

The Bangko Sentral ng Pilipinas and Financial Inclusion

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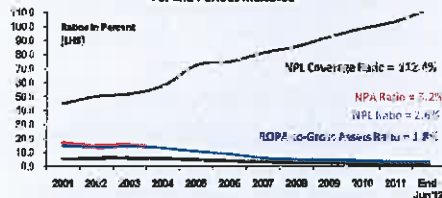
Dialogue on Financial Inclusion and Consumer Protection
8th General Membership Meeting of BMAP
24 October 2012, BSP Assembly Hall



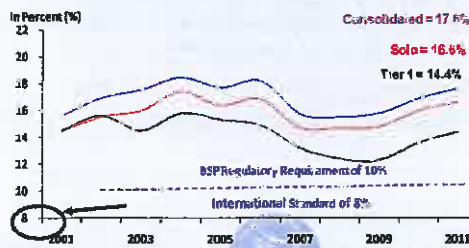
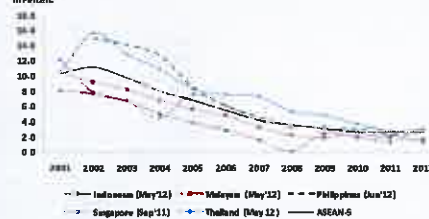
BANGKO SENTRAL NG PILIPINAS

Strong and Stable Banking System

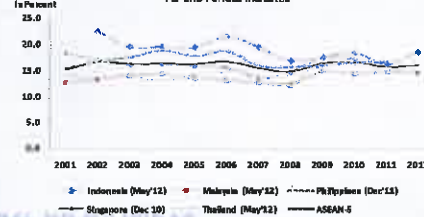
Philippine Banking System: Loan and Asset Quality Ratios
For End-Periods Indicated



ASEAN-5 Comparative NPL Ratio of Commercial Banks
For End-Periods Indicated

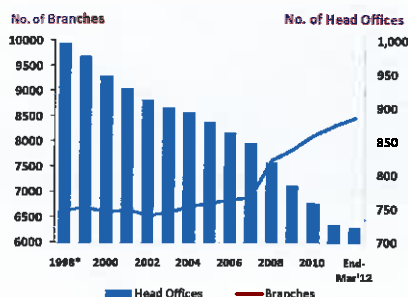


ASEAN-5 Comparative CAR of Commercial Banks
For End-Periods Indicated



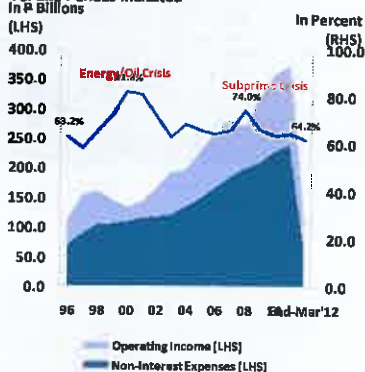
Strong and Stable Banking System

Philippine Banking System: Physical Network
For End-Periods Indicated



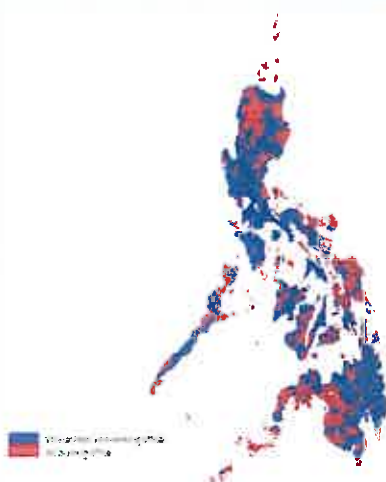
* BSP's merger and consolidation policy began in 1998 with the issuance of Circular No. 172 dated 03 September 1998

Philippine Banking System
Cost-to-Income Ratio
For End-Periods Indicated
In P Billions



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Current Access to Finance Scenario



- 609 out of 1634 (37%) municipalities have no banking office (end-December 2011)
- Regional disparities in the distribution of access points
- Concentration of banking services are in the high income and urbanized areas (43% of the total number of deposit accounts and 68% of the total amount of deposits are in National Capital Region)
- Archipelagic barriers pose a large challenge to financial access



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Current Access to Finance Scenario – Findings from the Consumer Finance Survey 2009

- 78.5% (or roughly eight in ten households) did not have a deposit account
- Among households with deposit accounts, about 71.4% had only one deposit account, 20.7% had two, and 7.8% had three or more
- The most popular type of depository institution among households was the commercial banks (77.3%). The remaining 22.7% were:

• Rural/cooperative bank	8.0%
• Thrift bank	5.3%
• Multipurpose/credit cooperative	4.9%
• Microfinance bank	2.2%
• Savings and loan association	1.3%
• Paluwagan	0.5%
• Others	0.5%



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Current Access to Finance Scenario – Findings from the Consumer Finance Survey 2009

- The main considerations in selecting depository institution:
 - Proximity to home (34.4%)
 - Bank used by employer/business (19.3%)
 - Bank was selected by funding source (8.4%)
 - Efficient service (8.1%)
 - Proximity to workplace (6.8%)
 - Personal acquaintances (5.2%)
- Only 60% of deposit accounts were interest-bearing.
- Majority of the respondents acquired their residential and other properties/assets through cash payment. Less than 7% of the respondents acquired their properties/assets through loans.
- For those who borrowed, they relied on in-house financing (for vehicles and household appliances), non-bank government institutions (for residential properties), and money lenders (for other real properties).



