicator, because it could provide results that confirm the positive relationship between financial services penetration and a country's economic growth and, consequently, better welfare and quality of life for its citizens.

[1] Although there is not a unique vision of what greater access to the financial system or inclusion means, as a principle it includes general concepts such as access to banking, democratization of credit, decentralization of services, financial penetration, financial deepening and funding access, to mention the most important.

Likewise, various documents indicate that the best method for determining the level of financial penetration is a survey of households and companies (those that require financial services), although it would harbor some inconveniences, with data availability being noteworthy.

The main indicators of access to banking are domestic credit/GDP and domestic deposits/GDP. However, the number of branch offices, agencies and automatic teller machines per 100,000 inhabitants is also an indicator used internationally. Many of these indicators will be analyzed in the following sections.

II. Main Indicators of Access to Banking

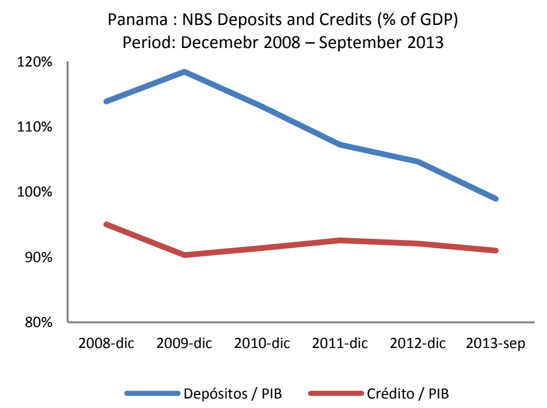
Overall, the main indicators of access to banking are those measured through domestic credit/gross domestic product and domestic deposits/gross domestic product. We shall review them below.

- **Indicators related to GPD**

Most books highlight the relevance of the relationship between financial development and growth. A way of thinking that has been promoted in recent years is the nexus between greater access to banking and poverty reduction, highlighting the importance of the former as a leveler of consumption cycles to prevent families from entering and being trapped in a poverty spiral.

In this sense, the financial system is a necessary tool for preventing the diverse economic shocks that a family may face.

The following chart shows the relationship between Deposits/GDP and Credit/GDP in Panama, showing that there is great access to the banking system. Deposits show a 99% and 91% access to credit as of September 2013.



Source: Data from the National Institute of Statistics and Census and the SBP.

- **Financial Structure**

In theory, the first component of financial inclusion is the financial infrastructure or distribution channels existing in a region and its capacity to meet the demand in that territory. There are geographic (each 100,000 km) and demographic (100,000 inhabitants) indicators.

The following table shows the demographic penetration, which is the number of branch offices, automatic teller machines and other establishments per 100,000 people between the ages of 20 and 64(those considered able to or needing access to credit or to making deposits). Observing the data as of September 2013, there are 26.6 branch offices and 72.6 automatic teller machines per 100,000 people.

Relationship of the Country's Population to the Total Number of Branch Offices, ATMs, agencies and other banking establishments

Description	Dec. 08	Dec. 09	Dec. 10	Dec. 11	Dec. 12	Sep. 13
Number of branch offices	451	463	475	492	521	545
Number of ATMs	858	970	1,026	1,185	1,364	1,489
N°. of agencies and other est.	118	104	104	108	114	112
Total	**1,427**	**1,537**	**1,605**	**1,785**	**1,999**	**2,146**
Population from 20 to 64 years of age	1,505,930	1,907,956	1,944,739	1,980,725	2,016,098	2,051,075
Sector size	100,000	100,000	100,000	100,000	100,000	100,000
Population divided by 100,000 p	15.1	19.1	19.4	19.8	20.2	20.5
# branch offices per 100,000 p	29.9	24.3	24.4	24.8	25.8	26.6
# ATMs per 100,000 p	57	50.8	52.8	59.8	67.7	72.6
Total establishments per 100,000 persons	**94.8**	**80.6**	**82.5**	**90.1**	**99.2**	**104.6**

Source: General license banks / SBP.

The years considered show that there is great coverage of establishments to meet the needs of the population.

The following table shows the geographic penetration of banks in the different provinces of Panama. As one can see, the province of Panama tops the chart for the number of branch offices; Chiriqui is in second place and, Colon, in third place.

Panama: Banking Establishments

Province	Parent Company and Branch Offices					
	Dec. 2008	**Dec. 2009**	**Dec. 2010**	**Dec. 2011**	**Dec. 2012**	**Sep. 2013**
Bocas del Toro	8	8	8	8	7	7
Chiriqui	48	50	50	51	53	51
Cocle	17	17	18	18	19	21
Colon	35	34	34	35	36	36
Darien	2	2	2	2	2	2
Herrera	17	17	16	17	17	18
Los Santos	14	14	13	13	14	14
Panama	325	330	351	356	394	398
San Blas	1	1	1	1	1	1
Veraguas	17	16	16	18	19	20
Total	**484**	**489**	**509**	**519**	**562**	**568**

Source: General license banks / SBP.

