

1. National Partnership for Financial Inclusion

The Banco Central do Brasil (Central Bank of Brazil – BCB) has been working to increase and improve access to financial services in Brazil since the 1990s in three main ways: (i) by expanding and strengthening distribution channels for financial services, (ii) by developing instruments to better adapt financial services to the needs of lower-income segments of the population, and (iii) by guaranteeing the quality of financial services provision.

A particularly important role is played in the expansion of distribution channels by the network of correspondent or agent banking outlets which, in addition to providing financial services in unserved municipalities, also offer greater convenience for users in areas that also have bank branches. Development of the current model began in the late 1990s, and its stability and ongoing improvement are a permanent part of the Central Bank's agenda. The number of correspondents in the country rose from 19,000 in 2000 to 150,000 in 2010. Today, there are correspondent outlets in all Brazil's municipalities, and they account for over half of all financial service access points.¹

The Central Bank has also focused considerable efforts on strengthening credit cooperatives, which play an essential role in serving specific sectors, particularly rural credit and producers' associations. Substantial improvements were made to the regulatory framework for this sector in the 1990s and 2000s, resulting in a better structured cooperative system, based on a systemic approach. Cooperatives can now also serve a larger proportion of the population thanks to an increase in different forms of membership (*e.g.* entrepreneur cooperatives and open membership cooperatives) and the variety of services they provide. Between 2000 and 2010, the number of cooperative service points increased from 2.6 to 6.4 thousand and the number of cooperative members rose from 1.5 to 5.1 million. Credit cooperatives are now present in 40% of Brazil's municipalities and in 25% of municipalities without a bank branch.

The combined effect of these efforts has resulted in significant progress towards financial inclusion. Today, all of Brazil's 5,565 municipalities have at least one access point, and the financial system has, in general, been brought closer to the people. The proportion of municipalities with more than five access points per 10,000 adults rose from just 18% in 2000 to 94% in 2010. Over the last five years, the number of people with an active relationship with a financial institution has increased by 31% to 121 million, which is 84% of Brazil's adult population.²

In addition to encouraging the expansion and strengthening of financial service distribution channels, the Central Bank of Brazil has also made continuous efforts to promote initiatives and create an enabling environment for the financial inclusion of lower-income segments of the population. In 2004, special demand deposit and savings accounts, commonly known as simplified accounts, were created. No fees are charged for this type of account and the opening process is simpler, with fewer paperwork requirements. Initiatives of this kind are consistent with other measures taken by the Federal Government, including programmes aimed at increasing the access of lower-income segments of the population to credit, such as the national microcredit programme for income-generating activities (PNMPO) and the national programme to strengthen family farms (Pronaf).

Another Central Bank concern is the quality of financial services provision, and various regulatory improvements were introduced in this regard in the 2000s. With a view to guaranteeing the consumer's right to choose, regulatory measures provided for paycheck, customer records and credit portability at no cost and prohibited the charging of penalties for early loan repayment.

1. Figures refer to 2010.

2. 'Adult' refers to any person aged fifteen or over in accordance with international standards.

In order to facilitate communications between customers and financial institutions, regulated institutions were required to have an ombudsman service. Another improvement was an increase in transparency in financial services, which ensured that people had access to more objective and meaningful information about the cost of financial services, permitting easier comparison of products offered by different providers. Measures included the standardisation and consistency of terminology relating to bank, exchange and credit card fees; the obligation to disclose the total actual cost of credit, with the consolidation into a single figure of all the costs involved in taking out a loan or obtaining any other form of credit; and compulsory training and certification of officials, including correspondents, with a view to ensuring better customer service.

Many of these improvements were achieved thanks to close relations between the Central Bank of Brazil and other public and private actors concerned with expanding financial inclusion in the country, including (i) the Ministry of Finance (MF); (ii) the Federal Public Prosecutor's Office (MPF); (iii) the Consumer Protection Department (DPDC) of the Ministry of Justice (MJ); (iv) the Consumer Protection Commission of the Chamber of Deputies; (v) the Ministry of Social Development (MDS); (vi) the Ministry of Agricultural Development (MDA); (vii) the Ministry of Labour and Employment (MTE); (viii) trade associations, such as the Organisation of Brazilian Cooperatives (OCB), the Brazilian Federation of Banks (Febraban), the Brazilian Association of Banks (ABBC), the Brazilian Association of Credit Societies for Micro-entrepreneurs and Small Enterprises (ABSCM), the Brazilian Association of Microcredit Entities (ABCRED), the Brazilian Association of Development Financial Institutions (ABDE); (ix) the Brazilian Service of Support for Micro and Small Enterprises (Sebrae); and (x) the Permanent Forum for Micro and Small Enterprises. Support was also provided by the academic community, by other national entities, including the President's Secretariat for Strategic Affairs (SAE-PR) and the Brazilian Institute of Geography and Statistics (IBGE), and by international organisations, including the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP) and the Bill & Melinda Gates Foundation.

The close involvement of these entities is the result of a sustained effort over the past ten years to encourage all actors concerned with financial inclusion issues to work together to increase knowledge sharing, problem identification and joint solution development. Discussions began in 2002 with seminars on microcredit, which were extended to include microfinance and, from 2009 onwards, the various dimensions of financial inclusion.

