



BANGKO SENTRAL NG PILIPINAS FINANCIAL INCLUSION INITIATIVES 2018



ACKNOWLEDGEMENTS

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BSP FINANCIAL INCLUSION INITIATIVES 2018

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The financial inclusion initiatives of the Bangko Sentral ng Pilipinas (BSP) in 2018 are characterized by efforts to strengthen the needed foundation to realize scale, depth, and breadth of financial access, as well as build strategic partnerships to ensure financial inclusion's multifaceted nature are collectively addressed by relevant stakeholders.

In 2000, the BSP took the challenge of promoting sustainable microfinance. Since then, it has nurtured an enabling environment for the delivery of financial products and services for the unserved and underserved, specifically the low-income, disadvantaged, and marginalized sectors of society.

Here are some numbers that are important for understanding the current state of financial inclusion, the challenges but more importantly, the opportunities:

66%

At present, 66.3% of all municipalities have banking presence, with 93.2% of all municipalities having at least one financial services access point. These figures have been steadily growing as banks set up more low-cost access points.

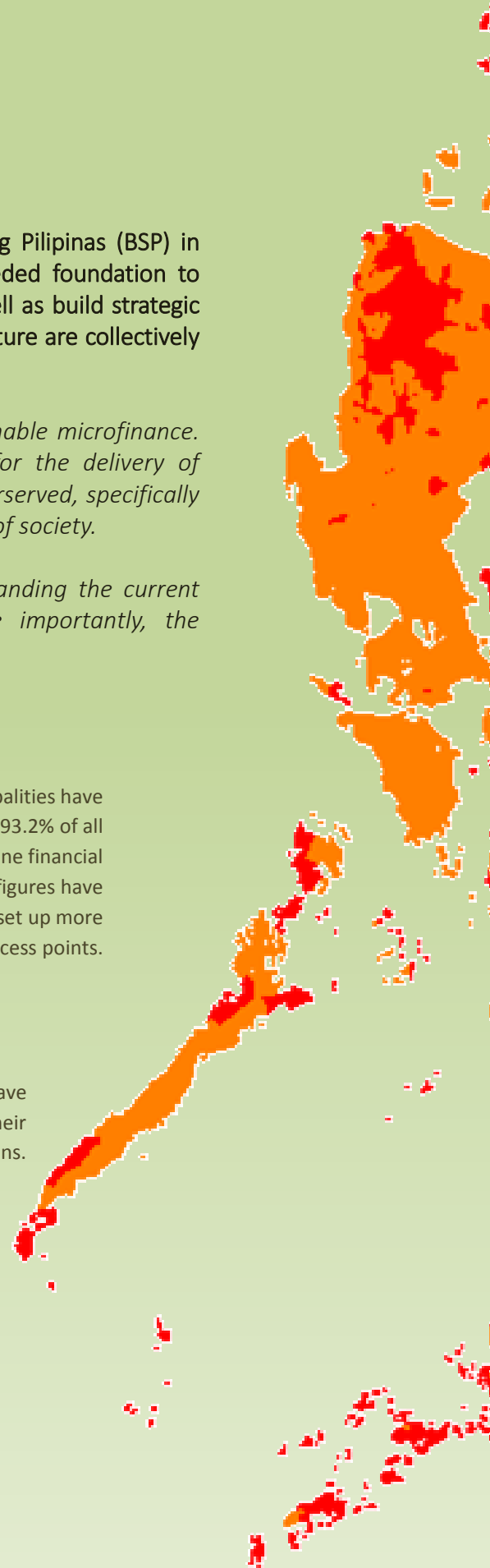
47.9%

Almost half (47.9%) of Filipino adults have savings, but 71.3% of savers still keep their savings through informal means.



With at least one banking office

Unbanked





15.8 MILLION

The number of Filipino adults with a formal account, representing 22.6% of the total adult population.

Opportunities for Digital Financial Inclusion

18%

Only 18% of accountholders use their accounts for payments.

7/10

Filipino adults who do not have an account but have a mobile phone that can serve as their gateway to participate in the digital finance ecosystem.

