Key Findings from the Working Paper:
Eliminating Entry Barriers for the Provision of Banking Services: ‘Banking Correspondents’ in Brazil

Brazil’s program of using lottery outlets, post offices, and small retailers to distribute financial products in places too small for bank branches pioneers a way to bring key services to economically underdeveloped areas, a new study found.

The study of Brazil’s “banking correspondents” by Juliano Assunção of the Economics Department at Pontifícia Universidade Católica do Rio de Janeiro (PUC-Rio) shows that relying on the existing infrastructure of these other service groups can reduce the fixed cost of entry for providing banking services to underserved communities.

Brazil’s central bank approved the use of banking correspondents in 1999. The legislation allowed banking correspondents to receive applications for opening checking and savings accounts; collect deposits and provide payments for checking and savings accounts as well as investment funds; and receive credit applications and perform credit evaluations, among other services.

A new working paper by Assunção traces the rapid growth of banking correspondents in the period 2002 to 2007.

Key findings from Assunção’s study include the following:

• Approximately 2,200 of Brazil’s 5,500 municipalities, representing 20 million people, had no bank branches in 2000, and represented a challenge for connecting individuals to financial service.

• Banking correspondents have virtually eliminated the entry threshold for providing banking services in Brazil and serve as an innovative model for financial outreach in less populated and more isolated regions.

• Based on an analysis of the time period between 2000 and 2007, Assunção estimates that the entry barriers were reduced to zero in 2002 for banking correspondents while the entry threshold to establish a bank branch remained steady at between 7,800 and 9,300 people.
The format proved so popular that banking correspondents spread as well to places that had bank branches. By 2007, Assunção’s research found, only 217 municipalities did not have banking correspondents. Central bank figures indicate that by 2010 this number had fallen to 30 municipalities with no banking correspondents.

“In addition to the recent mobile money technology,” Assunção says, “banking correspondents represent an innovative and feasible means of increasing the outreach of banking services at low setup costs.”

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