Overview of Microfinance and Financial Inclusion
Presentation Outline

• Access to Finance Scenario
• Early Attempts to Provide Credit to the Unserved
• Microfinance Policy and Regulatory Framework
• BSP Program for Microfinance
• Microfinance Today
• Moving Forward to Financial Inclusion
• Overview of Financial Inclusion Initiatives
Philippine Banking System

- Philippine Banking System is three tiered:
  - **Universal and Commercial Banks:** largest type of bank in terms of resources and scope of banking activities
  - **Thrift Banks:** savings and mortgage banks, private development banks targeting SME sector, consumer loans
  - **Rural and Cooperative Rural Banks:** relatively smaller banks in rural communities, serving needs of local economies.
Philippine Banking System

- 9,543 banking offices (683 head offices; 8,860 branches and other offices)

<table>
<thead>
<tr>
<th>Bank Type</th>
<th>Total</th>
<th>Head Offices</th>
<th>Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal and Commercial Banks</td>
<td>5,234</td>
<td>36</td>
<td>5,198</td>
</tr>
<tr>
<td>Thrift Banks</td>
<td>1,662</td>
<td>70</td>
<td>1,592</td>
</tr>
<tr>
<td>Rural and Cooperative Banks</td>
<td>2,647</td>
<td>577</td>
<td>2,070</td>
</tr>
</tbody>
</table>

- 13,129 ATMs
- 112 banks with electronic banking

(Data as of end-June 2013)
Current Access to Finance Scenario

- 610 of 1,634 (37%) municipalities have no banking office
- Regional disparity in distribution of access points
- Concentration of banking services in the high income, urban areas (43% of total number of deposit accounts and 67% of total amount of deposits are in National Capital Region)
- Only 2 out of 10 households have a deposit account (Consumer Finance Survey 2009)
- Archipelagic barriers pose a large access to finance challenge
Early Attempts to Provide Credit

- Government intervened in credit market thru Directed Credit Programs (DCPs) for marginalized sectors e.g. farmers, fisherfolk)
- DCPs found to be unsustainable and inefficient
- DCPs did not reach target markets
- Government credit and financial market policies changed from supply-led to market-oriented
Shift in Government Policy

• Social Reform and Poverty Alleviation Act: Government recognized microfinance as a tool for poverty alleviation, emphasized the market-based approach

• National Strategy for Microfinance (1997):
  ✓ Greater role of private MFIs in the provision of financial services
  ✓ An enabling policy environment that will facilitate the increased participation of the private sector in microfinance
  ✓ Market-oriented financial and credit policies
  ✓ Non-participation of government line agencies in the implementation of credit and guarantee programs

• Other issuances: Executive Order 138, Regulatory Framework for MFIs, Performance Standards for MFIs
Regulatory Framework For MFIs

• Principles of regulation:
  – Deposit-taking institutions subject to risk-based prudential regulation and supervision
  – Non-deposit taking institutions subject to appropriate regulations

• Regulatory framework:
  – Bangko Sentral ng Pilipinas for all banks, including those with microfinance operations
  – Cooperative Development Authority for all cooperatives including those with credit operations
  – Microfinance Council of the Philippines as designated repository of information for microfinance NGOs
What is Microfinance?

- Provision of a broad range of services: deposits, loans, payments/ money transfers, insurance
- For the low-income entrepreneurial poor and their households
- Based on client cash-flow, character/creditworthiness, sometimes uses collateral substitutes
- Small amounts, frequent amortization, simple documentation
- Use of effective microfinance methods (group or individual) with element of social responsibility
- Market-based interest rates, demand-driven delivery
- NOT “consumption loan”
- NOT for “dole-out, for “ultra-poor” or “cure-all for poverty”
BSP and Microfinance

• The General Banking Law (2000) provides legal basis for BSP to mainstream microfinance in the banking sector

• The BSP program for microfinance is three-pronged:
  – Development of a microfinance “friendly” policy and regulatory environment
  – Capacity building within the BSP and the banking sector
  – Promotion and advocacy efforts
BSP Program for Microfinance