9/10

Filipino adults make payments. However, 60% still make payments using cash.



STRATEGIC PARTNERSHIPS

Recognizing the primacy of engagement and cooperation towards the achievement of inclusive and broad-based development, the BSP continues to forge and leverage strategic partnerships with the industry, development institutions, international organizations, and other government agencies. Multi-stakeholder collaboration remains a priority for the BSP in the pursuit of its financial inclusion, financial education, and consumer protection initiatives.

National Strategy for Financial Inclusion

The National Strategy for Financial Inclusion (NSFI), launched in 2015, serves as the core platform for interagency coordination and has become an important channel for multi-stakeholder engagement and collaboration.

The BSP remains committed in its role as proponent and driver of the NSFI. It serves as Secretariat to the Financial Inclusion Steering Committee (FISC), the interagency body providing strategic direction, guidance, and oversight in NSFI implementation. The FISC convenes regularly to work towards synergizing and tracking the progress of the government's financial inclusion initiatives.

The 6th FISC meeting was held on 13 June 2018, which gave members the opportunity to share their respective agencies' on-going and prospective programs and activities relevant to financial inclusion. The FISC identified two priority areas in NSFI implementation in the next year: (1) agriculture value chain financing (AVCF) and (2) digital financial services.



Through the NSFI platform, the BSP has obtained much needed support from the various private sector and development partners, with the following programs and projects launched and implemented in 2018:

Financial Literacy Program for Schools.

Together with the Department of Education (DepEd) and BDO Foundation (BDOF), the BSP entered into a Memorandum of Agreement (MOA) to develop financial literacy videos and teaching guides in support of DepEd's program to mainstream financial education lessons in the K-12 curriculum. The first batch of videos, which focused on savings and money management, was unveiled during the launching event in May. The videos are expected to benefit as many as 700,000 DepEd teachers and non-teaching personnel, and 24 million students in over 47,000 public schools in the country.

For teachers and non-teaching personnel of DepEd, the BSP, in coordination with DepEd and BPI Foundation, conducts Financial Empowerment Seminar (FES), a program geared towards improving the financial resiliency and security of teachers. To date, 28 FES for Teachers have been conducted, with 4,900 participants in attendance. This program features modules that serve as primary material in the series of training-of-trainers (TOTs) for teachers.

Expansion of the Financing Ecosystem of Negosyo Centers.

The BSP entered into a partnership with the Department of Trade and Industry (DTI), Microfinance Council of the Philippines, Inc. (MCPI) and Alliance of Philippine Partners for Enterprise Development, Inc. (APPEND) to expand the financing ecosystem of Negosyo Centers. Numbering 1,000 nationwide, Negosyo Centers serve as one-stop shops that provide a range of business assistance services, including registration, business development and consultation, and market linkages.

The partnership will make financial products and services more accessible to micro, small, and medium enterprises (MSMEs), which are the primary clients of Negosyo Centers. Formalized through a MOA signed in September, it effectively institutionalizes information sharing and relationships between financial institutions and Negosyo Centers nationwide; thus enabling Negosyo Centers to refer MSMEs to appropriate financing windows and financial institutions to better understand the needs of MSMEs and design appropriate products and services. The partnership also covers the development of a financial education program for Negosyo Center business counsellors by the BSP.

Agriculture Value Chain Financing (AVCF) Study. To deepen knowledge and raise industry awareness on agriculture financing, the BSP facilitated a study on AVCF. The study, conducted through the sponsorship of the Asian Development Bank (ADB), aims to provide better understanding of the challenges and opportunities of AVCF as a viable alternative financing approach in the Philippines. The study is also envisioned to serve as the basis for a national roadmap on innovative agriculture financing.

Governor Nestor Espenilla, Jr. (third from right), with DepEd Secretary Leonor Magtolis-Briones (center), and BDOF President Mr. Mario Derequito (third from left), during the launch of the Financial Literacy Program for Schools held on 28 May 2018.



