Report on the State of Financial Inclusion in the Philippines

BANGKO SENTRAL NG PILIPINAS
Inclusive Finance Advocacy Staff
Supervision and Examination Sector

EXECUTIVE SUMMARY

The Bangko Sentral ng Pilipinas (BSP) has taken deliberate steps to build a more inclusive financial system that is responsive to the needs of the Filipino people especially those who are underserved and unserved. As we continue with our work, it is necessary to take stock of our achievements, benchmark our progress and chart a well-defined way forward. Toward this end, a comprehensive and up-to-date financial inclusion data framework is necessary.

Using all available information, the maiden report on the state of financial inclusion attempts to provide a broad view of the current state of financial inclusion that can be used to identify vulnerabilities, establish priorities, and craft evidence-based financial inclusion policies. The report uses the internationally accepted lenses of financial inclusion measurement of: *access* (presence and proximity of financial service providers), *usage* (adoption, regularity and permanence of services), *quality* (consumer experience) and *welfare* (consumer impact). Given the data limitations at hand, the report focused on the access to financial system's infrastructure and use of financial services.

The report suggests a picture of a financial system that has become more inclusive over the years, with sustained expansion in the network of banks, ATMs and other financial service providers (FSPs). Although concentration is evident in highly populous and urbanized regions such as NCR, CALABARZON and Central Luzon, the recent high growth rates observed in some regions with low banking presence is a positive indicator of increased access in areas that deserve extended reach. For some regions (e.g., CAR), numerical count may appear small but the level of access may be deemed proportionate to the adult population and habitable area. However, regions such as ARMM and Eastern Visayas may merit attention for consistently belonging to the bottom group for most of the inclusion indicators presented in the report.

The presence of alternative FSPs such as pawnshops, remittance agents, money changers/ foreign exchange dealers, and mobile banking agents presents a significant opportunity for financial inclusion. As shown in a study, 55 percent of the population (95 percent being poor) use these access points for various transactions. Developments in mobile technology have also allowed these alternative FSPs as channels to access financial services. While 609 out of 1,634 municipalities (15.2 percent of the population) are unbanked, only 372 municipalities (7.6 percent of the population) remain unserved because of the presence of alternative FSPs.

The BSP has sufficient supply-side information on the access dimension of financial inclusion. Moving forward to demand-driven data gathering to inform a meaningful insight into the usage, quality and welfare dimensions will be necessary in constructing a clearer picture of financial inclusion.

Background

The Bangko Sentral ng Pilipinas (BSP) has taken deliberate steps to build a more inclusive financial system that is responsive to the needs of the Filipino people especially those who are underserved and unserved. The existing financial inclusion strategy recognizes the need for a wider range of products, expanded network of financial service providers, extended virtual reach through innovative delivery channels, lower barriers to access and use of financial services and ensuring that consumers are informed and protected. To date, an enabling policy and regulatory environment has been put in place to minimize the gaps in access to finance.

While significant progress has been made, much work needs to be done. As we continue with our work, it is necessary to take stock of our achievements, benchmark our progress and chart a well-defined way forward. One of the areas that deserve priority attention is the creation of a comprehensive financial inclusion data framework. The technical assistance from the Alliance for Financial Inclusion (AFI)[1] noted that existing information pertaining to financial inclusion in the Philippines is scattered and lacks continuity. Thus, there is a need to fill the data gaps and improve the collection of financial inclusion data. A recent focus has been set on the collation of inclusion-relevant information as a measurement strategy to better assess the levels and trends of financial inclusion in the country.

Using all available information, this report provides a broad view of the current state of financial inclusion in the Philippines. Leveraging existing datasets is seen as the first step to know where we are and where to go moving forward. This also serves as an inventory that can be used to identify vulnerabilities, establish priorities, and craft evidence-based financial inclusion policies.

Financial Inclusion Data

There are four commonly used lenses through which financial inclusion can be measured - **access, quality, usage** and **welfare.**

- Access refers to the supply and availability of financial products and services from formal institutions.

[1] AFI is a global network of central banks and other financial inclusion policy making bodies in developing countries that provides its members with the tools and resources to share, develop and implement their knowledge of financial inclusion policies.

- Usage captures the levels and patterns of use of different financial products and services.

- Quality encompasses the experience of the consumer, demonstrated in attitudes and opinions towards those products that are currently available to them.

- Welfare measures the impact of a financial product or service on the lives of consumers, including changes in consumption, business activity and wellness.

Four lenses to measure financial inclusion

Financial inclusion data may be derived from two main sources, namely: supply-side and demand-side. Supply-side data capture information obtained from financial service providers such as banks and other financial institutions. These typically include data on the number of banks, automated teller machines (ATMs), and other financial touch points. Demand-side data, on the other hand, are collected from actual and potential users of financial products and services. They provide information about client experience and the needs of non-consumers.

The access and usage dimensions can usually be obtained from supply-side information. The quality and welfare dimension, while important, are more complex topics both conceptually and in terms of measurement, which require demand-side surveys and the use of qualitative indicators.[2] At present, most of the available information has been on the supply-side while adequate demand-side information is lacking and may not be in sufficient depth to measure inclusion.

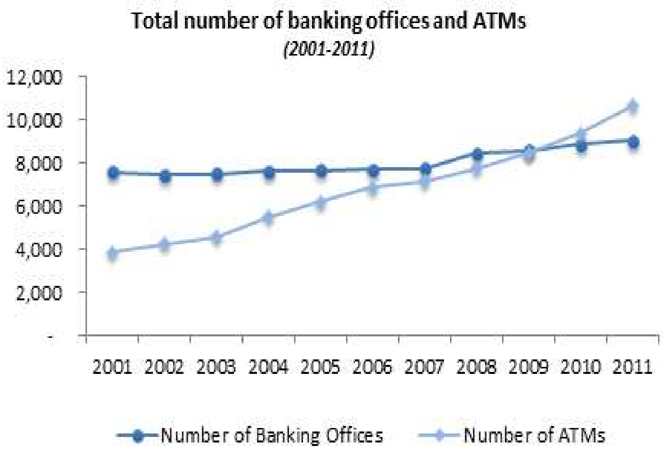
Given the data limitations at hand, this report focused on two main indicators: access to financial system's infrastructure and use of financial services. Data used were derived mostly from regulatory reports provided by supervised institutions to the BSP.[3] The scope of this report is confined primarily to the information that the BSP, through its Inclusive Finance Advocacy Staff, has already collected.

[2] Based from the AFI policy paper entitled *Financial inclusion measurement for regulators: survey design and implementation* (2010).

[3] External data were sourced from the Philippine Deposit Insurance Corporation (PDIC) for data on deposits, the National Statistics Office (NSO) for population figures and the National Statistical Coordination Board (NSCB) for regional and geographical information.

Access to financial services and reach of financial infrastructure

The reach of the financial system is measured by the distribution of financial institutions in the country. In the Philippines, banks are the major players in financial services with the banking sector accounting for more than 80 percent[4] of the total resources of the financial system. As such, bank branches and ATMs serve as the basic distribution channels of financial services.



