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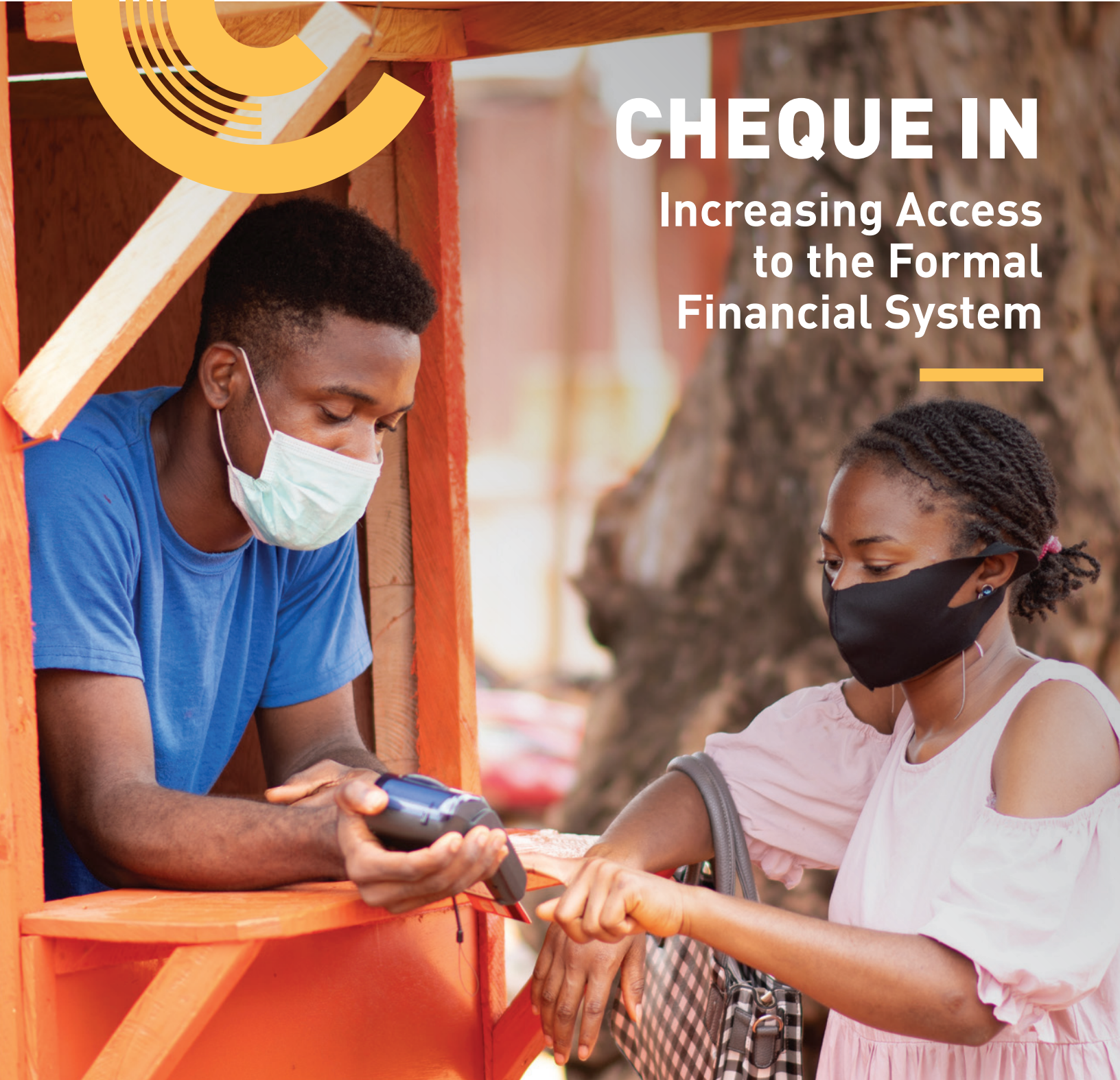
January 2022 | R2201



# CHEQUE IN

Increasing Access  
to the Formal  
Financial System

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# **Cheque In**

## **Increasing Access to the Formal Financial System**

**Caribbean Policy Research Institute (CAPRI)  
Kingston, Jamaica**

**This study is co-funded by the European Union.**

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# Acronyms

ABM	Automated Bank Machine	GOJ	Government of Jamaica
ACH	Automated Clearing House	ITU	International Telecommunications Union
AML/CFT	Anti-money Laundering/Combating the Financing of Terrorism	JAMPRO	Jamaica Promotions Corporation
ATM	Automated Teller Machines	JP	Justice of the Peace
BOJ	Bank of Jamaica	KYC	Know Your Customer
BSA	Banking Service Act	MIIC	Ministry of Industry, Investment and Commerce
CAC	Consumer Affairs Commission	MSME	Micro, Small, and Medium-Sized Enterprises
CARE	COVID-19 Allocation Resource for Employees	NFIS	National Financial Inclusion Strategy
CBDC	Central Bank Digital Currency	NIDS	National Identification System
CDD	Customer Due Diligence	PATH	Programme of Advancement Through Health and Education
CIPs	Credit Information Providers	POCA	Proceeds of Crime Act
DBJ	Development Bank of Jamaica	POS	Point of Sale
DFSAP	Developmental Financial Sector Assessment Programme	PSOJ	Private Sector Organisation of Jamaica
DTI	Deposit-Taking Institution	PSP	Payment Service Provider
EXIM	The National Export-Import Bank of Jamaica	ROSCA	Rotating Credit and Savings Association
FATF	Financial Action Task Force	RTGS	Real-Time Gross Settlement
FSC	Financial Services Commission	SDG	Sustainable Development Goals
GDP	Gross Domestic Product	SIPPA	Security Interest in Personal Property Act
GDRC	Global Development Research Centre	TRN	Tax Registration Number



## Executive Summary



# 4 in 5

**Jamaicans did not borrow within the last 6 months**

due to informality and insufficient collateral to guarantee loans.

**F**inancial inclusion is a key element of poverty reduction and inclusive development. In seeking to improve citizens' well-being and increase economic growth, financial inclusion enables individuals and businesses to build resilience and capitalize on economic opportunities. Notwithstanding these benefits, there are barriers to expanding access to and usage of the four functionalities that facilitate inclusion: savings, insurance, credit, and payment services. This report sought to identify these hindrances in the context of Jamaica, with a view to remedying them.

Know your customer requirements and low levels of trust in governing institutions impedes the adoption of formal savings products. Approximately 17 percent of the Jamaican population do not have a bank account. Approximately half of the unbanked either do not have any form of identification, or if they did, were unable to prove their address which was insufficient to fulfill the KYC requirements; this disproportionately affects low-income individuals. About

fifty percent of the population either do not trust the government or financial institutions, or are at best neutral towards them, impacting the usage of formal savings. Consequently, informal savings mechanisms remain prevalent, such as partner schemes or storing money at home, with a family member, or friend.

Four in five Jamaicans did not borrow within the last six months due to informality and insufficient collateral to guarantee loans. The high level of informality among both individuals – some of whom are low-income – and micro and small enterprises contributes to the problem of insufficient information faced by lending institutions, hindering the conducting proper assessment of risks. Only 13 percent of the population borrowed from a financial institution, with less than 10 percent of these being low-income households. Further, with collateral requirement to secure loans, only a quarter of the population could acquire financing. For the most part, individual and small businesses do not possess the type of fixed assets required to guarantee loans, and movable assets

are generally not accepted, resulting in the low percentage of the population, including small businesses, obtaining formal loans.

Jamaicans' ability to build financial resilience and mitigate against unexpected expenses is low. Unaffordable premium and limited knowledge about insurance promotes the low uptake of insurance. Approximately half of the population do not have insurance, three-quarters of whom are low-income. One-third of the uninsured attribute this to unaffordable premium. As most are low-income individuals, this highlights the gap between the suitability of insurance products and the needs of the population. Further, limited knowledge about insurance and its relevance in reducing risks conduces low penetration of insurance products. About 20 percent of the population do not understand insurance, the majority being young adults. This lack of understanding has led to the presumption that insurance is age-specific and so is irrelevant to that cohort.

While there has been an upward trend in the number of persons accessing and using

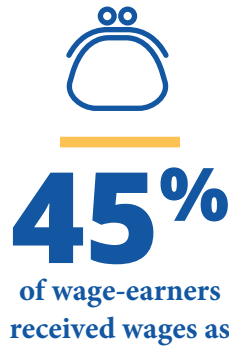
**The high level of informality among both individuals – some of whom are low-income – and micro and small enterprises contributes to the problem of insufficient information faced by lending institutions, hindering the conducting proper assessment of risks.**

digital payment methods, among the underbanked, cash remains the dominant medium of exchange. In examining wage-earners, in the six months previous to our survey, approximately 45 percent received wages as cash or cheques, despite more than half of them having bank accounts in which they could have received the payments directly. More so, 72 percent of individuals receiving cash payments have a high inclination towards tangible assets and thus, prefer to hold cash. Additionally, to facilitate ease of payments, reliable internet is required. Of the 25 percent of the population who do not have access to reliable internet, three-quarters are low-income. Compounding these, is the high level of distrust in government and financial institutions.

## Recommendations

For more households and businesses in Jamaica to benefit from financial inclusion through simpler access to suitable products and services that meet their financial needs, the following recommendations are proffered:

1. Internet access is required to capitalize on digital financial products. **The government (having already begun providing access to Wi-Fi in public areas) should continue this initiative as it is critical for citizens to take advantage of digital financial**



## CASH OR CHEQUES despite having bank accounts

### products and transactions.

2. “Open banking” is the practice of enabling secure interoperability in the financial services industry by allowing third-party financial service providers access (with permission) to banking transactions and other data, including customer data, from banks and financial institutions. Open banking will lower the hurdle for new financial service providers, by accessing existing financial and customer data, to satisfy some of the low level financial needs of the unbanked. With fewer than half of the registered credit information providers actively exchanging clients’ credit information with credit bureaus, open banking would improve on this. **The Bank of Jamaica should establish regulations for open**
3. Lending collateralized by movable assets is vital to expanding access to credit for individuals and small enterprises. A collateral registry for movable assets exists. However, there are two problems. Few people, including those in the loan business, know about it. Secondly, there isn’t a well-developed secondary market facilitating the disposal of these assets by lending institution, which reduces their value as collateral. Firstly, the existence of the registry should be publicized and promoted. Secondly, a website should be established to act as a marketplace for such assets.
4. There is no regulation that governs the provision of microinsurance products which specifically target the low-income population. This contributes to the limited number and scope of microinsurance products. GOJ should finalize the pending amendments to the Insurance Act to include regulations for microinsurance.

**banking, subject regulated financial institutions to these regulations, and publish the “application programming interface” that allows new service providers to electronically access the platform upon which they can build financial offerings to the unbanked (as well as the banked).**



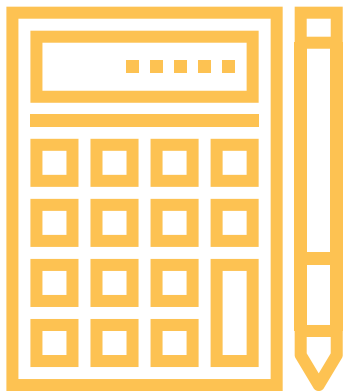
**Know your customer requirements and low levels of trust in governing institutions impedes the adoption of formal savings products.**





# 1

## Introduction



Approximately

# 17%

**OF THE JAMAICAN  
POPULATION**  
do not have a  
bank account

An estimated 17 percent of the Jamaican adult population is unbanked. That is, they do not hold an account in any formal financial institution or through a mobile money service provider, and therefore do not have access to financial services.<sup>1</sup> For these persons, cash remains their dominant payment instrument, and cash storage and informal schemes, like “partner,” their only means of saving and borrowing. At the same time, many of those in the banked majority—people who have an account in a financial institution—are “underbanked” as they conduct a large proportion of their financial transactions outside of the formal banking system. For both the unbanked and the underbanked, conducting basic transactions where money is involved is more onerous and more costly than it has to and could be.

Being unbanked in Jamaica increases the costs of doing everyday tasks, such as paying bills and receiving payments. One of the most costly tasks for the unbanked is interacting with the formal



It takes about  
**2 hours**  
of work time for a  
minimum wage earner to

change money from  
**CHEQUE TO CASH**

banking system. Having to encash, rather than deposit, a cheque costs unbanked individuals, on average, J\$318 per encashment (the bank’s fee). Where a majority of the unbanked are from low-income and low-middle income households, and may earn minimum wage, that encashment cost matters. Further, it takes about two hours of work time for a minimum wage earner to change money from cheque to cash. Finally, there are transportation costs of

both money and time when people have to physically go to a bank to encash a cheque; these costs are higher for persons living in remote areas.

Financially vulnerable people pay more for basic services, such as bill payments, when they do not have access to formal financial services. In Jamaica, only about 10 percent of bill payments are done online or by telephone. Most payments are made in person, even though in-person transactions are costly. On average, the unbanked and underbanked lose J\$6,825, or a week’s work for a minimum wage earner, each month they pay their bills in person.<sup>2</sup> This cost includes the time it takes to travel to bill payment locations; it takes approximately 18 minutes for traveling and 21 minutes to complete a regular bill payment transaction.

Outside of productive time lost, paying bills in person at multi-transaction agencies incurs a per transaction fee, whereas payment online is either free or less costly. Paymaster and Bill Express,

1 CAPRI, “Who Am I? The People Dem NIDS,” Kingston, Jamaica: Caribbean Policy Research Institute, October 2020.

2 CAPRI, “Who Am I?”

**Among the unbanked and underbanked applicants of the CARE programme, more than 150,000 individuals opted to receive cheques instead of direct transfers.**

the two most dominant such entities in Jamaica, charge J\$55 per in-person bill payment. The time and cost savings to be had by being banked and thus eliminating the need for payments to be made in-person are therefore considerable.

The COVID-19 pandemic has disproportionately affected the unbanked. The government of Jamaica (GOJ) launched an emergency stimulus package, the COVID-19 Allocation Resource for Employees (CARE) Programme, targeting the most vulnerable individuals and businesses. Among the unbanked and underbanked, more than 150,000 individuals opted to receive cheques instead of direct transfers. The logistics of so many people collecting physical cheques proved, at the outset, more challenging than the government had anticipated, and they were forced to suspend in-person collection until they could make the process conform to COVID-19 social distancing protocols.<sup>3</sup> That delay in payments temporarily excluded persons, especially the most vulnerable, from benefitting from the programme.

The CARE programme also made provisions for the micro, small, and medium-sized enterprises (MSME) sector,<sup>4</sup> in an effort to mitigate the pandemic's impending economic fallout. MSMEs are central to the Jamaican economy and represent more than 70 percent of the country's employment. Over one billion dollars was earmarked

## MSMEs having access to the formal financial system, services, and products is vital as they are recognized as Jamaica's engine of employment and economic growth.

for the sector.<sup>5</sup> Among the measures was a J\$375,000 tax credit, and a cash grant of \$100,000.<sup>6</sup> However, only 36 percent of MSMEs could potentially benefit given the high proportion of informal businesses in the sector. Their informality forestalled access to government support and formal financial products. MSMEs having access to the formal financial system, services, and products is vital as they are recognized as Jamaica's engine of employment and economic growth.<sup>7</sup>

The concept of financial inclusion covers three dimensions: access to, usage of, and quality of financial services. The premise is that formal financial services are important for improving the livelihoods of poor people and the wellbeing of their households, and for supporting micro and small-sized enterprises.<sup>8</sup> Access to financial services, such as payment instruments, savings, credit, insurance, and retirement products, enables individuals to regularize consumption and effectively plan for and mitigate shocks, and provides a general sense of

financial security.<sup>9</sup> For small enterprises, access to finance encourages investment in productive activities, supports their expansion, and generates employment, all which contribute to economic growth.

This study assesses the existing impediments to increasing access to and usage of suitable financial products – savings, credit, insurance, and payment services – especially among the poor in Jamaica, and proffers policy recommendations to overcome them within a well-regulated and sustainable environment.

The report:

- Defines and explains the importance of financial inclusion, providing both a global and regional perspective;
- Identifies the existing barriers to access and usage of products that facilitate savings, credit, insurance, and payment services;
- Examines existing efforts to expand

3 CAPRI, "Who Am I?"

4 The reference to MSMEs is multi-sectoral and so, also include those in the agricultural sector.

5 Ministry of Investment, Industry, and Commerce, "MSMEs Stand to Benefit from Formalization," 2020; Douglas McIntosh, "More Funding Support for MSMEs," Jamaica Information Service, June 25, 2021, <https://jis.gov.jm/more-funding-support-for-msmes/>; Observer, "BIGEE Rolls Out More Funds For MSME Growth," February 19, 2020, [www.jamaicaobserver.com/business-observer/bigee-rolls-out-more-funds-for-msme-growth\\_187391?profile=1442](http://www.jamaicaobserver.com/business-observer/bigee-rolls-out-more-funds-for-msme-growth_187391?profile=1442).

6 Ministry of Investment, Industry, and Commerce (MIIC), "MSMEs Stand to Benefit from Formalization," April 8, 2020, [www.miic.gov.jm/content/msmes-stand-benefit-formalization](http://www.miic.gov.jm/content/msmes-stand-benefit-formalization).

7 MIIC, "Micro, Small, and Medium-sized Enterprises and Entrepreneurship Policy", updated 2018, [www.miic.gov.jm/content/updated-msme-entrepreneurship-policy-2018](http://www.miic.gov.jm/content/updated-msme-entrepreneurship-policy-2018).

8 The Bank of Jamaica, "National Financial Inclusion Strategy: Access for All 2016-2020," March 2017, <https://boj.org.jm/wp-content/uploads/2021/05/NFIS-Annual-Report-2019.pdf>.

9 Bob Cull, Tilman Ehrbech, and Nina Holle, "Financial Inclusion and Development: Recent Impact Evidence," Consultative Group to Assist the Poor (CGAP), 2014, [www.cgap.org/sites/default/files/publications/slidedeck/fianddevelopment-recentimpactevidence-bbljune22014-140623115237-phpapp02.pdf](http://www.cgap.org/sites/default/files/publications/slidedeck/fianddevelopment-recentimpactevidence-bbljune22014-140623115237-phpapp02.pdf).

financial inclusion and their potential to enhance access to, usage, and quality of financial functionalities; and

- Proffers policy recommendations based on the identification of barriers and the analysis of the efforts currently underway to increase financial inclusion.

## Methodology<sup>10</sup>

To achieve the stated objectives, this study examined the hindrances to accessing and using financial products that facilitate savings, credit, insurance, and payment services, thereby garnering evidence-informed knowledge why the unbanked and underbanked populations exist and persist. The barriers most relevant to the Jamaican context were identified and cross referenced with the policy reforms in Jamaica that have been undertaken to promote financial inclusion. Based on this assessment, the research identified where additional measures can be attempted.

This report takes both a quantitative and a qualitative approach to identifying the barriers, relying on a desk review and primary and secondary data. Financial inclusion is not a new phenomenon, and there is a wealth of material (academic papers and books, policy documents,<sup>11</sup> grey literature) on the topic. From these, particularly those relevant to Latin America and the Caribbean, relevant and timely data and approaches were obtained and parsed.

An island-wide financial inclusion survey was carried out, to create a new data set on financial inclusion, including criteria and



indicators that have not been previously measured. For example, although there exists substantial information on financial inclusion metrics for Jamaica, such as the IMF's Financial Access Survey, this data predominantly captures the supply-side and is obtained through the reporting of financial institutions, and focuses on account and branch access among other supply indicators, rather than the needs of actual customers.<sup>12</sup> While supply-side data is germane to the study, sole reliance on it may lead to an inaccurate estimation of the current financial climate. Other key components to financial inclusion such as usage and quality are excluded. Therefore, a demand-side survey, which uses household-individual level data is beneficial in providing a more fulsome representation of financial inclusion in Jamaica.

The survey provides demographic data to

ascertain what segment of the population is underserved, and the extent of the usage of and access to credit, insurance, savings, and payment services, as well as attitudes towards the formal financial sector. This approach will also build on the Global Financial Index for Jamaica which takes a similar approach but is dated—last conducted in 2014—and does not allow for covariate analysis between age, gender, and socioeconomic status which, we anticipate, will enhance the substantive nature and relevance of the report. Such information was gathered using a one-time cross-sectional survey of 40 questions.

Additionally, elite interviews with financial sector stakeholders elicited a grounded, experiential understanding of the issues financial institutions and other such actors face in attempting to foster financial inclusion.

10 The definition of formal financial institutions used in the methodology, and hereby throughout the report, refers to institutions that offer financial services, and who are regulated by the Bank of Jamaica. As such, no distinction was made between credit unions, commercial banks, or other deposit-taking or non-deposit-taking institutions.

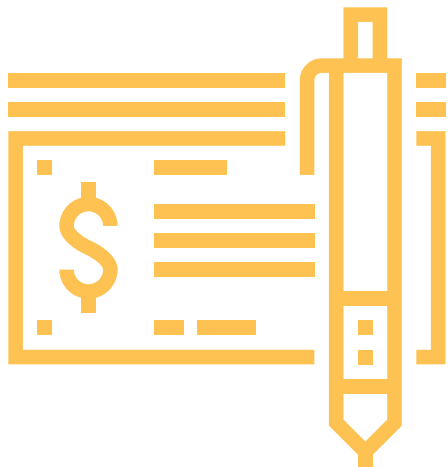
11 For example, Jamaica's 2017 National Financial Inclusion Strategy (NFIS) and its NFIS 2019 and 2020 annual reports outline the country's current trajectory in achieving financial inclusion and contain reams of relevant data.

12 For example, Jamaica's above-average number of deposit accounts per 1,000 adults could potentially be disproportionately skewed towards a certain group holding multiple accounts instead of indicating that more individual Jamaicans are obtaining deposit accounts.



