

# BSP Financial Inclusion Initiatives 2012

Year End Report

Bangko Sentral ng Pilipinas

December 2012

*"We need our financial system to reach out to the underserved and the presently unserved. Together, we should work on having an inclusive financial system that brings about inclusive growth in our country."*

Governor Amando M. Tetangco, Jr.

16 May 2012

## **The BSP advocacy for financial inclusion**

The Bangko Sentral ng Pilipinas (BSP) remains at the forefront of establishing a policy and regulatory environment conducive to financial inclusion. This stems from the recognition that financial inclusion is a worthy policy objective that could and should be pursued alongside the promotion of stability and efficiency in the financial system. It is also believed that financial inclusion is a key component of inclusive growth. The BSP is actively implementing policy and program initiatives to realize the Philippine government's

vision for the financial sector: "an inclusive financial system which provides for the evolving needs of a diverse public" (Philippine Development Plan 2011-2016).

The financial inclusion initiatives of the BSP are focused on the major areas of 1) Policy, Regulation and Supervision, 2) Financial Inclusion Data, 3) Financial Education and Consumer Protection, and 4) Financial Inclusion Advocacy.

## **BSP constitutes a high-level Inclusive Finance Steering Committee**

The BSP believes in a holistic and well-coordinated approach in pursuing its financial inclusion agenda. Toward this end, a high-level Inclusive Finance Steering Committee, headed by the Governor, was

### ***Inclusive Finance Steering Committee***



*Chairman:*

Amando M. Tetangco, Jr.  
Governor

*Vice Chairs:*

Nestor A. Espenilla, Jr.  
Deputy Governor

Diwa C. Guinigundo  
Deputy Governor

Juan D. De Zuñiga, Jr.  
Deputy Governor

*Members:*

Ma. Cyd N. Tuaño-Amador  
Assistant Governor

Augusto C. Lopez-Dee  
Managing Director

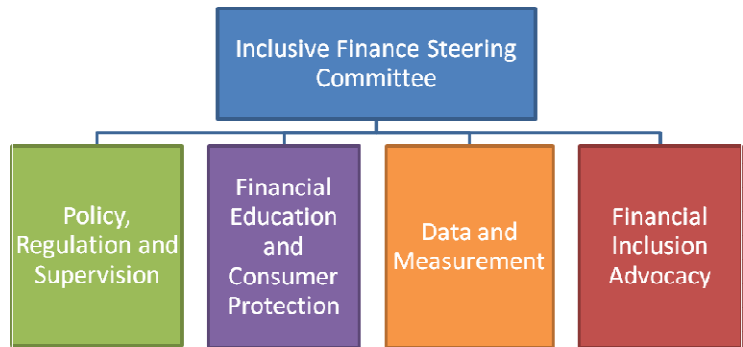
Johnny Noe E. Ravalo  
Managing Director

Chuchi G. Fonacier  
Managing Director

Edna C. Villa  
Managing Director

constituted on 27 February 2012. The Committee provides direction and oversight in all BSP policies and programs related to financial inclusion.

Inter-departmental working groups have also been created to assist the Committee in pursuing the BSP financial inclusion agenda. These working groups are Regulatory and Supervisory Framework Group, Financial Education and Consumer Protection Working Group, Financial Inclusion Advocacy Group, and Data and Measurement Group.



# Policy, Regulation and Supervision

***The BSP works toward developing a policy and regulatory environment that will promote financial inclusion and lead to effective access to financial services for all who need them.***