Source: BSP

On a year-on-year basis, the Philippine banking system's overall physical network continued to experience sustained expansion. The total number of banking offices in the country increased from 7,585 in 2001 to 9,015 in 2011. The ATM network of the banking system likewise expanded and posed even faster growth. There was a substantial increase in the number of ATMs from 3,882 in 2001 to 10,658 in 2011.

Regional data

The distribution of banking offices across the 17 regions of the country shows marked disparities. Bank branches are highly concentrated in NCR, CALABARZON and Central Luzon. This suggests the natural and economic tendency of banks to establish branches in highly populous and urbanized areas. On the other hand, regions that belong to the bottom quantile in terms of banking presence are the ARMM, Cordillera Administrative Region (CAR), and Eastern Visayas (Region VIII). Bank count is also small in Zamboanga Peninsula (Region IX) and MIMAROPA.

The regional ATM distribution exhibits a similar trend with that of regional bank distribution with NCR, CALABARZON and Central Luzon accounting for 67 percent of the total number of ATMs in the country. ARMM has the least number of ATMs followed by MIMAROPA and Caraga.

[4] Figure taken from the Philippine Development Plan 2011-2016, Chapter 6: Towards a Resilient and Inclusive Financial Sector

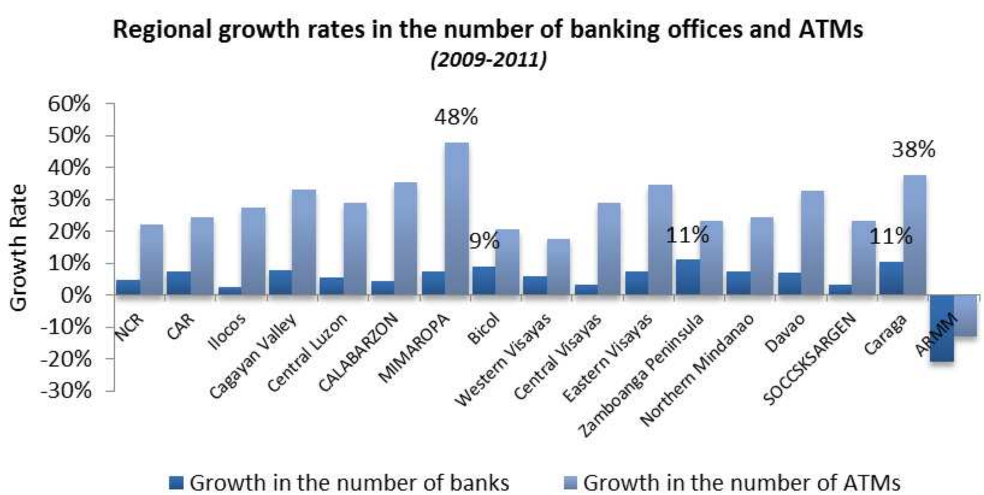
Regional distribution of banking offices[1/] and ATMs

	Region	Number of bank offices			Number of ATMs		
		2009	2010	2011	2009	2010	2011
	NCR	2,783	2,876	2,892	3,867	4,225	4,725
	CAR	136	138	146	114	126	142
I	Ilocos	391	403	401	241	272	307
II	Cagayan Valley	252	257	272	112	135	149
III	Central Luzon	892	914	940	681	770	879
IV-A	CALABARZON	1,295	1,314	1,350	1,133	1,303	1,535
IV-B	MIMAROPA	176	184	189	69	78	102
V	Bicol	258	271	281	178	193	215
VI	Western Visayas	502	515	531	400	431	471
VII	Central Visayas	565	580	584	605	680	781
VIII	Eastern Visayas	160	165	172	122	145	164
IX	Zamboanga Peninsula	163	171	181	129	144	159
X	Northern Mindanao	305	320	328	238	257	296
XI	Davao	316	333	338	301	323	400
XII	SOCCSKSARGEN	186	190	192	168	184	207
XIII	Caraga	180	193	199	77	84	106
	ARMM	24	19	19	23	19	20
	Philippines	8,584	8,843	9,015	8,458	9,369	10,658

**Blue – Top 3; Red – Bottom 3*

[1/]Banking offices include local head office, regular branches, microfinance-oriented branches, extension offices, and OBOs/MBOs.

Source: BSP



Source: BSP

While there are regions with small banking and ATM presence…

The growth rate in the number of bank branches and ATMs from 2009 to 2011 in these regions is noteworthy. The highest increase in banking presence was observed in Caraga, Zamboanga Peninsula and Bicol Region. The high growth rate observed in Zamboanga Peninsula is worth mentioning considering that this region belong to the bottom group in terms of number of banks. Caraga and MIMAROPA experienced the highest growth in the number of ATMs outlets, which is also remarkable given that these regions are among those which have the least number of ATMs.

Financial access indicators

In 2011, bank density ratio stood at 6 banks per city/municipality which is an improvement from the national figure in the past ten years which was 5 banks per city/municipality.[5] From 2009 to 2011, the percentage of cities and municipalities with at least one banking office remained at 63 percent. This may suggest that branch and other office expansion may not have much contribution in increasing the number of municipalities in the country with banking offices. As the distribution of banks is determined by business decisions such as cost, profitability, and business opportunities, the impact of branch expansion may be in terms of broadening the breadth of financial services available in localities with banking presence.

On a regional basis, the same trend is evident where NCR, CALABARZON and Central Luzon lead in having the most number of cities and municipalities with bank branches. On the other hand, the regions noted earlier for having the least number of banking offices such as Zamboanga Peninsula, CAR, Eastern Visayas and ARMM are the same regions having the smallest percentage shares of banked municipalities. While a decrease in the number of banked municipalities was observed in Ilocos, Cagayan Valley, Central Visayas and SOCCSKSARGEN, six regions experienced improvement especially Zamboanga Peninsula, Caraga and MIMAROPA. Seven regions, except for NCR which is already 100 percent banked, showed no improvement.

[5] According to the Status Report on the Philippine Financial System, Second Semester 2011