# 2

## Financial Inclusion, Poverty, and Economic Growth in Jamaica



**38%**

of PATH beneficiaries utilize  
**DIRECT DEPOSIT,**  
but the majority of recipients  
still receive physical cheques

Access to formalized financial services allows people to engage in financial transactions more efficiently and securely, and helps to elevate the poor out of poverty by regulating incomes and enabling investments in education, health, and business opportunities.<sup>13</sup> For firms, particularly small and medium-sized enterprises, access to financial services is typically associated with stronger innovation, job creation, and economic growth.<sup>14</sup>

Financial inclusion in Jamaica is low. At its most basic level, financial inclusion starts with having a deposit or transaction account at a bank or other financial institution, or through a mobile money service provider, which can be

used to make and receive payments, and store money. A recent survey indicated that more than two-thirds of the adult population receives wages in the form of cash, less than half of the population own a debit card, and less than a third actively save at a financial institution.<sup>15</sup> In 2018, while 78 percent of Jamaicans had a bank account, the level of account inactivity recorded in the sector was high, at 23 percent – above the Latin America and the Caribbean region average of 11 percent.<sup>16</sup>

This low threshold of access to formal financial services is prevalent among those who receive social welfare payments from the government's cash transfer programme, Programme of Advancement Through Health and Education (PATH).

In 2006, GOJ introduced direct benefit transfers to PATH beneficiaries using Keycard cash accounts. While these accounts do not facilitate bank deposits, holders are allowed to make payments with authorized dealers, and receive transfers. Currently (in 2021), 38 percent of beneficiaries utilize the direct deposit option. While this is an increase from 14 percent in 2019, the majority of PATH recipients still receive physical cheques at post offices or remittance agencies.<sup>17</sup>

For MSMEs, which account for 70 percent of employment in Jamaica, there is limited access to credit through formal channels.<sup>18</sup> Only a quarter of MSMEs have access to credit from the formal financial system, while 45 percent access credit through informal means,<sup>19</sup>

13 BOJ, "National Financial Inclusion Strategy."

14 Henry Mooney, "Jamaica: Financial Development, Access, and Inclusion: Constraints and Options," 2018, Inter-American Development Bank, [https://publications.iadb.org/publications/english/document/Jamaica\\_Financial\\_Development\\_Access\\_and\\_Inclusion\\_Constraints\\_and\\_Options.pdf](https://publications.iadb.org/publications/english/document/Jamaica_Financial_Development_Access_and_Inclusion_Constraints_and_Options.pdf).

15 BOJ, "National Financial Inclusion Strategy"; Asli Demirguc-Kunt et al., "The Global Findex Database: Measuring Financial Inclusion and the Fintech Revolution, 2017," 2018, <https://openknowledge.worldbank.org/bitstream/handle/10986/29510/9781464812590.pdf>.

16 Demirguc-Kunt et al., "The Global Findex Database," 2018.

17 CAPRI, "Who Am I?"; See Appendix: Bank of Jamaica responses, September 28, 2021.

18 "MSME Sector," The Ministry of Industry, Investment and Commerce, January 30, 2019, [www.miic.gov.jm/content/msme-sector](http://www.miic.gov.jm/content/msme-sector).

19 Abbion Robinson, "All Hands on Deck for Financial Inclusion," *Observer*, July 17, 2019, [www.jamaicaobserver.com/business-observer/all-hands-on-deck-for-financial-inclusion\\_170098](http://www.jamaicaobserver.com/business-observer/all-hands-on-deck-for-financial-inclusion_170098).

**In 2018, although 78 percent of Jamaicans had a bank account, the level of account inactivity recorded in the sector was high, at 23 percent – above the Latin America and the Caribbean region average of 11 percent.**

indicating gaps within the sector's existing structure. Accordingly, only 10 percent of total private sector credit goes to MSMEs, indicating that the larger proportion of credit still flows to larger enterprises, which is below the Bank of Jamaica's (BOJ) target (the proportion of total credit to MSMEs) of 12 percent.<sup>20</sup>

There is low exposure to insurance products among the Jamaican population, across all types of insurance. Only 20 percent of the population has health insurance, with a majority of those being public sector workers; in deprived communities, only one percent have health insurance.<sup>21</sup> Only a third of the working population is covered by individual life insurance.<sup>22</sup> Micro-insurance, defined as insurance accessed by low-income populations that operates in accordance with generally accepted insurance practices, is scarce in the Jamaican financial sector.<sup>23</sup> There are no approved micro-insurance products in Jamaica; the current legislative framework does not contemplate this sub-category of insurance.<sup>24</sup> Despite the existence of a handful of insurance products that have some characteristics of micro-insurance, most households and businesses are exposed to risks without the commensurate insurance to provide protection.<sup>25</sup>

There are several known barriers to

**Only 20 percent of the population has health insurance, with a majority of those being public sector workers; in deprived communities, only one percent have health insurance.**

financial inclusion. Among them are the high costs of opening and maintaining bank accounts, heavy documentation requirements for Know-Your-Customer (KYC) regulations, limited bank branches, and an overall lack of financial resources to warrant opening accounts. There is a systemic problem in that the financial sector is underdeveloped and inadequate in size to serve the local market.<sup>26</sup> These all constitute hurdles to economically marginalized individuals and micro and small businesses to access safe savings instruments, credit, payment mechanisms, and insurance products that can improve their welfare. Further, the lack of regulation for and demarcation of microinsurance products from conventional insurance has stymied the growth of the microinsurance market, which has been in a nascent stage for nearly a decade.<sup>27</sup>

These facts and challenges are well recognized. Since 2017, the GOJ and major financial corporations have initiated several programmes to support a more financially inclusive environment. These initiatives have been informed by the National Financial Inclusion Strategy (NFIS) developed by the Bank of Jamaica (BOJ) in 2017 as a road map to improving key financial inclusion metrics.<sup>28</sup> Initial steps were taken to expand access to and use of financial services. These included increases in the number of financial access points (automated teller machines, bank branches, and point of sale machines), and deposit accounts with commercial banks.

The efforts thus far to expand financial inclusion have yielded some results. Using 2015 as the baseline year, the number of access points increased from 2,270 to 4,166 per 1,000 square

20 BOJ, "National Financial Inclusion Strategy."

21 CAPRI, "Locked Down, Locked Out: Vulnerable Communities during the Pandemic," Kingston, Jamaica: Caribbean Policy Research Institute, July 2021, [www.capricaribbean.org/documents/locked-down-locked-out-vulnerable-communities-during-pandemic-july-2021](http://www.capricaribbean.org/documents/locked-down-locked-out-vulnerable-communities-during-pandemic-july-2021).

22 Shamille Scott, "Jamaicans Encouraged to Make Insurance Part of Their Financial Plan: Loop Jamaica," *Loop News* June 28, 2019, <https://jamaica.loopnews.com/content/jamaicans-encouraged-make-insurance-part-their-financial-plan>.

23 Donna Swiverek, Andrea Camargo and Sekayi Campbell, "Improving Access to Insurance for the Low-income Population in Jamaica," AII, August 2014, <https://a2ii.org/sites/default/files/reports/jamaica-country-diagnostic.pdf>.

24 BOJ, "National Financial Inclusion Strategy."

25 Douglas McIntosh, "Government Proposes Micro-Insurance Against Risks," Jamaica Information Service, February 13, 2020, <https://jis.gov.jm/government-proposes-micro-insurance-against-risks/>.

26 Henry Mooney, "Jamaica: Financial Development, Access, and Inclusion: Constraints and Actions," Inter-American Development Bank, 2018, [https://publications.iadb.org/publications/english/document/Jamaica\\_Financial\\_Development\\_Access\\_and\\_Inclusion\\_Constraints\\_and\\_Options.pdf](https://publications.iadb.org/publications/english/document/Jamaica_Financial_Development_Access_and_Inclusion_Constraints_and_Options.pdf).

27 Swiverek, Camargo and Campbell, "Improving Access." "

28 This was done in collaboration with the World Bank.





kilometers by 2020.<sup>29</sup> The number of deposit accounts held at commercial banks also increased, from 1,152 to 1,827 per 1000 adults, above the target set by BOJ. Jamaicans were also utilizing more electronic payment mediums as the number of electronic retail payments per capita (per year) increased from 33 to 42, albeit below the BOJ's target of 50.<sup>30</sup>

These improvements have occurred in tandem with legislative amendments. The Proceeds of Crime Act (POCA, 2019) has allowed for the easing of documentation requirements and the adoption of a risk-based approach to opening

certain types of financial services.<sup>31</sup> The Microcredit Act (2021) was passed to regulate microcredit companies and protect borrowers from predatory lending practices.<sup>32</sup> In doing so, it seeks to facilitate greater access to finance, “particularly for low-income households and informally operated micro, small, and medium-sized enterprises, which are generally underserved by commercial banks.”<sup>33</sup>

The most recent effort to broaden financial inclusion is the pilot launch of the Central Bank Digital Currency (CBDC) by the Bank of Jamaica on

August 9, 2021.<sup>34</sup> The CBDC is a digital form of currency intended to propel inclusion and incentivize digital payments by simplifying the know-your-customer requirements of a deposit or a mobile wallet account for transactions.<sup>35</sup> This new, intangible fiat currency has no user fees, transaction costs, nor heavy documentation requirements,<sup>36</sup> thereby eliminating some of the barriers to financial inclusion. Considering this potential, the BOJ minted an initial lot of \$230 million of currency as a precursor to the official implementation of CBDC in 2022.<sup>37</sup>

29 BOJ, “National Financial Inclusion Strategy, Annual Report 2020.”

30 BOJ, “National Financial Inclusion Strategy, Annual Report 2020.”

31 Bank of Jamaica, “BOJ Prepares for Central Bank Digital Currency,” March 22, 2021, <https://boj.org.jm/cbdc-information-press-release-22-march-2021/>.

32 Chris Patterson, “Institutions Urged to Get Ready for July Implementation of Microcredit Act,” Jamaica Information Service, May 14, 2021, <https://jis.gov.jm/institutions-urged-to-get-ready-for-july-implementation-of-microcredit-act/>.

33 Cedric Stephens, “Prioritizing Microinsurance Policy,” Gleaner, March 7, 2021, <https://jamaica-gleaner.com/article/business/20210307/cedric-stephens-prioritising-microinsurance-policy>.

34 BOJ, “BOJ Prepares for Central Bank Digital Currency.”

35 BOJ, “BOJ Prepares for Central Bank Digital Currency.”

36 BOJ, “BOJ Prepares for Central Bank Digital Currency.”

37 “\$230M in Newly-minted Digital Currency now Available in Jamaica, Says Clarke,” Observer, August 09, 2021, [www.jamaicaobserver.com/latestnews/\\$230m\\_in\\_newly-minted\\_digital\\_currency\\_now\\_available\\_in\\_jamaica\\_says\\_clarke?profile=1228](http://www.jamaicaobserver.com/latestnews/$230m_in_newly-minted_digital_currency_now_available_in_jamaica_says_clarke?profile=1228).



Yevgen Belich / Shutterstock.com

# 3

## Why Financial Inclusion Matters



Since 2010, more than

# 55

## COUNTRIES

have made  
commitments to further  
**FINANCIAL INCLUSION**

**F**inancial inclusion is considered a key tool of poverty reduction and inclusive development. It is one of seven of the 17 Sustainable Development Goals (SDGs) that focus on the improvement of individual well-being and economic growth.<sup>38</sup> Since 2010, more than 55 countries have made commitments to further financial inclusion, and more than 60 have either launched or are developing national financial inclusion strategies, most often in the form of a multi-sectoral plan that provides the basis for deeper and faster financial sector development and inclusion.<sup>39</sup> Yet, in 2017, approximately a third of adults, globally, were without an account at a financial institution or through a mobile money provider. Of

this unbanked population, 56 percent were women and were from the poorest 40 percent of households.<sup>40</sup>

Financial inclusion can reduce poverty. It enables the poor to achieve two intermediate outcomes that ultimately contribute to improved well-being: building resilience and capitalizing on economic opportunities. Building resilience refers to a person's ability to prepare for risks, manage risks during disruptions to income, and recover quickly to restore livelihoods.<sup>41</sup> Resilience, in turn, equips individuals with the confidence to seize opportunities at the individual, communal, and national levels that are rewarding. At the individual level, investment opportunities in education, health, and businesses to

increase income are facilitated, and access to markets and state social programmes at the community and national levels, respectively.<sup>42</sup>

Notwithstanding the advantages of widespread financial inclusion, the architecture of existing formal financial systems excludes the poor and primarily focuses on wealthier segments of the population. However, empirical evidence indicates that poor people have a substantial, yet suppressed, demand for financial products as they do have surpluses that they use for non-essential expenditures.<sup>43</sup> In moments of small irregular flows, poor households desire to aggregate surpluses into lump sums for household or business investment.<sup>44</sup> They also desire appropriate insurance

38 Gourav Kumar, "Financial Inclusion: Barriers from the Supply Side and Demand Side," April 2019, *International Journal of Research in Engineering, Science, and Management* 2, no. 4 (2019): 313-316.

39 Countries that have achieved the most progress toward financial inclusion typically have a universal digital identification, allowed mobile services to thrive, prioritized consumer protection, and have a national financial inclusion strategy. World Bank Group, "Financial Inclusion: Overview," October 2, 2018, [www.worldbank.org/en/topic/financialinclusion/overview](http://www.worldbank.org/en/topic/financialinclusion/overview).

40 International Evaluation Group and World Bank Group, "The Drive for Financial Inclusion: Lessons of World Bank Group Experience," June 30, 2021, [https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ap\\_driveforfinancialinclusion.pdf](https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ap_driveforfinancialinclusion.pdf)

41 Emilio Hernandez, "Financial Inclusion for What?" CGAP, February 5, 2020, [www.cgap.org/blog/financial-inclusion-what](http://www.cgap.org/blog/financial-inclusion-what).

42 Hernandez, "Financial Inclusion for What?"

43 Dean Karlan, Aishwarya Lakshmi Ratan and Jonathan Zinman, "Savings by and for the Poor: A Research Review and Agenda," *Review of Income and Wealth Journal*, Series 60, no. 1 (March 2014):1-43, <https://onlinelibrary.wiley.com/doi/pdf/10.1111/roiw.12101>.

44 Karlan et al, "Savings by and for the Poor."

**Access to formal savings encourages financial prudence which is crucial for households with strong social networks that may pressure them to spend more than budgeted or even desired.**

products that reduce their vulnerability to specific risks, and efficient payment systems to engage in daily transactions.

These issues can be condensed as four functionalities—savings, credit, insurance, and payment services—which are considered important for financial inclusion.

## Savings

People save for future expenses, for investments in human capital (such as education and health), business, and to regularize consumption during retirement and in the event of unexpected occurrences. For the poor, these benefits are more consequential because of their proclivity to engage in low-risk livelihoods that perpetuate the cycle of poverty.

Formal savings products are safer repositories for cash than informal savings mechanisms. They limit unauthorized access and theft,<sup>45</sup> and provide greater confidentiality than saving informally by restricting access to information only to account holders. This makes it difficult for family and friends to interfere with their relatives' money. Also, despite the benefits of rotating savings and credit schemes (partner), participants—usually the poor—are exposed to the risk of theft by the “banker.”<sup>46</sup> This breach of trust increases their financial vulnerability at the same time as it disintegrates their social network as members of such schemes tend to have pre-existing family or community relationships.

Formal savings accounts also protect from disasters that affect people's physical holdings. The unbanked and underbanked keep their cash savings at home, in a drawer, or even under the clichéd mattress. These physical holdings are vulnerable to fires, floods, and theft. Saving at a formal institution protects from these catastrophes.<sup>47</sup> Further the ability to recover loss of savings is only afforded at a formal financial institution with deposit insurance.

Access to formal savings also encourages financial prudence. By restricting access to liquidity, albeit only to an extent, formal savings accounts can encourage better cash management and reduce the coercion or temptation to spend unnecessarily. This is crucial for households with strong social networks that may pressure them to spend more than budgeted or even desired. Better control over personal finances increases the ability to save more and translates into greater investments in the household's business or human capital.<sup>48</sup>

Investments in human capital are critical to the development of an inclusive and sustainable economy. Formal savings products help families plan for and manage education expenses. In Nepal, access to savings accounts was associated with improved education levels and higher professional aspirations among beneficiaries.<sup>49</sup> Initial human capital (measured by education) is considered a stronger predictor of economic growth than initial per capita GDP, largely because countries with higher

45 Rani Deshpande, “Safe and Accessible: Bringing Poor Savers into the Formal Financial System,” CGAP, Focus Note no. 37, September 2006, [www.cgap.org/sites/default/files/CGAP-Focus-Note-Safe-and-Accessible-Bringing-Poor-Savers-into-the-Formal-Financial-System-Sep-2006.pdf](http://www.cgap.org/sites/default/files/CGAP-Focus-Note-Safe-and-Accessible-Bringing-Poor-Savers-into-the-Formal-Financial-System-Sep-2006.pdf).

46 The banker is the person who collects, manages, and stores the monies for each member.

47 Leora Klapper, Mayada El-Zoghobi, and Jake Hess, “Achieving the Sustainable Development Goals: The Role of Financial Inclusion,” CGAP, 2016, [www.cgap.org/sites/default/files/Working-Paper-Achieving-Sustainable-Development-Goals-Apr-2016\\_0.pdf](http://www.cgap.org/sites/default/files/Working-Paper-Achieving-Sustainable-Development-Goals-Apr-2016_0.pdf).

48 Asli Demirguc-Kunt, Leora Klapper, and Dorothe Singer, “Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence,” World Bank, Policy Research Working Paper 8040, 2017.

49 Klapper, El-Zoghobi, and Hess, “Achieving the Sustainable Development Goals.”



**The financial footprint created by formally engaging with financial institutions can stand as a measure of the creditworthiness of individuals who lack traditional credit assets or a financial transaction history. This is particularly beneficial for microenterprise owners, most of whom are women.**

educational attainment benefit more from technological advances.<sup>50</sup>

Citizens' good health is important for countries to exploit the full potential of their human capital, and savings increases individual expenditure on health. A healthy person is more productive than an unhealthy person; increased productivity translates to increased output and economic gains, which leads to more and better economic growth and development. A study in Kenya found that health expenditures increased by 66 percent when people were provided with a savings account. Access to formal, interest-bearing accounts can increase the value of human capital investments.<sup>51</sup>

In the absence of ready access to credit, savings accounts provide individuals with a formal platform to build a credit history. The financial footprint created by formally engaging with financial institutions can stand as a measure of the creditworthiness of individuals who lack traditional credit assets or a financial transaction history.<sup>52</sup> This is particularly beneficial for microenterprise owners, most of whom are women, who find it more challenging to access business loans.<sup>53</sup>

Finally, expanding access to savings instruments will stimulate additional savings as well as make those savings

available to other borrowers through the financial system. Both of these will have the effect of raising an economy's rate of investment and thereby promote economic growth.

## Credit

In developing countries, a majority of those who borrow do so from family or friends.<sup>54</sup> Relying on credit from these sources restricts individuals to only the amount of resources within that community. Often, the funds are insufficient to satisfy the household's needs.<sup>55</sup> Further, due to the family's or friends' own liquidity constraints, lending typically constitutes a high cost of capital.<sup>56</sup>

Similar to savings products, credit can be used to finance asset-building such as home and land ownership, entrepreneurship, human capital investments, and unexpected expenses. Borrowing broadens the pool of resources that households and businesses have access to. Access to affordable credit products is important in expanding capacity that in turn enables individuals to capitalize on business opportunities. Small businesses play an integral role in poverty reduction and employment generation. In emerging economies, they serve as a source of livelihood for low-

50 Dumisani Chirambo, "Moving Past the Rhetoric: Policy Considerations That Can Make Sino-African Relations to Improve Africa's Climate Change Resilience and the Attainment of the Sustainable Development Goals," December 2016, <http://dx.doi.org/10.1016/j.accre.2016.11.002>.

51 Klapper, El-Zoghobi, and Hess, "Achieving the Sustainable Development Goals."

52 Klapper, El-Zoghobi, and Hess, "Achieving the Sustainable Development Goals."

53 CAPRI, "Closed for Business: Barriers to Women's Entrepreneurship," August 2020, <https://capricaribbean.org/documents/closed-business-barriers-womens-entrepreneurship>.

54 Asli Demircug-Kunt, et al., "The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution," World Bank Group, 2018.

55 Samuel Lee and Petra Persson, "Financing from Family and Friends," *The Review of Financial Studies* 29, no. 9 (September 2016): 2341-2386, [www.jstor-org.ez.lib.jjay.cuny.edu/stable/pdf/44014929.pdf](http://www.jstor-org.ez.lib.jjay.cuny.edu/stable/pdf/44014929.pdf); Michele Benvenuti, Luca Casolaro and Emanuele Ciani, "Informal Loans, Liquidity Constraints and Local Credit Supply: Evidence from Italy," *Review of Economics of the Household* (June 2021), <https://link-springer-com.ez.lib.jjay.cuny.edu/content/pdf/10.1007/s11150-021-09567-6.pdf>.

56 Lee and Persson, "Financing from Family and Friends"; Benvenuti, Casolaro, and Ciani, "Informal Loans."

income households.<sup>57</sup> For these agents of economic growth, access to credit can provide capital to innovate, improve efficiency, and expand their operations to new markets at a lower cost than borrowing informally.<sup>58</sup>

Empirical evidence on microcredit suggests that credit enhances business start-ups and expansion.<sup>59</sup> For example, a study in India showed that, when offered credit, new businesses are more likely to be created and firms are more likely to spend on assets relevant to the business. With increased access to affordable credit for micro and small businesses which facilitates the expansion and growth of the sector, an economy's overall performance is enhanced.

For households, access to credit improves their capacity to undertake investments that improve their quality of living.<sup>60</sup> Particularly for low-income individuals, formal borrowing provides resources to finance education and health. In doing so, access to formal credit helps to break the intergenerational cycle of poverty.

