

# 2011 Year End Report on BSP Financial Inclusion Initiatives

## *Mainstreaming Financial Inclusion in the Philippines and Globally*

The year 2011 was characterized by the mainstreaming of financial inclusion in the domestic and international policy agendas, in light of growing recognition of the importance of financial inclusion as a policy objective.

The Philippine Development Plan (2011-2016) laid out its vision for the financial sector as a “regionally responsive, development-oriented and inclusive financial system which provides for the evolving needs of its diverse public”.

In 2009, the G20 leaders, amid the global financial crisis and economic downturn, recognized the reinforcing policy objectives of financial stability, financial inclusion and consumer protection. To institutionalize this declaration, the G20 Global Partnership for Financial Inclusion (GPII) was launched in 2010 and held its inaugural meeting in 2011 to implement a concrete Financial Inclusion Action Plan. The BSP is one of the few non-G20 members that are a member of the GPII working groups.

The Bangko Sentral has been at the forefront of such initiatives by continuously promoting and establishing an enabling policy and regulatory environment to increase access to financial services for all. Toward this objective, the BSP has assiduously and steadily worked through the areas of 1) policy and regulation, 2) training and capacity building and 3) promotion and advocacy.

### **I. Policy and Regulatory Initiatives**

For three years in a row, the Economist Intelligence Unit Global Microscope on Microfinance has named the Philippines as the best in the world in terms of regulatory framework for microfinance and consistently in the top 10, out of 55 countries, overall which include other criteria such as supportive institutional framework and stability.



**Rankings by category**

Regulatory Framework and Practices  
Weighted 50% in the overall Index

Rank	Country	Score	Rank	Country
		75.0	~22	Niger
		75.0	~30	Cameroon
~1	Pakistan	75.0	~30	Costa Rica
~1	Philippines	75.0	~30	Guatemala
~1	Uganda	70.0	~30	Indonesia
~4	Cambodia	70.0	~30	Nicaragua
~4	Kenya	70.0	~30	Senegal
~4	Peru	65.0	~30	Yemen
~7	Bolivia	65.0	~30	Bangladesh
~7	El Salvador	65.0	~37	Bosnia
~7	Madagascar	60.0	~37	Chile
~10	Ecuador	60.0	~37	Dominican Republic
~10	Kyrgyz Republic	60.0		
~10	Mongolia	60.0		

The fruits and results of the policies for microfinance and financial inclusion issued in 2010 were evident in 2011.

- Banks have increased their physical reach through the creation of micro-banking offices. (Circular 694, 2010)
  - ⇒ **100** applications have been received covering nearly **700** offices for establishment of new MBOs, conversion of other banking offices (OBOs) into MBOs and retention of OBOs as regular OBOs.
- Banks with microfinance operations are expanding the suite of services that they are offering to their clients (Circulars 678, 680, 683, 2010)
  - ⇒ **21** banks with micro-agri products
  - ⇒ **24** banks with housing microfinance
  - ⇒ **50** banks that have signified their intention to offer microinsurance
- A Microfinance Institution Rating Agency has been recognized by the BSP under Circular 685, 2010.
- Snapshot of Microfinance Exposures of Banks (as of 30 June 2011)

	No. of Banks	Outstanding Loans (In PhP Million)	No. of Borrowers	Savings Component (In PhP Million)
Microfinance Oriented Thrift Banks	3	195.1	28,162	99.8
Microfinance Oriented Rural Banks	6	1,812.7	314,391	1,327.7
<b>Sub-Total</b>	<b>9</b>	<b>2,007.8</b>	<b>342,553</b>	<b>1,427.5</b>
Microfinance Engaged Rural Banks	148	3,829.5	530,325	1,834.6
Microfinance Engaged Coop Banks	21	810.3	78,120	248.2
Microfinance Engaged Thrift Banks	20	502.0	12,719	243.4
<b>Sub-Total</b>	<b>189</b>	<b>5,141.8</b>	<b>621,164</b>	<b>2,326.1</b>
<b>Grand Total</b>	<b>198</b>	<b>7,149.5</b>	<b>963,717</b>	<b>3,753.7</b>

Building on these positive results, 2011 ushered in additional policy initiatives to further solidify the efforts toward financial inclusion.

- A. Lowering Barriers to Customer Acquisition through the Updated Anti-Money Laundering Rules and Regulations (Circular 706, 05 January 2011)- The salient features relevant to financial inclusion that are found in the regulation include: a) the provision of scope for banks to have a risk-based and tiered system of classifying customers (i.e. low, average, high risk), b) the establishment of a framework for applying reduced, average and enhanced due diligence, customer acceptance, retention and identification process based on the level or risk of the customer and c) the possibility of outsourcing or relying on a third party on the face to face requirement for KYC, gathering of information and documents.