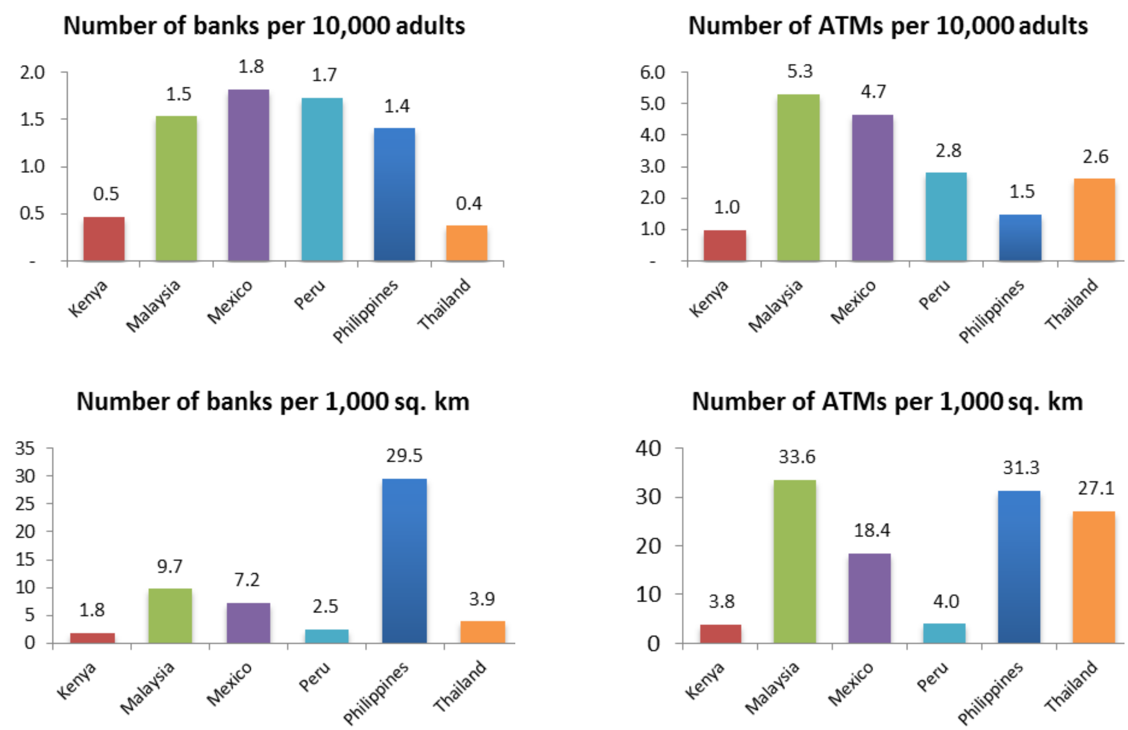
Regional distribution of cities and municipalities with at least one banking office

Region		Total No. of cities & municipalities	2009		2010		2011	
			Count	% Share to Total	Count	% Share to Total	Count	% Share to Total
	NCR	17	17	100%	17	100%	17	100%
	CAR	77	27	35%	27	35%	27	35%
I	Ilocos	125	92	74%	92	74%	91	73%
II	Cagayan Valley	93	70	75%	68	73%	68	73%
III	Central Luzon	130	119	92%	119	92%	120	92%
IV-A	CALABARZON	142	132	93%	133	94%	133	94%
IV-B	MIMAROPA	73	44	60%	45	62%	46	63%
V	Bicol	114	73	64%	73	64%	73	64%
VI	Western Visayas	133	105	79%	104	78%	105	79%
VII	Central Visayas	132	88	67%	87	66%	83	63%
VIII	Eastern Visayas	143	42	29%	42	29%	43	30%
IX	Zamboanga Peninsula	72	25	35%	25	35%	27	38%
X	Northern Mindanao	93	60	65%	61	66%	60	65%
XI	Davao	49	39	80%	40	82%	39	80%
XII	SOCCSKSARGEN	50	35	70%	34	68%	33	66%
XIII	Caraga	73	49	67%	53	73%	52	71%
	ARMM	118	8	7%	8	7%	8	7%
Philippines		1,634	1025	63%	1028	63%	1025	63%

**Blue – Top 3; Red – Bottom 4*
Source: BSP

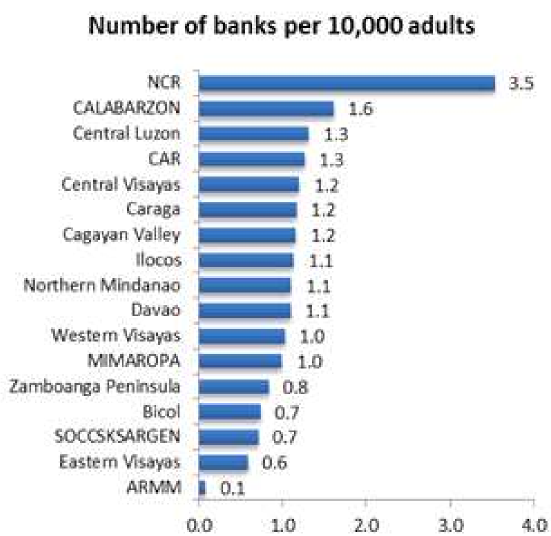
There is roughly one bank for every 10,000 Filipino adults[6]. This demographic indicator[7] did not change significantly from 2010 to 2011. Compared with countries identified as appropriate peers for benchmarking financial inclusion levels in the Philippines[8], this measure is lower than that of Mexico, Peru and Malaysia but higher than that of Kenya and Thailand. The number of ATMs per 10,000 adults increased from 1.5 in 2010 to 1.7 in 2011 so approximately, there are 2 ATMs per 10,000 Filipino adults. This indicator, however, is lower than the figures for all of the countries in the peer group except Kenya. As to the geographic indicators, the Philippines has the most number of banks per 1,000 km^2 and next to Malaysia in terms of number of ATMs per 1,000 km^2. Larger numbers of branches and ATMs per square kilometers reflect smaller distance to the nearest physical bank outlet and thus easier geographic access.

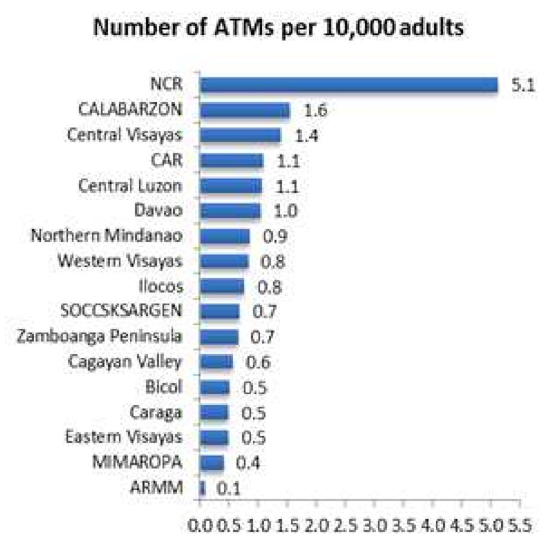
[6] Adults refer to the population aged 15 years old and above.
[7] Per capita measures of branches and ATMs reflect the average number of people served by each physical outlet and therefore higher values imply fewer clients per branch or ATM, or in other words easier access.
[8] As identified by the data gap assessment report which is the output of the technical assistance provided by the AFI to the BSP.