## Insurance

Appropriate insurance products build resilience. Access to insurance products is beneficial to effectively manage financial risks related to large, unexpected expenses such as those stemming from illnesses, crop failures, accidents, or natural disasters. The evidence shows

**Regardless of socioeconomic status, individuals and businesses require an efficient mechanism through which to receive payments.**

that an accumulation of savings improves households' capacity to cope with income shocks, however insurance products are relevant with regard to protection against specific, foreseeable risks.<sup>61</sup> Formal insurance products pool risks over a larger population, affording households broader coverage than they would have by relying on their own or their family's savings. Adults in low-income households with limited assets are particularly likely to benefit the most from insurance.<sup>62</sup>

Where common risks simultaneously affect many individuals in a community, informal community mechanisms are inadequate to cover everyone. For example, communities that depend on the same forms of livelihood (such as farming) would be simultaneously impacted by drought. The majority of the members would suffer losses, making it difficult for them to offer help to each other. Formal insurance products, like rainfall insurance, would be more suitable in providing sufficient protection.<sup>63</sup>

Further, in the absence of appropriate formal insurance, individuals adopt strategies that are low risk and therefore, yield low returns. Particularly for agricultural workers, the lack of suitable insurance products forces them to forgo the production of high risk and high return crops ("cash crops").<sup>64</sup> Studies conducted in India and Ghana indicate that access to crop insurance encouraged farmers to increase the production of crops that were riskier and more sensitive to weather conditions, as opposed to farmers without insurance. Consequently, they generated higher revenues and improved household welfare. Households of insured farmers were eight percentage points less likely to report missed meals.<sup>65</sup>

Insurance, thus, is a tool that, in building resilience, enables social mobility by allowing individuals to overcome shocks that can affect their well-being and future income-generating capacities. Thus access to formal insurance products and services may mean the difference

57 World Bank Group, "Small and Medium-Sized Enterprise Finance," accessed October 11, 2021, [www.worldbank.org/en/topic/smefinance](http://www.worldbank.org/en/topic/smefinance).

58 United Nations Department of Economic and Social Affairs, "Micro, Small, and Medium-sized Enterprises and their Role in Achieving the Sustainable Development Goals," 2019, [https://sustainabledevelopment.un.org/content/documents/25851MSMEs\\_and\\_SDGs\\_Final3120.pdf](https://sustainabledevelopment.un.org/content/documents/25851MSMEs_and_SDGs_Final3120.pdf).

59 Klapper, El-Zoghbi, and Hess, "Achieving the Sustainable Development Goals." Some randomized trials have found that credit has limited or no impact on borrowers' welfare, but there is robust evidence that shows the opposite.

60 Demircuc-Kunt, et al., "The Global Findex Database 2017."

61 Karlan et al, Ratan, and Zinman, "Savings by and For the Poor."

62 Demircuc-Kunt et al "Financial Inclusion and Inclusive Growth."

63 "Financial Inclusion and Inclusive Growth."

64 Cash crops are agricultural crops that are planted for the purpose of selling on the market or for export to make profit as distinguished from subsistence crops planted for the purpose of self-supply of the farmer (like livestock feeding or food for the family). Yelto Zimmer, "Cash Crop Report 2015: Key Results of the 2014 Agri-benchmark Farm Comparison," Thünen Institute, 2015, [www.agribenchmark.org/fileadmin/Dateiablage/B-Cash-Crop/Reports/F\\_Cash\\_Crop\\_Report\\_2015\\_web.pdf](http://www.agribenchmark.org/fileadmin/Dateiablage/B-Cash-Crop/Reports/F_Cash_Crop_Report_2015_web.pdf).

65 Demircuc-Kunt, Klapper, and Singer, "Financial Inclusion and Inclusive Growth."

between individuals achieving social mobility or remaining in a situation of economic vulnerability.

## Payment Services

Payment services are the most used financial product globally.<sup>66</sup> Access to efficient payment services improves people's economic well-being. Irrespective of socioeconomic status, individuals and businesses require an efficient mechanism through which to make and receive payments. These transactions include paying and receiving wages, purchasing and selling goods and services, paying utility bills, and sending and receiving remittances. For low-income households, participating in these transactions is more costly because of the traditional means utilized.

Shifting payments from cash to an electronic form improves the efficiency and convenience of payments. Transaction accounts enable holders to conduct payments at any time and place. This reduces the cost of traveling to physical locations in order to carry out payments and receive funds.

New financial technology (fintech) further improves the efficiency of accessing and using payment systems.

The integration of IT reduces barriers to accessing transaction accounts and therefore improves interactions with the formal financial sector by those underserved. New technology allows for the removal of the requirement to have an account in a conventional bank to be considered financially included. Rather, simplified digital financial services, like mobile money and payment cards, have reduced the gap for individuals who desire to engage in transactions efficiently but who do not have (or have access to) a bank account.<sup>67</sup> Further, the development of payment facilities like real-time gross settlement—a system for the electronic transfer of funds between financial institutions in near-real time—increases efficiency in delivering payments.<sup>68</sup>

For governments, shifting from cash to digital payments reduces corruption and improves payment delivery. In 2014, nearly half of government transfers in developing countries were received through cash payments, an easy medium for intermediaries to siphon off funds. Forty-seven percent of Latin American and Caribbean citizens paid bribes to engage in government transactions.<sup>69</sup> Shifting to digital payments increases the transparency of transactions, ensuring that the correct beneficiaries receive payments made to them. Further, with

digital footprints payments are more easily traceable.<sup>70</sup>

The COVID-19 pandemic has intensified the need to digitize payments to broaden financial inclusion. The pandemic has threatened financial security and furthered the need to shift from physical to contactless and online banking.<sup>71</sup> The extent to which people are unbanked and underbanked has caused many to be excluded from emergency benefits offered by governments. Opting to utilize direct deposits to deliver stimulus payments by governments has potentially excluded one-third of adults, most of whom are marginalized, from benefitting, and has stymied their reducing their economic vulnerability.<sup>72</sup>

Access to financial facilities—savings, insurance, credit, and payment systems—is necessary to ensure broadened financial inclusion. Both individuals and enterprises require these financial products to undertake social investments, expand entrepreneurial activities, and mitigate financial shocks, which in turn, propels economic growth and development.<sup>73</sup> Notwithstanding these potential benefits, there are hindrances to accessing and using formal financial services, hindrances which preclude greater financial inclusion.

66 Massimo Cirasino and Marc Hollanders, "Why are Payment Services Essential for Financial Inclusion?," World Bank Blogs, 2015, <https://blogs.worldbank.org/psd/why-are-payment-services-essential-financial-inclusion>.

67 Klapper, El-Zoghbi and Hess, "Achieving the Sustainable Development Goals."

68 Demirgüç-Kunt, Klapper, and Singer, "Financial Inclusion and Inclusive Growth."

69 Benjamin Roseth and Angela Reyes, "Wait no More: Citizens, Red Tape, and Digital Government Caribbean Edition," Inter-American Development Bank, 2019, [https://publications.iadb.org/publications/english/document/Wait\\_No\\_More\\_Citizens\\_Red\\_Tape\\_and\\_Digital\\_Government\\_Caribbean\\_Edition.pdf](https://publications.iadb.org/publications/english/document/Wait_No_More_Citizens_Red_Tape_and_Digital_Government_Caribbean_Edition.pdf).

70 Roseth and Reyes, "Wait no More."

71 CGAP, "COVID-19 (Coronavirus) Insights for Inclusive Finance," 2020, [www.cgap.org/topics/collections/coronavirus-inclusive-finance](http://www.cgap.org/topics/collections/coronavirus-inclusive-finance); Matt Adam, "Money troubles: Financial Exclusion and COVID-19," We Are Digital, November 18, 2020, [www.we-are-digital.co.uk/money-troubles-financial-exclusion-and-covid-19](http://www.we-are-digital.co.uk/money-troubles-financial-exclusion-and-covid-19).

72 Joanne Dewar, "The Impact of the COVID-19 Pandemic on Financial Inclusion," NASQD, April 27, 2020, [www.nasdaq.com/articles/the-impact-of-the-covid-19-pandemic-on-financial-inclusion-2020-04-27](http://www.nasdaq.com/articles/the-impact-of-the-covid-19-pandemic-on-financial-inclusion-2020-04-27).

73 Thorsten Beck, Asli Demirgüç-Kunt and Patrick Honohan, "Access to Financial Services: Measurement, Impact, and Policies," *The World Bank Research Observer* 24: 1, February 2009, 119-145.



# 4

## Barriers to Financial Inclusion



Almost

# 1/2

of the unbanked adults state  
**PECUNIARY COSTS**  
as their reason for  
**REMAINING UNBANKED**



In general, access to formal products is determined by the supply of financial services, while usage is affected by the demand side. Where there are barriers to financial access these primarily result from two types of friction associated with the supply of financial services: information asymmetries and transaction costs.

Information asymmetry is where, between financial institutions and potential customers, one party has more information relevant to the transaction than the other. This generates the problems of adverse selection and moral hazard. Adverse selection refers to a situation in which financial institutions are unable to properly assess the quality of potential customers due to incomplete information. In contrast, moral hazard happens after an agreement is made, where customers engage in risky ventures as the consequences are borne by the financial institution. As a result, banks have instituted regulations such as

stringent documentation requirements or collateral demands to mitigate against these risks and reduce their losses.<sup>74</sup>

Transaction costs in supplying financial services also impede access. This refers to the imposition of monetary fees (pecuniary costs) to obtain and maintain formal financial services. Arising from operational and administrative costs to provide financial services, transaction costs can translate into nonpecuniary barriers such as geographical hurdles or unreliable telecommunication infrastructure to access services. Transaction costs are typically higher in remote areas, causing financial service providers to reduce the extent to which physical access points such as branches or automated teller machines are offered.

For usage of formal financial products, barriers are determined by the demand-side or consumer-related issues. For example, the lack of trust in banking institutions, low incomes, and limited

knowledge about financial products or services affect the extent to which individuals feel they can take advantage of formal financial services. The relevance of limited demand for financial services should not be understated as having a key role in financial inclusion. Even in the absence of supply-side barriers, under-utilisation can persist.<sup>75</sup>

While this describes the general demand and supply side hindrances, their applicability varies as regards the four functionalities of financial systems. The sections which follow contextualize and explain the barriers with discrete attention to savings, credit, insurance, and payment services, followed by how these play out in Jamaica.

## Savings

For savings products, the problem of limited information is common among unbanked individuals, as most operate in the informal economy.<sup>76</sup> The

<sup>74</sup> Sonia Di Giannatale and Maria Jose Roa, "Barriers to Formal Saving: Micro- and Macroeconomic Effects," *Journal of Economic Surveys* 33, no. 2 (March 2019): 541-566, 10.1111/joes.12275.

<sup>75</sup> Giannatale and Roa, "Barriers to Formal Saving."

<sup>76</sup> Sulita Levaux, "Bringing the Informal Sector Onboard," AFI, March 29, 2021, [www.afi-global.org/newsroom/blogs/bringing-the-informal-sector-onboard/](http://www.afi-global.org/newsroom/blogs/bringing-the-informal-sector-onboard/).

**Barriers to access financial services primarily result from two types of friction associated with the supply of financial services: information asymmetries and transaction costs.**



informal sector usually comprises the low income, poorly educated segment of a population, who typically do not possess official documentation.<sup>77</sup> As such, they are unable to provide the required information to assure financial institutions of their identity and the provenance of funds. Surveys conducted in Latin American countries consistently demonstrate the likelihood of low usage of formal savings by households that are informally employed, as opposed to those in formal employment.<sup>78</sup>

Heavy documentation requirements make the process of opening an account in a formal financial entity onerous for those operating outside the formal sector, some of whom desire to save only small amounts. To ensure financial integrity and to counter money laundering and the financing of terrorism, banks require additional identity information that

provides them with an assurance of the identity and activities of each of their customers. These additional documents include proof of current address, financial history, and employment history. The number of official documents required is inversely correlated to the share of a population that is banked. The relationship implies that the more documentation requirements there are, the less likely are individuals to become banked.

Compounding the documentation requirements is the transaction cost to savings. In Latin America and the Caribbean, almost half of the unbanked adults state pecuniary costs as their reason for remaining unbanked; this is twice the global average.<sup>79</sup> The deterring high fees are the result of the fixed costs incurred by financial institutions to provide services, which make up a significant

share of their overall costs. These fixed costs include operating costs—staffing banks, maintaining automated teller machines (ATMs), technology upkeep—and administrative costs.<sup>80</sup> These costs are then passed on to consumers and can range from minimum amounts to open an account to annual fees for account maintenance.<sup>81</sup> For the poor, transaction costs represent a larger proportion of their income in comparison to wealthier customers, discouraging them from saving formally.<sup>82</sup>

Banks may avoid opening physical access points (bank branches, ATMs, or payment counters) in areas where there is insufficient demand to cover transaction costs. Particularly in rural areas, it is largely infeasible to offer an extensive range of physical services causing banks to reduce the provision of services there. With limited supply of formal services in

77 Michael King, “The Unbanked Four-Fifths: Informality and Barriers to Financial Services in Nigeria,” 2013, <http://michaelking.ie/wp-content/uploads/2012/10/IIIS-Working-Paper-411-The-Unbanked-Four-fifths.pdf>.

78 Sonia Di Giannatale and Maria Jose Roa, “Formal Saving in Developing Economies: Barriers, Interventions, and Effects,” IADB, 2016, <https://publications.iadb.org/en/publication/formal-saving-developing-economies-barriers-interventions-and-effects>.

79 Demircuc-Kunt, et al., “The Global Findex Database 2017.”

80 World Bank Group, “Payment Aspects of Financial Inclusion (PAFI),” 2016.

81 Other costs include minimum balance to keep an account, account opening charges, fees for making withdrawals, deposits, or transfers, and fees for balance inquiries and writing checks. Giannatale and Roa, “Formal Saving in Developing Economies.”

82 Karlan, Ratan, and Zinman, “Savings by and for the Poor.”



Craig F Scott / Shutterstock.com

these areas, the transportation costs to access services translate into a geographic barrier. Globally, approximately a quarter of the unbanked do not own a savings account due to low proximity to financial services.<sup>83</sup> For low-income individuals, the loss of potential productivity each time they interact with the formal financial sector, combined with traveling expenses, makes them worse off, and so does not promote formal saving practices.

While these barriers reduce access to formal financial services, insufficient income hinders usage. Among the unbanked population, the most common reason for not having an account in a financial institution was not having enough money.<sup>84</sup> Scarcity of resources alters the perspective from which people view their problems and make decisions, to one that may be sub-optimal, and can lead to individuals paying more

attention to one specific problem, such as having insufficient funds for day-to-day expenses, rather than other issues that would usually be deemed important, such as saving.<sup>85</sup> Therefore, even if transaction costs are reduced, usage of savings accounts among resource-constrained individuals might remain low.

Financial illiteracy can also hinder the use of savings accounts, especially among low-income populations. Evidence from Peru shows beneficiaries of government transfer programmes underutilized saving instruments because of limited financial education.<sup>86</sup> A basic understanding of financial products and their importance in building resilience and mitigating risks is positively associated with holding precautionary savings. Further, the potential impact of financial literacy on the use of savings instruments among low-income and

uneducated individuals tends to be more significant as there is a wider scope for improvement, in comparison to those who already use financial services.<sup>87</sup>

Engendering trust in the financial system is important to encourage the use of savings. In Latin America and the Caribbean, one-third of adults do not engage with financial institutions because they do not trust them.<sup>88</sup> Trust in the financial sector may be defined as consumers' expectations that financial institutions are generally dependable and can be relied on to deliver on their financial pledges.<sup>89</sup> In the context of savings, the formal system should act as a safe repository for customers' monies. With higher levels of trust, customers become confident that financial services can meet their needs, which translates into higher usage.

83 "The Global Findex Database 2017."

84 "The Global Findex Database 2017."

85 Giannatale and Roa, "Barriers to Formal Saving."

86 "Barriers to Formal Saving."

87 Karlan, Ratan, and Zinman, "Savings by and for the Poor."

88 "The Global Findex Database 2017." In the case of Jamaica, the following section examines the broader issue of the trust deficit in government and, concomitantly, in financial institutions.

89 Carin van der Cruysen, Jakob de Haan and Ria Roerink, et al., "Financial Knowledge and Trust in Financial Institutions," *Journal of Consumer Affairs* 55, no. 2, (March 2021): 680-714, <https://doi.org/10.1111/joca.12363>.

However, people are fearful of government seizures of assets, economic instability, a history of inflation erosion, and bank failures, all of which contribute to distrust in the financial system. In some of these instances, fears arise from adverse personal financial crises owing to previous bank failures. Such experiences not only reduce trust in banks, but also lower confidence in the broader financial system.<sup>90</sup> It may even undermine credence in institutions in general, including in government. This then is a basis for a preference for personally holding physical cash, and reducing the inclination to use formal savings.

Overcoming these barriers to accessing and using savings products is germane to broadening financial inclusion, especially among the most vulnerable. Owning a basic savings account provides the basis to benefit from a more extensive range of financial services such as credit, insurance, or payment services, and so reducing these hindrances is vital.

## Credit and Insurance

Access to credit and insurance products is evaluated based on the level of risk of potential customers. As such, the barriers to access are similar for both. These include information deficiencies, insufficient or unreliable income for loan repayment or premiums, and unsuitable collateral and guarantees.<sup>91</sup>



In 2017, only  
**21%**  
of account holders  
in developing countries

**USED THE INTERNET  
FOR PAYMENTS**

Information friction regarding credit and insurance underscores two problems associated with limited information: adverse selection and moral hazard. Given that financial intermediaries are risk-averse and are exposed to greater risks when lending or insuring, stringent documentation requirements seek to reduce information asymmetries. These documentation requirements typically include proof of income (pay slips and letters of employment), proof of address (utility bills, mortgage contracts, property titles, or tenancy agreements), and some form of government identification.

However, the financially vulnerable and low income households who are likely to benefit more from accessing credit and insurance, are usually unable to satisfy these documentation requirements.<sup>92</sup> The majority of these persons, nearly 70 percent in developing countries, are

informally employed, thus they are unable to provide sufficient proof of income and employment records required to access loans.<sup>93</sup>

Additionally, as much as one quarter of the global urban population resides in informal settlements. This makes it difficult to prove their address.<sup>94</sup> In some cases, residential address documentation is also linked to discriminatory lending practices. For example, in South Africa, households living in the poorest provinces and traditional rural areas were less likely to be approved for loans compared to those residing in more well-off, urban regions.<sup>95</sup> A similar finding was also observed in Ghana.<sup>96</sup>

Access is also impeded by the high fees that lending and insurance institutions charge, particularly where borrowers are high-risk. This comes in the form of high monthly premiums or high interest rates for insurance and credit, respectively. When financial institutions lack access to trustworthy and timely information on potential clients, they, not unreasonably, charge more to cover their risks and raise the margins of financial intermediation.<sup>97</sup> These high fees make credit inaccessible for those who are most constrained, that is, low-income individuals and small enterprises.

Further, poorer individuals usually have insufficient and irregular income, worsening their ability to pay the high costs associated with insurance

90 Carin van der Crujssen Jakob de Haan and David-Jan Jansen, "Trust and Financial Crisis Experiences," *Social Indicators Research* 127, no. 2 (June 2016): 577-600, DOI: 10.1007/s11205-015-0984-8.

91 Mduduzi Biyase and Bianca Fisher, "Determinants of Access to Formal Credit by the Poor Households," *Studia Universitatis Babe -Bolyai Oeconomica* 62, no. 1 (2017): 50-60, DOI: <https://doi.org/10.1515/subboec-2017-0004>.

92 Biyase and Fisher, "Determinants of Access."

93 ILO, "Women and Men in the Informal Economy: A Statistical Picture," 2018, [www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_626831.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_626831.pdf).

94 United Nations Human Rights, "Report on Residents of Informal Settlements and the Right to Housing", September 19, 2018, <https://undocs.org/A/73/310/Rev.1>.

95 Biyase and Fisher, "Determinants of Access."

96 Isaac Koomson, Samuel K. Annim, and James A. Peprah, "Loan Refusal, Household Income and Savings in Ghana: A Dominance Analysis Approach," *African Journal of Economic and Sustainable Development* 5, no. 2 (2016): 172-191, DOI: 10.1504/AJESD.2016.076095.

97 IADB, "Saving for Development: How Latin America and the Caribbean Can Save More and Better," 2016, <https://publications.iadb.org/en/saving-development-how-latin-america-and-caribbean-can-save-more-and-better>.

and credit products. Smaller, more frequent payments are more suited to their incomes, but this translates into higher transaction costs for financial and insurance institutions.<sup>98</sup> This is also an indication of the limited offering of appropriate products for low-income individuals by formal lending institutions.

In some cases, for borrowers considered high-risk or those wanting to borrow a large amount, banks may request collateral to hold against the loan. This benefits borrowers in general since loans secured with collateral have lower interest rates.<sup>99</sup> The challenge, however, is that neither low-income individuals nor small enterprises have the types of collateral—fixed assets and real estate—that banks and financial institutions usually require. Collateral owned by these individuals are usually “movable assets” like motor vehicles, machinery, or office equipment. For the most part, these are not acceptable to banks. Moreover, in instances where they do possess suitable assets, there is often no proper documentation for them.<sup>100</sup>

## Payment Services

In 2014, nearly 40 percent of the adult population worldwide did not have an account for payments with an authorized payment service provider (PSP). In low-income countries, the percentage is significantly higher than the global average.<sup>101</sup> Demand and supply side

factors affecting financial inclusion in the context of payment systems and services are premised on reliable telecommunications support and access to a transaction account. Transaction accounts are held with banks or other authorized payment service providers, which can be used to make and receive payments, and to store value.<sup>102</sup> Since savings accounts are a type of transaction accounts, the barriers are similar.

Digital financial services rely heavily on the underlying telecommunications infrastructure to enable users to send and receive money. Increasingly, PSPs are developing payment products that require access to the internet or mobile network to address the limitations of cash as a payment instrument. For example, point of sale terminals or mobile money services, at minimum, require access to telecommunications networks.

However, globally, about one-third of the adults do not have access to internet. In developing countries, a majority of the end-users do not have reliable and accessible means to connect to the internet.<sup>103</sup> In 2017, only 21 percent of account holders in developing countries used the internet for payments. In the absence of access to the internet, consumers rely heavily on the mobile communications infrastructure, which are usually underdeveloped and so hinder efficiency of payment services.

Also, there are high transaction costs

associated with digital payment mediums, such as debit or credit cards.<sup>104</sup> Typically, the costs faced by PSPs to facilitate payment services are independent of the quantity and size of transactions. For example, the use of point-of-sale terminals incurs a monthly fixed fee regardless of the number or value of transactions. As such, providers apply the same concept when transferring the fees to consumer transactions. This disadvantages poorer segments of the population as they tend to make frequent small payments which would incur costs for each transaction and so, facilitates a preference for cash.