- **Domestic credit**

With regard to credit access, there is a direct relationship between credit to the private sector and economic growth.

As of September 2013, there were 51 banks providing credit in general. However, 46 banks provide consumer credit and 37 offer mortgage loans.

If only consumer credit and mortgage loans are compared to GDP, it can be seen that access to these loans reached 37.9% in September 2013.

Panama: Consumer Credit
period: December 2011 – September 2013

Activity	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Sep. 2013
Housing Mortgages	21.1%	22.3%	22.1%	21.4%	21.4%	21.1%
Personal loans	20.4%	19.8%	19.2%	18.2%	17.4%	16.8%
Total	**41.5%**	**42.2%**	**41.3%**	**39.6%**	**38.9%**	**37.9%**

Source: General license banks / SBP.

As of September 2013, average interest rates for personal loans reached 23.9%, while mortgage loans, stood at 11.9%.

People engaged in commerce have a 21.9% rate of access to this type of credit as of September 2013, mainly in the Colon Free Zone, the rest of the country and retailing.

Panama: Commercial Credit
Period: December 2011 – September 2013

Activity	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Sep. 2013
Colon Free Zone	7.4%	5.9%	6.3%	7.2%	7.3%	7.1%
Rest of the country	4.8%	4.3%	4.3%	4.1%	4.6%	4.6%
Retailing	5.9%	5.5%	5.5%	5.2%	5.4%	4.5%
Other services	5.6%	4.9%	6.0%	5.4%	6.2%	5.7%
Total	**23.7%**	**20.6%**	**22.0%**	**21.9%**	**23.5%**	**21.9%**

Source: General license banks / SBP.

Credit offered by banks to micro companies represents barely 5.7%, and for small companies 5.9% of the domestic portfolio. Therefore, access to the banking system remains in the same range. This means that for practical purposes, financial inclusion of these segments is insignificant, which limits the development of this type of company.

Panama: Credit to Small and Medium Companies
Period: December 2011 – September 2013

Description	**Credit Balance in Millions of US$**		
Type of company	Dec. 2011	Dec. 2012	Sep. 2013
Micro company	1,652	1,918	2,028
Small company	1,642	1,987	2,233
Total	**3,294**	**3,905**	**4,261**
Access to Banking	**Credit/GDP relationship (in percentages)**		
Micro company	5,27%	5,34%	4,99%
Small company	5,24%	5,53%	5,52%
Total	**10,51%**	**10,87%**	**10,51%**

Source: General license banks / SBP.

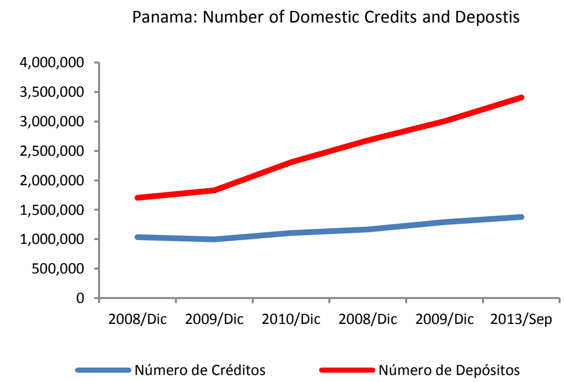
The NBS has a portfolio of B/.4.27 billion destined for micro and small companies, of which 72% was granted in Panama. There are 72,907 loans to small and medium companies, with the largest percentage according to activity allocated to services with 30%, followed by commerce with 25%.

The average interest rate for credits to micro companies as of September 2013 was 9.79% and for small companies of 9.30%.

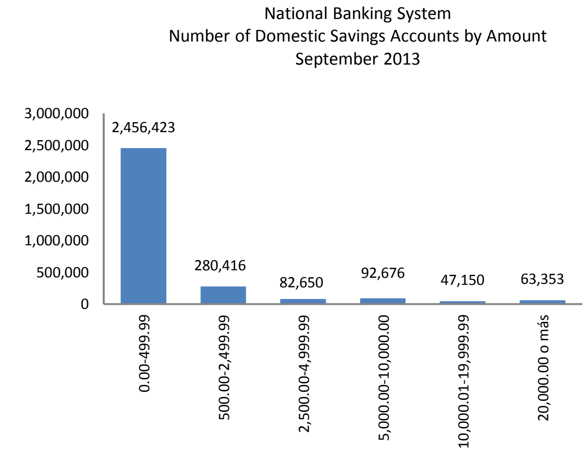
- **Domestic Deposits**

Financial savings is an indicator used internationally that denotes that economic growth cycles are longer in countries with a higher percentage of savings.