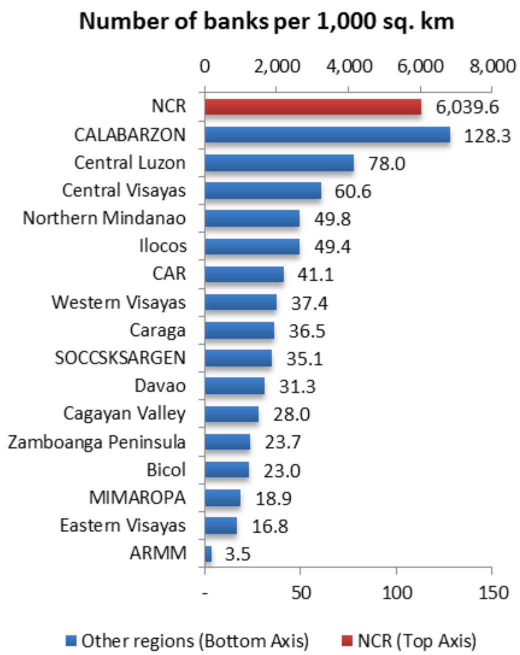


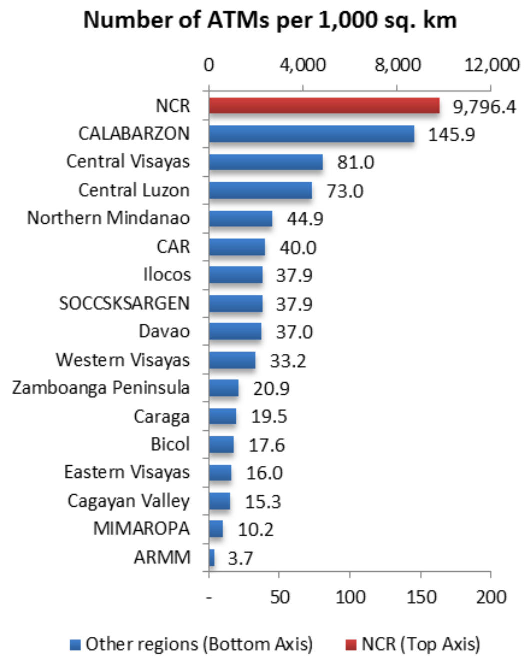
Source: AFI FIDWG (2010)

As to the regional distribution of demographic indicators, NCR leads with roughly 4 banks and 5 ATMs per 10,000 adults. Next is CALABARZON with about 2 banks and 2 ATMs per 10,000 adults. In terms of geographic penetration, NCR is an outlier with 6,040 banks and 9,797 ATMs per 1,000 km^2 followed by CALABARZON with 128 banks and 146 ATMs per 1,000 km^2.









**2011 data*. Geographical area considers alienable and disposable land only, and excludes forest land, per NSCB classification.
Source: BSP

Financial access indicators can be further enhanced by adding percentage share of habitable land and the population in these areas. Having this information places these indicators in a clearer and more cogent perspective.

A feature which may be of concern is the case of ARMM and Eastern Visayas. It has been noted that these regions have the least access to banking services. These two regions are consistently in the bottom group in all of the geographic and demographic bank and ATM penetration indicators.

	Region	% share of habitable land	Number of adults per 1,000 hectare
	NCR	76%	170,771
	CAR	19%	3,246
I	Ilocos Region	63%	4,362
II	Cagayan Valley	36%	2,408
III	Central Luzon	56%	5,944
IV-A	CALABARZON	65%	7,980
IV-B	MIMAROPA	36%	1,900
V	Bicol Region	69%	3,094
VI	Western Visayas	70%	3,645
VII	Central Visayas	65%	5,030
VIII	Eastern Visayas	48%	2,869
IX	Zamboanga Peninsula	48%	2,851
X	Northern Mindanao	47%	4,504
XI	Davao Region	40%	2,854
XII	SOCCSKSARGEN	38%	4,907
XIII	CARAGA	29%	3,123
	ARMM	47%	4,184

Source: NSCB, NSO

The demographic and geographic penetration indicators suggest that some regions are not as underbanked as they appeared to be…

CAR is one of the regions with the least number of branches and ATMs but it turned out that the number of banks and ATMs in this region is just proportionate to its adult population and habitable area. Zamboanga Peninsula is also one of those regions with small banking and ATM presence but it is not necessarily at the bottom group when the number of banks and ATMs is matched with its population and geographical area.

Other access points

Developments in banking technology have transformed banking service delivery from the traditional physical office infrastructure to a system supplemented by other innovative channels. Examples are electronic money (e-money) agents, as well as bank branches and ATMs with cash-in and cash-out (CICO) capabilities. Access points, as defined by the AFI Financial Inclusion Data Working Group (FIDWG) and G-20, are regulated units where CICO transactions can be performed. AFI noted though that individual countries may collect additional indicators that are relevant to their national context and policy questions.

There are other financial service providers (FSPs) such as pawnshops, money changers (MCs), remittance agents (RAs) and FX dealers that are helping to increase the access to financial services of underserved and unserved areas in the Philippines. It is thus worthy to consider these FSPs in the framework of financial inclusion. For purposes of this report, access points include banks, ATMs (especially off-site ATMs since locations of on-site ATMs overlap with the banks' location), e-money agents, pawnshops, MCs, RAs, and FX dealers.

Although regional distribution of alternative channels still exhibits the same trend where concentration is at NCR, CALABARZON and Central Luzon, their presence translates to more than 26,000 access points in addition to banks and ATMs. For instance, there are 152 additional FSPs in ARMM that may augment the financial services currently provided by the 19 bank branches in the region.

Regional distribution of other access points

Region		CICO Agents[1/]	Pawnshops	MCs, RAs, FX Dealers	Total
	NCR	598	4,265	3,108	7,971
	CAR	4	98	89	191
I	Ilocos Region	57	819	478	1,354
II	Cagayan Valley	33	391	188	612
III	Central Luzon	73	2,312	954	3,339
IV-A	CALABARZON	305	2,405	1,519	4,229
IV-B	MIMAROPA	5	337	219	561
V	Bicol Region	40	629	268	937
VI	Western Visayas	6	1,097	550	1,653
VII	Central Visayas	32	1,370	693	2,095
VIII	Eastern Visayas	18	425	275	718
IX	Zamboanga Peninsula	13	385	206	604
X	Northern Mindanao	8	503	305	816
XI	Davao Region	9	728	282	1,019
XII	SOCCSKSARGEN	5	581	223	809
XIII	CARAGA	14	261	131	406
	ARMM	-	123	29	152
	Philippines	1,220	16,729	9,517	27,466

**Blue – Top 3; Red – Bottom 3; as of end-year 2011*
[1/]*Based only from BPI-Globe BanKO agents*
Source: BSP

Municipal-level statistics

The average population of a municipality with at least one banking office is 76,421 while the median population is 43,676. On the other hand, the average and median population of an unbanked municipality is 22,995 and 19,455, respectively. These indicators provide supporting evidence on the significant relationship between the number of access points and size of the population.

Characteristics of municipalities with and without banks and other access points

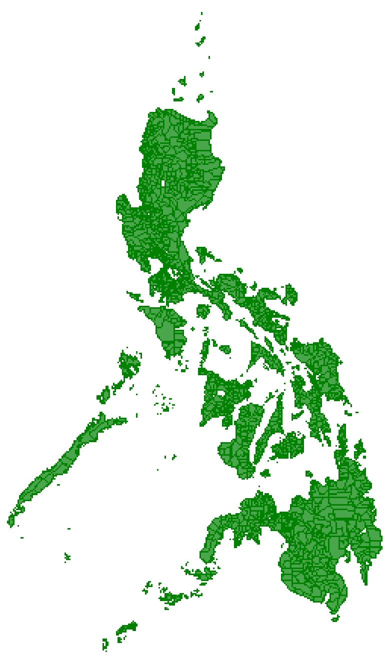
	Number of cities and municipalities	% to Total	Population	% to Total Population	Average population of the municipality	Median population of the municipality
With banks	1,025	62.7%	78,331,407	84.8%	76,421	43,676
Without banks	609	37.3%	14,003,706	15.2%	22,995	19,455
• Without banks but with other access points	237	14.5%	6,988,638	7.6%	29,488	27,031
• Without any access points	372	22.8%	7,015,068	7.6%	18,667	16,295

*As of end-year 2011
Source: BSP

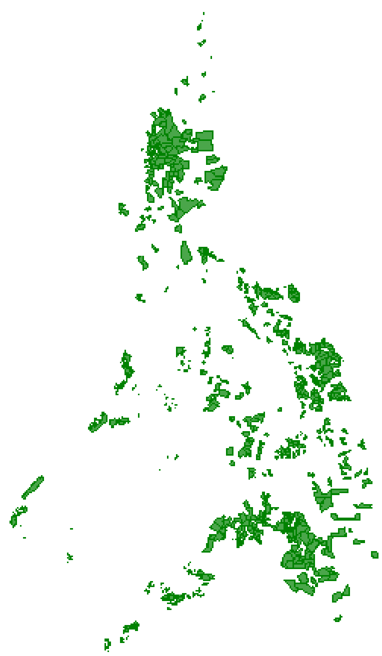
While 609 cities and municipalities do not have a banking office (37 percent are unbanked), 237 of these unbanked cities and municipalities have access to other access points, which decreases the unserved to 23 percent...