• Creation of an enabling policy and regulatory environment for microfinance
  – Provide incentives to expand scope and scale of microfinance operations in the banking sector
  – Set performance standards, reporting requirements to ensure sound and sustainable operations
  – Various regulations were issued to achieve an enabling environment
# BSP Program for Microfinance

- **Training and capacity building**
  - Building banks’ capacity for microfinance in areas of internal controls, portfolio and risk management, governance
  - Exposure visits of top management to inform policy making
  - Examiner trainings to strengthen supervisory capacity
  - Institutionalization of microfinance within the BSP
    - MSME Finance Specialist Group
    - Inclusive Finance Advocacy Staff
BSP Program for Microfinance

- Promoting and advocating for sustainable microfinance
  - Participation in the legislative process
  - Partnerships to promote sustainable microfinance (NCC-DOF, MCPI, RBAP, MABS, donors)
  - Establishing linkages between large financial institutions with retail microfinance institutions
- Promoting consumer education in microfinance (e.g. Financial learning seminar for microfinance clients and the unbanked)
- Promoting consumer protection in microfinance (e.g. transparency and disclosure standards)
<table>
<thead>
<tr>
<th>Philippine Microfinance Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Philippine microfinance regulatory environment consistently ranked as best among 55 countries <em>(The Economist Intelligence Unit, Global Microscope for Microfinance, 2009-2013)</em></td>
</tr>
<tr>
<td>• Microfinance is fully mainstreamed in the formal financial system (e.g. institutionalized means for NGOs to transform into formal financial institutions)</td>
</tr>
<tr>
<td>• Financial institutions see microfinance as profitable and consider clients as consumers not beneficiaries</td>
</tr>
<tr>
<td>• 186 banks with microfinance operations serving over a million clients with outstanding portfolio of PhP 8.035 billion. These clients are saving PhP 8.872 billion (June 2013)</td>
</tr>
</tbody>
</table>
Philippine Microfinance Today

- Technological innovation helps increase scale and efficiency of operations (e.g. mobile banking)
- Wide range of services for microfinance clients (microenterprise loans, housing microfinance loans, micro-agri loans, microfinance plus, microdeposits)
- Local and international commercial institutions increasingly interested to invest in microfinance
- Industry has attracted microfinance institution rating agencies
- Microfinance data sharing system (MiDaS) currently being piloted by 8 MFIs
- Central Credit Information Corporation currently being established (mandated by Credit Information System Act of 2008)
Lessons Learned

- In addressing financial access issues like access to housing finance, *market based solutions* are feasible and should be encouraged. It is necessary to establish a *supportive regulatory environment* for the said market based solutions to work.

- These solutions, of course, present real and *valid risks but these are concerns that can be managed*.

- All financial service providers should be properly and *proportionately regulated* to uphold *consumer protection* and *financial system integrity*.

- Above are the guiding principles of the advocacy of the BSP for Financial Inclusion.
Moving Towards Financial Inclusion

- Financial inclusion: A state wherein there is effective access to a wide range of financial services by all.
  - Presence of a **wide range of financial services** that serve different market segments
  - Assurance of the **relevance, responsiveness and quality of products/services** (financial products appropriately designed, priced and tailor-fitted to market need)
  - Presence of a wide variety of **strong, sound and duly authorized financial institutions** utilizing innovative delivery channels
  - Enabling the effective **interface of bank and non-bank** products, delivery channels, **technology and innovation** to reach the financially excluded
  - Adequately **educated and protected citizenry** confident to make well-informed financial decisions
  - Comprehensive and robust financial inclusion **data and measurement**

- Consistent with the government vision for the financial sector (*Philippine Development Plan 2011-2016*)
Deliberate Approach to Financial Inclusion

- Fully understand the business model
- Proceed with caution and flexibility
- Institute risk-based supervision – proportionality is key!
- Support continuous innovation
- Strengthen internal capacity
  - Creation of high-level Inclusive Finance Steering Committee
  - Four inter-departmental working groups (policy, financial education and consumer protection, data, advocacy programs)
Key Financial Inclusion Strategy