In general, households excluded from formal financial markets meet their demand for financial services by relying on informal mechanisms. Access to formal financial services is hindered by inadequate information by financial institutions on their potential customers, and by high transaction costs faced by banks which are then distributed to customers. These costs disproportionately impact low-income households who are typically resource-constrained and so are unable to afford service costs. Also, with unsuitable collateral and unreliable telecommunications infrastructure, access to credit and payment services, respectively, is impeded. In general, low levels of trust and weak financial literacy contribute to the low usage of formal financial services and the persistence of informal mechanisms.

98 CGAP, “Financial Inclusion and Development: Recent Impact Evidence,” 2014, [www.cgap.org/sites/default/files/FocusNote-Financial-Inclusion-and-Development-April-2014.pdf](http://www.cgap.org/sites/default/files/FocusNote-Financial-Inclusion-and-Development-April-2014.pdf).

99 Andrew Pentis and Kate Ashford, “What Are Collateral Loans and How Do They Work?” Lending Tree, last updated August 31, 2021, [www.lendingtree.com/personal/how-do-collateral-loans-work/#whatisacollateralloan](http://www.lendingtree.com/personal/how-do-collateral-loans-work/#whatisacollateralloan).

100 United Nations Human Rights, “Report on Residents of Informal Settlements and the Right to Housing”, September 19, 2018, <https://undocs.org/A/73/310/Rev.1>.

101 Transaction accounts also include savings accounts but are not restricted to them.

102 World Bank Group, “Payment Aspects of Financial Inclusion,” 2016, <https://documents1.worldbank.org/curated/en/806481470154477031/pdf/107382-WP-REPLACEMENT-PUBLIC-PAFI-Report-final-in-A4.pdf>.

103 International Telecommunication Union (ITU), “Technical Report on SS7 Vulnerabilities and Mitigation measures for Digital Financial Services Transactions,” 2019, [www.itu.int/en/publications/Documents/tsb/2019-Technical-report-on-SS7-vulnerabilities/index.html#p=6](http://www.itu.int/en/publications/Documents/tsb/2019-Technical-report-on-SS7-vulnerabilities/index.html#p=6).

104 World Bank Group, “Payment Aspects of Financial Inclusion.”



# 5

## Financial Inclusion in Jamaica: Findings from our Survey



Approximately

# 40%

of those without a bank account have only a government-issued ID

Access to and usage of formal financial services remains a challenge in Jamaica. Notwithstanding efforts by the government and supervisory financial institutions (such as the central bank, or in the case of Jamaica, the Financial Services Commission), to mitigate the hindrances faced by the unbanked and underbanked, there are distinct and specific challenges to expanding savings, credit, insurance, and payment services in the Jamaican context.<sup>105</sup> The discussion below seeks to highlight the systemic and other barriers to the un- and underbanked engaging with the formal financial system.

## Savings

A savings account is the most basic form of financial inclusion, but the uptake of

savings products in Jamaica has been and continues to be slow. As was the objective, between 2019 and 2021, the percentage of the unbanked has decreased, but only marginally. Currently, 17 percent of the adult population do not have a bank account or an account with a mobile money service provider; a three-point improvement since 2019.<sup>106</sup> This reduction in the unbanked follows the amendments to the Proceeds of Crime Act to ease KYC requirement restrictions, which has led banks to innovate products and services suited for low-risk consumers.<sup>107</sup>

The progress has only been modest because even with less stringency, KYC requirements to open a savings account continue to pose hurdles for the unbanked. To acquire a basic savings account, the foundational KYC

requirements are a government-issued identification (ID), a tax registration number (TRN), and proof of address.<sup>108</sup> In some cases, character references are solicited. Approximately 40 percent of those without a bank account have only a government-issued ID—whether a passport, driver’s licence, or an electoral ID—but do not have a bill or statement letter addressed to their home that could allow them to prove their address.<sup>109</sup> Only one-third of the unbanked, with a government-issued identification, could prove their address. More disadvantaged is the 4 percent who do not have either of these forms of identification.<sup>110</sup> The failure to overcome identification and proof of address requirements prevents many from accessing this basic financial instrument.

105 Other institutions that have worked with the Financial Services Commission include the Ministry of Finance and the Public Service, the Ministry of Industry, Investment, and Commerce, the MSME Alliance, and the Private Sector Organization of Jamaica.

106 CAPRI survey.

107 David Rose, “Banks Easing Account Opening Restrictions,” *Observer*, September 18, 2020, [www.jamaicaobserver.com/business-report/banks-ease-access-in-account-opening-for-more-jamaicans\\_203420](http://www.jamaicaobserver.com/business-report/banks-ease-access-in-account-opening-for-more-jamaicans_203420).

108 In the case of the amendments to POCA, the simplified due diligence excludes proof of address. However, utilizing these regulations is based on the banks’ discretion and risk assessment of each customer.

109 Forty-one percent of those who do not have bank accounts only fulfill one requirement of the KYC conditions, a government-issued identification. Four percent do not have a government identification at all. CAPRI survey.

**Currently, 17 percent of Jamaicans (18 years or older) do not have a bank account or an account with a mobile money service provider; a three-point improvement since 2019.**



Obtaining the required identification documentation can be onerous, and there are several barriers. Obtaining an electoral identification – Jamaica’s de facto national ID – requires that individuals have a fixed address, which excludes the homeless population and those without a permanent abode. While the electoral ID is free, there are direct costs for a driver’s licence and passport, which may put these forms of ID out of the reach of poorer citizens. Further, individuals seeking to apply for either of these functional IDs will incur the cost and effort of obtaining a Justice of the Peace’s (JP) certification, some of whom illegally charge for their services.<sup>111</sup>

Poverty is a barrier among most of the unbanked population in Jamaica. Fifty-five percent of the unbanked did not engage in any saving at all within the previous six months, given their lack

of resources to meet anything beyond their most basic needs, a situation which has likely worsened with the pandemic. Among those who saved, not having a bank account obligated them to employ informal means of savings.<sup>112</sup>

For the majority of the banked population, insufficient income is not a barrier to the usage of savings accounts. Currently, approximately 72 percent of the population have money saved, despite the detrimental impacts of the pandemic on livelihoods.<sup>113</sup> For those who are low-income, more than half have money saved in formal institutions. This corroborates research findings that even for the poor, there is a desire and demand for savings products.<sup>114</sup>

While a majority of the population (72 percent) are engaged in saving, informal means of savings remain pervasive, both

among the banked and the unbanked. About 40 percent of all who have savings saved informally. Saving at home (often under the mattress or in a drawer), through family members or friends, or joining partner schemes were the most frequent methods used.

Most people who engage in informal savings practices are inherently more exposed to financial risks as their employment is unstable or they are self-employed; this describes the employment status of almost half of the low-income population.<sup>115</sup> The self-employed typically depend on partner schemes to propel business continuity as they facilitate ease of capital accumulation, while those in unstable employment use them to smoothen consumption during periods of low income. However, such informal mechanisms increase their exposure to theft and other misfortune,

111 CAPRI, “Who Am I?”

112 CAPRI survey.

113 Results showed that 42 percent saved informally, 45 percent saved at a financial institution, and 30 percent did not save within the past six months. CAPRI survey.

114 Karlan, Ratan, and Zinman, “Savings by and For the Poor.”

115 CAPRI survey.



in comparison to banks, thereby exposing them to another albeit different kind of economic vulnerability.<sup>116</sup>

Adding to this is the low level of trust in the government and financial institutions. Half of the population either do not have trust in governing institutions (11 percent) or are indifferent towards them (41 percent). Specifically, 20 percent of persons believe that the government has the authority to take money from their bank accounts, while one-third is averse to saving at a bank because they do not believe their money is safe there.<sup>117</sup>

This low level of confidence in the financial sector seems to be persistent and is common among the lower socioeconomic group. A 2013 survey found the same percentage of low trust or neutrality among the Jamaican population (50 percent), indicating no improvement in the perception of the population towards banking institutions.<sup>118</sup> Further, distrust is linked to socioeconomic quintile, as low levels of trust were highest among persons from low-income households, the majority of whom are unbanked. Thus, they prefer to rely on their social networks to manage risks and make investments.<sup>119</sup>

While trust in financial institutions and financial literacy are generally positively correlated,<sup>120</sup> in the case of Jamaica, the evidence is varied. With regards

to knowledge of basic financial facts, such as what are the requirements to access savings accounts or financial services offered by banks, approximately 80 percent of the population is well-informed.<sup>121</sup> Yet, half of these well-informed persons are either indifferent towards banks or the government, or explicitly distrust them. However, among those with limited or no knowledge about basic financial literacy, the majority (63 percent) have no trust or are neutral towards these institutions. These statistics point to what ought to be focus areas for financial literacy and trust-building efforts.<sup>122</sup>

Access to savings instruments is critical to reinforce individuals' financial resilience. However, the inability of many of the unbanked to prove their identity and satisfy KYC conditions excludes them from accessing a basic savings account. While this has implications for the type of savings mechanisms utilized, the extant issue of distrust in the government and banks impacts both the onboarding and usage of savings accounts. This is evident as a majority of the population has basic financial literacy, yet half do not trust governing institutions. Further, while some in the low-income population do save with formal institutions, greater financial literacy would increase their trust in and usage of formal saving instruments.

## Credit

Facilitating access to credit for individuals and micro and small enterprises is important in broadening financial inclusion, and is a pillar in Jamaica's financial inclusion strategy.<sup>123</sup> Although Jamaica has a relatively high proportion of formally banked in its adult population, not many are actually able to access credit. This is due to additional requirements levied by banks to conduct risk assessments for loans, more than for deposit accounts. These stringent requirements render unstable income, lack of suitable and sufficient collateral, and informal employment as hindrances to obtaining credit. Barriers to credit specific to small businesses include limited operational capacity and limited alternative finance.<sup>124</sup>

Lack of access to credit disproportionately affects the low-income population. Within the past year, most of the population did not borrow, formally or informally. Only 13 percent had borrowed from a formal financial institution. Less than a tenth of those represented low-income segments, while 47 percent were from the high-income population, indicating the disparity in access to credit by socioeconomic group.<sup>125</sup>

On the contrary, the documentation requirements for bank credit are an obstacle to those who are more well-off.

116 Among Jamaicans, research has provided evidence of theft from partner schemes, which are typically used by the poorer segment of the population. GDRC, "Jamaica's ROSCA: The Partner System," 1987, <http://gdrc.org/icm/partner-sys.html>.

117 CAPRI survey.

118 BOJ, "National Financial Inclusion Strategy."

119 Approximately 62 percent of unbanked persons are from low income households and 55 percent of low-income persons are either indifferent towards or do not trust the government or the bank; this, compared to the 51 and 47 percent of middle income and high income individuals, respectively. CAPRI survey.

120 Crujisen, Haan, and Roerink, "Financial Knowledge."

121 CAPRI survey.

122 About 58 percent of those who lack knowledge on basic financial literacy are low-income individuals

123 BOJ, "National Financial Inclusion Strategy."

124 These barriers represent the most challenging impediments to accessing finance by MSMEs. Interview with the MSME Division at the Ministry of Industry, Investment, and Commerce on August 30, 2021.

125 CAPRI survey.

Thirty-nine percent of those who did not borrow from banks stated it was because the process was burdensome.<sup>126</sup> Three out of five of them were middle- or high-income, individuals within the formal banking sector's target market.<sup>127</sup>

The small share of credit that goes to small businesses is due to the high credit risk they pose and that they mostly operate in the informal sector.<sup>128</sup> With approximately 425,000 MSMEs in Jamaica, about half of them operate informally and so lack proper documentation, particularly micro businesses.<sup>129</sup> The structure and management of small businesses also tends to be informal.<sup>130</sup> The production of key documents such as business plans, and business activity records are typically lacking, where understanding business development, establishing business plans, and creating and maintaining financial records are prerequisites to accessing financial support. This documentation provides a basis for financial institutions to assess the financial and commercial viability of these enterprises for the processing of loans.<sup>131</sup> However, due to the low educational and resource capacity of many small businesses, proper business documentation is difficult. The



# 77%

of low-income households  
do not hold any

**INSURANCE  
PRODUCTS**

majority are operated by a sole proprietor with only secondary education, making it onerous to undertake such tasks.<sup>132</sup>

Other loan requirements, such as the provision of appropriate collateral, remain a persistent challenge. A quarter of the population lack the collateral required by formal financial institutions. Among MSMEs, approximately 75 percent were not able to access bank loans, partly due to unsuitable collateral.<sup>133</sup>

In the credit market, there is a misalignment between the collateral preferred and thus requested by financial institutions, and the collateral

that individuals and micro and small enterprises possess.<sup>134</sup> Traditionally accepted collateral is largely based on real estate (land or buildings) as they are difficult to destroy or transfer to another person. Further, the regulations governing such collateral are more established and comprehensive, reducing the risks to financial institutions.<sup>135</sup>

However, these assets are not usually owned by small enterprises or individuals. Rather, movable assets including motor vehicles (particularly for individuals), office equipment, machinery, and intangible assets are common properties owned by this subset.<sup>136</sup> While motor vehicles are more readily accepted by banks, movable assets in general are not considered suitable collateral due to regulatory barriers and risk.<sup>137</sup> As such, securing loans is more challenging for them.

Further, lending by commercial banks is tailored to large corporates and to particular sectors.<sup>138</sup> Alternative finance like microfinance, factoring, and leasing are the kind of credit products suited for micro and small businesses. However, the microfinance sector in Jamaica is underdeveloped, particularly in relation

<sup>126</sup> CAPRI survey.

<sup>127</sup> Thirty-nine percent were low-income. CAPRI survey.

<sup>128</sup> BOJ, "National Financial Inclusion Strategy."

<sup>129</sup> Most of these businesses are micro enterprises and are characterized as "Own-Account" businesses. So, they are essentially self-employed and employ no one else on a regular basis in the business activity. Ministry of Industry, Investment, and Commerce (MIIC), "Micro, Small, and Medium-sized Enterprises and Entrepreneurship Policy," updated 2018, [www.miiic.gov.jm/content/updated-msme-entrepreneurship-policy-2018](http://www.miiic.gov.jm/content/updated-msme-entrepreneurship-policy-2018); As at 2019, 97 percent of private sector constitutes MSMEs. "MSME Clearing House: Jamaica," OAS, accessed October 12, 2021, [http://sice.oas.org/SME\\_CH/SICE\\_SME\\_CH\\_JAM\\_e.asp](http://sice.oas.org/SME_CH/SICE_SME_CH_JAM_e.asp).

<sup>130</sup> MIIC, "Micro, Small, and Medium-sized Enterprises and Entrepreneurship Policy," May 2013.

<sup>131</sup> Commercial viability refers to the ability of a business, product, or service to compete effectively and to make a profit.

<sup>132</sup> MIIC, "Micro, Small, and Medium-sized Enterprises and Entrepreneurship Policy."

<sup>133</sup> Robinson, "All Hands on Deck for Financial Inclusion," 2019.

<sup>134</sup> MSME Division at the Ministry of Industry, Investment, and Commerce, author interview, August 30, 2021.

<sup>135</sup> World Bank Group, "Improving Access to Finance for SMEs: Opportunities through Credit Reporting, Secured Lending and Insolvency Practices," May 2018, [www.doingbusiness.org/content/dam/doingBusiness/media/Special-Reports/improving-access-to-finance-for-SMEs.pdf](http://www.doingbusiness.org/content/dam/doingBusiness/media/Special-Reports/improving-access-to-finance-for-SMEs.pdf).

<sup>136</sup> Intangible assets include intellectual property rights and such like.

<sup>137</sup> The World Bank Group, "Assessment of Secondary Markets for Movable Assets in the Jamaica Manufacturing Sector," October 2020, <https://openknowledge.worldbank.org/bitstream/handle/10986/34810/Assessment-of-Secondary-Markets-for-Movable-Assets-in-the-Jamaica-Manufacturing-Sector.pdf>.

<sup>138</sup> World Bank Group, "International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan in the Amount of US\$15 Million to Jamaica for a JM Access to Finance for Micro, Small, and Medium Enterprises Project," December 29, 2017, <https://documents1.worldbank.org/curated/en/598931517454038216/pdf/Jamaica-PAD-01092018.pdf>.

to the variation in product offering.<sup>139</sup>

## Insurance

With more than half of the households in Jamaica not covered by insurance, their ability to withstand shocks is low. Only one in five Jamaicans have health or life insurance, and 6 percent have property or agricultural insurance.<sup>140</sup> Amongst low-income households, 77 percent do not hold any insurance products.<sup>141</sup>

One-third of the population that do not have insurance indicated that the premiums were unaffordable. More than half of these persons belonged to the low-income population. For this group, not being able to afford premiums is not only because of insufficient income, but because income streams are typically unreliable, making them more prone to risks than other portions of the population.<sup>142</sup>

The low uptake by the low-income segment is an indication of the dissonance between the products offered by institutions and the needs of the target population.<sup>143</sup> Products most suited to this segment of the population are micro-insurance products which require low premiums. Currently, while there are seven such products on the Jamaican market, they are concentrated around life insurance and personal accident; agricultural and health insurance products remain limited.<sup>144</sup> Further, due to the lack of regulations surrounding

**There is a strong preference among employed Jamaicans towards holding cash, a tangible asset, hindering the usage of digital payments.**

micro-insurance, they are not recognized by the Financial Services Commission (FSC), which affects product offering and usage. This is because the tailoring of products specific to the target population is difficult unguided by regulations, and can lead to the exploitation of consumers.<sup>145</sup>

Limited knowledge about insurance, and its relevance in mitigating risks, also restricts the adoption of insurance products. One in five persons does not understand how insurance products operate. Most of these individuals are young persons, between the ages of 18 and 24 years old.<sup>146</sup> This lack of understanding contributes to the presumption that insurance is age-specific, leading some to believe that, because of their youth, insurance is unnecessary. However, most of these individuals have savings, indicating their dependence on their own savings to protect them during unexpected income loss. Typically, as the literature has suggested,<sup>147</sup> personal

savings is insufficient to adequately protect from risks and so these people are exposed to greater financial vulnerability.

## Payment Services

There has been an upward trend in the number of persons accessing and utilizing digital payment methods in Jamaica, between 2014 and 2021. However, among the un- and underbanked, cash remains the dominant medium for money transactions. Distrust in government and financial institutions, a preference for the tangibility and untraceability of cash, and limited access to the internet, particularly among the low-income population, limit further take up of digital payments.

Savings accounts holders increasingly use digital payments services. In 2014, 25 percent of Jamaicans owning a debit card had used it; by 2021 it had increased to 60 percent, with the majority using debit cards at least twice a week. More persons are also using mobile money services,

<sup>139</sup> World Bank Group, "IBRD Project Appraisal Document."

<sup>140</sup> Five percent have property insurance and 1 percent have agricultural insurance. CAPRI survey.

<sup>141</sup> CAPRI survey.

<sup>142</sup> CAPRI survey.

<sup>143</sup> CAPRI survey.

<sup>144</sup> BOJ, "National Financial Inclusion Strategy."

<sup>145</sup> BOJ, "National Financial Inclusion Strategy."

<sup>146</sup> CAPRI survey.

<sup>147</sup> Karlan, Ratan and Zinman, "Savings for and by the Poor."

from 3 to 11 percent during the same period.<sup>148</sup> During the first 18 months of the pandemic, 35 percent of debit and credit cardholders increased their usage. Correspondingly, between June 2020 and June 2021, the percentage of debit card-related digital transactions increased by 11 percent.<sup>149</sup> A similar trend was observed among usage of other digital payment instruments such as credit cards and mobile money.

However, fewer than half of wage earners are paid directly through bank accounts. In the past six months, 45 percent of those employed were compensated using cash payments or cheques.<sup>150</sup> About two-thirds of these had at least one bank account through which they could have received payments, indicating underusage of accounts.<sup>151</sup>

Underpinning the widespread adoption

of digital payment mediums, like mobile money, is access to telecommunication infrastructure, particularly the internet. Three-quarters of the Jamaican population has internet access at home.<sup>152</sup> Of the 25 percent who do not, more than three-quarters are low-income.<sup>153</sup> For that 25 percent, using online platforms or engaging in online transactions is more challenging and less likely. Further, with the transition from traditional to virtual means to engage with formal institutions, the financial exclusion of the most vulnerable is exacerbated.

Though lack of trust has impeded underserved individuals from using direct deposits to receive payments, there was a stronger preference among employed individuals towards holding cash, a tangible asset. Tangibility describes the inclination of persons to favour notes and records on physical paper to electronic

ones. Based on this definition, 75 percent of employed persons preferred physical notes to digital ones, which translates into their preference for receiving and holding cash, instead of storing in a bank account.<sup>154</sup> It also implies that among these individuals, informal saving mechanisms would be preferred, rather than formal financial institutions.

Most of these barriers to accessing and using savings, credit, insurance, and payment services are well recognized in Jamaica. There have been initiatives, globally and locally, to improve financial inclusion in Jamaica, including recent efforts that are ongoing. While some attempts have been partially successful, as evidenced by the modest increase in the uptake of formal savings products, overcoming other barriers remain a challenge. These initiatives are discussed in the following section.

148 Two percent used Sagicor MyCash, 1 percent used Alliance ePay, and 8 percent used NCB Quisk..

149 See Appendix: BOJ's Response to CAPRI's Questions on Financial Inclusion for chart entitled "Means of Payment Statistics".