The Central Bank's keen interest in promoting financial inclusion has prompted it to take part in international discussions on this subject. In 2009, the Group of Twenty Finance Ministers and Central Bank Governors (G20) created the Financial Inclusion Experts Group (FIEG), which established the Access Through Innovation Subgroup (ATISG) and the Small and Medium Enterprise (SME) Finance Subgroup. In 2010, Brazil co-chaired the ATISG with Australia, and the work carried out resulted in the development of the G20 Principles for innovative financial inclusion.

G20 Principles for Innovative Financial Inclusion

1. **Leadership:** Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.
2. **Diversity:** Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.
3. **Innovation:** Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses.
4. **Protection:** Encourage a comprehensive approach to consumer protection that recognises the roles of government, providers and consumers.
5. **Empowerment:** Develop financial literacy and financial capability.
6. **Cooperation:** Create an institutional environment with clear lines of accountability and coordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.
7. **Knowledge:** Utilize improved data to make evidence-based policy, measure progress, and consider an incremental 'test and learn' approach acceptable to both regulator and service provider.
8. **Proportionality:** Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.
9. **Framework:** Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

With a view to promoting wider application of these principles, the G20 launched its Financial Inclusion Action Plan in December 2010. The Global Partnership for Financial Inclusion, of which Brazil is a member, is the principal mechanism for implementing this plan.

In addition to contributing to the advances mentioned above, these efforts to increase and improve access to financial services in the country, together with discussions on the subject over the past ten years and studies conducted to assess Brazil's situation in this respect, have resulted in the identification of new challenges that must be addressed in order to move forward with financial inclusion and guarantee the quality of financial services provision. These new challenges include: (i) adapting financial offerings to the needs of businesses and individuals; (ii) improving the financial literacy of Brazilians as a means of preventing over-indebtedness; (iii) encouraging household saving; (iv) strengthening consumer protection mechanisms for financial service users; (v) promoting the sustainable development of microcredit for income-generating activities; (vi) guaranteeing the stability and ongoing improvement of the country's correspondent banking model; and (vii) improving measurement and data on financial inclusion to assess the situation in Brazil.

The realisation that coordinated efforts would be needed to address these new challenges led to the creation of the National Partnership for Financial Inclusion (PNIF) in November 2011. The partnership aims to catalyse efforts to promote effective financial inclusion in Brazil, by addressing these new challenges in a manner consistent with the G20 Principles for Innovative Financial Inclusion. The national partnership's objectives are described below.

National Partnership for Financial Inclusion

It is a network of public and private actors engaged in coordinated efforts to promote appropriate financial inclusion in Brazil.

Purpose

Promote appropriate financial inclusion in Brazil.

Specific objectives

1. Expand and improve access to financial services in Brazil.
2. Encourage financial responsibility and improve access to information on financial services through financial education and increased transparency.
3. Ensure that financial offerings are better adapted to the needs of businesses and individuals.

Once the partnership's objectives had been defined, work began on identifying what actions were required to implement them. Based on national and international discussions and past experience in improving access to financial services, it was clear that the institutional environment needed to be strengthened to enable more effective financial inclusion in Brazil. It was therefore established that the first step should be the formulation of an action plan to strengthen the institutional environment.

2. Action Plan to Strengthen the Institutional Environment

Objective

Strengthen the institutional environment to enable more effective financial inclusion in Brazil.

Three priority lines of action were identified for the period from 2012 to 2014 in order to establish an institutional environment better able to promote and catalyse financial inclusion efforts in the county in a manner consistent with the G20 Principles for Innovative Financial Inclusion.

Situation assessment – It is necessary to improve measurement and data on financial inclusion in Brazil, a task that includes conducting field surveys to gather information on the demand for financial services. This will help to recognise people's needs and concerns, establish evidence-based policies, and support goal setting. Research carried out to assess Brazilian people's behaviour and perception in relation to the use of financial services will supplement the work that concluded with the publication of the Report on Financial Inclusion by the Central Bank in 2010 and 2011. This report analyses the outreach of Brazil's financial system and the use of financial services by the population based on information provided by institutions supervised by the Central Bank. In other words, it examines the range of financial services offered by Central Bank-regulated institutions in terms of access and usage. In addition to the mentioned demand-side data, it is also necessary to improve the methodology and indicators used to analyse this supply-side data, incorporating indicators to measure the quality of financial services.

Regulation – It is also necessary to improve the legal and regulatory framework in order to move forward with appropriately focused financial inclusion in Brazil, in accordance with the respective roles and mandates of the regulatory authorities involved in the partnership. Improving the legal and regulatory framework is key to furthering the principles of 'innovation', 'diversity' and 'proportionality'. Particularly important in this area are the efforts aimed at developing and strengthening Brazil's microfinance sector, spurring technological innovation in financial service delivery, strengthening the distribution channel network and improving the adaptation of financial offerings to the specific needs of different sectors of the population, with particular emphasis on lower-income groups. This work will help to build on the legal and regulatory measures implemented in the past for the expansion and improvement of access to financial services, some of which are described above.