The BSP led by Governor Nestor Espenilla, Jr. (center left), DTI led by Secretary Ramon Lopez (center right), MCPI led by Mr. Kamrul Tarafder (representing Chairman Jose Victor Lobrigo, left), and APPEND led by Mr. Edgardo Garcia (right) during the MOA signing event on 17 September 2018.



Agriculture Value Chain Financing Forum

The BSP, in collaboration with the Philippine Chamber of Agriculture and Food, Inc. (PCAFI), the agri-business arm of the five-coalition Agri-Fisheries Alliance (AFA), held the Agriculture Value Chain Financing (AVCF) Forum on 23 November 2018. The forum was conducted with the aim of promoting AVCF as a viable financing strategy and catalyzing AVCF partnerships among banks, development institutions, and agri-businesses toward improved access to finance, especially by smallholder farmers and fisherfolk.

Resource speakers comprised of leading agri-business owners and practitioners and value chain champions who shared the market potential and financing opportunities for banks in selected prime commodities, namely: rice, corn, dairy, fisheries, vegetables, poultry, and swine.

The forum, attended by more than 100 participants including senior executives from the banking industry, is likewise part of the BSP's continuing efforts to broaden financial inclusion by encouraging innovative financing approaches to address the needs of unserved and underserved sectors such as agriculture.



Monetary Board Members Antonio Abacan, Jr. (front row, 2nd from left), Juan De Zuñiga, Jr. (front row, 3rd from left), Deputy Governor Chuchi Fonacier (front row, center left) with PCAFI officers and members headed by Mr. Danilo Fausto (front row, center right), and Dr. Ernesto Ordoñez of the Agri-Fisheries Alliance (AFA) (back row, center left) during the AVCF Forum.

Environmental, Social and Governance High-Level Forum

The BSP, in partnership with the International Finance Corporation (IFC), hosted the Environmental, Social, and Governance (ESG) High-Level Forum on 13 February 2018. Ninety-five (95) participants comprised of C-suites from select banks and officers of banking associations were in attendance.

The Forum builds on the Memorandum of Understanding (MOU) signed by the BSP and IFC on 28 March 2017 and seeks to deepen awareness of the top management of universal and commercial banks (UKBs) on sustainable finance, available tools and resources, and existing practices on how ESG/Environmental and Social Risk Management (ESRM) can be factored into banks' lending and investment decisions.

Credit Surety Fund

The BSP continues to provide support to the Cooperative Development Authority (CDA) for the implementation of Credit Surety Fund (CSF) Cooperative Act of 2015. The CSF provides up to 80% surety cover for loans granted by banks to borrowers that would otherwise have difficulty assessing such credit facilities due to insufficient collateral, limited credit histories, and inadequate financial records, among other barriers.



To date, there are **54 CSFs**, with **791 members** in **53 cities and provinces** across the country. As of end-September an estimated **PHP 5.2 billion** in loans have been released, reaching **17,400 beneficiaries**.*

** BSP Department of Loans and Credit, data as of 30 September 2018.*



Awards Programs

Awards programs form part of a developed stakeholder engagement to recognize meaningful and productive partnerships and exemplary stakeholders in order to further advance the financial inclusion agenda.

Citi Microentrepreneurship Awards

The Citi Microentrepreneurship Awards (CMA) is an annual search for outstanding microentrepreneurs in the country. Created in 2002 through the partnership among the BSP, Citi Philippines, and MCPI and sponsored by Citi Foundation, the CMA seeks to raise greater awareness of microfinance as a tool for employment generation and poverty reduction by highlighting the inspiring stories and achievements of Filipino microentrepreneurs. As a highly successful awards program, it has been replicated in 34 countries and was accorded Enterprise Asia's *Social Empowerment Award*.