150 CAPRI survey.

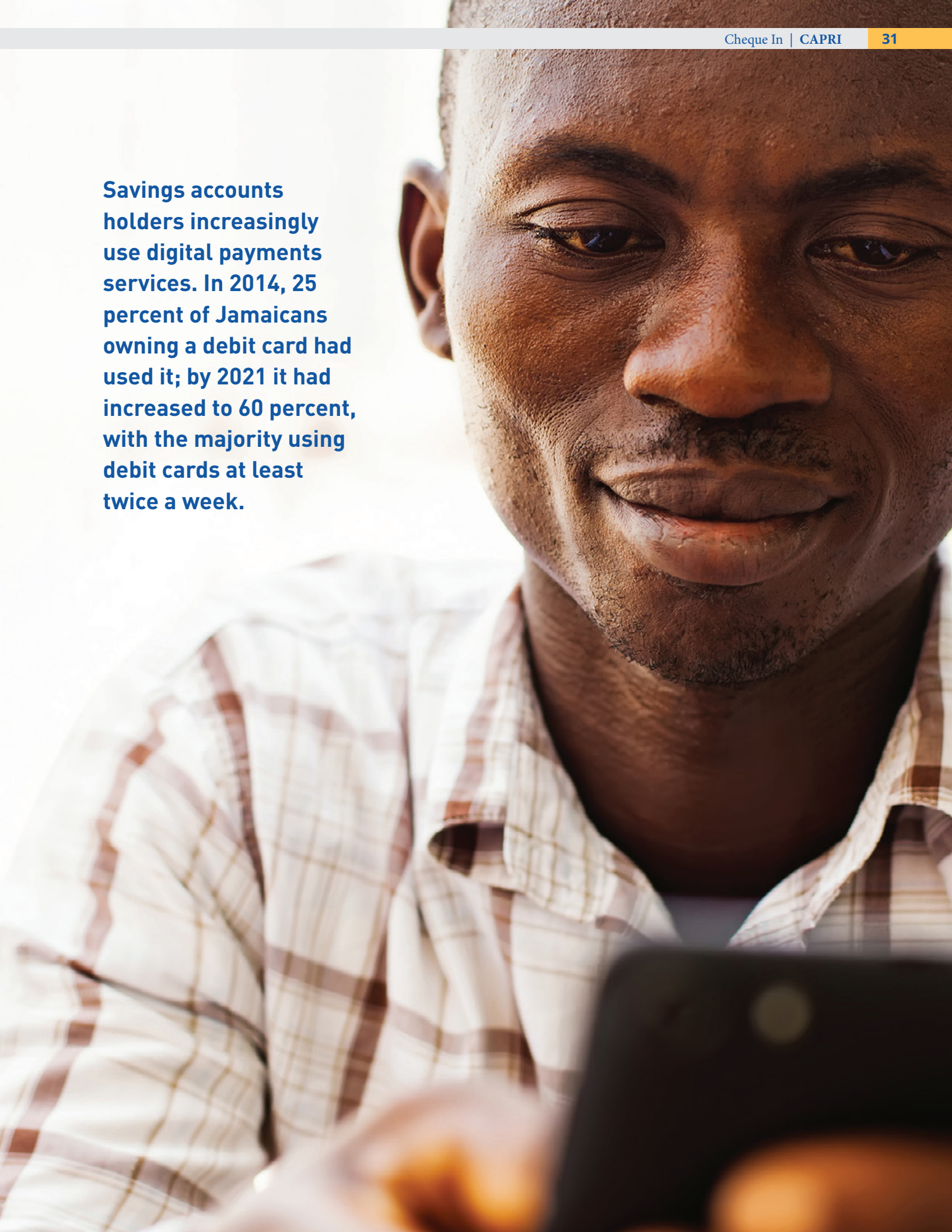
151 Lack of usage can also be attributed to employers who do not use direct deposit mediums to pay workers. This, however, was not measured.

152 CAPRI survey.

153 CAPRI survey.

154 CAPRI survey.

**Savings accounts holders increasingly use digital payments services. In 2014, 25 percent of Jamaicans owning a debit card had used it; by 2021 it had increased to 60 percent, with the majority using debit cards at least twice a week.**





# 6

## Expanding Financial Inclusion in Jamaica



Approximately

**340  
million**

accounts have been opened  
since India's biometric system  
came into effect

There are several initiatives to broaden financial inclusion in developing countries across the world. These include the introduction of national identification systems, central bank digital currencies, the development of the microfinance sector, and strategies to improve public financial literacy. Jamaica has endeavoured to reduce barriers to citizens' access to formal financial services since 2017. All of the above-mentioned obstacles have been addressed, to some extent, at a general level, and in discrete, more specific efforts. Here we examine what efforts have been undertaken thus far, and consider efforts in other jurisdictions that have endeavoured to bring more citizens into the formal financial system.

## National Identification System

Given the costs, constraints, and disadvantages of accessing the existing

<sup>155</sup> CAPRI, "Who Am I?"

<sup>156</sup> FATF, "Guidance on Digital Identity," FATF, Paris, March 2020, [www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/Guidance-on-Digital-Identity.pdf](http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/Guidance-on-Digital-Identity.pdf).

<sup>157</sup> Alan Gelb and Diego Castrillon, "Identifying and Verifying Customers: When are KYC Requirements Likely to Become Constraints on Financial Inclusion?" CGD Working Paper 522, Center for Global Development, Washington, DC, 2019, [www.cgdev.org/sites/default/files/identifying-and-verifying-customers-when-are-kyc-requirements-likely-become-constraints.pdf](http://www.cgdev.org/sites/default/files/identifying-and-verifying-customers-when-are-kyc-requirements-likely-become-constraints.pdf).

means of identification in Jamaica, the need for a national identification system (NIDS) is evident. Such a system would first provide a reliable and trustworthy ID. This would reduce the need for persons to acquire functional IDs (such as a driver's licence or a passport, which are issued to facilitate the functions of driving and traveling) when they need only to prove who they are. Instead, it emphasizes the right of every citizen to be legally identifiable in a secure and efficient way.

Beyond its main purpose to identify and authenticate citizens, a national identification system could be leveraged to provide the basis for customer identification and verification, and facilitate compliance with KYC conditions for banks and mobile operators. This would in turn allow for the introduction of affordable and convenient financial services that target the more marginalized in the population.<sup>155</sup> Additionally, the

value-added digital component allows NIDS to support secure non-face-to-face identity proofing and enrolment for customers, especially those in remote areas.<sup>156</sup>

India's biometric Aadhar system currently provides full e-KYC, with essential customer details sourced directly from the central repository, rather than paper documents. Approximately 340 million accounts have been opened since Aadhar came into effect, boosting India's 2017 financial inclusion rate to 80 percent and, simultaneously, narrowing the gender gap on inclusion.<sup>157</sup>

The use of the ID for KYC requirements, while broadening access to financial services, can increase their adoption. Ways to leverage the ID for KYC requirements include mandating ID only for certain levels of the tiered KYC mechanism and for purchasing SIM cards, which eases onboarding into the mobile money market. For example, in

**Beyond its main purpose to identify and authenticate citizens, a national identification system could be leveraged to provide the basis for customer identification and verification, and facilitate compliance with KYC conditions for banks and mobile operators.**

the institution of tiered KYC conditions, some Latin American countries, Peru being one example, require only the national ID to open “restricted” accounts.<sup>158</sup> Similarly, many East African countries have mandated the use of IDs for SIM registration. This is because SIM registration can reasonably constitute the minimal KYC requirement for opening a mobile account.

Further, with this secure and reliable ID, service providers are incentivized to create financial services that citizens, including the marginalized, can access and benefit from. These services include, but are not restricted to, mobile money or money cards that do not necessarily require a bank account to access. At least two businesses in Jamaica (Alliance Payment Services and Mailpac) offer money cards that do not require a bank account.<sup>159</sup>

In October 2021, Jamaica’s House of Representatives passed new legislation, the National Identification and Registration Act (2021), to govern a national identification system.<sup>160</sup> As of the beginning of 2022, it had not yet been implemented. Should it be implemented it holds promise for increasing financial inclusion in Jamaica.

## Central Bank Digital Currency

Central Bank Digital Currency (CBDC) is a digital form of currency issued by a central bank and is acceptable as a mode of payment. Based on the functions of CBDCs, there are two types: general purpose (retail) and wholesale

CBDC. Wholesale CBDC can serve as settlement and payment mechanisms in financial markets; that is, between financial institutions (banks, pension funds, or insurance companies) and large multinational corporations. On the other hand, retail CBDC is used between financial institutions and end-users such as households, individual customers, and businesses. As such, retail CBDCs are issued to the public.<sup>161</sup>

Other emerging countries are experimenting with retail CBDC as a means of broadening financial inclusion among the unbanked and underbanked populations. Digital currency can provide households and businesses with a new form of money and a new way of engaging in transactions, which would exist alongside other forms of money and payment systems, such as physical cash and bank deposits. Further, the essential benefit of retail CBDC is its ability to act as a direct digital substitute for cash, given its one-to-one value with national currency.

The design of the Bank of Jamaica’s CBDC potentially addresses some of the existing barriers faced by those with a need to access and use financial products. The structure of this digital currency employs a risk-based approach, enabling ease of access for low-risk consumers. The CBDC also reduces the transaction costs associated with opening and maintaining accounts.

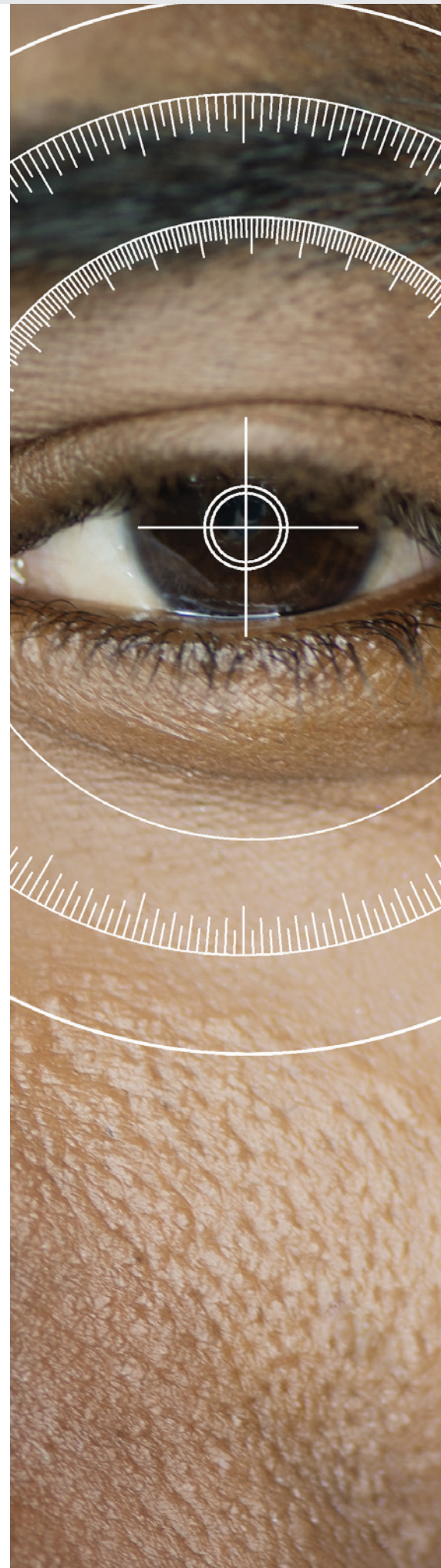
The BOJ has applied a tiered-KYC approach to the opening of CBDC wallets. This regime affords flexible account opening requirements depending on the value of the CBDC account. The

<sup>158</sup> A restricted bank account is an account in which the value and type of transaction is limited. For example, only a certain number of withdrawals or deposits may be made in these accounts.


<sup>159</sup> CAPRI, “Who Am I?”

<sup>160</sup> Chris Patterson, “House Passes NIDS Bill,” October 15, 2021, <https://jis.gov.jm/house-passes-nids-bill-2/>.

<sup>161</sup> Codruta Boar, Henry Holden, and Amber Wadsworth, “Impending Arrival – A Sequel to the Survey on Central Bank Digital Currency,” BIS Papers No 107, Bank for International Settlements, January 2020, [www.bis.org/publ/bppdf/bispap107.pdf](http://www.bis.org/publ/bppdf/bispap107.pdf).







Leveraging a national identification card to satisfy the Know-Your-Customer requirements can boost financial inclusion.

information required from the potential customers will be at minimum, name, address, date of birth, tax registration number, and a valid government-issued identification. These requirements differ from regular bank accounts that may also require proof of address and character references.

The CBDC also reduces the transaction costs faced by banks which are typically transferred to consumers. These charges include insurance for cash, and courier fees to transport currency to and from the central bank. Such costs are distributed to consumers through minimum account opening and annual maintenance fees. However, given that the CBDC is a digital currency, these charges are reduced, making it less costly for intermediate financial institutions to provide. Further, based on the BOJ's stipulations, banks are prohibited from charging fees for onboarding (opening a CBDC account), increasing the affordability for the unbanked and underbanked.<sup>162</sup>

By increasing the efficiency of payments, CBDC encourages the innovation of digital consumer products. CBDC reduces the friction that exists between payment systems by lowering the cost of making payments and increasing the speed of payments. Particularly for the low-income population who engage in transactions of small value, the CBDC wallet facilitates this at no additional cost. In doing so, it encourages businesses to create digital products that are suited to the needs of the population.

However, there are several hurdles in the way of successful widespread adoption of

digital currency. Firstly, where internet access is one of the main enablers of CBDCs for financial inclusion,<sup>163</sup> the CBDC does not circumvent the need for reliable telecommunications infrastructure. Given that 77 percent of those without internet access are low-income, enabling access to telecommunication infrastructure is critical. In the absence of this, the digital divide among socioeconomic groups will continue and even worsen.

Secondly, based on the tiered system for the distribution of the CBDC, there are cost implications for users of formal bank services. The BOJ will distribute CBDC via a two-tiered system that directly involves financial intermediaries to issue the currency. Consumers would hold their CBDC in a bank account, or other intermediary financial institution, in a digital wallet. As such, intermediaries are obligated to perform operational tasks of opening accounts and administering payments for users rather than the central bank. The central bank would only track the wholesale CBDC balances of the intermediaries. Since these intermediary financial institutions have assumed the additional task of distributing CBDC, there are cost implications for using other formal financial products. This new role of administering the CBDC might incur additional expenses for the intermediary banks.<sup>164</sup> While the BOJ is prohibiting intermediaries from adding a cost to CBDC onboarding, it is likely that the increase in operational costs will be passed on to consumers by other means.

CBDC has the potential to facilitate financial inclusion, particularly among

<sup>162</sup> Natalie Haynes, Deputy Governor, BOJ, "Bank of Jamaica CBDC – Synthesis of Opportunities and Risks," July 14, 2021, [www.bankofengland.co.uk/-/media/boe/files/events/2021/july/chief-economists-workshop/session-2-slides-natalie-haynes.pdf](https://www.bankofengland.co.uk/-/media/boe/files/events/2021/july/chief-economists-workshop/session-2-slides-natalie-haynes.pdf).

<sup>163</sup> Anton N. Didenko and Ross P. Buckley, "Central Bank Digital Currencies: A Potential Response to the Financial Inclusion Challenges of the Pacific," Issues in Pacific Development No. 3, Asian Development Bank, August 2021, [www.adb.org/sites/default/files/publication/720016/central-bank-digital-currencies-pacific.pdf](https://www.adb.org/sites/default/files/publication/720016/central-bank-digital-currencies-pacific.pdf).

<sup>164</sup> Greg Baer, "Central Bank Digital Currencies: Costs, Benefits and Major Implications for the U.S. Economic System," Bank Policy Institute, April 7, 2021, <https://bpi.com/central-bank-digital-currencies-costs-benefits-and-major-implications-for-the-u-s-economic-system/>.

the lower income population, because of lower transaction costs, fewer barriers to access, and easier and cheaper onboarding. However, reliable telecommunication and payment infrastructure is required for its efficacy in reducing these obstacles. Also, as implied by the additional tasks undertaken by financial intermediaries as agents of the central bank, the costs of engaging in the formal financial sector may increase.

## Open Banking

With the combination of technology and data, the financial ecosystem is becoming more dynamic. Driving the ease of access to data is the emergence of open banking, which has been described as “opening up finance.” Open banking is enabling the creation of more inclusive financial solutions with the potential of bringing the un- and underbanked into contact with more suitable financial services, and at the same time helping fintech companies and traditional financial institutions to access new customers that were previously out of their reach.<sup>165</sup>

Open banking enables the sharing of registration and transactional data on individuals or businesses with third-party financial service providers through a secure and convenient platform.<sup>166</sup> By allowing regulated third-party providers to securely access this information, open banking can reduce the problem of inadequate information faced by financial



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institutions and expand consumer access to other financial services and products. The scope of the regulations may vary based on the types of financial institutions and services they apply to, the information that should be accessible by third parties, and how this information will be used.<sup>167</sup> The basis of this new data-sharing model relies on the use of an “Application Programming Interface” (API) – a layer of software hidden to the user, with which the user’s application interacts. The use of a standardized API will facilitate interaction among different computer systems and databases that financial service providers deploy, making it easier, safer, and faster for consumers to share their financial data.<sup>168</sup> (Based on the premise that the customer data held by financial institutions is owned by those customers, the sharing of information is facilitated at their discretion.)

Fintech firms are leading the creation of innovative financial products due to open banking platforms and regulations, and are launching low-cost, accessible services. In response, Latin America’s established banks are increasingly partnering with fintech firms and launching API platforms to remain competitive, as fintech firms are reaching consumers that the traditional banking sector does not, opening the ecosystem and creating opportunities for collaboration.<sup>169</sup>

A well-regulated environment is critical to fostering the achievements of open banking. As such, regulators in Latin America have been prioritizing open banking regulations to facilitate the ease of making data more shareable.<sup>170</sup> For example, in Brazil, the country’s open banking regulations require that all financial institutions registered with the central bank share transactional information with third parties, with the consent of customers.<sup>171</sup>

In Jamaica, the fintech ecosystem is expanding with the introduction of companies such as WiPay. These platforms allow users to send and receive money, and make payments at select businesses with limited interaction with the formal banking sector. Additionally, such platforms can potentially offer BOJ’s soon-to-be-launched CBDC.<sup>172</sup> With more fintech companies creating innovative and suitable financial products, facilitated by open banking, financial

<sup>165</sup> Belvo, “The state of open banking in Latin America: The main trends and regulation steps to expect in 2022,” undated, accessed January 23, 2022.

<sup>166</sup> This platform is typically through application programme interfaces (API). API is a set of rules that enables companies to open up their applications’ data and functionality to a third-party.

<sup>167</sup> Edward Corcoran, “Open Banking Regulation Around the World,” accessed October 11, 2021, BBVA USA, [www.bbva.com/en/open-banking-regulation-around-the-world/](http://www.bbva.com/en/open-banking-regulation-around-the-world/).

<sup>168</sup> Belvo, “The state of open banking in Latin America: The main trends and regulation steps to expect in 2022,” Accessed January 23, 2022.

<sup>169</sup> Belvo, “The state of open banking in Latin America: The main trends and regulation steps to expect in 2022,” Accessed January 23, 2022.

<sup>170</sup> Mexico, Brazil, Argentina, Chile, and Colombia.

<sup>171</sup> Maria Capurro and Shannon Sims, “Brazil’s Central Bank Built a Mobile Payment System With 110 Million Users,” Bloomberg Business Week, October 6, 2021, [www.bloomberg.com/news/articles/2021-10-06/pix-mobile-payment-how-brazil-s-central-bank-launched-platform](http://www.bloomberg.com/news/articles/2021-10-06/pix-mobile-payment-how-brazil-s-central-bank-launched-platform).

<sup>172</sup> *Observer*, “Wipay, C&WJCCU develop digital wallet,” December 19, 2021, [www.jamaicaobserver.com/sunday-finance/wipay-c-wjccu-develop-digital-wallet\\_239203](http://www.jamaicaobserver.com/sunday-finance/wipay-c-wjccu-develop-digital-wallet_239203).

inclusion in Jamaica can be achieved. In 2020, the BOJ published regulations for fintech companies to incentivize digitization and promote competition while protecting consumers.<sup>173</sup>

As the concept of open banking is underpinned by the exchange of customer's personal data to create suitable products, data security and privacy is vital. As it follows in other jurisdictions, data protection legislation is required. In 2020, the GOJ passed the Data Protection Act 2020. This Act governs how personal data should be collected, processed, stored, used, and disclosed in physical or electronic form. However, the Act is not yet enforced as the regulations outlining its implementation are yet to be drafted and the supervisory body mandated by the Act appointed.

## Credit Reporting and Secured Lending

Financial inclusion goes beyond simply having and using a bank account. Subscribing to loan facilities and other forms of institutional borrowing are means of access to financing for resource-constrained households and small businesses, but the degree of informality among the un- and underbanked, including small enterprises, means that formal financial institutions are

**In Jamaica, credit reporting has played an important role in reducing the incidence of non-performing loans. Asset quality, measured by the ratio of total non-performing loans to total loans, has been trending upward since 2012.**

constrained in evaluating these potential customers' creditworthiness.<sup>174</sup> Engaging in credit reporting and secured lending options can mitigate these constraints.

### Credit Reporting

Less access to and interaction with sources of formal finance increases the difficulty for individuals and businesses to develop a credit history. Credit reporting allows lenders to understand more about potential borrowers, their characteristics, past behaviour, repayment history, and current debt exposure.<sup>175</sup> The utilization of credit bureaus that leverage credit reporting systems helps to narrow the information gap between borrowers and lenders.<sup>176</sup> With this information, lenders can value loans using a more c

omprehensive risk assessment of their clients, which attenuates problems of adverse selection and moral hazard.<sup>177</sup>

In Jamaica, credit reporting has played an important role in reducing the incidence of non-performing loans. There are currently three credit bureaus licensed under the Credit Reporting Act (2010): Creditinfo Jamaica, CRIF Information Bureau Jamaica, and Credit Information Services.<sup>178</sup> Asset quality, measured by the ratio of total non-performing loans to total loans, has been trending upward since 2012. At the end of 2019, the percentage of non-performing loans fell to 2 percent from 7 percent.<sup>179</sup> Between 2015 and 2020, there was a 67 percent increase in the number of credit information providers (CIPs) signed with credit bureaus to exchange customers' credit

<sup>173</sup> The objectives of the regulatory sandbox are to provide a platform to encourage innovations in financial services, promote competition and promote financial inclusion. These guidelines for fintech companies as outlined by the Bank of Jamaica can be found here: <https://boj.org.jm/wp-content/uploads/2021/07/Bank-of-Jamaica-FinTech-Regulatory-Sandbox-Guidelines-14-July-2021.pdf>.