A positive indicator of a good level of access to banking in the country is the increasing number of deposits noted in recent years, which explains, to a large extent, this indicator remaining above credit flow for the years assessed. Therefore, it is a positive sign that people continue increasing their savings despite low interest rates.



Source: General license banks / SBP.



Source: General license banks / SBP.

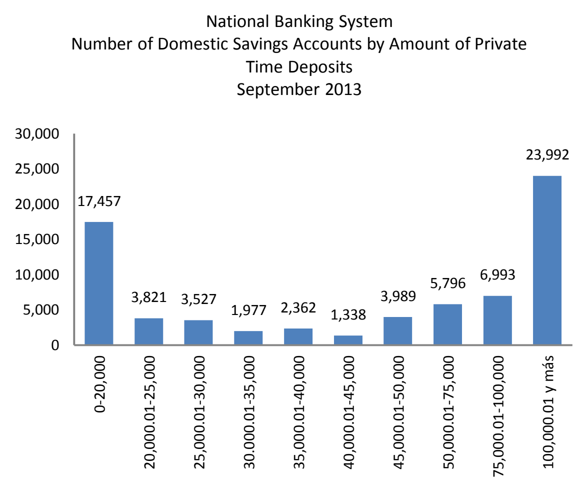
By breaking down the total of these domestic deposits, it can be seen that time deposits form the greatest portion of private deposits, with 39%, as of September 2013; demand deposits represent 28% and savings deposits 19%. This leads to the conclusion that financial services in this account segment are owned by national citizens with relatively high purchasing power.

Eighty-one percent (81%) of savings accounts are under B/.500.00, as opposed to time deposits, in which the range with higher percentage is deposits over B/.100,000.00 and the second most important is deposits under B/.20,000.00.

Panama: Proportion of types of deposits to Total domestic deposits

Private deposits	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Sep. 2013
Demand	14%	17%	20%	24%	27%	28%
Time	43%	43%	42%	40%	39%	39%
Savings	17%	17%	19%	20%	20%	19%
Total	**74%**	**77%**	**82%**	**83%**	**85%**	**86%**

Source: General license banks / SBP.



Source: General license banks / SBP.

As of the end of the third quarter of 2013, there was around US$40 billion in domestic deposits in 3,392,439 accounts distributed among demand, time, and savings allocations.

There are 2,997,763 savings accounts, of which 90% (2,962,221) are deposits from individuals.

III. Comparison to the region

Felaban conducted a survey on access to banking in Latin American countries to obtain indicators on the access to baking products in the region. The report was presented in 2012 with data for the period 2006-2010.

Based on this survey, our financial system has ventured to provide citizens access to different banking products. The following chart indicates that when it comes to the number of branches per 100,000 inhabitants, Panama is in a good position on access to banking compared to the rest of the countries in Latin America.

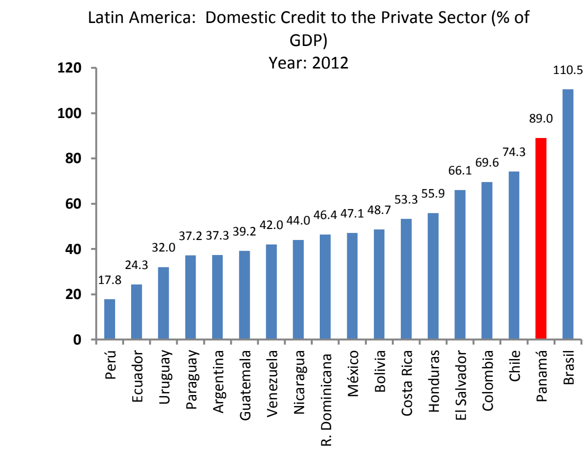
Paises	Suc. por cada 100,000 hab.			ATM´S por cada 100,000 hab.		
	2008	2009	2010	2008	2009	2010
Argentina	13.5	13.3	13.3	35.7	39.8	44.7
Bolivia	7.1	7.9	9.9	16.2	16.8	19.8
Brasil	13.4	13.9	13.6	111.1	114.9	120.3
Colombia	13.1	13.1	13.0	21.6	23.0	28.8
Costa Rica	24.1	24.1	23.2	ND	ND	ND
Chile	15.3	16.9	17.3	54.5	57.4	61.3
Ecuador	21.6	21.9	25.2	59.7	66.0	68.0
El Salvador	ND	ND	ND	ND	ND	ND
Guatemala	29.1	35.0	35.6	21.3	22.8	23.1
Honduras	ND	ND	ND	ND	ND	ND
México	11.1	11.2	11.4	32.7	34.2	35.5
Nicaragua	ND	ND	ND	ND	ND	ND
Panamá	**28.7**	**29.0**	**30.2**	**60.6**	**67.2**	**72.6**
Paraguay	7.2	8.8	11.1	13.1	15.5	19.1
Perú	7.1	7.2	7.2	16.0	17.5	19.3
Rep. Dominicana	15.4	16.3	15.9	36.9	38.8	39.6
Uruguay	13.1	13.0	13.1	30.6	32.2	34.9
Venezuela	19.1	18.8	17.5	27.4	27.6	37.9