This issuance can be potentially groundbreaking as it addresses a main obstacle (i.e. compliance with AML regulations such as face to face KYC, ID requirements, etc.) in serving the unbanked yet bankable. With this issuance, banks can outsource or rely on customer identification by agents that are located in unbanked and underbanked communities. It therefore addresses the limitations of the existing physical reach of banks and lowers the cost in acquiring new customers. The decision to open accounts and provide credit still rests on the bank.

- B. Promoting Transparency and Good Governance through the Issuance of Rules Regarding the Relationship Between Banks and their Related Microfinance Non-Governmental Organizations (Circular 725, 16 June 2011) – This issuance recognizes the possible synergy between a bank with microfinance operations and a related microfinance NGO/ Foundation. While this has become a successful model for some, the issuance aims to ensure that the banks with related microfinance NGOs are able to safely and viably coexist by mitigating possible operational, governance and reputational risks. The salient features of the issuance includes a) requiring clear contractual agreements between the two entities, b) prohibiting bank personnel from holding any concurrent, full time positions that may cause them to be involved in the daily operations of related NGOs/foundations and c) issuing general principle sand standards that will govern the business relationships between banks and their related NGOs/foundations.
- C. Ensuring that Consumers are Informed and Protected through the Updated Rules Implementing the Truth in Lending Act to Enhance Loan Transaction Transparency (Circular 730, 20 July 2011)- The issuance aims to implement the Truth in Lending Act by ensuring consistent and comprehensive application of disclosure rules and a uniform method of computing interest charges. With this issuance, banks are required to charge interest on the outstanding balance of a

loan at the beginning of an interest period (Effective Interest Rate – EIR). This EIR, whether quoted annually or monthly, shall be the only rate quoted in all loan documents including the marketing materials. In addition, a standard format of disclosure is also required to ascertain that every borrower is provided with information that he or she needs to know about his or her loan in a manner that is simple and easy to understand and comparable across various providers

The Securities and Exchange Commission through Memorandum Circular 7 Series of 2011 and the Insurance Commission through Circular Letter 31 dated 05 October 2011, issued parallel rules for credit granting institutions under their jurisdiction.

These updated rules implementing the Truth in Lending Act, together with the issuances of the other relevant regulators, will help ensure the protection of consumers, promote healthy competition among credit providers, and enable the smooth and orderly functions of the entire financial system. This regulation is also very timely as calls for enhanced consumer protection is intensifying specifically as affirmative financial inclusion policies lead to availability of an ever widening range of financial products and services.

- D. Implementing Laws that Promote Financial Inclusion through the issuance of the Circular on the component of the Implementing Rules and Regulations (IRR) of the Agri-Agra Reform Credit Act (Republic Act 10000) that pertains to banks (Circular 736, 20 July 2011) - RA 10000 repeals Presidential Decree 717 and the IRR was jointly crafted by the Department of Agriculture, Department of Agrarian Reform and the Bangko Sentral ng Pilipinas.
- E. Recognition of Microfinance Plus – The Monetary Board approved the amendment to Circular 694 (2010) to recognize Microfinance Plus as microfinance loans from PhP 150,001 – PhP 300,000 to address the increasing credit requirements of growing microenterprises or those who have “graduated” from the traditional microfinance loans of up to PhP 150,000. The borrowers shall have a savings account, a track record of at least two loan cycles in the PhP 50,000-150,000 range demonstrating success of the business, its increasing credit demand and subsequent increased capacity to pay.

Moving Forward...

- ⇒ Continuous review of consumer protection principles as possible regulatory tools
- ⇒ Establishment of a comprehensive financial inclusion data framework to monitor progress and inform policy making
- ⇒ Enhance the role of non-bank financial institutions in financial inclusion

The BSP will continue to pursue the objective of financial inclusion alongside the promotion of financial stability and efficiency. The general approach is to promote an enabling policy and regulatory environment for market based solutions to address financial access issues to blossom while maintaining the proportionate application of sound and generally accepted regulatory and supervisory principles. The BSP will be guided by the framework of financial inclusion which includes the following:

- a. The provision of a wide range of financial services (credit, savings, payments, insurance) to serve the demands of different market segments;
- b. The availability of financial products that are appropriately designed, priced, and tailor-fitted to market needs and capacities;
- c. The participation of a wide variety of strong, sound, and duly authorized financial institutions utilizing innovative delivery channels to provide financial services to more Filipinos; and
- d. The effective interface of bank and non-bank products/delivery channels, technology and innovation to reach the financially excluded.