<sup>174</sup> Thorsten Beck, Asli Demircuc-Kunt, and Marla S. Martinez Peria, "Bank Financing for SMEs Around the World: Drivers, Obstacles, Business Models, and Lending Practices," Policy Working Paper 4785, World Bank November 2008, <https://openknowledge.worldbank.org/bitstream/handle/10986/6315/WPS4785.pdf>.

<sup>175</sup> World Bank Group, "Improving Access to Finance for SMEs."

<sup>176</sup> A credit bureau is an institution that aggregates the information used to build credit histories and bridge the information gap, solving the asymmetric information challenge. Oladimeji Peters, "Boosting Access to Credit by MSMEs: The Role of Credit Bureaus," Proshare Intelligent Investing, June 26, 2020, [www.proshareng.com/news/Boosting-Access-to-Credit-by-MSMEs--The-Role-of-Credit-Bureaus/51838](http://www.proshareng.com/news/Boosting-Access-to-Credit-by-MSMEs--The-Role-of-Credit-Bureaus/51838).

<sup>177</sup> Adverse selection and moral hazard describe different situations between two parties (in this case, lenders and borrowers), where one of them is at a disadvantage due to a lack of information. Adverse selection occurs when there is a lack of complete information prior to the contract being agreed upon. Moral hazard one party entering into the agreement provides misleading information or changes their behavior after the agreement has been made. Steven Nickolas, "Understanding the Difference Between Moral Hazard and Adverse Selection," Investopedia, updated June 27, 2021, [www.investopedia.com/ask/answers/042415/what-difference-between-moral-hazard-and-adverse-selection.asp](http://www.investopedia.com/ask/answers/042415/what-difference-between-moral-hazard-and-adverse-selection.asp).

<sup>178</sup> BOJ, "Bank of Jamaica Annual Report 2020," 2021, [https://boj.org.jm/wp-content/uploads/2021/03/2020\\_boj\\_annual\\_report.pdf](https://boj.org.jm/wp-content/uploads/2021/03/2020_boj_annual_report.pdf).

<sup>179</sup> BOJ, "Bank of Jamaica Annual Report 2019," 2020, [https://boj.org.jm/wp-content/uploads/2020/05/boj\\_annual\\_2019.pdf](https://boj.org.jm/wp-content/uploads/2020/05/boj_annual_2019.pdf).



**Banks' aversion to accepting some of movable assets is primarily due to the absence of an established secondary market that enables the timely disposal of assets in the event of loan default.**

information.<sup>180</sup> This improved outturn mainly reflected the impact of the increased role of credit bureaus in credit adjudication practices of deposit-taking institutions.<sup>181</sup>

While the number of individuals and firms within Jamaica's credit bureaus' databases cover 52 percent of the adult population,<sup>182</sup> only half of those registered submit credit information to the bureaus. Higher coverage could be attained through credit information providers more pro-actively exchanging information. With more CIPs sharing information with credit bureaus, individuals and businesses would be able to build their credit history, enabling them to access bank credit.

The creation and use of specific techniques to generate credit reports for small enterprises is necessary for credit reporting to enhance financial inclusion.

Presently, the tools used to generate credit reports for small businesses include automatic scoring methods and standardized rating tools, similar to those used for larger firms, whose characteristics tend to differ from those of small and micro enterprises. Customized credit reporting products should help lenders readily identify micro and small businesses, allowing them to make informed lending decisions. The use of small business credit scoring is associated with greater credit availability for micro and small businesses, particularly riskier ones that tend to pay higher prices.<sup>183</sup>

## Secured Lending

Secured lending, where a borrower is required to offer collateral as a loan guarantee, is a foundational aspect of an economy's financial infrastructure. The regulations related to secured lending

establish the legal and institutional framework for the use of movable assets as collateral. Where those regulations translate to robust legal protection for lending institutions, there is greater access to finance for borrowers.

The sections below explain the role of collateral registries and two alternatives to traditional collateral-based lending—factoring and financial leasing—in facilitating access to finance. While collateral registries benefit both the individual and small enterprises, factoring and leasing primarily focus on expanding finance for small businesses.

## Collateral Registry

A collateral registry is a system that facilitates the registration of notices of interests in movable property.<sup>184</sup> Collateral registries allow low-income

<sup>180</sup> These CIPs include banks, credit unions, building societies, and other lending institutions. In 2015 and 2020, 69 and 115 credit information providers were recorded, respectively. BOJ, "Bank of Jamaica Annual Report 2020."

<sup>181</sup> Favourable macroeconomic conditions were also vital to the reduction of nonperforming loans.

<sup>182</sup> This percentage is higher than the Latin American and the Caribbean coverage of 48 percent but lower than the OECD's high-income countries' of 67 percent. World Bank Group, "Doing Business 2020: Economy Profile – Jamaica," 2020, [www.doingbusiness.org/content/dam/doingBusiness/country/j/jamaica/JAM.pdf](http://www.doingbusiness.org/content/dam/doingBusiness/country/j/jamaica/JAM.pdf).

<sup>183</sup> Allen Berger, W. Scott Frame, and Nathan H. Miller, "Credit Scoring and the Availability, Price, and Risk of Small Business Credit," *Journal of Money, Credit and Banking* 37, no. 2 (April 2005): 191-222.

<sup>184</sup> *Law Insider*, undated, accessed December 21, 2021, [www.lawinsider.com/dictionary/collateral-registry](http://www.lawinsider.com/dictionary/collateral-registry).

individuals and small-scale entrepreneurs to secure loans against movable assets.<sup>185</sup> Efficient collateral registries facilitate transparency by notifying lenders and borrowers about the existence of claims on assets. They also establish the priority of lenders when claims are made by two or more, reducing the potential risks from non-payment of loans.<sup>186</sup> Globally, only 17 percent of countries have modern collateral registries that follow international good practices. In Latin America and the Caribbean, there are six countries that are compliant. They are Colombia, Costa Rica, El Salvador, Honduras, Mexico, and Jamaica, who is the first and only Caribbean island to have a collateral registry.<sup>187</sup>

In 2013, the GOJ passed the Security Interest in Personal Property Act (SIPPA). This Act enables individuals and businesses to register a variety of movable assets on the National Security Interest in Personal Property Registry (the Registry).<sup>188</sup> The Registry is an online system that allows lenders to search for any pre-existing claim on movable assets provided as collateral, track transactions between lenders and borrowers, and avoid multiple claims on assets. This is intended to reduce insufficient information problems between lenders and borrowers, and provide a more comprehensive risk assessment of potential customers.

The registry, however, is underutilized, particularly by small businesses. Currently, there are about 100,000 movable assets that have been registered. Approximately 63 percent represent ownership by consumers, and only 9 percent small enterprises.<sup>189</sup> Further, based on the collateral that has been used to secure loans, the majority were for loans to individuals (83 percent) as distinct from commercial loans (3.3 percent), indicating that usage of the registry affects access to credit. This is so as unregistered movable collaterals are typically not accepted by lending institutions. The underutilization is also evident from the mix of assets being registered. Almost 80 percent of the assets are motor vehicles.<sup>190</sup> Assets that are distinct to small businesses such as machinery, office equipment, account receivables, and crops are not being registered or utilized as collateral.

The underutilization of the registry and the narrow range of assets registered is partly attributable to the likelihood of registered assets being accepted by banks as suitable collateral.<sup>191</sup> Lending institutions consider motor vehicles to be one of the most acceptable forms of movable collateral. Crops and intellectual property rights are, for the most part, not considered. Other movable assets, like machinery, office equipment,

inventory, and accounts receivables are accepted by some institutions but require supplementary collateral;<sup>192</sup> in some instances, the GOJ provides partial loan guarantees to help overcome the barrier of insufficient collateral.

However, banks' aversion to accepting some of these assets is primarily due to the absence of a key element to movable asset-based lending: an established secondary market. A well-functioning secondary market is crucial to provide creditors with updated market-based valuations of and historical information on movable assets. Secondary markets also enable the timely disposal of assets in the event of loan default, reducing the risks of losses to lending institutions.

In Jamaica, while secondary markets exist, they are underdeveloped. They are fragmented and utilize traditional means, like newspapers or informal trading, to facilitate the disposal and trade of movable assets. They also offer limited services for valuation of assets and secure payment mechanisms which are required by formal lending institutions to complete transactions.<sup>193</sup> As a result, lending institutions are challenged in conducting proper risk assessments for some movable assets and so are reluctant to accept them.

185 Security interest is an enforceable legal claim on collateral that has been pledged, usually to obtain a loan. The borrower provides the lender with a security interest in certain assets, giving the lender the right to repossess all or part of the property if the borrower stops making loan payments.

186 Some rules regarding priority instructs that a secured creditor will be selected over an unsecured creditor. If Bank A properly attaches its security interest (providing value, ensuring the debtor's rights in the collateral and obtaining a signed security agreement or possession or control), it will take priority over Bank B and any other creditor who did not take steps to become secured parties and attach a security interest to the collateral in question. Another rule covers multiple creditors, all of whom have attached security interests in the same collateral. Since their statuses are essentially equivalent, legislation would prioritize the security interest of the secured creditor that first attaches its security interest to the collateral. Law Shelf Educational Media, "Priorities Among Security Interests," Accessed October 23, 2021, <https://lawshelf.com/videocourses/moduleview/priorities-among-security-interests-module-3-of-5/>.

187 World Bank Group, "Improving Access to Finance for SMEs."

188 Alecia Smith-Edwards, "Senate Passes Bill to Allow Businesses Greater Access to Credit," December 13, 2013, Jamaica Information Service, <https://jis.gov.jm/senate-passes-bill-allow-businesses-greater-access-credit/>.

189 World Bank Group, "Assessment of Secondary Markets for Movable Assets in the Jamaica Manufacturing Sector," 2020, <https://openknowledge.worldbank.org/bitstream/handle/10986/34810/Assessment-of-Secondary-Markets-for-Movable-Assets-in-the-Jamaica-Manufacturing-Sector.pdf>.

190 "Assessment of Secondary Markets"; MSME Division at the Ministry of Industry, Investment, and Commerce, author interview, August 30, 2021.

191 "Assessment of Secondary Markets."

192 "Assessment of Secondary Markets."

193 "Assessment of Secondary Markets."

## Factoring

Factoring (also called supplier chain financing) is also a part of a secured lending framework. Factoring is a type of financing where a business sells its creditworthy accounts receivables at a discount to a financial institution (factor) and receives immediate payment. As such, the financial institution buys the right to be paid directly by the business' customers for the invoices. This type of financial arrangement exclusively involves the complete ownership of accounts receivables by financial institutions, rather than them being used as collateral.<sup>194</sup> Through factoring, the financial institution, rather than the seller, becomes the creditor to the seller's customers and so assumes the costs associated with conducting risk assessments of the firm's customers.

In order to mitigate the credit risk to the financial institution from factoring, "reverse factoring" is employed. In reverse factoring, lending institutions purchase invoices only from selected customers, usually high-quality (large or international) firms. This not only reduces the risks faced by lenders, but it shifts the credit risk of high-risk businesses to high-quality and low-risk customers, and allows lenders to provide low-risk loans to high-risk businesses.<sup>195</sup> (See Appendix for Latin America Case Study.)

Jamaica has explored introducing innovative financing options for small businesses, such as factoring, since

2013.<sup>196</sup> In 2021, an electronic platform on which a factoring programme will operate was launched, at the same time as negotiations were being held with commercial banks regarding their utilization of the platform. The product is expected to be launched within the 2021/2022 financial year.<sup>197</sup>

## Leasing

Financial leasing is another means for businesses to access financing to purchase capital required for operation. This tripartite agreement involves the lessor (typically a financial institution), who buys an asset from a supplier upon the request of a lessee (business), who is then allowed to utilize the equipment for a particular period in exchange for specific and regular payments. Hence, leasing grants the entrepreneur use of the equipment while the financial institution retains ownership.<sup>198</sup>

Leasing is beneficial for both micro and small businesses and lending institutions. Leasing would enable them to finance an investment without owning assets and income generated from the use of leased assets can be used for payments. Lending institutions benefit from a reduced credit risk as it resolves the issue of lack of collateral, financial information, and credit history. Further, in the case of default, lenders repossess the asset to sell on the secondary market, emphasizing the need for Jamaica to have a well-established secondary market.

Alternatives to traditional collateral-based lending, such as collateral registries, factoring, and leasing, coupled with the establishment of adequate legal and institutional protections, can enable small businesses to access needed financial resources for growth. Other initiatives, such as those depending on relationships to determine creditworthiness, have also been effective in other jurisdictions in expanding access to credit, and other formal financial products, for individuals and micro and small enterprises.

## Microfinance

Without verifiable information on the risk of borrower default, an adequate assessment of borrower creditworthiness requires lenders to develop a closer relationship with the borrower and to rely more heavily on personal interactions (relationship-based lending).<sup>199</sup> These relationships assume greater importance in developing economies where the information available on small borrowers is more limited. Microfinance is a relationship-based lending methodology that specifically targets micro enterprises and low-income individuals.

Because microfinance lending is based on information rather than collateral, it is labour-intensive, requiring loan officers to visit the physical work location of potential borrowers, and prepare documentation on expected cash flows and net worth to determine the terms of the loan. Further assessments on the borrower's character, ability, and

194 World Bank Group, "Improving Access to Finance for SMEs."

195 Andrene Senior, "Financing the MSME Sector in Jamaica – Constraints and Prospects for Leasing, Factoring and Microfinance," 2012, Bank of Jamaica, [https://boj.org.jm/uploads/pdf/papers\\_pamphlets/papers\\_pamphlets\\_Financing\\_the\\_MSME\\_Sector\\_in\\_Jamaica\\_-\\_Constraints\\_and\\_Prospects\\_for\\_Leasing\\_Factoring\\_and\\_Microfinance.pdf](https://boj.org.jm/uploads/pdf/papers_pamphlets/papers_pamphlets_Financing_the_MSME_Sector_in_Jamaica_-_Constraints_and_Prospects_for_Leasing_Factoring_and_Microfinance.pdf).

196 MIIC, "Micro, Small, and Medium-sized Enterprises and Entrepreneurship Policy."

197 "DBJ to Provide Supply Chain Financing for MSMEs," *Observer*, August 4, 2021, [www.jamaicaobserver.com/business-observer/dbj-to-provide-supply-chain-financing-for-msmes\\_227328](http://www.jamaicaobserver.com/business-observer/dbj-to-provide-supply-chain-financing-for-msmes_227328).

198 World Bank Group, "Improving Access to Finance for SMEs."

199 Relationship lending is a common practice in credit financing where a corporation has close ties to a financial institution, particularly small firms, to reduce asymmetric information and potentially creates benefits for borrowers. The evidence indicates that relationships increase funds availability and reduce loan rates. Elyas Elyasiani and Lawrence Goldberg, "Relationship Lending: A Survey of the Literature," *Journal of Economics and Business* 56, no. 4 (2004): 315-330.

**Microinsurance products, like life, health, and agricultural insurance, are usually characterized by coverage limits and low premiums proportionate to the likelihood and cost of the risk insured.**

willingness to pay are conducted as part of the risk assessment. It takes time to interact with borrowers to generate a character reference.

Given its labour-intensive nature, microfinancing has two distinctive features – higher administrative costs (than for traditional lending), and small unsecured loans with frequent repayments. High administrative costs translate into higher interest rates on loans. Despite this, because loans are typically small, unsecured, and short-term (three to six months), with frequent small repayments, micro enterprises and low-income individuals gravitate towards them.<sup>200</sup>

In Latin America and the Caribbean, Brazil, a forerunner, has more than four microfinance programmes that offer short-term working capital loans. In the absence of guarantors, the group lending method is used.<sup>201</sup> These programmes

provide flexibility in repayment frequency to be congruent with the borrower's cash flow. Due to the strong relationships between loan officers and customers, the programmes have largely been successful.<sup>202</sup>

## Microinsurance

Microfinance services are not restricted to loans; microinsurance is a type of microfinancing. This proactive risk management tool reduces the vulnerability of the poor to risks that disproportionately affect them, and that increase their proclivity to falling into poverty.<sup>203</sup>

Microinsurance products, like life, health, and agricultural insurance, are usually characterized by coverage limits and low premiums proportionate to the likelihood and cost of the risk insured.<sup>204</sup> For low-income households, the smallest

occurrence of risks can be detrimental. So, while low coverage implies low financial protection, even small benefits can be critical in building the poor's financial resilience. Also, low premium payments are typically spread over time to correspond with the household's cash flow, making insurance products more affordable for them.

Apart from spreading premium payments over time, microinsurance can be customized to meet the needs of low-income populations. Researchers evaluated the effect of deferred premium payments in a pig insurance scheme in China. They offered credit vouchers that allowed farmers to buy insurance while delaying the premium payment until the end of the insured period. By aligning the maturity of the policy with when the pigs were sold, constraints to income were relieved. Deferred premium payments more than tripled the take up of the

<sup>200</sup> Senior, "Financing the MSME Sector in Jamaica."

<sup>201</sup> Senior, "Financing the MSME Sector in Jamaica."

<sup>202</sup> Senior, "Financing the MSME Sector in Jamaica."

<sup>203</sup> Craig Churchill, "Protecting the Poor: A Microinsurance Compendium," International Labour Organization 2006, [www.munichre-foundation.org/content/dam/munichre/foundation/publications/2006\\_9\\_en\\_Protecting%20the%20poor\\_A%20microinsurance%20compendium\\_Full%20book.pdf/\\_jcr\\_content/renditions/original./2006\\_9\\_en\\_Protecting%20the%20poor\\_A%20microinsurance%20compendium\\_Full%20book.pdf](http://www.munichre-foundation.org/content/dam/munichre/foundation/publications/2006_9_en_Protecting%20the%20poor_A%20microinsurance%20compendium_Full%20book.pdf/_jcr_content/renditions/original./2006_9_en_Protecting%20the%20poor_A%20microinsurance%20compendium_Full%20book.pdf).

<sup>204</sup> The Professional Consortium, "Microinsurance - A Protection for the Poor," accessed October 26, 2021, <https://profconso.com/microinsurance-protection-for-poor/>.

insurance product.<sup>205</sup>

However, there are challenges to providing microinsurance, such as high administrative and transaction costs, and difficulty in reaching low-income individuals, who tend to be informal and to live in rural areas. If these challenges are not mitigated, most of the premium would need to be allocated to covering administrative expenses and distribution costs. This would only allocate a small percentage of the premium to paying claims, forfeiting the purpose of being insured. Therefore, it would not create value for microinsurance policyholders.<sup>206</sup>

As such, the viability of microinsurance will depend largely on its ability to achieve efficiencies, perhaps through the application of digital technologies. Harnessing digital technology can improve access to and efficiency in delivering insurance to the poor.<sup>207</sup> In Asia, mobile network operators offer micro-life insurance to its customers, most of whom live below the poverty line. Enrolling and paying monthly premiums is dependent on customers spending a minimum value of airtime each month, with no additional enrollment cost. This method of registration also reduced the administrative costs to network operators.<sup>208</sup>

An evaluation of this micro-life insurance

plan revealed a finding that is pertinent to any consideration of the adoption of such an approach in Jamaica. While the use of digital technology increased the pace of adoption, depending on the nature of the interaction, physically interacting with service providers was preferred.<sup>209</sup> While most of those insured preferred using mobile technology to register and pay premiums, physical interactions for business transactions regarding claims or customer queries were favoured. Physical interaction was the means to establish a relationship of trust with providers. For Jamaica, the majority of the population prefers tangibility which mirrors a preference for physical interactions. As such, while financial service providers have increased the provision of digital products, physical access points remain relevant.

The lack of an enabling regulatory environment constrains the development of suitable microfinance and microinsurance products in Jamaica. The microfinance sector is small and has limited product offerings. Largely due to the unregulated environment in which microfinance entities operate, the government passed the Microcredit Act in January 2021 which became effective in July 2021.

The Insurance Act (2001) does not regulate microinsurance. In 2019,

discussions and consultation reports for proposed amendments to the Act to include provisions for microinsurance began, but were not finalized.<sup>210</sup> This has restricted the number and, thereby, the scope of micro-insurance products in the market. From 2018, the number of products remained unchanged at seven.<sup>211</sup> With only a quarter of formal MSMEs accessing formal loans and about half of the population being uninsured, the development of microfinance and associated products is critical.<sup>212</sup>

## Financial Consumer Protection and Literacy

The adoption of policies and initiatives to increase financial inclusion is heavily dependent on the confidence of the population in governing institutions and their level of understanding of various financial products. Strong rules of conduct for financial institutions, combined with improved financial literacy for consumers, will inevitably increase consumer trust in financial markets and will support the development of these markets.<sup>213</sup> Financial consumer protection laws outline codes of conduct for financial institutions regarding their conduct with customers. These guidelines ensure that consumers receive information that enables them to make

205 Michal Matul and Aparna Dalal, “Why People Don’t Buy Microinsurance,” CGAP, April 15, 2013, [www.cgap.org/blog/why-people-dont-buy-microinsurance](http://www.cgap.org/blog/why-people-dont-buy-microinsurance).

206 MAPFRE Economics, “Financial Inclusion in Insurance: Microinsurance for Inclusion,” 2020, [www.mapfre.com/media/economic-research/2020/mapfre-economics-inclusion-financiera-11-06-2020-ENU.pdf](http://www.mapfre.com/media/economic-research/2020/mapfre-economics-inclusion-financiera-11-06-2020-ENU.pdf).

207 Harish Karakoti and Puay Lim Yeo, “Three Lessons from Mobile Microinsurance in Bangladesh,” CGAP, June 11, 2014, [www.cgap.org/blog/three-lessons-mobile-microinsurance-bangladesh](http://www.cgap.org/blog/three-lessons-mobile-microinsurance-bangladesh).