The CMA entered its 16th year in 2018. The CMA National Selection Committee (NSC), chaired by the BSP and Citi Philippines, selected nine (9) microentrepreneurs from more than 100 nominees. The 2018 CMA awardees were comprised of one (1) national winner or Microentrepreneur of the Year (MOTY), three (3) regional winners (Luzon, Visayas, and Mindanao), and five (5) special awardees in the following categories:

- Agri Micro-business
- Community Leadership
- Youth Microentrepreneur of the Year
- Startup Micro-business



NSC members with the 2018 CMA winners

To date, CMA has recognized 133 Filipino microentrepreneurs. It has also continually expanded to provide winners much needed incentives to ensure the sustainability and growth of their businesses. Aside from cash prizes, winners receive laptops, one-year life and medical insurance coverage, and IT and entrepreneurship training. Beginning 2017, winners are feted in celebratory town halls in their respective hometowns.

From Fisherman to Fishball King

Mr. Erwin Ramos of Paombong, Bulacan was named 2018 MOTY. Erwin, a 39-year-old former Navotas fisherman, ventured into the food processing business in 2011 when he and his wife Lanie discovered how to make bidbid (lady fish) – a nuisance in bangus (milkfish) fishponds – into the main ingredient of fishballs. Over the years, Erwin’s product line has expanded from fishballs to other popular edibles such as dried fish and fish chicharon (cracklings). Despite receiving offers to buy out his business, Erwin persisted on striking out on his own. He launched Erwin and Lanie’s Fishball with an initial loan of PHP 5,000 from a microfinance institution and turned it into a multi-million peso brand.

Erwin’s production facility in Paombong makes fishballs and other products on a daily basis, ensuring freshness and excellent quality. Erwin runs not only a highly profitable business, but also a sustainable one. Nothing goes to waste, as bidbid innards discarded in food processing find use as feeds in prawn farms.



Stakeholder Awards

Every year, the BSP honors institutional partners who have shown consistent and outstanding support to its advocacy for financial inclusion. In 2018, CARD Bank received the Outstanding Financial Inclusion Champion Award for its tangible gains in providing innovative, responsive, and inclusive financial products and services, especially to the poor and low-income population. FINTQ, the fintech arm of PLDT and Smart's Voyager Innovations, received the 2018 Outstanding Financial Inclusion Partner Award in recognition of its technology-driven programs and initiatives in support of the NSFI.

Financial Education

The BSP believes that a well-informed and sufficiently protected citizenry is instrumental to the achievement of broad-based development. Thus, it is strongly committed to empowering Filipinos through education and adoption of adequate mechanisms that safeguard their welfare as consumers and vital participants in the Philippine financial system.

Financial Education Stakeholders Expo

The BSP held its first Financial Education (Fin-Ed) Stakeholders Expo in 27 and 28 November 2018 at the SMX Convention Center in Manila. The inaugural expo was attended by approximately 1,000 participants from public and private institutions, civic society, academe, and other relevant sectors.

The two-day expo featured panel discussions on topics such as the national and global financial education landscape, innovative communication methods and learning tools, and private sector initiatives. Key industry players, development partner representatives, influencers, fin-ed advocates, and international experts served as resource persons.

Expo highlights also include exhibition booths, interactive games and activities, and performance of “Lukot-Lukot, Bilog-Bilog,” a theatrical play that creatively interweaves the themes of saving and personal finance management.

The Expo is in support of Republic Act No. 10922 designating the second week of November as Economic and Financial Literacy Week and will be an annual event beginning 2018. The Expo aims to provide the opportunity for various stakeholders to connect and serve as a

venue for these stakeholders to explore and foster partnerships to advance fin-ed in the Philippines.



Financial Empowerment Seminars

The BSP organizes Financial Empowerment Seminars (FES) for students, government agency employees, and private sector workers. In addition, it provides resource persons and learning materials. FES modules consist of (1) Financial Planning, (2) Saving, (3) Budgeting, (4) Borrowing, (5) Investing, (6) Fraud and Scams, and (7) Consumer Protection.

Twenty-eight (28) of these seminars were conducted across the country throughout the year and attended by more than 3,400 participants.