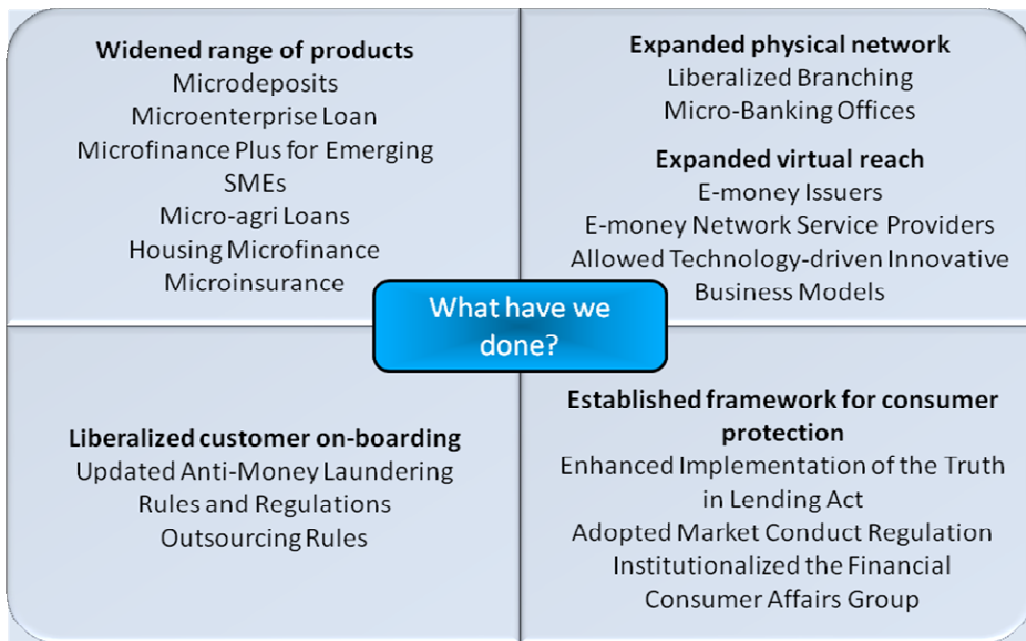
## ***Philippines maintains standing as No. 1 in the world in microfinance regulatory environment***

The Philippines has been lauded globally for the significant strides it has made for microfinance and financial inclusion. For four years in a row (2009-2012), the Economist Intelligence Unit’s global survey has ranked the Philippines as number one in the world in terms of policy and regulatory framework for microfinance. The Philippines is also consistently ranked at the top ten for having a good microfinance business environment. The survey noted that the Philippines recorded material gains in transparency in pricing given the BSP’s issuance of improved rules on transparency and disclosure. The survey also noted the initiative of the microfinance industry to establish the Microfinance Data Sharing System (MiDaS), a microfinance credit bureau that identifies delinquent borrowers with the ultimate objective of client rehabilitation.



In the past years, the BSP has undertaken various initiatives toward financial inclusion, which include the issuance of regulations and implementation of measures that expand access to finance, ensure consumer protection and promote financial education. In 2012, enhancements to existing regulations, as well as new issuances have been put in place to further improve the regulatory environment for financial inclusion.

*The following chart indicates the various policy and regulatory actions undertaken by the BSP to promote financial inclusion.*



**Implementation of the enhanced rules on true and transparent lending**

To improve the implementation of the Truth in Lending Act (Republic Act No. 3765), protect consumers from lack of awareness of the true cost of credit, and ensure that they make informed decisions when they borrow, the BSP, as well as other regulatory agencies issued similar regulations to cover all credit providers. These regulations mandate full disclosure of all charges related to the extension of credit. Credit granting entities are required to charge interest on the outstanding balance of a loan at the beginning of an interest period and consider all charges incident to the loan in computing the Effective Interest Rate (EIR). The EIR, whether quoted annually or monthly, should be the only rate quoted in all loan documents, including marketing materials. All credit granting entities are also required to use a standard and simple format of disclosure to ensure that borrowers are provided with the information they need to understand their loan transactions.