Source: General license banks / SBP.

While it is true that banks in Panama cover a higher proportion of the needs of its citizens, it is also true that there are other institutions that provide financial products that meet these needs of the population, including 595 cooperatives with total deposits of $1.83 billion as of the end of 2012; and 161 finance companies with total assets of US$830 million as of June 2012. Of lesser relative importance are the pawnshops.

These financial institutions are at a disadvantage, because their impact on the population cannot be measured, due to their statistics not being compiled on a monthly basis the way banking statistics are.

According to World Bank data, the accessibility index based on credit/GDP for 2012 would indicate that Panama ranked second in Latina America behind only Brazil.

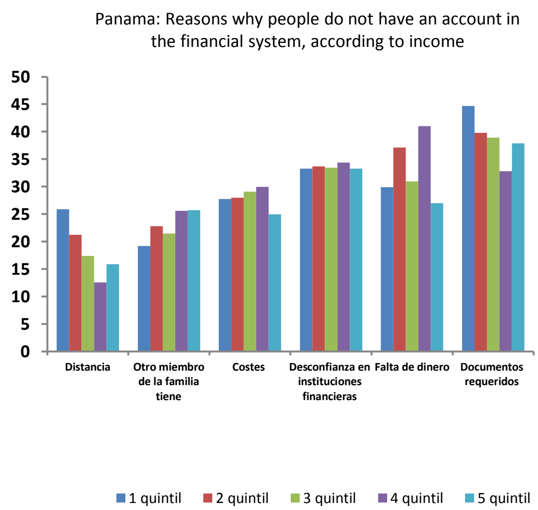


Source: World Bank, WDI.

IV. Access Barriers in Panama

Specialized surveys indicate that the access barrier problem is multidimensional. So, when asked for the reasons why they do not have a bank account, people emphasize several reasons. Through a survey conducted by the World Bank in 2011 (Global Findex), a query was made to identify perceived barriers that determine the exclusion of an individual from the formal financial system. In the case of Panama, the following barriers were identified in order of importance and with differences between groups:

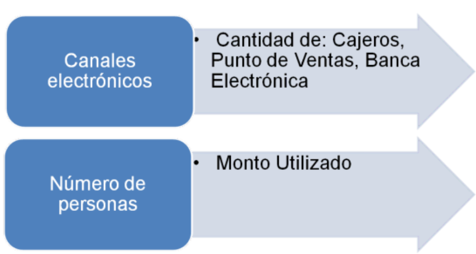
- Required Documentation
- Lack of money
- Distrust of financial institutions
- High cost of financial services
- Another member of the family has an account
- Distance



Source: Global Findex/World Bank.

- **Next Steps**

For the second quarter of the year, the SBP will have statistics on the use of electronic channels, both in number and amount. (Rule 6-2011). This will allow it to better understand the impact new channels can have on improving the level of financial inclusion in Panama.



- **Final Remarks**

Access to banking is an essential factor in guaranteeing sound economic growth and better social welfare.

Data compiled at country level indicates positive performance compared to the rest of the region.

However, besides macroeconomic determinants that impact financial inclusion levels, such as the country's level of development or the volume of financial infrastructure, existing relationships among the individual characteristics and access to banking are revealed as key elements when understanding financial inclusion and some of the main obstacles that lead to financial exclusion.

Recent regulatory changes might have a positive impact on access level, with the following being highlighted::

- The simplified accounts program should increase the number of potential users, increasing the critical mass of customers necessary for the model to be profitable for the suppliers and attractive to those who use it.
- Correspondents provide greater access to deposits and withdrawals of money for the population living far from a traditional branch office, increasing the availability of resources to mobile financial services users.
- Last, mobile payment systems could appeal to the population without access to the financial system by increasing access to financial products and services, providing products and services that are easier to use, lowering the risk of carrying cash and reducing operating costs for both the bank and the customer.