- Data Measurement and management
- Policy, Regulation and Supervision
- Consumer Protection and Financial Education
- Advocacy
Wide Range of Products
- Microdeposits
- Microenterprise Loan
- Microfinance Plus
- Micro-agri Loans
- Housing Microfinance
- Microinsurance

Expanded Physical Network
- Liberalized Branching
- Micro-Banking Offices (MBOs)

Liberalized Customer On-Boarding
- Updated Anti-Money Laundering
- Rules and Regulations

Expanded Virtual Reach
- E-money Issuers
- E-money Network Service Providers

Policy and Regulation

Financial Education and Consumer Protection

Financial Inclusion Data Framework

Financial Inclusion Advocacy
Wide Range of Products

- Become more responsive to the wide range of client needs
- Increase the microfinance client base
- Provide microinsurance products which were previously an exclusive domain of large universal and commercial banks
- Diversify income streams for banks

Results so far:
- 19 banks offering housing microfinance with an outstanding portfolio of PhP 235.3 Million (June 2013)
- 35 banks providing micro-agri loans with an outstanding portfolio of PhP 845.12 Million (June 2013)
- 76 banks issued with notice to get full authority to offer microinsurance (May 2013)
Expanded Physical Network

- Establishment of MBOs to address obstacles in establishing bank offices (e.g. requirements proportionate to level of activity)
- Relatively low cost (i.e. low infrastructure, no theoretical capital needed)
- Viable in light of complete range of product offerings:
  - 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
### Results so Far

<table>
<thead>
<tr>
<th>Applications</th>
<th># of Applications</th>
<th># of Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conversion /Establishment of MBOs</td>
<td>50</td>
<td>546</td>
</tr>
<tr>
<td>Retention as Regular OBO</td>
<td>51</td>
<td>207</td>
</tr>
<tr>
<td>Conversion to Branch/Extension Office</td>
<td>9</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>110</strong></td>
<td><strong>784</strong></td>
</tr>
</tbody>
</table>

*Data as of end-March 2013

This is significant as there are around 49 municipalities which are serviced only by MBOs! (as of end-June 2013)
Expanded Virtual Reach

Circular 649, Electronic Money Issuance
Circular 704, Electronic Money Network Service Providers

- Enables an efficient retail payments through the e-money issuance platform
- Banks can develop linkages with e-money issuers/e-money network service providers; establish/leverage on a ubiquitous agent network; reduce costs by outsourcing automated systems, technology infrastructure, and agent networks.
- As clients can transact remotely using the e-money platform, banks increase value of service to clients, increase efficiency, lower costs, reach new clients
Results so Far

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

These EMIs currently have an agent network of over 15,000, and continuously expanding

In 2012, there were over 188 million e-money transactions amounting to PhP 613 Billion

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

- Increasing competition, enhancing efficiencies and lowering costs. Illustrative example of domestic remittance costs

<table>
<thead>
<tr>
<th>Sending PhP 1,500 and Encashment</th>
<th>E-Money*</th>
<th>Remittance Agent</th>
<th>Pawnshop*</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total for P1500 principal amount</td>
<td>P11.50</td>
<td>P120</td>
<td>P80</td>
<td>P152.50</td>
</tr>
<tr>
<td>% of PHP 1,500</td>
<td>0.7%</td>
<td>8%</td>
<td>5.3%</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Average of 2 e-money providers/ pawnshops
Results so Far

- Enabling government to people (G2P) transfers
  - E-money is now being used to deliver Conditional Cash Transfers (CCTs)
  - Government savings in reaching 400 municipalities 500,000 beneficiaries
  - Digitization of major government processes (pilot projects of Department of Budget and Management and Better Than Cash Alliance)
    - Distribution of benefits to retired military and police personnel
    - National payroll system
    - Government procurement of supplies and services
Liberalized Customer On-Boarding

• Circular 706, Updated Anti-Money Laundering Rules and Regulations
  – Risk-based, tiered system of classifying customers: reduced due diligence, lesser document retention period
  – Small value transactions may be classified as low risk
  – Allows outsourcing/reliance on a third party of the following:
    • Face-to-face requirement (KYC)
    • Gathering of information and documents
  – Uses the liberalized list of acceptable IDs
• Benefits:
  – Lower cost in acquiring customers, decreased transaction costs
  – Less physical barriers in reaching and serving new markets
Consumer Protection