## *Transparency Regulations*

- BSP Circular 730 (20 July 20110, which covers the banks;
- BSP Circular 754 (17 April 2012), which covers the non-bank financial institutions (NBFIs) under BSP supervision which include Quasi-Banks, Non-Stock Savings and Loan Associations, Credit Card Companies, Investment Houses and Pawnshops;
- BSP Circular 755 (20 April 2012), for other credit granting entities not covered by any of the aforementioned issuances, such microfinance non-governmental organizations (NGOs) and in-house financiers, among others;
- Securities and Exchange Commission (SEC) Memorandum Circular 07-2011, which covers lending investors and finance companies;
- Insurance Commission (IC) Circular Letter No. 31-2011, which covers insurance providers; and
- Cooperative Development Authority (CDA) Memo Circular No. 05-2012, which covers cooperatives with credit operations.

### TRUTH AND TRANSPARENCY IN LENDING

Enhanced Implementation of the Truth in Lending Act  
(Republic Act 3785)

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

Given these enhanced regulations, borrowers can be confident that the interest rate information disclosed to them is not misleading, that they are provided with the true cost of their borrowing, and that they can now make informed decisions, and can better compare similar loan products, regardless of the type of financial service provider.

## *Amended rules on the provision of micro-agri loans*

The new rules governing the provision of micro-agri loans (Circular 748), which is a liberalization of the earlier issued rules (Circular 680 dated 3 February 2010), provide banks with the flexibility to innovate on the design of their micro-agri loan products. This allows banks to better attune product design to the peculiarities and cycles of various types of crops. Product innovations in micro-agri shall be approved for as long as the banks demonstrate that they have the appropriate risk management systems in place.

## *Simplified requirements for microfinance loan applications*

The BSP issued Circular 746 which allows microfinance clients to continue to enjoy exemption from the submission of documents like income tax returns and financial statements when availing of a loan. This exemption will continue through 31 December 2014. This ensures that microentrepreneurs and SMEs continue to be able to access financial services through simple documentation.

### *Experiencing BSP Policies in Action: Microinsurance*

The BSP continued to uphold its ideals as a learning institution. In 2012, two study visits were conducted for BSP management and staff to expose them to financial inclusion issues on the ground, and how BSP policies and regulations impact on practices and products of financial service providers. Lessons learned from the study visits can serve as evidence for potential policy interventions.

Last 11 September 2012, a study visit for Members of the Monetary Board was conducted to a bank that has rolled out its microinsurance product. The visit provided opportunity for the Monetary Board Members to interact with microinsurance clients and personally see the impact of regulations on their lives.

Under BSP regulations (Circular 683 dated 23 February 2010), rural, cooperative and thrift banks can market, sell and service microinsurance products with approval from the BSP. This is groundbreaking, as these banks can take part in a business that was once limited only to universal and commercial banks. With this regulation, the branches of rural, cooperative and thrift banks can be distribution points for authorized microinsurance products of licensed insurance providers. This regulation also intends to minimize and even eliminate informal insurance schemes and unauthorized insurance products which are generally unsafe.



*Monetary Board Members (MBM) Armando L. Suratos (seated, 2<sup>nd</sup> from left), Peter B. Favila (seated, 3<sup>rd</sup> from left) and Felipe M. Medalla (seated, 4<sup>th</sup> from left) pose with microfinance clients (standing at the back) who shared how microinsurance has benefitted them, especially in times of adversity. Seated with the MBMs are BSP officials and staff.*

### *Experiencing BSP Policies in Action: Micro-Banking Offices*

Last 13 to 14 September 2012, members of Task Force tasked to implement Circular 694 (dated 14 October 2010) on the establishment of micro-banking offices (MBOs) or a “scaled-down” banking office, together with selected officials from the Office of the General Counsel and Legal Services (OGCLS) visited some banks with MBOs located in the municipalities of Cebu. The objective of the visit was to expose the Task Force on how Circular 694 is executed on the ground by the banks and ultimately to assess any policy, regulatory or operational issues in its implementation.