The BSP also commits to join the global initiative toward increased access of the unbanked all over the world. [www.afi-global.org/news-and-press/maya-declaration](http://www.afi-global.org/news-and-press/maya-declaration)

## **II. Training and Capacity Building**

The BSP continued to strengthen its internal capacity as well as that of the banking sector in light of delivering responsive and inclusive financial services.

### ***Increasing BSP Internal Capacity***

- A. *The Monetary Board gets hands-on demonstration on the use of electronic money and mobile phones to enable transactions and access to financial services (September 15, 2011).*



Photo 1: Monetary Board Members (L-R), Felipe M. Medalla, Armando L. Suratos and Governor and MB Chairman Amando M. Tetangco, Jr. use mobile phones and e-money to complete the sample transaction of sending money to a relative in the province. Deputy Governor Nestor A. Espenilla, Jr. observes. The officers and staff of the Rural Bankers Association of the Philippines – Microenterprise Access to Banking Services (RBAP MABS) and First Valley Bank facilitate the demonstration.



Photo 2: Monetary Board Members (L-R), Alfredo C. Antonio, Ignacio R. Bunye, Peter B. Favila complete the sample transaction of purchasing bottled water from a merchant.

The demonstration was aimed to provide a unique opportunity for the Monetary Board to see how the BSP policies for microfinance and financial inclusion are working on the ground. The presentation showed how a bank in Zamboanga City made use of the opportunities presented by regulation and how they have adopted key innovations such as mobile banking, which have allowed them to expand their reach, increase efficiencies and lower costs. With a clear policy and regulatory framework for electronic money, an individual can purchase goods, make a deposit, send a remittance through a simple text message or SMS.

- B. *Strengthening the capacity of the BSP supervision and examination on bank lending to small and medium enterprises (SMEs)* – The technical assistance from the International Finance Corporation (IFC) and the German International Cooperation (GIZ) to align BSP existing training curriculum and bank examination policies with best-in-class credit risk management practices and to roll out the same through SME lending training was completed in July 2011.

The project deliverables included training modules and materials on the best banking practices for SME Lending, recommended Bank examination procedures, and a framework for implementing a monitoring / evaluation workflow for bank examiners.

- C. *International Organization for Standardization (ISO) Certification for the Microfinance Examination Procedures of the Micro, SME Finance Specialist Group (MFSG)* – For three consecutive years, the MFSG has been awarded the ISO 9001:2000 Certification for its Microfinance Examination Procedures. MFSG became the first BSP examination group to be awarded this certification in 2009. On 19 February 2010, the Microfinance Examination Quality Management System (QMS) passed the 1<sup>st</sup> Surveillance Audit of its ISO certification. For 2011, the Microfinance Examination QMS ISO Certification was again confirmed by TUV SUD PSB<sup>1</sup> Philippines. This certification indicates that the MFSG examination procedures remain at par with international standards, continue to be relevant prudential regulations and are consistently responsive to evolving market needs.
- D. *Developing a Comprehensive Financial Inclusion Data Framework* – The technical assistance from the Alliance for Financial Inclusion (AFI) to identify and address the data gaps in measuring financial inclusion in the country was completed in July 2011. The services of the Bankable Frontier Associates (BFA), known experts in the field, were contracted under this technical assistance.

The main deliverable after the field visit is a data gap report which will take inventory of available data and identify gaps in demand and supply-side information before outlining a series of recommendations towards implementing the bank's financial inclusion measurement strategy. The report recommends to the BSP several approaches to consolidating available data sources and augmenting existing information through the design of better research instruments as well as the improved collection of supply-side data. The Monetary Board has approved to move forward with the key recommendations of the study.

### ***Increasing the Capacity of the Banks, their Clients and the Microfinance Stakeholders Toward Responsible and Inclusive Finance***

- A. *Financial Learning Seminars for Microfinance Banks, their clients and the unbanked* – The BSP continued to conduct financial learning seminars as part of the BSP Economic and Financial Learning Program. For 2011, four seminars were held in Tuguegarao City (14 April 2011), Dumaguete City (13 June 2011), Manila (18 November 2011) and Dipolog City (29 November 2011) covering **17 provinces. 163 participants** attended the said seminars.

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<sup>1</sup> <http://www.tuv-sud-psb.ph/CorporateOverview.aspx>



Financial Learning Seminar for Microfinance Clients and the Unbanked in Dipolog City

- B. *National Microfinance Stakeholders Summit (05 April 2011)* – The BSP held the first ever National Microfinance Stakeholders Summit that aimed to recognize the contribution of Philippine microfinance industry stakeholders in the development of a sound and sustainable microfinance industry in the country which merited the consistent high ranking of the Philippines in Economist Intelligence Unit Survey, to provide venue for encouraging the involvement and fostering commitment of industry stakeholders to recent global initiatives that further expand clients' access to finance and protect their rights as consumers; and to strengthen camaraderie and provide opportunity for broader networking among key microfinance stakeholders, both local and international.