- The percentage of population living in these cities and municipalities accounted only for 15.2 percent of the total Philippine population
- 237 out of 609 municipalities (7.6 percent of the population) have no access to banks but have access to other FSPs
- 372 out of 609 municipalities (7.6 percent of the population) have no banks and other access points

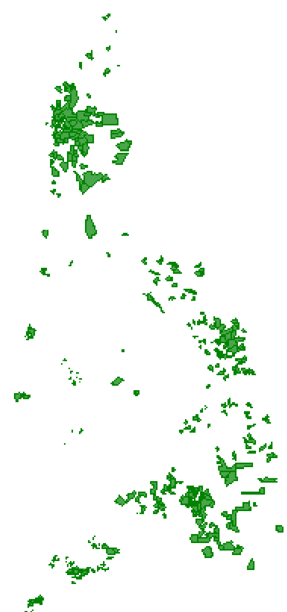
The following maps show the geospatial distribution of unbanked and unserved municipalities.



Philippines
1,634 municipalities
92 million Filipinos

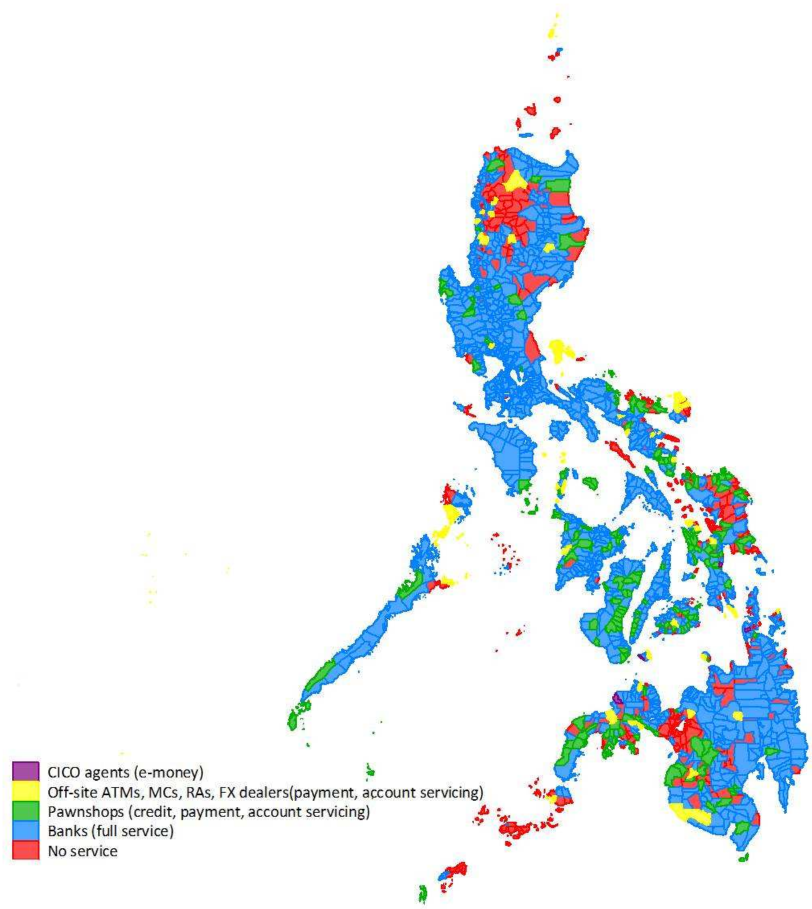


37% of the municipalities do not have banking presence
15.2% of the population



23% of the municipalities do not have access points
7.6% of the population

The succeeding map shows the range of financial services available in 1,634 municipalities of the country. Municipalities in blue are considered to have full access to financial services because at least one banking office is present in the area. In 87 percent of these municipalities (889 out of 1,025), there are other financial service providers such as pawnshops, MCs, RAs, FX dealers and e-money agents.



Municipalities in green do not have banking presence but have access to pawnshops. While the main business activities of pawnshops are lending money for interest based on valuable items that clients bring in, some pawnshops in the country are also licensed to be MCs, RAs, and FX dealers. Those in yellow have no access to banks and pawnshops but have access to account servicing and payment services through off-site ATMs, MCs, RAs and FX dealers. Four municipalities[9] coded in purple do not have access to any physical financial infrastructure but residents in these localities can carry out cash-in and cash-out transactions through mobile banking. The areas in red represent the municipalities that remain unserved.

[9] These are Mayorga, Leyte; San Juan, Siquijor; Sison, Surigao del Norte and Jose Dalman, Zamboanga del Norte.

The presence of alternative channels helps significantly in reaching the areas with no banking presence…

In Western Visayas, 28 municipalities are unbanked but 25 of these municipalities (89 percent) have other access points. In MIMAROPA and Central Visayas, 78 percent and 76 percent of the unbanked municipalties have alternative FSPs, respectively. Extended virtual reach through innovative delivery channels offers the promise of reducing the number of unserved municipalities in ARMM, CAR, Eastern Visayas, and Zamboanga Peninsula.

Regional distribution of unbanked and unserved municipalities

Region		Total Number of Cities & Municipalities	Without banking presence	% Share to Total	Without banks but with alternative access points	% Share to Total	No access points at all	% Share to Total
	NCR	17	0	0%	0	0%	0	0%
	CAR	77	50	65%	4	5%	46	60%
I	Ilocos	125	34	27%	11	9%	23	18%
II	Cagayan Valley	93	25	27%	5	5%	20	22%
III	Central Luzon	130	10	8%	7	5%	3	2%
IV-A	CALABARZON	142	9	6%	5	4%	4	3%
IV-B	MIMAROPA	73	27	37%	21	29%	6	8%
V	Bicol	114	41	36%	22	19%	19	17%
VI	Western Visayas	133	28	21%	25	19%	3	2%
VII	Central Visayas	132	49	37%	37	28%	12	9%
VIII	Eastern Visayas	143	100	70%	44	31%	56	39%
IX	Zamboanga Peninsula	72	45	63%	25	35%	20	28%
X	Northern Mindanao	93	33	35%	6	6%	27	29%
XI	Davao	49	10	20%	4	8%	6	12%
XII	SOCCSKSARGEN	50	17	34%	10	20%	7	14%
XIII	Caraga	73	21	29%	3	4%	18	25%
	ARMM	118	110	93%	8	7%	102	86%

**Blue – Top 3; Red – Bottom 3;* as of end-year 2011
Source: BSP

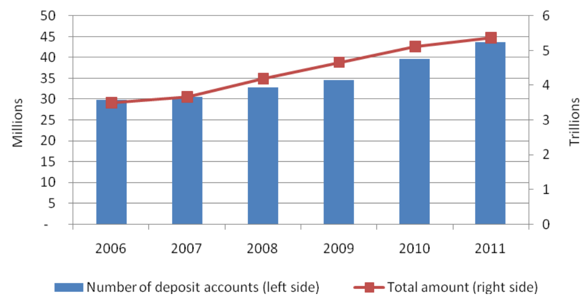
Usage

Effective access forms a precondition for usage. The amount of basic information on usage, however, remains limited to supply-side data on the number and amount of deposits and amount of loans outstanding.