Circular 694 was intended to expand the physical network of banking offices by enabling banks to establish presence, through an MBO, in areas where it may not be immediately economically feasible to set up a full branch. This addresses problems of cost and branch viability. Through an MBO, a bank can provide various services designed for the low-income segments of the population. These services include microfinance loans, microdeposits, remittances, e-money conversion to/from cash, bills payment, pay out services and limited foreign exchange purchases.

*Participants in the BSP Exposure Visit to Micro-Banking Offices observe a loan officer disburse a microfinance loan to an actual client in an MBO located in Argao, Cebu.*



# Data and Measurement

***The BSP works toward developing a financial inclusion data framework and robust financial inclusion database that will serve as input to truly evidence-based policies and regulations.***

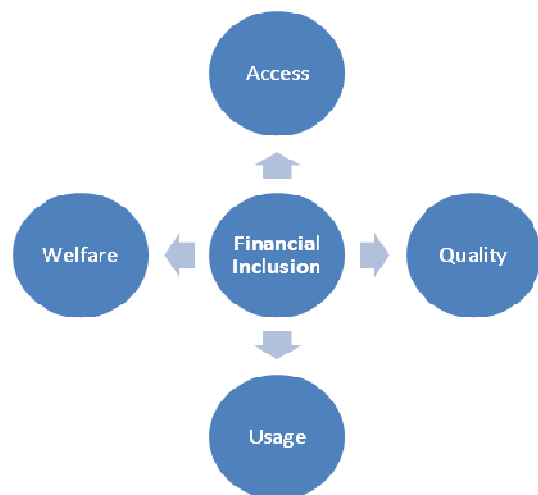
## ***Systematic collection of financial inclusion data to inform policy-making***

Evidence-based policy-making requires the use of robust data as inputs in the crafting of policies and regulations. One of priority areas for the BSP in its financial inclusion agenda was the creation of a comprehensive financial inclusion data framework. This framework is essential considering that existing information relevant to financial inclusion is scattered across various sources and collection of important data elements often lacks continuity. In 2012, initial work has been done to assess the state of financial inclusion in the Philippines, leveraging on datasets derived from regulatory reports provided by supervised institutions to the BSP, and on readily available information from sources like the Philippine Deposit Insurance Corporation and the National Statistics Office. This work yielded a broad view of the current state of access to financial services in the Philippines, in particular the mapping of financial service access points.

### **Financial Inclusion Data Framework**

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

- Access most often refers to the supply of services.
- Usage refers to the levels and patterns of use of different financial services.
- Quality encompasses the experience of the consumer, demonstrated in attitudes and opinions towards those products that are currently available to them.
- Welfare refers to the impact that a financial device or service has had on the lives of consumers, including changes in consumption, business activity and wellness.