Financial literacy and transparency – The action plan also seeks to strengthen the coordination of activities aimed at increasing the financial literacy of Brazilian people and reducing information asymmetry between financial service providers and the general public. These efforts focus on strengthening freedom of choice, improving consumer safety and promoting responsible financial decision-making as a means of preventing over-indebtedness. These measures supplement activities already implemented or now in progress aimed at improving financial literacy and reducing the asymmetry of information on the use of financial services.

Based on the objectives of the National Partnership for Financial Inclusion, the objective of this action plan and the three priority lines of action, the action plan establishes specific activities to be implemented in the period from 2012 to 2014, indicating the entities directly responsible for coordinating implementation, although other partners may also be involved.

Activities

- 1. Improve the regulatory framework for microcredit and specialised microfinance institutions in order to provide effective support to micro-entrepreneurs and micro and small enterprises.**

Coordinating authorities: Central Bank of Brazil, Ministry of Finance, Ministry of Justice.

Goal: contribute to expanding microcredit for income-generating activities in Brazil and strengthening the role of microfinance institutions in achieving the financial inclusion of entrepreneurs and micro and small enterprises.

- 2. Promote the diversification and improvement of financial services, making them better adapted to people's needs.**

Coordinating authorities: Central Bank of Brazil, Ministry of Finance, National Superintendence for Pension Funds (Previc), Superintendence of Private Insurance (Susep).

Goal: contribute to ensuring that Brazilian people, particularly lower-income segments of the population, have increased access to financial services adapted to their needs, including savings, insurance and pension products.

- 3. Define a legal and regulatory framework for mobile payment**

Coordinating authorities: Central Bank of Brazil, Ministry of Communications.

Goal: overcome barriers to achieve a wider and more even distribution of access points, improving the outreach of Brazil's financial system.

- 4. Strengthen the network of distribution channels.**

Coordinating authorities: Central Bank of Brazil, Ministry of Finance.

Goal: overcome barriers to achieve a wider and more even distribution of access points, improving the outreach of Brazil's financial system.

5. Contribute to promoting financial literacy.

Coordinating authorities: Central Bank of Brazil, National Superintendence for Pension Funds, Securities and Exchange Commission of Brazil, Superintendence of Private Insurance, Ministry of Justice Consumer Protection Department, Ministry of Social Development, Brazilian Service of Support for Micro and Small Enterprises.

Goal: ensure that the general public is better informed to take decisions about the relationship with financial institutions, in accordance with the National Strategy for Financial Literacy (ENEF).

6. Scale up efforts to ensure that financial service users are aware of their rights and dispute resolution procedures.

Coordinating authorities: Central Bank of Brazil, National Superintendence for Pension Funds, Securities and Exchange Commission of Brazil, Superintendence of Private Insurance, Federal Public Prosecutor's Office, Ministry of Justice Consumer Protection Department.

Goal: ensure that financial service consumers are aware of their rights and procedures to resolve disputes, improving consumer safety in the use of financial services.

7. Improve the methodology used to measure financial inclusion and incorporate quality indicators.

Coordinating authorities: Central Bank of Brazil, National Superintendence for Pension Funds, Superintendence of Private Insurance.

Goal: strengthen the methodology used to measure and monitor the state of financial inclusion in Brazil, broadening its scope in order to provide better evidence-based support to design financial inclusion policies.

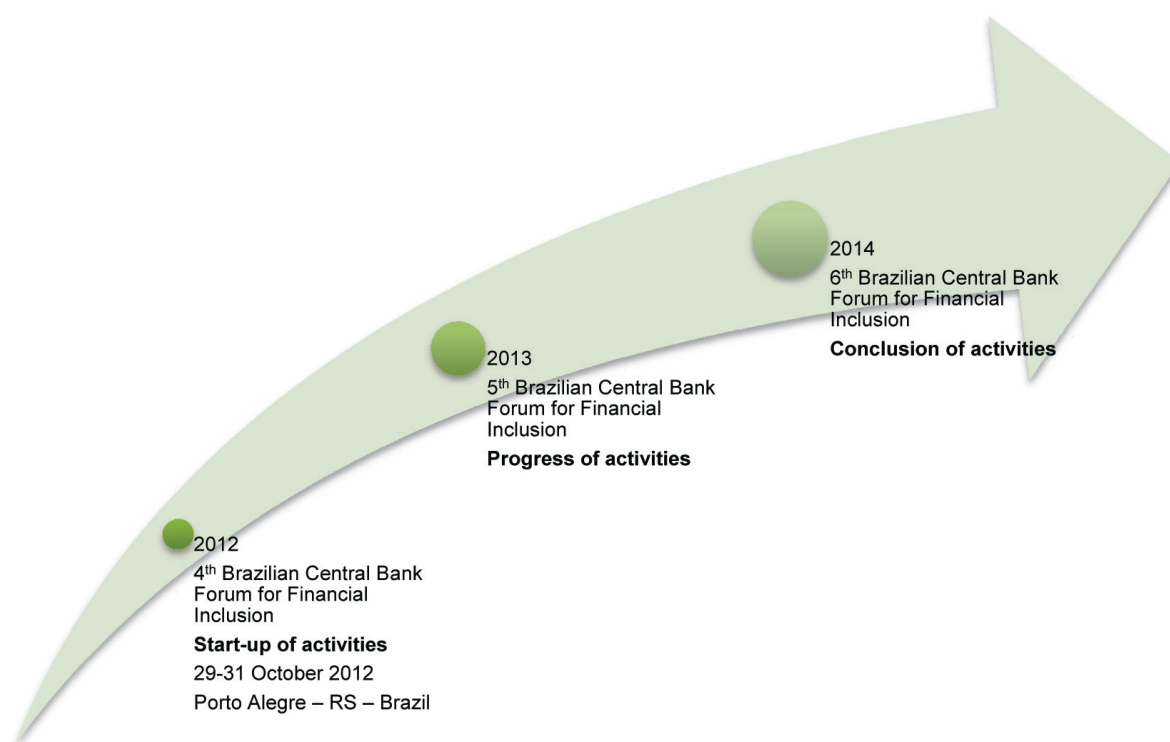
8. Conduct surveys on Brazilian people's behaviour and perception in relation to the use of financial services.