Deposits

The number of deposit accounts increased from 29.87 million accounts in 2006 to 43.65 million accounts in 2011 or equivalently, a 46 percent growth in a span of 6 years. Similarly, the peso volume of deposits followed an increasing trend. The total amount of deposits held by banks increased from P3.5 billion in 2006 to P5.4 billion in 2011.

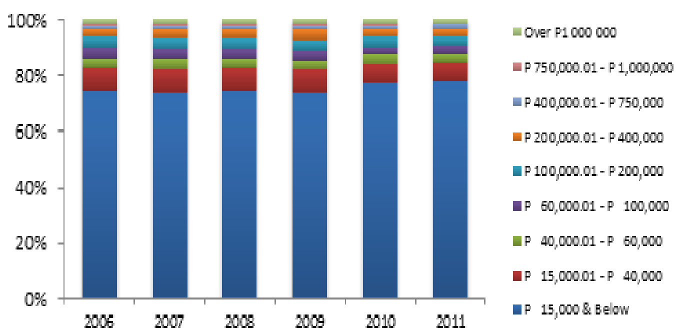
Number of deposit accounts and total amount of deposits (2006-2011)



Source: PDIC

In 2011, 78 percent of the total number of deposit accounts were below P15,000. Deposit accounts amounting from P15,001 to P100,000 accounted for 13 percent while the remaining accounts with large amounts covered marginal shares in terms of quantity. That most of the deposit accounts are in relatively small denominations[10] may suggest that Filipinos may not have enough money to deposit in banks or even if their level of income can allow them to place deposits in banks, they choose not to use the banks' deposit facilities. On the positive side, it is also possible that this indicates that banks are able to attract deposits from lower income individuals. These possibilities can be probed through demand-side surveys.

Distribution of deposits by deposit size
(2006 - 2011)



Source: PDIC

[10] In fact, 67 percent of the total number of deposit accounts were below P5,000.

One of the findings of the 2009 Consumer Finance Survey (CFS) is that 8 in 10 Filipino households did not have a deposit account.[11] Roughly 93 percent of those with no deposit accounts cited having no enough money for bank deposits as the primary reason. Others cited that they do not need a bank account, cannot manage an account, minimum balance is too high, and do not like to deal with banks and financial institutions. As to the regional distribution, about 28 percent of households in NCR hold deposit accounts while the percentage is smaller in regions outside NCR, at around 16 percent.

Loans

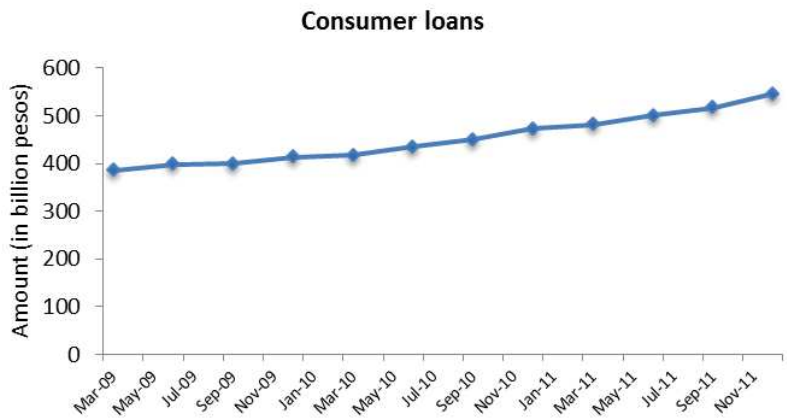
Based from the 2011 World Bank data[12], 10.5 percent of adult Filipinos had a loan from a formal financial institution in the past year. Other than this statistic, there are currently no available data on the number of loan accounts and information is limited to the amount of loans outstanding. As of end-year 2011, the loan portfolio of the banking system amounted to P3.3 trillion[13]. However, this volume does not reflect the actual use of loans by the consumers and individuals because it includes loans to governments and private corporations. The type of loans which may be of interest from the financial inclusion standpoint are the consumer loans. These include auto loans, residential real estate loans, credit card loans, and other loans for consumption purposes. In 2011, consumer loans accounted for about 16 percent of the banks' total loan portfolio. Residential real estate loans held bulk of consumer loans at 40 percent. Auto loans and credit card loans followed, each comprising about one fourth of the consumer loan portfolio. The remaining 10 percent comprised of other loans to individuals for consumption purposes.

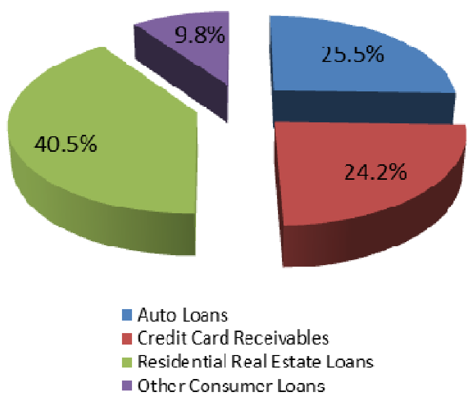
According to the 2009 CFS, a large percentage of household liabilities were consumer loans such as motor vehicle loans, personal loans, salary loans, all purpose loans, and credit card loans. However, the main sources of households' loans, except for credit cards, were non-banks. These included government housing institutions and money lenders for real estate loans; in-house financing for motor vehicle and appliance loans; and money lenders and cooperatives for other loans. When it comes to owning a credit card, about 4 percent of households had credit cards and majority reported having only one card.

[11] Based from the Global Financial Inclusion (Findex) Database, 26.6 percent of all adult Filipinos have an account at a formal financial institution. The indicators in database are drawn from survey carried out in 2011 by Gallup, Inc. as part of its Gallup World Poll, using randomly selected, nationally representative samples. The target population is the entire civilian, non-institutionalized population age 15 and older.