- Issuance of price transparency and disclosure rules for all credit granting entities (banks, non-banks, even businesses with credit activities)
- Issuance of market conduct regulations, particularly behavior of agents
- Institutionalized consumer assistance mechanism
- Dedicated BSP Unit: Financial Consumer Affairs Group

TRUTH AND TRANSPARENCY IN LENDING
Enhanced Implementation of the Truth in Lending Act (Republic Act 3765)

The State protects its citizens from a lack of awareness of the true cost of credit to the customer by assuring a full disclosure of such cost and other terms and conditions with a view of preventing the uninformed use of credit.

As such, a disclosure statement is a required attachment to the loan contract. It shall include, at a minimum, the following information:

1) Total amount to be financed
2) Finance Charges and all other charges incident to the loan
3) Net proceeds of the loan
4) Schedule of Payments
5) The percentage that the finance charge bears to the total amount to be financed expressed as an Effective Interest Rate (EIR)

IMPORTANT NOTICE
The borrower has a right to demand a copy of the disclosure statement
Financial Education and Consumer Protection

- Steady advocacy for personal finance and financial literacy:
  - BSP Economic and Financial Learning Program (EFLP)
    - Economic and Financial Learning Centers in regional offices
    - Financial Education Expos
    - Public Information Campaign
  - Financial Learning Campaign for target audiences
    (overseas Filipinos and their beneficiaries; microfinance clients and the unbanked; youth)
- Continued promotion of consumer protection
  - Enhanced regulations in loan transaction transparency
  - Institutionalized consumer assistance mechanism
Financial Education

- Comprehensive Economic and Financial Learning Program (EFLP) targeting different audiences:
  - Students
  - Employed
  - Overseas Filipinos and their beneficiaries
- Conduct of Financial Education Expos
- Development of financial education modules for primary schools
- Economic and Financial Learning Centers (EFLC)
- Financial literacy sessions for beneficiaries of the Conditional Cash Transfer program of government
Advocacy Programs

• BSP Stakeholder Awards
  – Financial Inclusion Partner
  – Financial Inclusion Champion
• Awards program for microentrepreneurs (Citi Microentrepreneurship Awards)
• Awards program for microfinance institutions (Paeng Microfinance Awards)
• Kiddie Savings Program
• Credit Surety Fund
• Promoting the use of the Philippine Payments and Settlements System by smaller banks
Data Collection and Management

- Data team in the Inclusive Finance Advocacy Staff
- Initial status report on state of financial inclusion in the Philippines
- Periodic publication of financial inclusion reports
- Spatial mapping and geo coding of access points
- Preparatory work for:
  - National baseline survey for financial inclusion
  - Product catalogues
  - Financial capability study
- Participation in international fora on financial inclusion data
THANK YOU!

www.bsp.gov.ph
Links to relevant information on BSP website

• Annual reports on BSP microfinance/financial inclusion initiatives:
  http://www.bsp.gov.ph/about/advocacies_micro.asp

• Financial inclusion quarterly publication

• BSP Circulars related to microfinance:
  http://www.bsp.gov.ph/about/advocacies_micro_circ.asp

• BSP Circulars search page:
  http://www.bsp.gov.ph/regulations/regulations.asp

• Financial education/consumer assistance initiatives:
  http://www.bsp.gov.ph/about/advocacies_fin.asp

• Advisories/primers for financial consumers:

• Manual of Regulations:
Contact Information

Inclusive Finance Advocacy Staff
Office of the Deputy Governor
Supervision and Examination Sector
10th Floor, Multi-Storey Building
BANGKO SENTRAL NG PILIPINAS
Mabini Street, Manila, Philippines

(632) 708-7701 local 2896
(632) 708-7482

Eduardo C. Jimenez, BSP Microfinance Consultant (ejimenez@bsp.gov.ph)
Pia Bernadette Roman Tayag, Head, IFAS (proman@bsp.gov.ph)
Rochelle D. Tomas, Bank Officer, IFAS (tomasrd@bsp.gov.ph)