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Current Access to Finance Scenario – Findings from the Consumer Finance Survey 2009

- Aside from real estate, housing, motor vehicle, and credit card loans, about one-fifth (20.9 percent) of households availed themselves of other types of loans such as personal, salary, multipurpose, and business loans from money lenders, cooperatives, financing institutions, SSS, and Pag-IBIG.
- Only a very small percentage of households (0.4%) owned securities and investment bonds such as stocks, bonds, mutual funds and UITFs.



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How do Recent BSP Regulations Allow Banks to Address this Market Need?

Wider Range of Products

- Micro-deposits
- Microinsurance
- Micro-agri Loans
- Housing Microfinance
- Microfinance Plus

Expanded Physical Network

- Opening of Micro-banking Offices (MBOs)

Expanded Virtual Reach

- E-money Regulatory Framework
- E-money Network Service Providers

Liberalized Onboarding

- Updated Anti-Money Laundering Rules

Consumer Protection and Financial Literacy



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Wide Range of Products

- Circular 694, Notes on Microfinance
 - Microfinance Loans
 - Microenterprise Loans
 - Housing Microfinance Loans
 - Micro-Agri Loans
 - Microfinance Savings Deposit Account
 - Microinsurance
 - Microfinance Plus for emerging SMEs



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Opportunity for Banks

- Become more responsive to the wide range of client needs
- Increase the microfinance client base
- Cater to new markets
- Diversify income streams



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Results so Far

- 185 mostly community based banks with microfinance operations currently serving over 1 million clients with outstanding portfolio of PhP7.6B
- These clients are saving PhP 4.3B
- 21 banks already offering housing microfinance with an outstanding portfolio of PhP 170 Million
- 24 banks providing micro-agri loans (PhP 531 Million)
- Around 80 have been issued "No Objection Notices" for microinsurance



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Expanded Physical Network

- Circular 694, Establishment of Micro-banking Offices (MBOs)
 - Expands the products and services that can be offered
 - Micro-loans
 - Micro-deposits
 - Check deposits of existing microfinance clients
 - Microinsurance
 - E-money Conversion
 - Collection/ Pay out of benefits from government
 - Utility payments
 - Purchase of foreign currency



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Expanded Physical Network

- Circular 694, Establishment of Micro-banking Offices (MBOs)
 - Provides requirements proportionate to the level of activity
 - Demonstration of bank strength
 - Clear reason and plan for the establishment of MBOs



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Opportunity for Banks

- Set up presence in areas which were too expensive to serve (i.e. hard-to-reach, etc.)
- Capture savings in areas which were previously not reached through opening of micro-deposit accounts
- Banks increase value to existing clients and lower costs of servicing existing clients
- Banks can entertain other non-bank customers which can eventually become bank clients (i.e. bills payment, foreign exchange, etc.)
- Possible opportunity as CCT pay-out



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Results so Far

- 459 MBOs approved as of August 2012
- Over 100 MBOs in the pipeline
- Over 60 municipalities are served by MBOs alone



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Expanded Virtual Reach

- Circular 649, Electronic Money Circular
 - Defines electronic money
 - Allows the establishment of e-money issuers (whether bank or non-bank)
 - Provides the platform for an efficient retail payments platform
 - Fosters the establishment of a ubiquitous agent network



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Opportunity for Banks

- Banks can develop linkages with e-money issuers. As clients can transact remotely through the e-money platform, banks:
 - Increase value of service to clients
 - Increase efficiency
 - Lower costs
 - Reach new clients
- With existing clients an e-money ecosystem in the local community can be developed



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Expanded Virtual Reach

- Circular 704, Electronic Money Network Service Providers
 - Recognizes the potential of E-money as an efficient retail payment channel
 - Recognizes that the E-Money business has specialized operational and technological requirements
 - Allows entities that want to be EMIs to outsource to EMNSPs



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Expanded Virtual Reach

- Circular 704, Electronic Money Network Service Providers
 - Allows the outsourcing of automated systems, network infrastructure and network of agents
 - Establishes clear outsourcing rules and arrangements



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Opportunity for Banks

- Banks can now become an E-Money Issuer without investing in the entire network infrastructure
- By outsourcing to an EMNSP, banks will be able to:
 - Use the wide agent network established by the EMIs
 - Convert E-money
 - Use E-money for the payment for goods/ services
 - Transfer funds from one electronic wallet to another



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Results so Far

- 21 E-Money Issuers - Banks
- 3 E-Money Issuers – Non Banks

These EMIs currently have an agent network of over 12,000 and continuously expand

In 2011, there were over 150 million e-money transactions amounting to PhP 535 Billion

- Over 50 rural banks with electronic banking (mostly mobile banking using e-money) from none in 2005



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Results so Far

- Increasing competition, enhancing efficiencies and lowering costs. Illustrative example: (Domestic)

Sending PHP 1,500 and Encashment	E-Money*	Remittance Agent	Pawnshop*	Bank
Total for P1500 principal amount	P11.50	P120	P80	P152.50
% of PHP 1,500	.7%	8%	5.3%	10%

**Average of 2 e-money providers/pawnshops*



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Results so Far:

- Enabling meaningful retail payments: Government to People (G2P)
 - E-money is now being used to deliver Conditional Cash Transfers (CCTs)
 - Government savings in reaching 400 municipalities 500,000 beneficiaries
- Presents potential for similar opportunities – Public school teachers? Soldiers?