Comprehensive Social Benefits Program

The Comprehensive Social Benefits Program (CSBP) was approved during the 3 November 2016 Cabinet Meeting in response to Pres. Rodrigo Duterte's recurring directives to provide assistance to the personnel of the Armed Forces of the Philippines (AFP) and Philippine National Police (PNP) who were killed or wounded in action (KIA-WIA). The CSBP aims to provide financial, employment and livelihood, educational, housing, and medical assistance to the immediate families of KIA-WIA

personnel. The BSP was identified as one of the supporting agencies of the CSBP, particularly in the provision of financial literacy training.



BSP representatives at the RWG Cascading Session in Tacloban City, 13 April 2018.

In line with the BSP's task, a customized training module was developed for CSBP beneficiaries, which discusses the principles and importance of saving, budgeting, and preservation of monetary benefits to be received. To date, the BSP has conducted 10 financial literacy sessions throughout the country with 455 beneficiaries in attendance.

To facilitate a more efficient implementation of the CSBP, Regional Working Groups (RWG) composed of regional units of the different government agencies were created to carry out the CSBP mandate at the local level. Ten regional cascading sessions were conducted by the CSBP National Working Group (NWG), which includes the BSP. Attendant to the cascading of functions, three (3) training-of-trainers (TOT) sessions were conducted for BSP Regional Monetary Affairs Sub-Sector (RMASS) personnel who would administer the financial literacy training to CSBP beneficiaries in their respective areas.

Consumer Protection

Financial inclusion can be fully sustained with a responsive and responsible financial system that builds trust and confidence. Towards this end, the BSP has been working to promote greater customer-centricity, characterized by enhanced responsiveness, which will enable BSFIs to more effectively address the needs and concerns of the public.

Consumer Assistance

The BSP's Consumer Assistance Mechanism (CAM) serves as the public's primary point of contact for financial consumer complaints, inquiries and requests (CIRs). In the first semester of 2018, the volume of CIRs increased by 81% from the same period in 2017. Around 94% of the CIRs acted upon by BSP were referred to BSP-Supervised Financial Institutions (BSFIs) while the rest were referred to other BSP units and other government agencies concerned. BSFIs have been responsive to BSP referrals, with nearly a third of the total CIRs processed resolved/closed as of the 1st semester of 2018.

Chatbot for Complaints Handling

The exploration and adoption of innovative solutions, in addition to improving existing processes, are crucial to achieving a robust, inclusive digital financial ecosystem.

The BSP is implementing a chatbot project as part of efforts to enhance its CAM. Completion of testing was done in 2018, with the launch targeted for 2019. This project is envisaged to improve the complaints management process and expand the accessibility of the BSP through channels such as short message sending (SMS) and Facebook. The chatbot uses state-of-the-art neuro-linguistic programming (NLP), machine learning (ML), and artificial intelligence (AI) programs.

This initiative is part of the RegTech for Regulators Accelerator (R2A), a pilot initiative that gathers financial sector regulators to develop and test the next-generation of digital supervision tools and techniques or RegTech solutions.



REGTECH FOR REGULATORS
ACCELERATOR



International Engagement

The BSP seeks to reinforce its thought leadership and keep abreast of emerging issues and trends in financial inclusion through its active participation in various regional and global fora. International engagements enable the BSP to remain at the helm of major discussions, as well as maximize extensive networks that provide a wellspring of expertise and resources needed to realize financial inclusion-related policies and programs.



Alliance for Financial Inclusion (AFI). AFI is a network of policymakers and regulators from developing countries working to promote financial inclusion. The BSP is a pioneer member of AFI and is part of AFI’s working groups. In addition, the BSP serves as the current chair of the Consumer Empowerment and Market Conduct Working Group.

Association of Southeast Asian Nations (ASEAN). The BSP is part of the Working Committee on Financial Inclusion (WC-FINC), one of the working committees established under the Economic Community of the Association of Southeast Asian Nations (ASEAN) to achieve the aim of regional financial integration. Currently, the BSP serves as WC-FINC Chair alongside Autoriti Monetari Brunei Darussalam (AMBD).



Better Than Cash Alliance (BTCA). BTCA is a partnership among governments, private organizations, and development institutions aimed at broadening inclusive growth by supporting the transition from cash to digital payments. The BSP is a BTCA member and presently serves as a regional representative to the Alliance’s Editorial and Publication Committee.