208 Karakoti and Yeo, “Three Lessons from Mobile Microinsurance in Bangladesh.”

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210 As outlined in the Insurance Act: “The following are some of the main features of the Microinsurance Business: (a) the insured belongs to the low income or underserved population; (b) the perils covered, if materialized, would severely impact the insured’s livelihood; (c) the annual premium should not exceed more than the minimum monthly wage pursuant to the current National Minimum Wage Act; and (d) The policy duration should not exceed one year but may be renewed at the end of each year. Financial Services Commission, “Microinsurance Consultation Paper 2019,” March 2019, [http://webdev.fscjamaica.org/wp-content/uploads/2020/04/1904017388\\_microinsurance-consultation-paper-march-2019-consul-18.pdf](http://webdev.fscjamaica.org/wp-content/uploads/2020/04/1904017388_microinsurance-consultation-paper-march-2019-consul-18.pdf).

211 These products are also considered unapproved products because there is no regulation for them. Bank of Jamaica, “National Financial Inclusion Strategy Annual Report 2019,” 2019.

212 CAPRI survey.

213 World Bank Group, “Good Practices for Financial Consumer Protection,” 2011, [www.fitproper.com/documentos/referenciales/Good\\_Practices\\_Financial\\_CP.pdf](http://www.fitproper.com/documentos/referenciales/Good_Practices_Financial_CP.pdf).



informed decisions, and that they are not subject to unfair or deceptive practices. A code of conduct also ensures that consumers have access to recourse mechanisms to resolve disputes.

The Bank of Jamaica and other regulatory bodies have embarked on initiatives to strengthen the legal and regulatory framework for the supervision of financial services.<sup>214</sup> The main legislation is the Banking Services Act (2014) which consolidates the supervision of deposit-taking institutions and consumer protection. With the recent launch of the Microcredit Act, all non-bank consumer lending institutions have been regulated. Insurance, securities, and private pensions services are governed by the Financial Services Act 2001.

However, the framework for financial consumer protection still has gaps, with limited consumer protection supervision for many types of financial institutions. For banks and building societies, the scope of the central bank's work on consumer protection is limited, especially since the Bank of Jamaica Act does not specifically refer to consumer protection as part of its statutory mandate.<sup>215</sup>

In 2016, to reduce these gaps, the central bank issued the Banking Services (Deposit Taking Institutions) (Customer Related Matters) Code of Conduct, 2016. The code set the minimum standards for banking practices. While the banking code was an important development in consumer protection, more needed to be done to ensure consumer protection. In September 2020, the legislative process began with the approval of the creation of legislative provisions for consumer protection for consumers of services from deposit-taking institutions and other entities regulated by the Bank of Jamaica.<sup>216</sup>

In 2017, the Bank of Jamaica, the Financial Services Commission, and the Consumer Affairs Commission engaged in discussions to design a consumer protection regime. This involved the creation of a consumer protection framework and a consumer protection agency tasked with protecting banking and financial consumers. The framework would outline market rules for how the banking sector handles consumer complaints and for dispute resolution.<sup>217</sup> However, as of January 2022, the regime has not yet been completed.

Complementary financial literacy initiatives aimed at giving consumers the knowledge, skills, and confidence to understand and evaluate the information they receive is also necessary. The Bank of Jamaica and the Financial Services Commission have increased their efforts to educate the public on key financial literacy concepts and consumer protection mechanisms.<sup>218</sup> The scope of such efforts is multifaceted as some are geared towards the needs of vulnerable groups such as women and the visually impaired, who are typically underrepresented banking activities. Other financial literacy programmes target youths by seeking to integrate financial literacy into the public school curriculum.<sup>219</sup> These initiatives seek to empower individuals to purchase and use those financial products and services that best meet their needs.<sup>220</sup> The existence of a sound financial consumer protection framework is fundamental to increasing access to and usage of financial services, and the quality of those financial services. This engenders trust between institutions and consumers and thereby leverages the benefits to be gained from being financial included.<sup>221</sup>

214 Other regulatory bodies include the Financial Services Commission and the Consumer Affairs Commission. For the latter, financial services represent only a small portion of the Commission's work and just one percent of complaints received from consumers. BOJ, "National Financial Inclusion Strategy."

215 BOJ, "National Financial Inclusion Strategy."

216 BOJ, "National Financial Inclusion Strategy Annual Report 2020," 2021, <https://boj.org.jm/wp-content/uploads/2021/10/NFIS-Annual-Report-2020-1.pdf>.

217 McPherse Thompson, "Consumer Protection Agency In the Wrks for Banking Customers," *Gleaner*, March 30, 2017, <https://new.jamaica-gleaner.com/article/business/20170405/consumer-protection-agency-works-banking-customers>.

218 "National Financial Inclusion Strategy Annual Report 2020."

219 "National Financial Inclusion Strategy Annual Report 2020."

220 "Good Practices for Financial Consumer Protection."

221 "Good Practices for Financial Consumer Protection."



# 7

## Conclusion and Recommendations



Only  
**13%**  
of the population  
borrowed from a  
financial institution

**F**inancial inclusion is a key element of poverty reduction and inclusive development. Financial inclusion enables individuals and businesses to build resilience and capitalize on economic opportunities, improve citizens' well-being, and increase economic growth. However there are barriers to expanding access to and usage of the four functionalities that facilitate inclusion: savings, insurance, credit, and payment services. This report sought to identify these hindrances in the Jamaican context, with a view to remedying them.

Know-your-customer (KYC) requirements, low levels of trust in governing institutions, and suboptimal financial literacy impede the adoption of formal savings products. Approximately 17 percent of Jamaicans do not have a bank account. Approximately half of the unbanked either do not have any form of identification, or if they did, were unable to prove their address which was insufficient to fulfill the KYC requirements; this disproportionately affects low-income individuals. About 50 percent of the population either do not trust the government or financial



institutions, or are at best neutral towards them, impacting the usage of formal savings. Consequently, informal savings mechanisms remain prevalent, such as partner schemes or storing money at home, with a family member, or friend.

Access to credit is impeded by informality and inadequate collateral. Four in five Jamaicans did not borrow within the

last six months due to informality and insufficient collateral to guarantee loans. Only 13 percent of the population borrowed from a financial institution, with less than 10 percent of these being low-income households. The high level of informality among both individuals – some of whom are low-income – and micro and small enterprises contributes to the problem of insufficient information

**A survey found the main challenges were difficulty focusing on school work, not having a suitable learning environment at home, lack of access to internet and/or a suitable device, no supervision, and no adult able to assist.**

faced by lending institutions, hindering the conducting of proper risk assessment. Further, with collateral requirements to secure loans, only a quarter of the population could acquire financing. For the most part, individuals and small businesses do not possess the type of fixed assets required to guarantee loans, and movable assets are generally not accepted, resulting in the low percentage of the population, including small businesses, obtaining formal loans.

Jamaicans' ability to build financial resilience and mitigate against unexpected expenses is low. Unaffordable premiums and limited knowledge about insurance products undergird the low uptake of insurance. Approximately half of the population do not have insurance, three-quarters of whom are low-income. One-third of the uninsured attribute this to unaffordable premiums. As most of the uninsured are low-income individuals, this highlights the gap between the suitability of insurance products and the needs of the population. Further, limited knowledge about insurance and its relevance in reducing risks translates to low penetration of insurance products. About 20 percent of the population do not understand insurance, the majority being young adults. This lack of understanding has led to the presumption that insurance is age-specific and so is irrelevant to that cohort.

Cash remains the dominant medium of exchange among the underbanked, even though there has been an upward trend in the number of persons accessing and using digital payment methods. In examining wage-earners, in the six months previous to our survey, approximately 45 percent received wages as cash or cheques,

despite more than half of them having bank accounts in which they could have received the payments directly. Moreover, 72 percent of individuals receiving cash payments have a high inclination towards tangible assets and thus, prefer to hold cash. Additionally, to facilitate ease of payments, reliable internet is required. Of the 25 percent of the population who do not have access to reliable internet, three-quarters are low-income. Compounding these, is the high level of distrust in government and financial institutions.

## Recommendations

For more households and businesses in Jamaica to benefit from financial inclusion through simpler access to suitable products and services that meet their financial needs, the following recommendations are proffered:

1. Internet access is required to capitalize on digital financial products. **The government** (having already begun providing access to Wi-Fi in public areas) **should continue this initiative as it is critical for citizens to take advantage of digital financial products and transactions.**
2. "Open banking" is the practice of enabling secure interoperability in the financial services industry by allowing third-party financial service providers access (with permission) to banking transactions and other data, including customer data, from banks and financial institutions. Open banking will lower the hurdle for new financial service providers, by accessing existing financial and customer data, to satisfy some of
3. Lending collateralized by movable assets is vital to expanding access to credit for individuals and small enterprises. A collateral registry for movable assets exists. However, there are two problems. Few people, including those in the loan business, know about it. Secondly, there isn't a well-developed secondary market facilitating the disposal of these assets by lending institution, which reduces their value as collateral. Firstly, the existence of the registry should be publicized and promoted. Secondly, a website should be established to act as a marketplace for such assets.
4. There is no regulation that governs the provision of microinsurance products which specifically target the low-income population. This contributes to the limited number and scope of microinsurance products. GOJ should finalize the pending amendments to the Insurance Act to include regulations for microinsurance.

the low level financial needs of the unbanked. With fewer than half of the registered credit information providers actively exchanging clients' credit information with credit bureaus, open banking would improve on this. **The Bank of Jamaica should establish regulations for open banking, subject regulated financial institutions to these regulations, and publish the "application programming interface" that allows new service providers to electronically access the platform upon which they can build financial offerings to the unbanked (as well as the banked).**

**The high level of informality among both individuals – some of whom are low-income – and micro and small enterprises contributes to the problem of insufficient information faced by lending institutions, hindering the conducting of proper risk assessment.**



# Appendix 1: Factoring in Mexico

In Latin America and the Caribbean, Mexico is an example of the successful implementation of reverse factoring practices – the Nacional Financiera (NAFIN) Development Bank Factoring Programme. The salient feature of the programme is that it connects small, risky suppliers with large, creditworthy customers. These small firms can then use invoices from their customers to secure financing. Following this transaction, funds are transferred directly to the firm's bank account and the financial institution becomes the creditor.

To engage in factoring, MSMEs must register with NAFIN and have a bank

account. NAFIN has employed a multi-bank approach, which allows lenders to compete to factor suppliers' invoices. In addition, NAFIN pays for the costs associated with their electronic factoring platform – which reduces costs and improves security – and legal work, such as transferring of invoices, and preparing and signing documents. This enables banks to charge only interest and not service fees. Further, interest rates are capped above the development bank's rate but below that of commercial banks, making it more affordable for MSMEs.

The success of the NAFIN programme has been attributed to the use of an

electronic platform and the existence of supporting electronic laws. The use of electronic mediums has reduced the costs of transactions for relevant parties and concurrently, provided a greater range of financial services to MSMEs. The programme also underscores the importance of legal and regulatory support as Mexico's electronic signature and security laws have been critical in establishing and defining the role and rights of each party.<sup>222</sup>

Source: Senior, "Financing the MSME Sector in Jamaica – Constraints and Prospects for Leasing, Factoring and Microfinance," 2012.

<sup>222</sup> World Bank Group, "Improving Access to Finance for SMEs: Opportunities through Credit Reporting, Secured Lending and Insolvency Practices," 2018.



# Appendix 2: BOJ's Response to CAPRI's Questions on CBDC

The Bank of Jamaica specified that CAPRI include their unedited responses to the questions submitted to them for this study.

## 1. What was the impetus to creating the CBDC?

- a. There are a number of motivating factors that propelled the drive to introduce CBDC. One of Bank of Jamaica's (BOJ's) key objectives is to support Jamaica's digital transformation by facilitating access for each citizen to another means of payment.
- b. The introduction of a CBDC addresses other points of interest for BOJ and benefits to the public, including:
  - i. Enhanced financial inclusion - granting individuals who do not have regular bank accounts easy and simple access to CBDC wallets.
  - ii. additional means of efficient and secured non-cash payment - Consumers would benefit from a higher quality of convenience from a broadened and more modern payment system. Users can benefit from enhanced safety when compared to physical cash. If you lose your phone, unless persons have your password or code, they will not be able to access your money.

- iii. increased efficiencies for banks as it relates to the costs for handling and distributing cash - significant reductions in costs for cash distribution and storage, and an increase in the menu items of services available to customers and an opportunity by wallet providers to innovate unique products and systems complementary to CBDC use.

- iv. greater efficiency and reduced costs in the currency management process of BOJ - The Bank of Jamaica will see increased efficiency by reducing the time and effort it takes to forecast currency needs and the ordering of new currency in advance. Furthermore, there will be significant long-term cost savings. There will be no 'wear and tear' on digital currency, and it cannot get 'lost in circulation,' so there will never be a need for replacement, also there will be no cost in increasing supply to the system if demand increases over time.

- v. providing a socially optimal mix of retail payment instruments.

- vi. Interoperability between existing electronic retail payment systems.

## 2. Is there a particular group the CBDC is targeting?

- a. CBDC will be a digital form of

central bank-issued currency that will constitute legal tender and the expectation is that CBDC will achieve multiple policy objectives. It is for this reason CBDC will target all citizens.

- b. During the pilot (August – December 2021), the target group will include a subset of customers and merchants of wallet providers (wallet providers are deposit taking institutions (DTIs) and authorized payment service providers (PSPs), and also unbanked and underserved individuals who do not have bank accounts.

## 3. What is the potential impact of CBDC on the unbanked and underbanked population?

- a. The impact of CBDC on unbanked and underbanked population will be positive. Consumers will be able to acquire a CBDC wallet, which will be different from a regular bank account and much easier and simpler to obtain, with simplified Know Your Customer (KYC) requirements. The information required from the potential customers will be at minimum, name, address, date of birth, TRN and a valid government-issued identification. Notably, persons who already have bank accounts will be able to automatically obtain a CBDC wallet, as banks already have KYC information on these persons.

- b. Wallet providers will be able to on-

board unbanked customers who will be able to transfer and convert funds seamlessly between regular accounts and CBDC wallets, as well as between physical cash and CBDC wallet on a one-to-one basis.

- c. Customers will also be able to top-up their wallets with CBDC through over the counter with wallet providers or smart ABMs and do business using CBDC phone-to-phone with merchants.

**4. What is the difference between CBDC account and a regular savings/deposit account at DTIs?**

- a. A CBDC wallet is a mechanism or tool that will allow citizens to accept, store and transact in CBDC, for example, it is simply money in your purse or wallet. CBDC is money, a liability to the issuing central bank. A deposit account is a liability of a deposit-taking institution (a bank).
- b. CBDC will be accessed by a wallet holder through a CBDC wallet using for example a mobile device, a card and any applicable mobile application created by wallet providers.
- c. In that regard, CBDC is not a bank account and therefore does not fall under deposit insurance. It is backed by Bank of Jamaica and is safely stored on the wallet provider's currency plate which is provided by BOJ. In the event of a wallet provider's failure, BOJ will have access to the funds on that wallet provider's currency plate and will make appropriate arrangements with the relevant customers for access to their funds.

**5. Why did the government forgo using blockchain technology, given its advantages?**

- a. Firstly, in seeking a technology

provider for its CBDC solution, BOJ was technology agnostic. A pragmatic approach, without any prejudgments on technologies, including blockchain technology was taken in the process of procurement.

- b. Based on the features presented by each provider in the procurement process, BOJ selected the one that satisfied all of its requirements. These being, (i) the ability of the Bank to conduct all processes associated with currency management – (minting, issuing, redeeming and destruction), (ii) scalability, (iii) adhering to security protocols and (iv) seamless interface with the country's existing payment infrastructure, in particular, the JamClear® Real Time Gross Settlement System (RTGS).

**6. Based on the pilot of the CBDC, it has been released through commercial banks. Will this be the same structure of the general launching of the digital wallet and why?**

- a. Bank of Jamaica will be using a hybrid model for issuing CBDC, which will be solely for domestic use and not for cross border transactions.
- b. BOJ will therefore not only issue to commercial banks, but also to other DTIs falling under the Banking Services Act (BSA) (building societies and merchant banks) and authorised payment service providers (PSPs), all licensed or authorised by BOJ. These entities, called wallet providers, will distribute CBDCs to the retail market. These entities are all eligible to enter the pilot. National rollout in Q1 of 2022 will also be done through these entities.

- c. The structure for issuing CBDC is generally the same as the issuing of banknotes and coins, with the

exception that the Bank will also be issuing to PSPs. The reason for this structure is to maintain financial intermediation through intermediaries, DTIs and PSPs, and thereby reduce the risk of financial disintermediation and financial instability. In addition, the entities selected as wallet providers are already designated under the Proceeds of Crime Act (POCA) with BOJ, which is the regulator of these entities, being the Competent Authority under POCA. In this regard, these wallet providers already have an AML/CFT Risk Based framework in place which they will apply to their customers of CBDC.

- d. Additionally, the maintenance of customers' information (KYC and transactions) and data privacy and protection are managed by these financial intermediaries. Only general aggregate data on transactions will be shared with Bank of Jamaica for the purpose of economic analysis. This means transactions will take place without the central bank knowing the identities of the parties in a transaction,

**7. What are the cost implications of incorporating a third party, given that they can add their markups for account opening and maintenance?**

- a. CBDC will not be a cost to consumers similar to banknotes and coins.
- b. Third parties or agents operating on behalf of a DTI are subject to approval from Bank of Jamaica and will not involve any additional cost.

**8. So far, what has been the reaction of the general public towards the CBDC?**

- a. There is great enthusiasm within the financial, telecommunications and



other sectors in Jamaica to participate in the digital transformation that CBDC will bring. CBDC will enable efficiency gains, convenience and new digital businesses benefiting the general public, especially those who are under-banked and un-banked.

b. During the Bank of Jamaica Centrally Speaking Programme that was recently aired (August 2021), a vox pop was used to determine general

reaction to CBDC, most indicated that they would use CBDC, given the receipt of more information to educate themselves on how to use CBDC.

c. Popular talk show programme and YouTuber Khalilah Reynolds also conducted a quick survey to determine whether citizens are interested in using CBDC and over 81% of persons indicated that they

would use CBDC or could use CBDC given more information.

d. The Bank will be undertaking an island wide CBDC survey in September 2021 to garner the extent of knowledge, expectation and acceptance by the public.

### *Payment System and Money Services Oversight Division*

September 1, 2021



# Appendix 3: BOJ's Response to CAPRI's Questions on Financial Inclusion

## 1. How would you describe the current pace of Jamaica's financial inclusion journey? What informed the indicators?

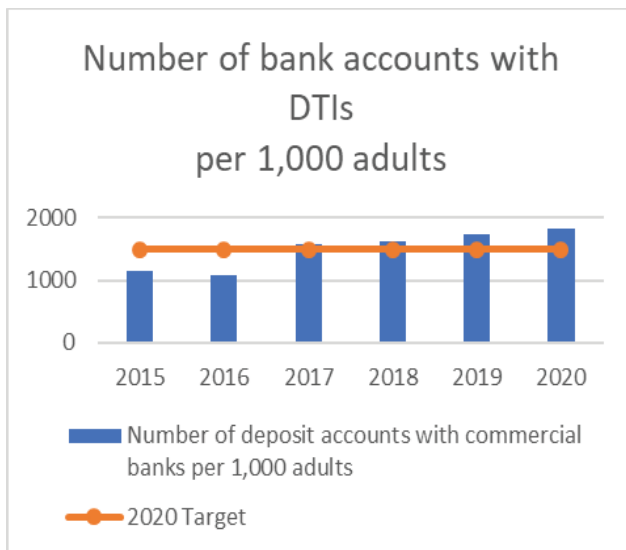
The implementation of the National Financial Inclusion Strategy began in March 2017 through policy formulation and implementation of legislative and regulatory changes. So far, there has been some success in improving the dimensions which relate to financial access and usage, financial resilience and the supporting infrastructure.

Other initiatives which advanced financial inclusion were:

- Increased housing finance solutions for low income contributors by partnerships between the National Housing Trust and credit unions;
- Increase in the adult credit-utilizing population which is covered by credit bureaus;
- Development of Retail Payments Strategy;
- Amendment of Operating Directions for remittances to allow payments to be made to electronic retail payment products as were approved by Bank of Jamaica;
- Enactment of amendments to the Proceeds of Crime Act and Regulations to facilitate easier account opening for low risk customers;
- Establishment of a Fintech Regulatory Sandbox;
- Enactment of the Micro-Credit Act;
- Completion of legal review of the Security Interests in Personal Property Act;
- Completion of the review of the Credit Reporting Act;
- Development of policy proposals for consumer protection for Bank of Jamaica's regulated entities;
- Establishment of additional sources of development finance and capacity building programmes for micro, small and medium-sized enterprises (MSMEs) through the Ministry of Industry, Investment and Commerce, Development Bank of Jamaica and EXIM Bank;
- Creation of a national financial literacy action plan;
- Implementation of Bank of Jamaica's financial literacy programme; and
- Strong private sector engagement through the PSOJ Access to Finance Facilitation Panel in promoting MSME finance solutions which were "fit for purpose".

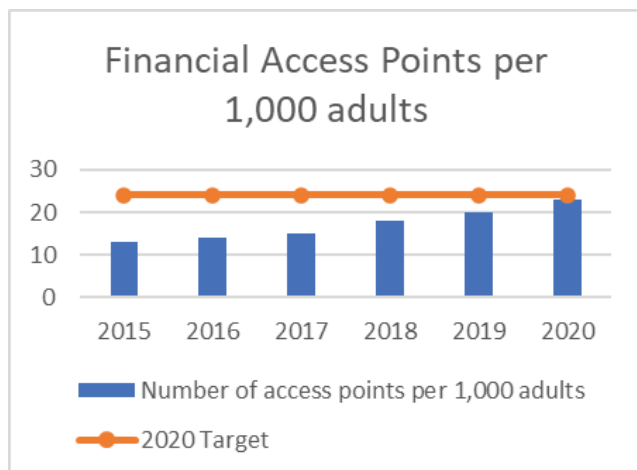
For a trend analysis of the relevant financial inclusion indicators, please see the following charts.