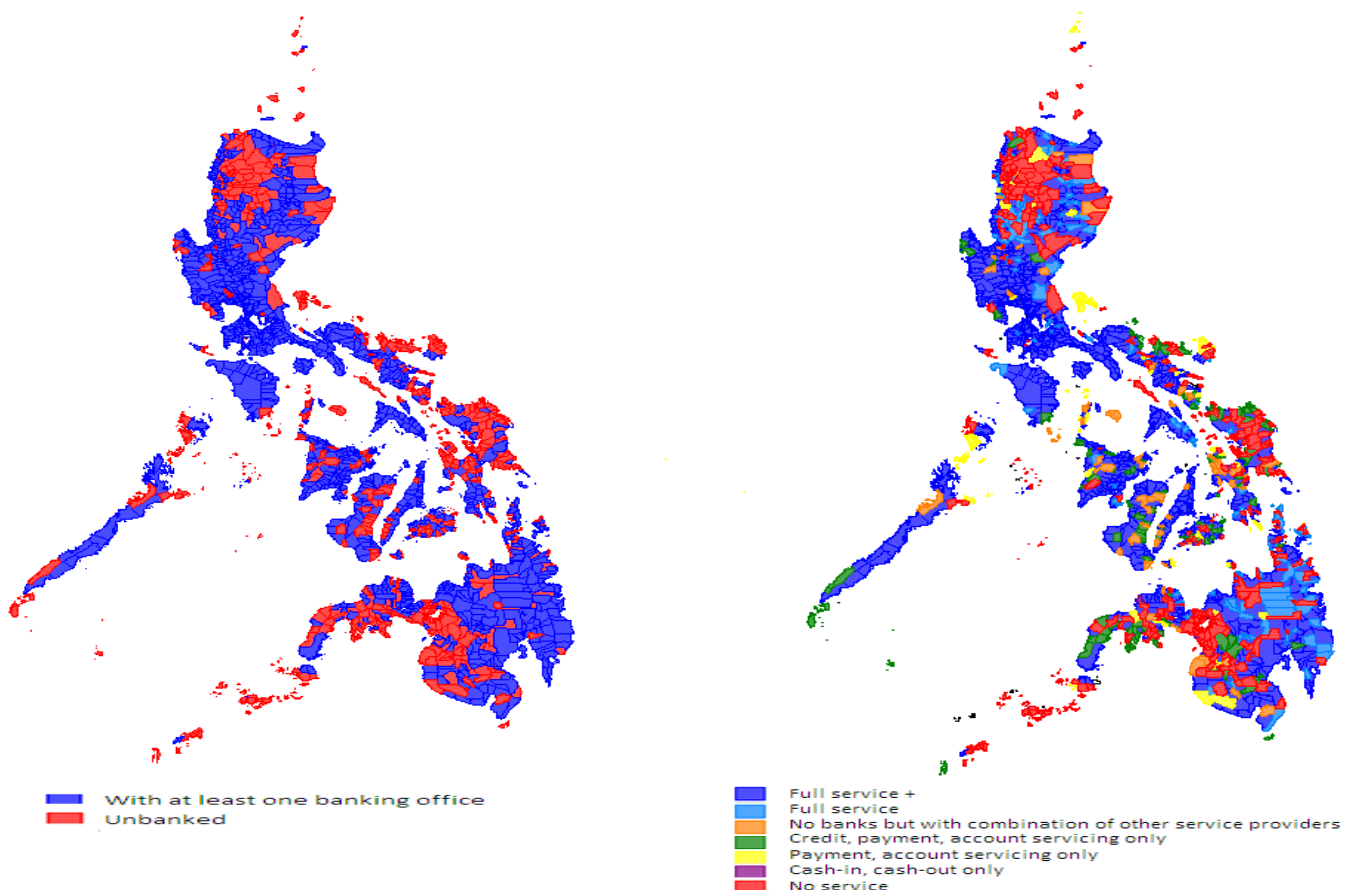
Source: Alliance for Financial Inclusion. 2010. *Financial inclusion measurement for regulators*.

## Mapping of financial service access points

Analysis of the available supply-side data indicated that there is sustained expansion in the network of banks, ATMs and other financial service providers (FSPs). The number of banking offices in the country went up by 19% to 9,015 in 2011 from 7,585 in 2001. The ATM network accelerated by 175% to 10,658 in 2011 from 3,882 in 2001. In addition to banks and ATMs, there are over 26,000 alternative access points such as pawnshops, money changers, foreign exchange dealers, remittance agents and mobile banking agents that provide other useful financial services.

While the statistics indicate that there is a general increase in the number of access points, given the expanding network of banks, ATMs and other FSPs, there are marked regional disparities that show concentration in highly populous and urbanized areas. Given an upsurge in technology driven products and innovations, and an enabling environment for safe expansion, there is potential for a swift increase in the number of financial touch points.

Though the numbers suggest a picture of a financial system that has become more inclusive over the years, improving financial inclusion data is one of the most immediate challenges. For instance, supply-side information on usage is limited on banks. Usage data are constrained to bank deposits and loans, which need more refinements to capture other details and information on usage. Constructing a more accurate picture of financial inclusion would also require collecting data from households through demand-side surveys. This will be the next step in the development of the financial inclusion data framework.