Coordinating authorities: Central Bank of Brazil, National Superintendence for Pension Funds, Securities and Exchange Commission of Brazil, Superintendence of Private Insurance, Brazilian Institute of Geography and Statistics, President's Secretariat for Strategic Affairs, Ministry of Social Development and Fight against Hunger.

Goal: improve measurement and collection of data on financial services in terms of access and usage, barriers to the inclusion process and the quality of services based on information provided by users.

Implementation and monitoring of activities

Progress in implementing these activities will be reported and discussed at the Central Bank Forum for Financial Inclusion, held regularly in the last quarter of each year. In October 2012, the start-up of the activities will be reported and discussed to decide whether any adjustments need to be made to the plan. In 2013, progresses will be presented and any further adjustments discussed. Finally, in 2014, the outputs and results of the activities will be presented.



Detailed Description of Activities

1. Improve the regulatory framework for microcredit and specialised microfinance institutions in order to provide effective support to micro-entrepreneurs and micro and small enterprises.

Coordinating authorities: Central Bank of Brazil, Ministry of Finance, Ministry of Justice.

Goal: contribute to expanding microcredit for income-generating activities in Brazil and strengthening the role of microfinance institutions in achieving the financial inclusion of entrepreneurs and micro and small enterprises.

Context:

‘The importance of micro and small enterprises (MSEs) in Brazil’s economic landscape is belied by the serious obstacles faced by these enterprises, including structural deficiencies and weaknesses inherent in their internal management structure. These obstacles seriously undermine their competitiveness and capacity to operate in a continuous and sustainable manner in the medium and long term. One of the most significant obstacles is poor access to credit...’ (Economic and Environmental Development Policy, Brazilian Government multi-year plan – PPA 2012-2015).³

Small entrepreneurs are another important group, whose financial needs remain largely unmet by the traditional banking sector. According to Brazilian Institute of Geography and Statistics figures, over a quarter of all people in work in Brazil are self-employed (20.7 million) or employers with no more than two employees (1.8 million).

Currently, guidelines on extending microcredit target small entrepreneurs with a growing focus on microloans for income-generating activities. In line with this focus, a national microcredit programme, known as Crescer (grow), was launched as part of the Brazil without Poverty programme. The Crescer programme has encouraged major public banks, which comply with the programme rules, to venture into the microfinance market, in addition to promoting the activities of regional development banks already operating in the microfinance market, particularly in the northeastern and northern regions of the country.

Some private banks, which had created a microcredit department in the past, also stepped up efforts in this segment either through operations of their own or through second-tier financing for public-interest civil society organizations (Oscips) specialised in this area.

In addition to traditional institutions (banks), which downscale into microfinance by creating departments or areas to serve this market segment, there is also the other end of the regulated market, that is, previously unregulated institutions which have upscaled and become regulated institutions operating in the supervised environment. This latter market, which has played an important role in the expansion of microcredit in leading countries, is relatively underdeveloped in Brazil.

With a view to encouraging specialised microfinance institutions to make this move, in 1999 the legal form ‘credit society for micro-entrepreneurs’ (SCM) was created to facilitate the transition of unregulated institutions into the supervised environment. However, this did not have the desired effect, in spite of the existence of a significant number of non-governmental entities with the required level of microlending expertise (outreach approach based on loan officers).

3. Available at <http://www.planejamento.gov.br/secretarias/upload/Arquivos/spi/PPA/2012/mp_006_dimensao_tatico_prod_amb.pdf>, p. 233. Last consulted on 6 February 2012.

The development of an effective model framework for specialised regulated institutions will therefore also be studied, with a view to establishing a more propitious and attractive environment for the transformation of microfinance institutions with the required capacities.

2. Promote the diversification and improvement of financial services, making them better adapted to people's needs.

Coordinating authorities: Central Bank of Brazil, Ministry of Finance, National Superintendence for Pension Funds, Superintendence of Private Insurance.

Goal: contribute to ensuring that Brazilian people, particularly lower-income segments of the population, have increased access to financial services adapted to their needs, including savings, insurance and pension products.

Context:

Brazil has made significant progress towards financial inclusion in recent decades. However, in order to ensure the continuity of the process, broadening the reach of financial services, diversifying financial offerings to meet different needs and enhancing provision quality, systematic action and the interaction of the various regulatory bodies, including consumer protection entities, is required.