Chart 1: Number of bank accounts per 1,000 adults



Source: BOJ

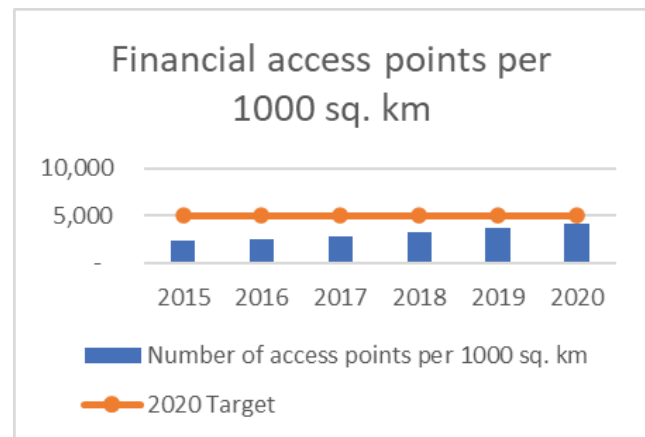
Chart 2: Number of financial services access points per 1,000 adults



Explanatory notes: Access points mean ABMs and POS

Source: BOJ

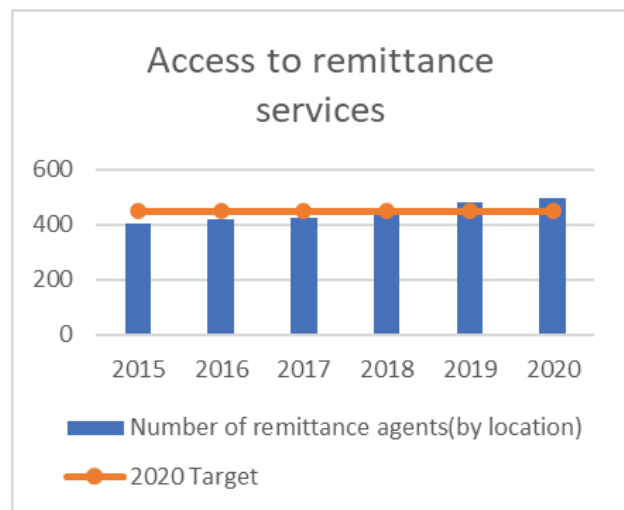
Chart 3: Number of access points per 1,000 sq. km



Explanatory notes: Access points mean ABMs and POS

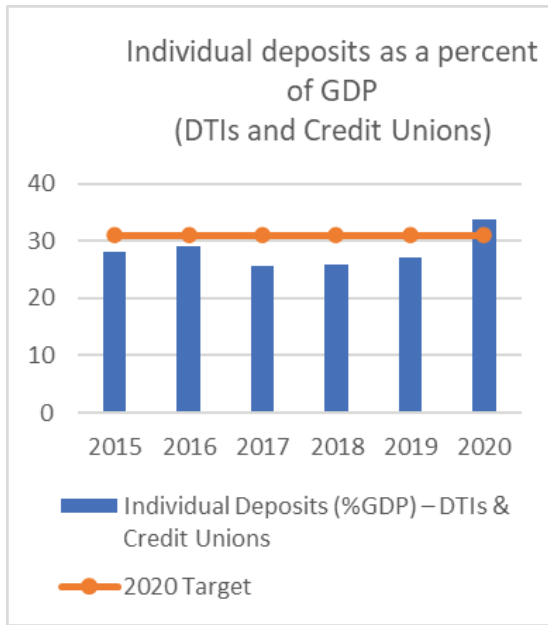
Source: BOJ

Chart 4: Number of Remittance Service Providers



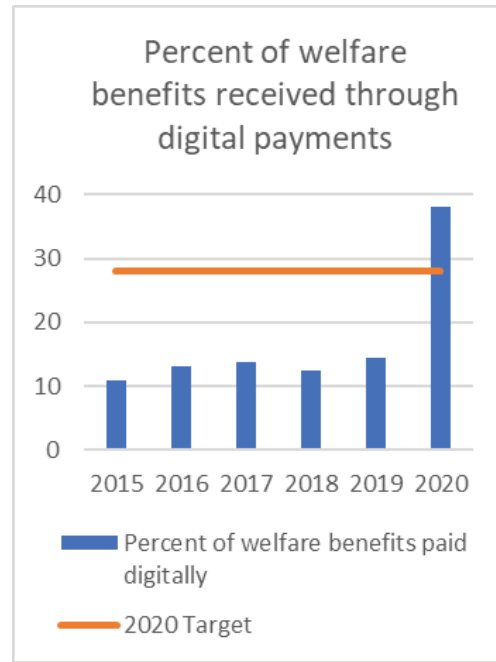
Source: BOJ

Chart 5: Deposits in DTIs as a percent of GDP through digital payments



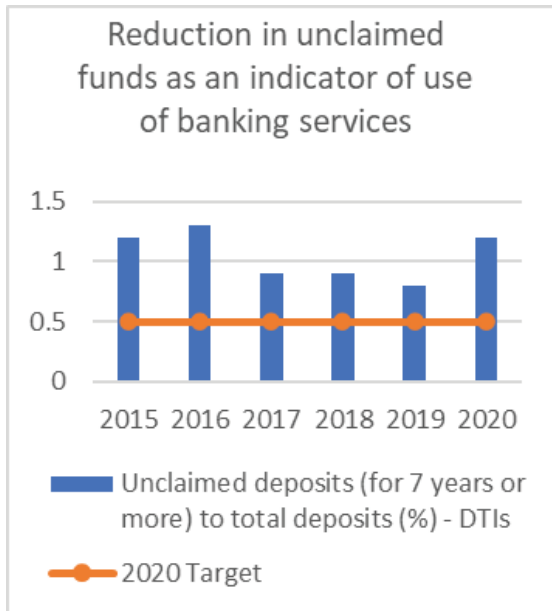
Source: BOJ

Chart 7: Percent of welfare benefits received through digital payments



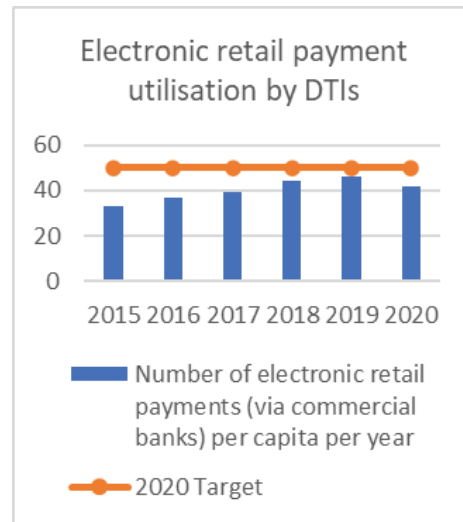
Source: MLSS

Chart 6: Unclaimed Funds as a percent Payments by of total deposits in DTIs



Source: BOJ

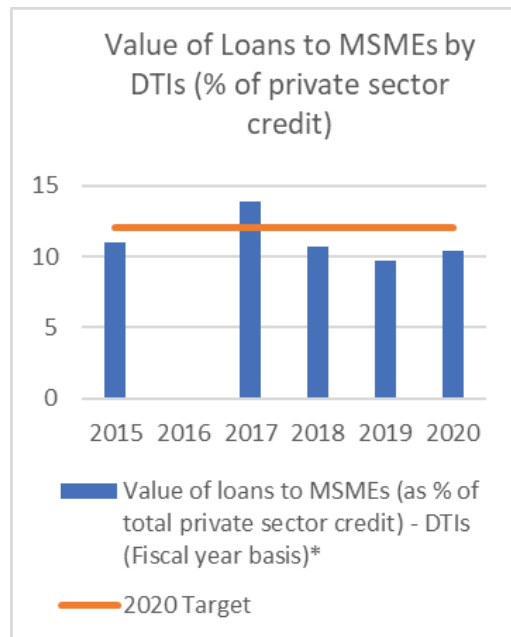
Chart 8: Utilization of Electronic Retail DTIs



Source: BOJ

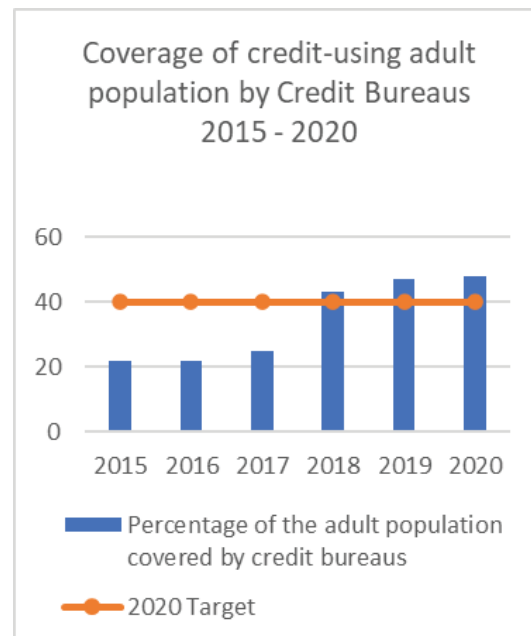


Chart 9: Private sector credit from DTIs to MSMEs



Source: BOJ

Chart 10: Coverage of the Credit-Using Adult Population by Credit Bureaus



Source: BOJ

### What informed the indicators?

The 2015 benchmarks and 2020 targets were informed by data obtained from the Global Findex database as well as from public sector and private sector entities as part of the stakeholder consultation during the Developmental Financial Sector Assessment Programme (DFSAP) DFSAP.

### 2. Research has shown a high number of account dormancy, limited use of debit card in the population, among

### other things. Why do you think Jamaicans have not embrace fully financial services?

With regard to account dormancy, please note there is no definition of “dormancy” in the Banking Services Act. The Banking Services Act treats with unclaimed funds. The data gathered, demonstrates that the percentage of unclaimed funds as a total percent of deposits in deposit taking institutions is under 1.5%, and as such is not indicative of a lack of financial

inclusion. Please see chart 6 in this regard.

It would not be accurate to equate the use of debit cards with a reluctance to embrace financial services. Among the financially included, i.e. the banked, the use of electronic means of payment, such as debit cards and credit cards continues to trend upwards. The data indicates that Jamaicans do utilize electronic means of payment, including debit cards. Kindly see the chart below.

Chart: Means of Payment Statistics

Means of Payment	June 2020		March 2021		June 2021		Share Means of Payment vs Grand Total for June 2021 Quarter	
	Volume	Value (J\$bn)	Volume	Value (J\$bn)	Volume	Value (J\$bn)	Volume	Value
	JamClear®-RTGS Beneficiary Payment	310,000	\$1,284.97	559,501	\$1,556.74	665,478	\$1,607.70	1.81%
ACH Direct Debit	134,560	\$2.07	147,866	\$2.21	137,513	\$2.17	0.37%	0.08%
ACH Direct Credit	1,619,420	\$98.44	1,917,604	\$122.79	1,995,323	\$128.78	5.43%	4.81%
Cheques	2,098,940	\$271.05	1,810,381	\$273.49	1,778,405	\$268.19	4.84%	10.02%
Debit Card	17,827,195	\$351.97	20,207,338	\$397.13	19,923,582	\$406.21	54.27%	15.18%
Credit Card	4,172,293	\$115.59	6,273,185	\$159.55	6,706,242	\$171.12	18.27%	6.39%
Online Payment	1,114,437	\$49.83	1,585,449	\$83.64	1,764,005	\$84.88	4.80%	3.17%
E-money	1,139,416	\$4.17	3,729,819	\$7.11	3,742,509	\$7.64	10.19%	0.29%
<b>Grand Total</b>	<b>28,416,261</b>	<b>\$2,178.08</b>	<b>36,231,143</b>	<b>\$2,602.67</b>	<b>36,713,057</b>	<b>\$2,676.69</b>	<b>100.00%</b>	<b>100.00%</b>

Explanatory notes:

- i. JamClear®-RTGS Beneficiary Payment - These include single customer credit transfers and multiple customer credit transfers.
- ii. ACH Direct Debit and ACH Direct Credit - Refers to credit or debit entry initiated by an organization pursuant to a standing or a single entry authorization from a Receiver to effect a transfer of funds to or from an account of the Receiver.
- iii. Cheques – These include:
  - Proprietary cheques – These are cheques drawn on the institution of issue and processed within the same institution; and
  - ACH cheques – These cheques are processed via the Automated Clearing House.
- iv. Debit card - This includes On-Us (refers to transactions drawn against an institution and negotiated at the same institution) proprietary data and Multilink AMB and POS data.
- v. Credit Card - This includes both On-US and Not On-Us (refers to transactions drawn against an institution and negotiated at another institution) proprietary data. (Includes domestic and dual currency credit cards)
- vi. Online Payment - This includes internet and e-commerce transactions:
  - Internet transactions refer to other transactions completed using an instrument other than a debit or credit card via the internet (e.g. token)
  - E-commerce refers to transactions performed for business clients

using an instrument other than a debit or credit card. (E.g. transactions processed using a platform to conduct the payment).

- vii. E-Money - E-money means electronically, including magnetically, stored monetary value on any device or instrument or server as represented by a claim on the Payment Service Provider (PSP), which is issued on receipt of funds for the purpose of making payments and which is accepted as a means of payment by persons other than the PSP. This includes e-money stored on a device such as a SIM card or a server and accessible via telephone, internet or other access devices, cards, and other similar instruments but excludes any electronic means to permit transfers to/and from a deposit or current account held by a deposit-taking institution (DTI).
- viii. Payment Service Providers' Products - Existing Payment Service Providers are National Commercial Bank (Quisk), Sagicor (My Cash) and Alliance Financial Services Limited (E-Pay).

### 3. Question: What are current efforts by the Bank of Jamaica to help curb the high level of skepticism still faced by many Jamaicans about the financial industry?

To confirm the current factors which may contribute to financial exclusion, such as the informal economy, low levels of financial literacy and the absence of consumer protection legislation, the Bank will be conducting demand side surveys. A financial literacy survey of the youth is being conducted, and a survey on the digital payments is to be administered in 2022.

One of the critical goals for the NFIS is strengthening the legal framework for

consumer protection for consumers of services from the Bank's regulated entities. Following in-depth research and stakeholder consultation which began in 2017, policy proposals were prepared by the Bank in 2018. The Ministry of Finance and the Public Service has begun the legislative process, which is ongoing. It is anticipated that once these legislative provisions are passed, through public awareness and financial literacy programmes, there will be an increased understanding of the legal protections for consumers.

As part of its communication strategy, the Bank has engaged in reaching the underbanked and unbanked via radio, television and social media. Key messages focus on consumer protection and the role of the Bank as regulator of deposit taking institutions, remittance services, cambios and payment service providers.

From June 2018 to December 2020, there were 72 engagements with the public on financial inclusion and financial literacy concepts, which treated with a range of matters including:

- a. simplified customer due diligence (CDD) requirements,
- b. consumer protection (legal protections for financial service consumers),
- c. the Banking Services (Consumer Related Matters) Code of Conduct,
- d. business competitive strategies for MSMEs; and
- e. digital retail payments, fintech, credit reporting, cambios and remittances.

Messages have been disseminated via Town Halls, outdoor radio broadcast programmes, the programme "Under the Law" on four radio stations and the Bank's flagship programme "Centrally Speaking".

In December 2020, the Bank launched its financial literacy series “BOJ Real Talk” which focuses on financial concepts such as savings, budgeting, managing credit, remittances and digital payments. For more information, please see the Bank’s social media platforms, such as its YouTube channel, which contains the financial inclusion playlist and may be accessed here: [www.youtube.com/channel/UCZkm1rSxVMhynjN8gdwWqYw/playlists](http://www.youtube.com/channel/UCZkm1rSxVMhynjN8gdwWqYw/playlists)

In March 2021, the Bank began airing financial literacy tips on radio stations which had the maximum reach to the target beneficiary group of the unbanked and underbanked. The programme will be expanded to the four radio stations which have the majority of the listenership of the target beneficiary group. New episodes of BOJ Real Talk and a second financial literacy series, using actors will be added to our social media platforms in September 2021.

**4. Question: Could you tell us some more about the BOJs communication campaigns and how they have helped advance progress towards Financial Inclusion**

With regard to the details of our communication campaigns, please see our response above as well as our Annual Reports on our website.

The Bank recognizes that the existing challenges for financial inclusion are as stated below:

As a consequence, the key work-streams for the Bank’s financial inclusion communication campaign focus on educating the public about the role of the Bank to improve their awareness of recent legislative changes which were made to facilitate financial inclusion, such as simplified customer due diligence.

The Bank, in collaboration with the other

members of the Consumer Protection and Financial Capability Working Group, including the Ministry of Finance and the Public Service, the Ministry of Education, Youth and Information and the Ministry of Industry, Investment and Commerce as well as other regulatory bodies such as the Consumer Affairs Commission, the Financial Services Commission and the Jamaica Deposit Insurance Corporation have been engaged in ongoing efforts via webinars, radio programmes and social media to share financial literacy content.

In March 2021, the Bank commissioned a financial literacy survey which seeks to measure the levels of financial literacy and financial capability competencies among in-school and at-risk youth aged 12 – 18 years. This financial literacy survey is the first step in the implementation of the National Financial Literacy Action Plan. The results of that survey will further refine the financial literacy efforts by the Bank and the Members of the Consumer Protection and Financial Capability Working Group to develop financial literacy and financial capability content for youth and adults.

**5. Question: How badly has the COVID -19 pandemic affected the Jamaican’s progress as it relates to the NFIS. Where are noted improvements/deteriorations, if any?**

COVID-19 has negatively impacted the economy, and MSMEs and households were significantly affected by reduced business hours, job losses, reduced consumer spending and delays along supply chains.

One benefit of the COVID 19 pandemic is that it has encouraged the use of electronic retail payments and created greater urgency for the adoption of new technology associated with retail payments. For example, in 2020, The

Government established the New Economy Taskforce, which included the Bank which identified technological solutions for MSMEs. As a result of this work, the Go-digital campaign, led by JAMPRO, DBJ and PSOJ Access to Finance Facilitation Panel engaged in identifying technological solutions for MSMEs to pursue e-commerce as part of their response to COVID-19. The Bank also partnered with the European Investment Bank, the Ministry of Industry, Investment and Commerce and the Frankfurt School of Business in delivering a regional workshop which focused on MSMEs and transformation of their business models to take advantage of e-commerce opportunities.

At the same time, through the Government’s COVID Allocation of Resources for Employees (CARE) Programme, there was an increase in the delivery of welfare benefits to beneficiaries through digital means. As at October 2020, 38% of all PATH benefits were paid digitally, which exceeded the 2020 target for the digital payment of welfare benefits.

It was also noteworthy that in 2020, the rate of savings via licensed deposit taking institutions increased, as persons sought to safeguard their long term financial well-being through savings.

In relation to the work on financial literacy, the Bank continued to accelerate its public outreach, to share the new legislative and policy developments on simplified customer due diligence requirements and fintech via radio and social media channels.

**6. The most recent NFIS annual report mentioned growth in the key metrics such as the number of accounts per 1000 people. Is it reflective of more account holders or could it be multiple account holders?**



That indicator uses supply side data to measure the levels of account ownership by analyzing the number of accounts in licensed deposit taking institutions against the adult population. A demand side survey on financial inclusion and digital payments is planned for this year, which will seek to measure the level of the unbanked as part of an assessment of the initiatives put in place. The results of that survey will allow us to know definitively whether there has been a reduction in the percentage of the adult population which is unbanked.

### **7. How will MSMEs benefit in a financially inclusive society?**

A financially inclusive society is one which provides a business-enabling environment for the registration of business names, formalization of internal business processes and increased access to capital and investment opportunities.

One of the main goals of the NFIS is to provide MSMEs with new channels to access finance, through increased utilization of the credit reporting regime and secured transactions framework to allow regulated financial institutions to better access the credit risk posed by a firm. Formalisation of MSMEs also contemplates the opening of bank accounts, by leveraging the risk based approach to anti-money laundering and counter-financing of terrorism under the Proceeds of Crime Act (POCA) and regulations. It is anticipated that the 2019 simplified customer due diligence requirements under POCA will make it easier for formal MSMEs that are low risk for money laundering to open transactional accounts, access digital payments and e-commerce solutions.

The benefit for MSMEs, which choose to become formal, will be their ability to access capacity building resources offered by the Government departments and

agencies, such as Development Bank of Jamaica and EXIM Bank.

In addition, there will be the opportunity to raise capital via debt or equity arrangements, such as on the Junior Stock Exchange for formalized MSMEs. MSMEs that have registered their companies and improved their internal processes will also benefit from increased procurement opportunities from Government agencies given the amendments to the Procurement Act and Regulations. Notably, the removal of the Minimum Business Tax and the use of annual turnover threshold under the General Consumption Tax Act, mean that a significant portion of formal micro-enterprises can utilize these earning opportunities, allowing them to scale up their businesses.

### **8. The BOJ's NFIS 2019 Annual report states that only 10 percent of private sector credit was allotted to MSMEs. Notwithstanding the ongoing reformation of the MSME sector, much of the credit still flow to larger businesses. Why is this so? Do you think the existing products in the credit market are suited to MSMEs?**

Larger enterprises tend to be formal and have in place the relevant internal processes that allow for easier assessment of their financial soundness. With the informality of some MSMEs, it is more challenging for a financial institution to accurately assess the credit risk posed by a MSME, particularly where there is an absence of financial records that can demonstrate the firm's cash flow and projected earnings. There is continued work being done by the private sector to create specialized business units that provide tailored solutions for MSMEs, which allow for the utilization of moveable collateral. The work of the private sector is complemented by developmental financing from Government entities,

which also provide capacity building opportunities, such as vouchers and partial credit guarantees which allow for credit expansion to the private sector.

### **9. Based on the initiatives undergone by the BOJ to improve financial literacy, what has been the feedback from the general public?**

Anecdotally, the feedback to our outdoor broadcasts and financial literacy has been positive, however obtaining data is key. BOJ is conducting a financial literacy survey of secondary school youth and at-risk youth on financial literacy and financial capability competencies. The results of that data will inform the development of further financial education content.

The financial literacy programme is being implemented over a three-year period and will be expanded to include traditional media. Periodically, we will be gathering data on responses to our content on the BOJ's social media platforms and traditional media.

### **10. In terms of the legal and regulatory framework for payment services, where is the BOJ in finalizing this?**

The process of amending legislation has various stages. Having completed stakeholder consultation on the policy proposals for amendments to the Payment Clearing and Settlements Act a concept paper was submitted to the Ministry of Finance and the Public Service to inform the preparation of a Cabinet submission.

September 28, 2021

# Notes



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## Increasing Access to the Formal Financial System

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