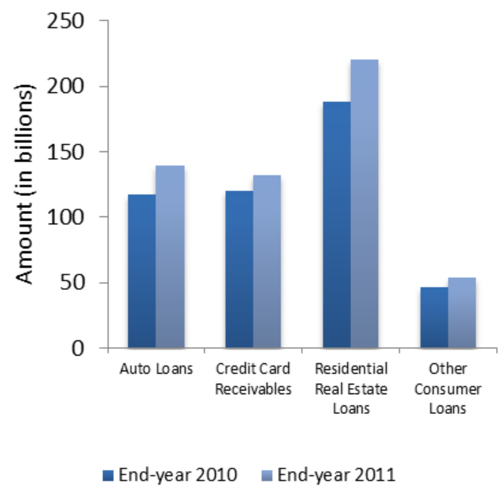
[12] Taken also from the Global Financial Inclusion (Findex) Database

[13] Exclusive of interbank loans and reverse repurchase (RRP) with BSP and other banks. Existing data on the amount of loans outstanding include all loans granted by banks except to the BSP and other banks and non-bank financial institutions with quasi-banking authority.





2011 data



Source: BSP

As to the regional distribution, the bias toward NCR is still manifested in the distribution of deposits and loans.[14] In 2011, NCR accounted for 43 percent of the total number of deposit accounts and 68 percent of total amount of deposits. It held 87 percent of the outstanding loans in the banking system. The regions that followed are CALABARZON, Central Luzon, Western Visayas and the regions containing Metro Cebu (Central Visayas) and Metro Davao (Davao Region). Usage is low for regions noted earlier for having low access to banking services such as ARMM, CAR, MIMAROPA, Caraga, Eastern Visayas and Zamboanga Peninsula.

[14] Information on the regional distribution of consumer loans is not available so as a proxy, the total amount of loans outstanding by the banking system was used.

Regional distribution of deposits and loans

Region		No. of deposit accounts	% Share	Amt. of deposits	% Share	Amt. of loans	% Share
	NCR	16,072,308	42.7%	3,485.1	67.7%	2,524.4	86.5%
	CAR	635,197	1.7%	49.2	1.0%	7.0	0.2%
I	Ilocos	1,392,475	3.7%	100.2	1.9%	22.5	0.8%
II	Cagayan Valley	771,466	2.1%	54.8	1.1%	18.0	0.6%
III	Central Luzon	2,913,952	7.7%	256.2	5.0%	63.5	2.2%
IV-A	CALABARZON	4,759,061	12.6%	352.6	6.8%	60.9	2.1%
IV-B	MIMAROPA	593,302	1.6%	27.6	0.5%	7.0	0.2%
V	Bicol	1,003,282	2.7%	60.1	1.2%	18.6	0.6%
VI	Western Visayas	1,883,708	5.0%	147.8	2.9%	30.9	1.1%
VII	Central Visayas	2,175,873	5.8%	262.0	5.1%	65.6	2.2%
VIII	Eastern Visayas	659,806	1.8%	43.2	0.8%	11.3	0.4%
IX	Zamboanga Peninsula	685,754	1.8%	46.8	0.9%	12.1	0.4%
X	Northern Mindanao	1,185,816	3.2%	75.1	1.5%	21.9	0.8%
XI	Davao	1,331,008	3.5%	109.7	2.1%	30.2	1.0%
XII	SOCCSKSARGEN	811,376	2.2%	49.9	1.0%	15.5	0.5%
XIII	Caraga	664,569	1.8%	27.2	0.5%	7.8	0.3%
	ARMM	89,607	0.2%	4.0	0.1%	0.4	0.0%
Philippines		37,628,560		5,151		2,918	

**Blue – Top 3; Red – Bottom 3;* as of end-June 2011
Amounts in billions
Source: Deposits - PDIC, Loans - BSP

Payments

The demand study on domestic payments conducted by Bankable Frontier Associates (BFA)[15] in 2010 provided information on the demand for domestic payment services in the Philippines such as money transfers and remote bills payments. According to the study, the total size of the domestic payments market which consists of individuals making formal, informal, and personal direct payments is estimated at the equivalent of $3.2 billion per month by a projected 41 million people. The market for domestic payments in the Philippines is highly active as 55 percent of Filipino adults are users of money transfer and loan and bill payment service providers.

One of the notable results is that 76 percent of the users of all payment service providers are classified under Class D (poor) and 19 percent belong to class E (very poor). Among the 1,794 adults interviewed, 72 percent made payment in the last 12 months, of which 33 percent sent money transfers, 16 percent made loans and 55 percent paid bills.

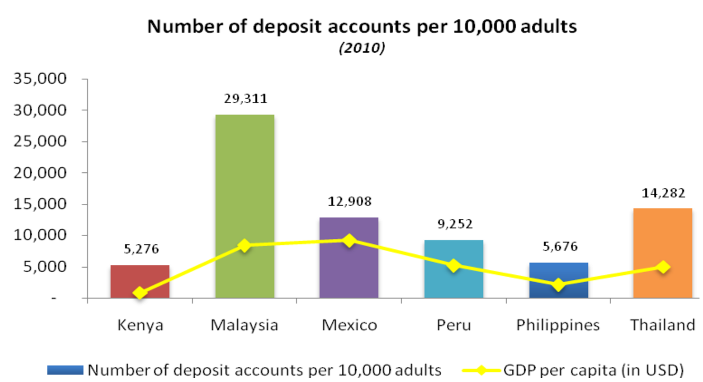
[15] The report is commissioned by the Bill and Melinda Gates Foundation in 2010. It covered 22 focus groups comprising 224 discussants, an intercept survey of 300 interviews and a sample of 1,794 adult Filipinos. BFA contracted Social Weather Stations (SWS) and Social Enterprise Development Partnerships, Inc. (SEPDI) to execute the three components of the study.

As suggested by CFS findings, those who do not have enough money are not using the basic banking services such as deposits but the BFA study suggests that this segment of the population are actually significant users of services provided by other financial services providers. Pawnshops appear to be well-used and dominate the money transfer market while banks and payment centers are major players in the bills payment.

Usage Indicators

In 2010, there were 5,676 deposit accounts per 10,000 adults or equivalently, around 6 out of 10 adult Filipinos had a deposit account. While this figure may appear relatively high compared to the findings of the CFS where only 2 out of 10 households have a deposit account, it can be still be possibly reconciled by assuming that an individual has 3 deposit accounts on the average, reflecting the fact that there are individuals with multiple deposit accounts.

The 2010 indicator slightly increased to 5,848 deposit accounts per 10,000 adults in 2011. Relative to the peer group, this is a little higher than that of Kenya but lower than the indicator for most of its peers. It can be seen that countries with higher per capita income such as Malaysia and Mexico are also the countries with more deposit accounts.



Source: AFI FIDWG

On a regional basis, at one end is NCR with a very high indicator and at the other end is ARMM with a significantly low indicator. If these regions were excluded, the national indicator is 3,988 deposit accounts per 10,000 adults (or roughly 4 out of 10 adult Filipinos). The indicator for each of the non-outlying regions is more or less comparable to this adjusted national measure. In general, the picture has not changed much from 2010 to 2011 across all the regions.