The increased outreach of financial services to lower-income segments of the population, coupled with a recent reduction in poverty in the country which has led to new trends in a growing and more diversified demand, has highlighted the importance of tailoring offerings to the needs of current and potential customers.

Rising household indebtedness, particularly among wage earners and pensioners, and the high rate of default on certain products have also drawn attention to the importance of promoting household saving. National and international discussions have highlighted the fact that efforts to strengthen access to credit must be accompanied by initiatives to extend and improve access to saving, investment, insurance and pension services, so that households are better able to plan and manage their finances in the medium and long term.

Regulatory responsibility for financial services adapted to the needs of Brazilian people to improve their wellbeing lies not only with the Central Bank of Brazil, but also with the Securities and Exchange Commission of Brazil, the National Superintendence for Pension Funds and the Superintendence of Private Insurance. These authorities must therefore work together to meet the challenge of establishing a more effective enabling environment for the delivery of efficient and appropriate financial services, addressing questions of applicable regulations.

To this end, on 27 April, the Committee for the Regulation and Oversight of Financial, Capital, Insurance and Pension Markets and Capitalization (Coremec) created a standing subcommittee on financial inclusion, tasked with developing proposals on the regulations required to promote financial inclusion in Brazil. The purpose of the subcommittee is to scale up cooperation and information sharing among Coremec member regulators, with a view to developing microfinance instruments tailored to the needs of the population and increasing access to the formal economy. The subcommittee will be formed by a representative and an alternate from each of the Coremec member bodies and will be chaired by the representatives in turn on a six-month rotating basis. The members of Coremec, which was created in 2006, are the Central Bank of Brazil, the Securities and Exchange Commission of Brazil, the Superintendence of Private Insurance and the National Superintendence for Pension Funds.

The subcommittee's initial agenda focuses on the following areas: supplementary pension plans through credit cooperatives; use of the correspondent banking network in the country to distribute and market micro-insurance products; and engaging in consumer protection strategies in the financial services sector.

3. Define a legal and regulatory framework for mobile payment.

Coordinating authorities: Central Bank of Brazil, Ministry of Communications.

Goal: enable the provision of payment services using mobile phones and other devices connected to the mobile phone network, ensuring competition among providers, consumer confidence and efficient service delivery.

Context:

Mobile payment, which refers to payment services performed from or via a mobile device, is in full operation in various countries and is considered in many of them to be an effective tool for promoting financial inclusion.

There is enormous potential in Brazil for the development of mobile payment models, as mobile phones are widely used even among poorer people. A significant proportion of these people do not have a bank account, and cash remains the form of payment most commonly used by households (for 86% of households in income brackets D and E, cash is the main form of payment used, according to a survey conducted by the Central Bank's Currency Management Department in 2010).

The advent of new technologies has led to non-financial institutions providing payment services, and it is likely that this trend will continue to grow. This development has the potential to provide significant benefits – lower costs and prices, greater convenience, better service and increased financial inclusion – and increase competition in this market segment.

Although Brazil's existing legal framework contains no specific provision in this regard, it does allow non-financial institutions to provide payment services, in accordance with certain criteria and conditions. However, the lack of specific provisions could lead to regulatory uncertainty, which might deter investors and raise the risk of adverse selection. An appropriate model must also be adopted to avoid undermining consumer confidence. As this innovative development involves mobile operators, coordination is required among various entities and regulators in order to develop models capable of increasing financial inclusion in a safe, economically sustainable and competitive environment. There are risks inherent in payment service activities, and effective risk mapping and mitigation is required. This involves addressing issues such as money laundering, technological risks, partnerships between telephone operators and banks and interoperability.

The Central Bank of Brazil stresses that, in order to promote innovations that are beneficial to society and at the same time facilitate financial inclusion, mobile payment business models must incorporate the following features: simplicity; universality; interoperability; security, privacy and confidence; competitiveness and cost-effectiveness; flexibility; integration into Brazil's payment system infrastructure; and person-to-person (P2P), person-to-business (P2B) and government-to-person (G2P) transactions.

The Central Bank and the Ministry of Communications have formed an interministerial working group to study these questions and establish the measures required to develop this market successfully. The working group has been established for a 90-day term, which can be extended for a further 90-day period.

4. Strengthen the network of distribution channels.

Coordinating authorities: Central Bank of Brazil, Ministry of Finance.

Goal: overcome barriers to achieve a wider and more even distribution of access points, improving the outreach of Brazil's financial system.

Context:

The outlets of financial institutions are not the only distribution channels available, and it is also important to focus attention on developing innovative ways of delivering financial services to the population.

One of the innovative ways of delivering financial services used in Brazil is the country's network of correspondents (contracting governed by the provisions of National Monetary Council (CMN) Resolution n. 3,954 of 24 February 2011), which is important in view of the sheer number of service points it provides and its outreach capacity. According to the second Report on Financial Inclusion published by the Central Bank of Brazil, of the 220,000 access points in operation in Brazil, 150,000 belong to correspondents. There are 15.2 access points per 10,000 adults in Brazil, 10.5 of which belong to correspondents. The network is also well developed in terms of outreach, as there is now no municipality in the country without a correspondent access point.