# Financial Education and Consumer Protection

***The BSP works toward educating and protecting consumers, with the underlying philosophy that a well-informed and adequately protected citizenry is a more effective partner in maintaining the effectiveness of monetary policy as well as in ensuring a stronger and safer banking and payments system.***

## ***The BSP Economic and Financial Learning Program***

In 2012, the BSP continued to implement the Economic and Financial Learning Program (EFLP), the flagship program for financial education. This is in line with the BSP's continuing drive to promote greater awareness and understanding of essential economic and financial issues to help the public acquire the knowledge and develop the skills needed to make well-informed economic and financial decisions and choices.

The EFLP consists of various learning sessions designed for different audiences. These components include the Public Information Campaign about BSP roles and responsibilities which is targeted for the general public; the Financial Education Expos which is targeted for students, academe and the employed sectors; the Financial Learning Campaign for Overseas Filipinos and their Beneficiaries; the Financial Learning Seminar for Microfinance Clients and the Unbanked; and other internal and external information campaigns. Based on the evaluation system used for each of the EFLP components, the participants found the sessions useful and effective, a positive indicator that the EFLP has met its objectives.

The BSP has completed the establishment of Economic and Financial Learning Centers or EFLC in its 23 branches across the country. The EFLC serves as the focal point of contact of the public for information on economic and financial matters.

*EFLC at the BSP Manila Office*



### *Public information sessions on the enhanced regulations on true and transparent lending*

In line with the advocacy for transparent lending and consumer protection, the BSP provided resource persons to discuss the enhanced regulations on true and transparent lending in forums hosted by other institutions like the Rural Bankers Association of the Philippines (RBAP), the Bank Marketing Association of the Philippines (BMAP), and the Department of Trade and Industry (DTI). The BSP also conducted a media briefing last 2 July 2012, a day after the effectivity of the regulations, in order to disseminate information and alert the general public about the changes in regulation and the importance of getting all relevant information prior to the consummation of a loan transaction.



*Deputy Governor Nestor A. Espenilla, Jr. discusses the merits of transparency and disclosure to members of the media last 2 July 2012 at the BSP Executive Business Center.*

To further increase public awareness on the new regulations, the BSP conducted three regional information sessions in Manila, Cebu, and Davao from June to July 2012. A total of 370 participants consist of government employees, university faculty and students, and representatives from consumer organizations attended the sessions. Results of the post activity evaluation indicate that the participants gained much from the sessions.

### *Partnering with international stakeholders in tackling financial education issues*

The year 2012 is notably the year when the BSP highlighted financial education as an important element of inclusion, acting as co-host to two major financial education conferences in the Asian Region.

On 10 to 12 September 2012, the BSP co-hosted with the Organization for Economic Cooperation and Development (OECD), with sponsorship of the Government of Japan, the **Asian Seminar on Financial Literacy and Inclusion** in Mactan, Cebu. There were one hundred sixty-one (161) participants from twenty-five (25) countries including the Philippines.

Interesting issues explored in the conference include possible policy solutions in addressing financial literacy issues, financial culture and attitudes, financial literacy through innovative channels and effective delivery of financial education to target audiences like microentrepreneurs, SMEs and migrants and workers.



*Governor Amando M. Tetangco Jr. addresses participants during the opening of the BSP-OECD Asian Seminar on Financial Literacy and Inclusion in Shangri-la Mactan, Cebu.*

On 5 to 6 December 2012, the BSP was host partner to the Citi-Financial Times (FT) **Financial Education Summit** in Manila, Philippines. In its ninth year in 2012, the Citi-FT Financial Education Summit, organized by the Citi Foundation, the Pearson Foundation and the Financial Times, has become the leading annual global forum on financial capability. More than 250 representatives of non-profit organizations, financial institutions, government agencies/regulators, multilateral institutions, microfinance institutions, consumer advocacy groups, educational organizations and private business from the Philippines, Asia Pacific and beyond participated in this milestone event.