Regional distribution of usage indicators[16]

	Region	Number of deposit accounts per 10,000 adults		Average deposit per account		Average deposit per adult		Average loan per adult	
		2010	2011	2010	2011	2010	2011	2010	2011
	NCR	18,636	19,513	211,192	216,841	393,583	423,127	264,249	306,485
	CAR	5,241	5,509	78,664	77,419	41,230	42,650	4,683	6,042
I	Ilocos	3,825	3,937	73,822	71,952	28,240	28,326	6,481	6,367
II	Cagayan Valley	3,139	3,293	71,796	71,022	22,535	23,386	6,470	7,675
III	Central Luzon	4,038	4,070	88,302	87,933	35,653	35,784	7,301	8,864
IV-A	CALABARZON	5,582	5,669	73,816	74,081	41,207	41,999	6,017	7,255
IV-B	MIMAROPA	3,007	3,127	46,034	46,459	13,844	14,526	2,731	3,689
V	Bicol	2,503	2,654	61,679	59,889	15,440	15,893	3,887	4,908
VI	Western Visayas	3,482	3,645	76,925	78,468	26,783	28,600	5,008	5,977
VII	Central Visayas	4,322	4,487	115,199	120,425	49,788	54,034	11,521	13,522
VIII	Eastern Visayas	2,192	2,244	66,860	65,424	14,654	14,681	3,361	3,846
IX	Zamboanga Peninsula	2,955	3,154	71,499	68,241	21,128	21,525	4,600	5,572
X	Northern Mindanao	4,004	3,994	59,452	63,335	23,804	25,294	6,725	7,385
XI	Davao	4,487	4,318	76,660	82,456	34,396	35,606	7,955	9,810
XII	SOCCSKSARGEN	3,014	3,024	57,615	61,478	17,364	18,591	5,316	5,782
XIII	Caraga	4,050	3,906	37,552	40,964	15,208	16,000	3,131	4,580
	ARMM	383	395	44,931	44,599	1,722	1,760	271	197
Philippines		5,676	5,848	133,136	136,904	75,572	80,064	39,139	45,345
Philippines (w/o outliers)		3,907	3,988	76,116	77,303	29,860	30,953	6,164	7,296

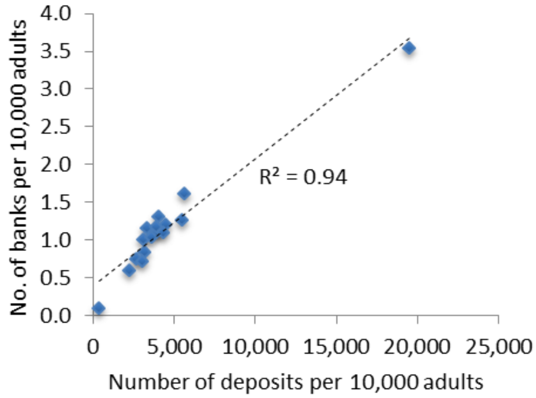
**Blue – Top 3; Red – Bottom 3*
Source: Deposits – PDIC, Population – NSO, Loans – BSP

Relationship between access and usage

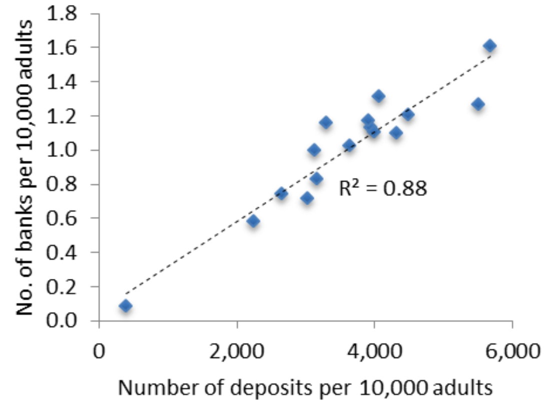
The relationship between the access (through banking infrastructure) and use of banking services (through deposits) was analyzed. A clear correlation exists between the two - the number of banks and the number of deposit accounts present a positive correlation of 94 percent. Accounting for the outlier (which is NCR), the adjusted correlation between the two variables is still high at 88 percent. Similarly, the number of ATMs and the number of deposit accounts have a strong positive correlation of 97 percent (with NCR) and 76 percent (without NCR).

[16] It should be noted that these are imperfect measures because there are individuals with more than one deposit account and there are deposits and loans corresponding to non-individuals. In terms of the indicators on deposit accounts, there are differences among the figures in the CFS, Findex, and the statistics presented here, stressing the lack of adequate data to sufficiently measure usage.

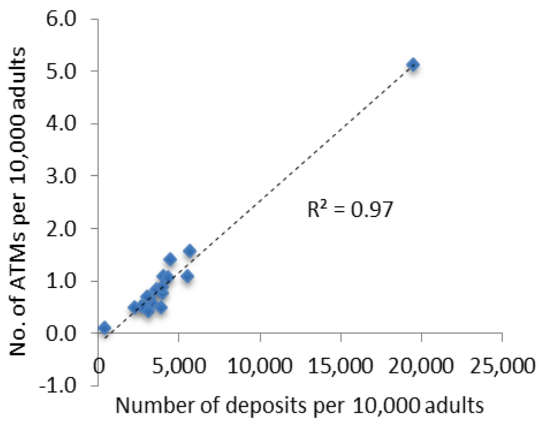
Relationship between access and usage



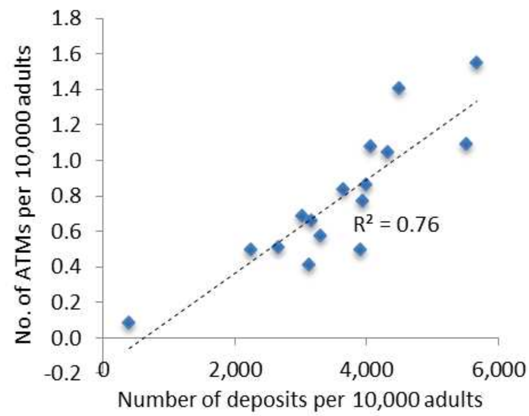
With NCR



Without NCR



With NCR



Without NCR

These suggest that regions with the most number of banks and ATMs are the ones which have the most number of deposit accounts. While high usage may be expected as these regions with adequate banking infrastructure are urbanized regions with higher levels of income and population, there is indication that increased access reinforces usage.

Concluding Notes

Working on data limitations, this report provided a broad view of financial inclusion in the Philippines in terms of supply-side access points as well as usage through the three basic services of deposits, loans and payments.

Using the supply-side data on the access dimension of financial inclusion, statistics suggest that the financial system has a long reach in terms of expanding the network of banks, ATMs and other financial service access points. The numbers suggest a picture of a financial system that has become more inclusive over the years albeit regional disparities are present. For example, regions such as ARMM and Eastern Visayas are often mentioned for consistently belonging to the group with limitations in terms of access to financial services.

Moving forward, improving the collection, updating, and analysis of financial inclusion data is an immediate challenge. For instance, supply-side information on usage is limited on banks. There are valuable services and significant outreach of other financial service providers. Moreover, data on banks are constrained to deposits and loans which need more refinements to capture other details and information on usage. Constructing a more accurate picture of financial inclusion would require collecting further data from the demand side.

A robust financial inclusion data framework that can provide insight into the four lenses of financial inclusion (i.e., access, usage, quality and welfare) will be beneficial for practitioners and policy makers alike. For the BSP, this information will facilitate an informed benchmarking and monitoring of progress as well as enable evidence-based policy making. This report is the first step in the stocktaking process which will provide the foundation for the envisioned data framework.