Credit cooperatives provide another important distribution channel for financial services, regulated under CMN Resolution n. 3,859 of 27 May 2010. The government's interest in developing this sector largely stems from the fact that most of these cooperatives operate regionally and collect deposits and extend credit within their area of operation in the community. Furthermore, cooperatives are specifically designed to serve the interests of their members and therefore seek to provide better financial services for them. The Central Bank has been working since the 1990s to strengthen this sector, focusing particularly on measures to prioritise the growth of the cooperative sector in a safe environment. These efforts have resulted in improved outreach.

With regard to the financial system as a whole, action should be taken to better adapt the financial service delivery structure to the specific demographic and geographic characteristics of each area and reduce regional disparities. It should be noted that in 2010, while the southern region had over 20 access points⁴ per 10,000 adults, the northern and northeastern regions had 10 and 11 respectively.⁵

Ongoing improvement of the regulatory framework is also necessary in order to promote and strengthen the banking correspondent network in the country, in accordance with legal requirements relating to security, employment, consumer rights, *etc.*

Lastly, the process to improve the regulatory framework must also provide for the strengthening of distribution channels for the delivery of financial services directly by financial institutions, particularly bank service outposts, which supplement the bank branch network. To this end, Resolution n. 4,072, issued on 26 April 2012, consolidates provisions governing the establishment of financial institution outlets in the country.

4. For calculation purposes, access points include bank branches, bank service points on the premises of other institutions, advanced bank service points on other premises, automated teller machines, credit cooperative offices, cooperative service points (PAC) and correspondent outlets.

5. Central Bank of Brazil, *II Relatório de Inclusão Financeira*. Available at <<http://www.bcb.gov.br/Nor/reincfin/RIF2011.pdf>>. Last consulted on February 8th, 2012, Chapter 3.

5. Contribute to promoting financial literacy.

Coordinating authorities: Central Bank of Brazil, National Superintendence for Pension Funds, Securities and Exchange Commission of Brazil, Superintendence of Private Insurance, Ministry of Justice Consumer Protection Department, Ministry of Social Development, Brazilian Service of Support for Micro and Small Enterprises.

Goal: ensure that the general public is better informed to take decisions about the relationship with financial institutions, in accordance with the National Strategy for Financial Literacy (ENEF).

Context:

Recent economic developments in Brazil and the prospect of a sustained development process accompanied by social inclusion point to a good long-term outlook. Brazil has experienced significant changes in income distribution, with a redistribution of wealth towards lower-income segments of the population.

At the same time, the range of financial offerings has increased, which has brought benefits for financial service users, because they now have a wider choice of products from which to select the one best suited to their needs. On the other hand, this wider variety of products and easier access have made decision making more difficult for consumers, as they must now compare the features of the different offerings in order to make an informed choice. Even apparently similar products can differ significantly in terms of risk, return, cost and terms. In addition to knowing about the characteristics of the offering in question, it is also important for customers and users to be sufficiently literate in financial matters to understand the benefits and risks involved.

To this end, the National Strategy for Financial Literacy was developed, with a view to promoting education in subjects relating to finance and pension plans. The aim is to increase the knowledge and awareness of citizens, improve the efficiency and soundness of the country's financial system and enable consumers to make informed decisions. The strategy is based on action by the Central Bank of Brazil, the Securities and Exchange Commission of Brazil, the National Superintendence for Pension Funds and the Superintendence of Private Insurance, and also involves other government bodies, private-sector initiatives and civil society.

The purpose of the financial literacy activities established in this action plan is to develop new suggestions for work in this area to be assessed by the National Financial Literacy Committee (CONEF) in accordance with its mandate.

It is important to improve the ability of Brazilian people to make informed decisions about the use of financial services and make them aware of the importance of financial planning so that they can manage their money wisely. These activities supplement initiatives developed within the framework of the National Strategy for Financial Literacy, which addresses broader and longer-term goals.

As a first step, the Central Bank created an internal working group in 2012 to identify specific activities for disseminating relevant information to reduce information asymmetry between the general public and financial institutions under its supervision, with a view to ensuring that users choose the most suitable financial products and services and use them effectively.

6. Scale up efforts to ensure that financial service users are aware of their rights and dispute resolution procedures.

Coordinating authorities: Central Bank of Brazil, National Superintendence for Pension Funds, Securities and Exchange Commission of Brazil, Superintendence of Private Insurance, Federal Public Prosecutor's Office, Ministry of Justice Consumer Protection Department.

Goal: ensure that financial service consumers are aware of their rights and procedures to resolve disputes, improving consumer safety in the use of financial services.

Context:

Consumer protection mechanisms are required to protect the rights of new financial service users, who are vulnerable in their dealings with financial institutions, owing mainly to information asymmetry.

With a view to providing the guarantees established in the Federal Constitution of 1988, the Consumer Protection Code (Law n. 8,078 of 11 September 1990) establishes a national policy on consumer relations and basic consumer rights, defining the responsibility of service providers and establishing standards of conduct, terms and penalties. In accordance with the Consumer Protection Code, a national consumer protection system (SNDC),⁶ formed by Federal, state, Federal District and municipal bodies and private consumer protection organisations, was put in place to deal with consumer relations complaints.