*“While financial education may not immediately be considered a core function of a monetary authority or a supervisor of the banking system, it is actually quite intrinsically linked to our overarching goal and vision.*

*To us, financial education empowers people to manage their resources with prudence, instills the discipline of saving regularly, and safely grow their money.”*

Governor Amando M. Tetangco, Jr.

5 December 2012  
Citi-FT Financial Education Summit 2012

### *Financial education for the youth and the children*

The Asia and the Pacific Regional Meeting for Child & Youth Finance was held in Manila through a partnership between the BSP and Child & Youth Finance International (CYFI), which is at the forefront of the global movement to promote savings among schoolchildren. The meeting attracted participants from more than 20 countries and provided an avenue for sharing lessons learned and best practices that have been developed, basic ingredients for crafting a regional agenda for providing child and youth finance education and access to financial services. At least 33 foreign delegates visited Aurora Quezon Elementary School in San Andres to observe how financial education is taught in elementary schools on 3 December 2012 while the formal meeting was held at the BSP on 4 December.

CYFI describes BSP's program as an international best practice model which institutionalizes finance education through the Department of Education and the development of affordable and child-friendly bank products through the Kiddie Account Program which accepts opening deposits of P100 or less than \$2.50. The Kiddie Account Program has 12 participating banks that together own about half of the bank branches in the country. More banks are interested in joining the program developed under the umbrella of the Bank Marketing Association of the Philippines to implement the "Banking on Your Future Program" launched in 2009 by the BSP with the Bankers Association of the Philippines, the Chamber of Thrift Banks and the Rural Bankers Association of the Philippines.

### *An institutionalized avenue for complaints resolution and redress*

The BSP continued to provide an accessible avenue for consumer assistance and redress. In 2006, the BSP established a dedicated unit, the Financial Consumer Affairs Group (FCAG), to attend to complaints about BSP supervised institutions and their products or services. In its more than 5 years of operation, FCAG was able to close or resolve 98% of complaints, inquiries and requests from financial consumers. This is a testament to the BSP's commitment to protect the rights and welfare of consumers of financial services.

## Financial Inclusion Advocacy

*The BSP works toward intensifying advocacy, information dissemination and partnership building toward financial inclusion.*

### *Advocating for increased SME access to finance*

The BSP sees a unique role in advocating for increased access to finance for SMEs, by facilitating meaningful linkages between credit providers and SMEs. The BSP spearheads the implementation of the Credit Surety Fund (CSF), a fund generated from contributions of well-capitalized and well-managed cooperatives/NGOs, together with a counterpart contribution from the local government unit (LGU) in the province where the contributing cooperatives/NGOs are operating and from willing donor institutions. The CSF is then used to provide a maximum of 80% surety cover for loans granted by banks to borrowers that would otherwise have a difficulty assessing such credit facilities due to usual barriers such as insufficient collateral, limited credit histories, and inadequate financial records. The primary role of the BSP is to organize/convene the partnership among the CSF contributors. The BSP also provides a rediscounting facility for the Lending Banks that avail of the surety cover. As of end December 2012, 26 CSFs in various provinces across the country have been organized.

### *Sustained leadership in global financial inclusion initiatives*

In 2012, the BSP continued to serve as co-chair of the Steering Committee of the **Alliance for Financial Inclusion (AFI)**, a global network of financial of policymakers representing about 78 member institutions from over 80 developing and emerging countries, working together to increase access to appropriate financial services for the poor. The BSP also chaired the AFI Working Groups on Mobile Financial Services (MFS) and Consumer Empowerment and Market Conduct (CEMC), and were active members of the Working Groups on Financial Inclusion Data and Financial Integrity.

The BSP continued to participate in the **G20 Global Partnership for Financial Inclusion (GPII)**, and is one of the few non-G20 countries actively engaged in dialogues with Standard Setting Bodies (SSBs). The BSP shall remain active in global financial inclusion, as the Governor is set to chair the AFI Steering Committee in 2013.