The BSP is also part of the Innovations for Poverty Action (IPA) Policy Advisory Group, Fintech Leaders’ Roundtable, Islamic Financial Services Board (IFSB) Task Force, and G20 Global Partnership for Financial Inclusion (GPII).



9th AFI Global Policy Forum

During the 2018 AFI Awards, Ms. Jenny Romero of the BSP’s Center for Learning and Inclusion Advocacy (CLIA) was one of the recipients of the Young Generation Award which is given to upcoming young experts in the AFI network who are under 35 and have made a substantial contribution to the Working Groups and Regional Initiatives.



6th Meeting of the ASEAN Working Committee on Financial Inclusion



The 6th Meeting of the ASEAN Working Committee on Financial Inclusion (WC-FINC) was held from 14 to 15 August 2018 in Manila, with the BSP serving as host and co-chair. More than 50 officials and representatives from the central banks, finance ministries, and monetary authorities of ASEAN Member States (AMS), and development partners were in attendance. Discussions during the Meeting focused on the status of current financial inclusion initiatives, planned programs and activities, and prospective projects in collaboration with development partners. These discussions were anchored to the aim of advancing digital financial services in ASEAN.

Established in 2015, the WC-FINC aims to broaden financial inclusion in the ASEAN region by serving as a platform for AMS to share country experience and knowledge, as well as facilitate engagement and collaboration with various development partners.

Knowledge Exchange and Study Visits

The BSP regularly conducts knowledge exchange programs and hosts study visits for counterparts from other central banks, monetary authorities, and related entities as part of its pursuit of international thought leadership. In particular, the BSP shares its regulatory and financial inclusion initiatives, such as the National Strategy for Financial Inclusion (NSFI), to interested institutions.

For 2018, the BSP hosted 124 participants from the following central banks/monetary authorities and international institutions:

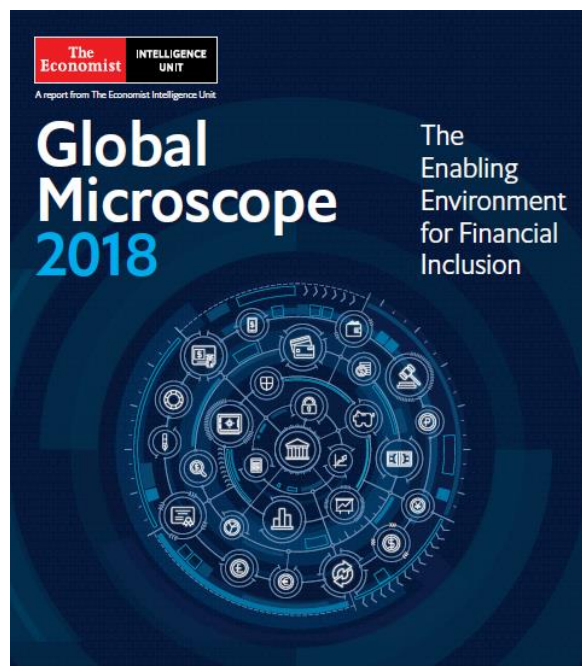
- Nepal Rastra Bank
- Center for Microfinance, Nepal
- Rural Finance Initiative, Colombia
- Central Bank of Sri Lanka
- Bank Indonesia
- ACCESS Advisory, Inc., Nepal
- Lanka Microfinance Practitioners' Association, Inc., Sri Lanka
- Bhutan National Bank



Philippines Retains Top Rank in Global Financial Inclusion List

The Philippines remains a global leader in financial inclusion according to the 2018 Microscope, a cross-country study which assessed the enabling environment for financial inclusion in 55 jurisdictions. The Philippines is ranked fourth in the world and first in Asia, together with India, in terms of having a conducive environment for financial inclusion.

The 2018 Microscope noted that the BSP “has been ahead of the curve in identifying opportunities and setting guidelines for financial inclusion.” It recognized that the BSP’s focus on “creating a digital finance ecosystem has led to the introduction of a sound payments infrastructure that helps various financial sector players to reduce their costs and further their outreach.”