The Central Bank's jurisdiction does not extend to redressing the grievances of individual consumers. However, the National Monetary Council, with the establishment of regulatory and supervisory measures aimed at mitigating risks in the financial system arising from inadequacies in the provision of financial services to users, has had a clearly positive impact on the exercise of consumer rights. One such example is the requirement that there must be an ombudsman service in all financial institutions (CMN Resolution n. 3,849 of 25 March 2010).

The broader regulatory framework has strengthened the institutional environment to ensure safe and appropriate financial services, enhancing freedom of choice and promoting transparency and competition within Brazil's financial system. The most important measures include: the prohibition on charging penalties for early loan repayment;⁷ the requirement to disclose the total actual cost of credit;⁸ customer records,⁹ credit¹⁰ and paycheck¹¹ portability at no cost; the standardisation and consistency of terminology relating to bank, exchange and credit card fees; and the requirement to ensure the provision of appropriate services and transparency as a means of risk prevention.¹²

Many of these advances were achieved thanks to ongoing dialogue with the Federal Public Prosecutor's Office and the Ministry of Justice. The Central Bank signed a cooperation agreement in July 2010 with the Ministry of Justice to work together to

6. In accordance with article 105 of the Consumer Protection Code (Law n. 8,078/1990).

7. CMN Resolutions n. 3,516 and n. 3,517 of 6 December 2007.

8. Regulated by CMN Resolution no. 3,517 of 6 December 2007. All the costs involved in taking out a loan or obtaining any other form of credit are consolidated into a single figure known as the actual cost of credit.

9. CMN Resolution n. 2,835 of 30 May 2001.

10. CMN Resolution n. 3,401 of 6 September 2006.

11. CMN Resolution n. 3,402 of 6 September 2006.

12. CMN Resolution n. 3,694 of 26 March 2009.

improve the services that financial institutions and other institutions authorised by the Central Bank provide to customers and users. The agreement, in addition to intensifying the dialogue on problems associated with financial services and possible solutions in terms of regulation and oversight, has also promoted the sharing of information relating to complaints received by the Central Bank and Procon (consumer protection entity) offices throughout the country, an activity that has permitted more effective evidence-based planning by the two authorities. Joint efforts undertaken include financial education activities, such as the production of a consumption and finance newsletter, which is posted on the websites of the Central Bank and the Ministry of Justice. The aim of these newsletters is to explain matters of interest to the consumer in simple terms, such as bank ombudsman services (issue 1), fees (issue 2) and cheques (issue 3).

In addition to increasing the consumer's freedom of choice, regulations on financial services also promote competition among financial institutions by making it easier for customers to compare products and make informed choices. As mentioned above, the mandate of the Central Bank does not extend to preventing consumer harm or redressing the grievances of individual consumers. It is, however, responsible for ensuring the soundness and efficiency of the financial system, and such regulations work to the benefit of the users of financial services and should be made known to the general public.

It can therefore be concluded that Brazilian society will benefit considerably from closer coordination of the efforts of the authorities responsible for overseeing the financial system – Central Bank, Securities and Exchange Commission of Brazil, National Superintendence for Pension Funds and Superintendence of Private Insurance –, the Federal Public Prosecutor's Office and the Ministry of Justice, with intensified dissemination of the consumer rights provided for in the Federal Constitution and the Consumer Protection Code and the regulation of financial services. It is also important to increase public knowledge of the procedures in place for resolving disputes associated with consumer rights and reporting breaches of the regulations in force. The purpose of these efforts is to make consumers safer in their relations with financial institutions.

7. Improve the methodology used to measure financial inclusion and incorporate quality indicators.

Coordinating authorities: Central Bank of Brazil, National Superintendence for Pension Funds, Superintendence of Private Insurance.

Goal: strengthen the methodology used to measure and monitor the state of financial inclusion in Brazil, broadening its scope in order to provide better evidence-based support to design financial inclusion policies.

Context:

Discussions at the First Brazilian Central Bank Forum for Financial Inclusion highlighted the 'need to manage and compile the data and information available to the Central Bank on this subject in order to accurately measure and assess progress'.¹³ In undertaking the task of promoting financial inclusion in Brazil, the Central Bank has focused significant efforts on measurement and assessment, carrying on studies on financial services provision in Brazil. The findings and outcomes of these efforts were

13. Proceedings of the I Brazilian Central Bank Forum for Financial Inclusion, available in English at <http://www.bcb.gov.br/pre/microfinancas/financial_inclusion_first_forum.pdf> and in Portuguese at <http://www.bcb.gov.br/pre/microfinancas/anais_I_forum_inclusao_financeira%20indd.pdf>. Last consulted on 6 February 2012.

recorded in the Report on Financial Inclusion published in 2010 and 2011,¹⁴ based on supply-side data regularly reported by institutions supervised by the Central Bank.

The 2010 Report on Financial Inclusion was the first to be published on this subject in Brazil. The methodology used was largely based on international data collection and management practices established for this field. The report focused on the two basic dimensions of financial inclusion (1) access – this refers to the ability to use financial services related to the availability of access points in the financial system – and (2) usage – this refers to the actual usage of financial services, taking into account that the existence of an access point may be not enough since there may be other barriers to use.