### *Fostering peer learning in addressing financial inclusion issues*

The BSP co-hosted with the United States Treasury, the ***International Conference on Inclusion-Friendly Government to Persons Payments*** last 2 May 2012. The conference brought together a total of 108 local and international experts, implementers, policy makers and regulators in the field of eG2P payments, financial inclusion, and innovative payment systems across the globe. It provided an ideal venue to discuss and distill pressing issues confronting government, providers and recipients in G2P Payments as well as generate possible ways forward.

This Conference was also supported by the Asia Pacific Economic Cooperation (APEC) and the USAID-funded APEC Technical and Training Facility, with strategic partnerships with ADB, World Bank, the Alliance for Financial Inclusion (AFI) and the Consultative Group to Assist the Poor (CGAP).



*Participants from APEC member countries listen attentively as BSP Governor Amando M. Tetangco Jr. delivers his welcome remarks during the International Conference on Inclusion-Friendly eG2P Payments on 2 May 2012 at the BSP Assembly Hall.*

### *Sharing knowledge and experience in financial inclusion with international peers*

For 2012, seven (7) briefings on financial inclusion and related topics like microfinance, electronic money/mobile banking, payments and settlements, financial education and consumer protection were conducted for international delegates representing different countries (Tanzania, Afghanistan, Bhutan, Mozambique, Malawi).

### *Recognizing exemplary microentrepreneurs and microfinance institutions*

The BSP together with Citibank Foundation, Citibank Philippines and the Microfinance Council of the Philippines continued to implement **Citi Microentrepreneur of the Year Awards (MOTY)** Program to recognize successful microentrepreneurs with their inspiring businesses and life stories. As a result of the

evaluation of the past 10 runs of MOTY in 2011, there were several improvements undertaken in the 2012 MOTY, which include enhancements in the criteria for nomination and categories of awards.

To establish a formal community winners, the MOTY Winners Alumni Network was launched in 2012, to provide an avenue for knowledge-sharing, modeling and continuing support to past winners. A coffee table book, “Small Steps to Success” featuring the stories of past MOTY winners, was also launched during the awarding ceremonies last 3 December 2012 to showcase the tangible impact of well-managed small loan on the life of a microentrepreneur.



*Governor Amando M. Tetangco Jr. (center, back row) together with members of the National Selection Committee strike a pose with winners of the 2012 Citi Microentrepreneur of the Year during the awarding ceremony on 3 December 2012.*

The BSP also actively participated in the **Paeng Microfinance Awards Program** of the Rafael B. Buenaventura (RBB) Foundation, on its maiden run in 2012. This awards program intends to award pioneering MFIs and their contribution to sustaining a healthy microfinance industry in the country. The BSP coordinated with the RBB Foundation in design, criteria and evaluation of nominees.

#### *Leveraging on donor support and expertise in implementing regulations and advocacy programs*



Prior to the effectivity of the BSP regulations on true and transparent lending (Circulars 730, 754 and 755) in July 2012, an evaluation of the state of market practice in transparency was conducted by Pulse Asia and Microsave, the research and consulting firms commissioned by the Consultative Group to Assist the Poor (CGAP). The BSP provided inputs to all parties throughout this exercise. Another round of evaluation will be conducted a year after the effectivity of the circulars in order to gauge impact. The results of this research may be used by the BSP to inform future policymaking.

The BSP, as a member of the Financial Sector Forum (FSF), and chair of the FSF-Consumer Protection and Education Committee, coordinated the approval of project funding from the Alliance for Financial Inclusion (AFI) to improve the content and design of the consumer protection advisories of the FSF members like the BSP, Insurance Commission, Philippine Deposit Insurance Corporation, and Securities and Exchange Commission. This project will be implemented in 2013, and is aimed to support the FSF members in making the advisories more effective in reaching and educating target audiences, especially the less informed and vulnerable.