Microfinance industry leaders toast after they signed the Microfinance Practitioners' Declaration to provide sustainable and consumer-friendly microfinance services. They include, from left: BSP Deputy Governor Nestor Espenilla, Jr., Philippine Life Insurance Association President Mayo Ongsingco, Jr., Chamber of Thrift Banks Trustee Rommel Latinazo, National Confederation of Cooperatives CEO Silvia Paraguya, Microfinance Council of the Philippines President Mila Bunker, Rural Bankers Association of the Philippines President Corazon Miller, Philippine Insurers and Reinsurers Association President Pedro Benedicto, Jr. and former Monetary Board Member Nelly Favis-Villafuerte.

There were also pre-summit and parallel activities such as 1) a briefing on using mobile financial services to increase access to finance, 2) briefing on “How to Avoid an India-type Microfinance Crisis” (04 April 2011) and 3) National Microfinance Stakeholders Summit EXPO which showcased the products of five microentrepreneurs (past winners of the Citi Microentrepreneur of the Year Awards Program) as well as institutional booths that included RBAP-MABS, MCPI, Smart Money, G-Cash, National Credit Council (Microinsurance) and the Microfinance Institution Rating Agencies.



There were over 270 participants in the Summit representing a cross-section of the industry as all stakeholders were well represented. The Summit was the first of its kind for the industry where all stakeholders are brought together in one meeting to discuss achievements of the industry as well as identify the common issues moving forward. Many of the participants have commented that such stakeholders meetings can be undertaken regularly.

### III. Promotion and Advocacy

- A. *Philippines as Favorite Destination for Study Visits on Microfinance and Financial Inclusion* – In 2011, the BSP continued to welcome various delegations to share its rules and regulations and experience in microfinance, mobile banking and financial inclusion. A total of 14 delegations were welcomed in BSP comprised on **178 individuals** from **28 countries**. (Nepal, BCEAO countries, Malaysia, Mongolia, Congo, Thailand, Ecuador, Venezuela, Cambodia, Indonesia, Tanzania, Malawi, Bhutan, Vanuatu, Nigeria, Vietnam, Congo, Ghana, Zambia, Cameroon, Kenya).



Officials from the Central Bank of West African States (BCEAO), Alliance for Financial Inclusion (AFI), Microenterprise Access to Banking Services (MABS) and the BSP pose for posterity during the Knowledge Exchange Visit on the BSP Microfinance and Mobile Banking Experience on 7-8 March 2011

- B. Active Participation in Global Discussions on Financial Inclusion – The BSP has played an active role in various international fora on financial inclusion.
- BSP as one of the few non-G20 countries involved in the sub-groups of the G20 Global Partnership for Financial Inclusion (GPII), the implementing arm of the financial inclusion agenda which includes working with standard setting bodies, financial inclusion data and SME finance

BSP joins global financial inclusion champions at the G20 Global Partnership for Financial Inclusion (GPFI) inaugural meeting last 01 October 2011 in Riviera Maya, Mexico.



- BSP as provider of input in documents for standard setting bodies such as Basel Committee on Banking Supervision (BCBS) Microfinance Activities and the Core Principles for Effective Banking Supervision and Financial Action Task Force (FATF) Guidance Paper on AML/CFT Rules and Financial Inclusion
- BSP as Vice-Chair of the Steering Committee of the Alliance for Financial Inclusion (AFI), a leading global network of policy makers across developing and emerging countries committed to crafting, sharing and learning financial inclusion policies
- BSP as resource in financial inclusion meetings of regional groupings such as APEC, ASEAN and IMF

C. Recognizing Outstanding Microentrepreneurs – The BSP together with Citibank Philippines, Citibank Foundation and the Microfinance Council of the Philippines held the 2011 Citi Microentrepreneur of the Year Awards (MOTY), its 9<sup>th</sup> run. Eight microentrepreneurs, including two national winners and two winners each from Luzon, Visayas and Mindanao, bested 140 nominees from all over the country. This year’s batch of Citi MOTY awardees is a testament to the winning formula of hard work, ingenuity, and financial discipline. Like the winners, thousands of Filipinos have been able to seize unusual opportunities through microfinance.



BSP Governor Amando M. Tetangco Jr. together with members of the National Selection Committee, awards the national winners of the 2011 Microentrepreneur of the Year.