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Liberalized Customer Onboarding

- Circular 706, Updated Anti-Money Laundering Rules and Regulations
 - Provides scope for banks to have a risk-based and tiered system of classifying customers
 - Establishes a framework for applying reduced, average and enhanced due diligence based on the type of customer as well as for customer acceptance, retention and identification process and record keeping



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Lower Barriers to Customer Acquisition

- Circular 706, Updated Anti-Money Laundering Rules and Regulations
 - Allows the outsourcing or relying on a third party, the following:
 - Face-to-face requirement
 - Gathering of information and documents
 - Uses the liberalized list of accepted IDs



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Opportunity for Banks

- Classify transactions, based on appropriate framework, small value transactions as low risk
- Lower cost in acquiring customers
- Less physical barriers in reaching and serving new markets
- Decreased transaction cost in customer retention and record keeping, particularly for microfinance.
- Increased opportunity in remittance business



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Consumer Protection

- Issuance of price transparency and disclosure rules for all credit granting entities (banks and non banks and even businesses with credit activities)
- Issuance of market conduct regulations particularly behavior of agents



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Financial Education

- Steady advocacy for personal finance and financial literacy
- Establishment of Comprehensive Economic and Financial Learning Program with various targeted audiences
- Conduct of financial learning for microfinance client sand the unbanked
- Conduct of Fin-ed Expos



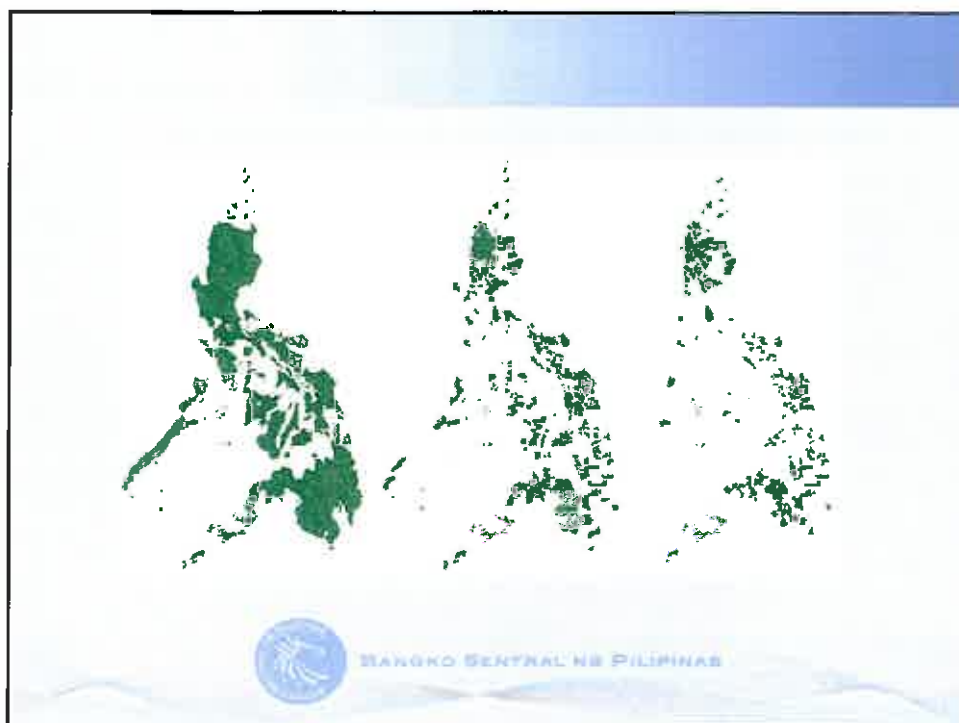
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Data Collection and Management

- Initial status report on state of financial inclusion in the Philippines
- Spatial Mapping and Geo coding of access points
- Participation in international fora on financial inclusion data
- Preparatory work for national base line survey and product catalogues



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Vision of an Inclusive Financial System

- Providing access to financial services for all
- Characteristics of an inclusive financial system:
 - 1) wide range of financial services that serve different market segments,
 - 2) financial products appropriately designed, priced and tailor-fitted to market need,
 - 3) wide variety of strong, sound and duly authorized financial institutions utilizing innovative delivery channels and
 - 4) effective interface of bank and non-bank products, delivery channels, technology and innovation to reach the financially excluded

(Philippine Development Plan 2011-2016)



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THANK YOU.

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