In preparing the second Report on Financial Inclusion, published in 2011, efforts were made not only to update the information provided in the first report, but also to improve it, by better adapting the content to the interests of the target audience. Members of the team responsible for preparing the report, made up of officials from some ten Central Bank departments, met to discuss these improvements, and national and international actors were consulted, with a view to identifying areas for improvement. As a result of these discussions and advances in the conceptual and methodological approach used in the financial inclusion study conducted by the Central Bank, the second report featured significant improvements, including an analysis of the role of the different sectors in financial inclusion, a case study on Pará state and the combination of access and usage data to produce a composite financial inclusion indicator, called the financial inclusion index.

The development of this index, which aggregates individual indicators into an overall measure of financial inclusion, constituted a significant advance in the analysis of this subject in Brazil. The most commonly used financial inclusion indicators are the number of access points per 10,000 adults and per 1,000 km, the amount of credit granted and the volume of deposits. Although all these indicators provide valuable information on financial inclusion, on their own they only tell part of the story. A composite indicator capable of charting general trends and facilitating comparison between geographic units can prove very useful in mapping the progress of financial inclusion and as a means of identifying advances and barriers. The financial inclusion index was therefore designed as a tool to measure financial inclusion on a numerical scale.

The index revealed, for example, that between 2000 and 2010, significant progress was made towards financial inclusion in all Brazil's states. It is now necessary to improve the methodology employed, reviewing the relevance and weighting of the indicators used to produce the index and incorporating indicators that measure the quality of financial services.

The question of using indicators to measure quality is being studied and discussed by the AFI Financial Inclusion Data Working Group (FIDWG), chaired by Brazil.

As authorities responsible for overseeing the national financial system along with the Central Bank, the Securities and Exchange Commission of Brazil, the National Superintendence for Pension Funds and the Superintendence of Private Insurance carry out surveys and studies on the use of the financial services provided by the institutions that they regulate. The addition of this input would provide a fuller picture of financial

14. The Report on Financial Inclusion n. 1, 2010, is available in Portuguese at <http://www.bcb.gov.br/Nor/relinconfin/relatorio_inclusao_financeira.pdf> and in English at <<http://www.bcb.gov.br/?REPFININCLUSION1>>. The Relatório de Inclusão Financeira n. 2, 2011, is available in Portuguese at <<http://www.bcb.gov.br/?RELINCFIN2011>>; there is no English version of this report.

inclusion in Brazil, as the use of financial services by the population is not confined to those provided by Central Bank regulated institutions. In the course of discussions on the proposed creation of a financial inclusion subcommittee under the Coremec, these supervisory authorities highlighted the importance of sharing information and good practice and the benefits of working together to collect data and conduct studies.

8. Conduct surveys on Brazilian people's behaviour and perception in relation to the use of financial services.

Coordinating authorities: Central Bank of Brazil, National Superintendence for Pension Funds, Securities and Exchange Commission of Brazil, Superintendence of Private Insurance, Brazilian Institute of Geography and Statistics, President's Secretariat for Strategic Affairs, Ministry of Social Development.

Goal: improve measurement and collection of data on financial services in terms of access and usage, barriers to the inclusion process and the quality of services based on information provided by users.

Context:

At the First Brazilian Central Bank Forum for Financial Inclusion, it was observed that 'microfinance customers and markets have not been mapped, and little is known about them. Surveys and studies must be conducted to gain an insight into customer needs in quantitative and qualitative terms and geographic distribution, with a view to ensuring that the sector's growth and diversification, with the incorporation of technological resources, results in the development of services and products that meet the needs of the population'.¹⁵

This led to growing recognition of the need for household surveys to measure access to financial services, their quality and, ideally, their impact on the lives of Brazilian people.

Microdata on this subject is important not only for the production of general information on financial inclusion in Brazil, but also as input for designing improvements to the regulatory framework and formulating financial literacy and consumer protection strategies for the sector.

There are substantial gaps in the information available which is compiled solely from data reported by financial institutions. These gaps need to be filled with more detailed information reflecting the views of the population to provide a deeper insight into the subject and a fuller understanding of questions such as over-indebtedness, barriers to the use of financial services and challenges, which will enable financial services to be tailored to the needs of the population.

Some initiatives have already been undertaken in this area, including the surveys conducted by the Brazilian Institute of Geography and Statistics on a regular basis and specific financial inclusion surveys, such as that of the Confederation of Brazilian Industry, which is at the data processing and tabulation phase, and the one planned by the Bill & Melinda Gates Foundation. The Central Bank has supported these initiatives by providing technical comments on their survey tools.

15. Proceedings of the I Brazilian Central Bank Forum for Financial Inclusion, available in English at <http://www.bcb.gov.br/pre/microfinancas/financial_inclusion_first_forum.pdf> and in Portuguese at <http://www.bcb.gov.br/pre/microfinancas/anais_I_forum_inclusao_financeira%20indd.pdf>. Last consulted on 6 February 2012.

In order to obtain the input required to map financial inclusion and the challenges involved, it is essential to strengthen existing partnerships and establish new ones aimed at achieving this goal. It is also important to develop improved analysis indicators specifically designed to bridge the information gaps, a task that is closely linked to the previous activity. The main objective of both activities is to build up a more substantial body of knowledge that can be used to design improvements to the legal and regulatory framework, as part of overall efforts to promote appropriate financial inclusion in Brazil.