BUILDING THE FOUNDATION FOR SCALE

The BSP continues to put together important pieces of building a broader ecosystem to support sustained financial inclusion that leverages on technology and innovation. In 2018, the BSP approved a policy framework on basic deposit accounts and supported key legislative reforms on the national identification system and movable collateral registry.

Circular No. 992, Framework for Basic Deposit Accounts

The issuance of the Circular No. 992 dated 1 February 2018 on Basic Deposit Account (BDA) outlines the framework for banks to offer a basic account designed to promote financial inclusion. Through this policy, the BSP seeks to promote ownership – sitting at 34.5% according to the World Bank Global Findex (2017) – among the unbanked by addressing prevalent barriers such as cost, and lack of money and documentary requirements. A formal account not only provides Filipinos a safe and convenient savings tool and gateway to digital payments, but also a means to access a gamut of financial services ranging from credit to investments.

Minimum key features of the BDA are the following: (1) simplified know-your-customer (KYC) requirements; (2) opening amount of less than PHP 100; (3) no minimum maintaining balance; and (4) no dormancy charges. The maximum amount is capped at PHP 50,000 to prevent misuse. Meanwhile, a preferential 0% reserve requirement is granted to encourage banks to offer BDA.

The BDA is envisioned as a customizable product, one that banks can develop and offer to reach wider markets and utilize technological innovations to on-board and service clients. In addition, it supports the National Retail Payment System (NRPS) that aims to increase the adoption of digital payments in the country. Through the BDA, the unbanked can be integrated into the digital finance ecosystem and maximize remittance and payment services.



Key Features of BDA

- ✓ Simplified opening requirements
- ✓ Opening amount of not more than PHP 100.00
- ✓ No minimum maintaining balance
- ✓ No dormancy charges

National ID System



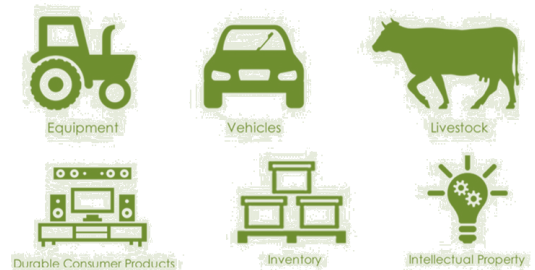
On 6 August 2018, President Duterte signed Republic Act No. 11055 creating the Philippine Identification System (PhilSys). The Implementing Rules and Regulations (IRR) was signed on 5 October 2018. The BSP, through Deputy Governor Chuchi Fonacier, is a member of the PhilSys Policy and Coordination Council (PSPCC) and participates actively in the Interagency Technical Working Group on PhilSys.

A national digital ID system is a crucial public infrastructure, with its ability to address persistent onboarding issues on the lack of acceptable IDs and the highly inefficient paper-based KYC processes which make serving small-value transactors unattractive. The PhilSys will be designed to ensure universal coverage, data integrity and security, and optimum utility (i.e., it should serve as an enabling platform for the efficient delivery of a whole range of government and private sector services).

Designed as such, the PhilSys can provide all Filipinos – especially the currently unserved – the means to establish a verifiable digital identity which will enable them to open accounts, use financial services more efficiently, and gainfully participate in an increasingly digital economy.

Secured Transactions Framework

Underserved sectors such as agriculture and micro, small and medium enterprises (MSMEs) find it difficult to obtain credit from banks which usually require real property as collateral. The preference for fixed assets as collateral can be attributed to the absence of a legal framework to govern the use of movable collateral (e.g., warehouse receipt, crops, receivables, and equipment).



On 17 August 2018, Republic Act No. 11057 also known as Personal Property Security Act was enacted into law. It provides the legal and institutional framework to facilitate the use of movable property as collateral for both business and consumers credit. Movable property could be bank accounts, accounts receivables and secured sales contracts, inventory and raw goods, intellectual property rights, industrial and agricultural equipment, durable consumer goods, agricultural products, and vehicles.



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