The Case and Challenges for Financial Inclusion and Literacy in the Philippines

A Presentation by:
Dr. Johnny Noe E. Ravalo
Managing Director
Bangko Sentral ng Pilipinas
The Case for Financial Inclusion

ARCHIPELAGIC ECONOMY

Dialects – 171
Provinces – 80
Regions – 17
Barangays – 41,960
Religions – 6
The Case for Financial Inclusion

DEMOGRAPHY

2007 Census, Total Population = 88,546,087

15 - 64 years

60%

Thousands

0

2,000

4,000

6,000

8,000

10,000

12,000

Under 1
1-4 years
5-9 years
10-14 years
15-19 years
20-24 years
25-29 years
30-34 years
35-39 years
40-44 years
45-49 years
50-54 years
55-59 years
60-64 years
65-69 years
70-74 years
80 and over
The Case for Financial Inclusion

REGIONAL DISTRIBUTION OF BANKING OFFICES

*% Contribution of the Region to 2009 GDP
The Case for Financial Inclusion

REGIONAL DISTRIBUTION OF BANKING OFFICES

*% Contribution of the Region to 2009 GDP
The Case for Financial Inclusion

PHILIPPINE DEPOSITS

By Number of Accounts

97% of total account holders are covered by deposit insurance

Only .9% of total account holders have a balance of Php2M above

By Deposit Size

97% of total account holders are covered by deposit insurance

Up to Php500K: P870,779
Php500K-Php2M: 737,224
More than Php2M: 3,510,822
<table>
<thead>
<tr>
<th>REGION</th>
<th>PERMANENT</th>
<th>TEMPORARY</th>
<th>IRREGULAR</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>2,217</td>
<td>54,389</td>
<td>8,130</td>
<td>64,736</td>
</tr>
<tr>
<td>Asia</td>
<td>268,374</td>
<td>2,847,126</td>
<td>374,892</td>
<td>3,490,392</td>
</tr>
<tr>
<td>Europe</td>
<td>312,361</td>
<td>309,914</td>
<td>100,152</td>
<td>722,427</td>
</tr>
<tr>
<td>America/Trust Territories</td>
<td>3,162,843</td>
<td>253,700</td>
<td>166,336</td>
<td>3,582,879</td>
</tr>
<tr>
<td>Oceania *</td>
<td>311,145</td>
<td>68,515</td>
<td>8,860</td>
<td>388,520</td>
</tr>
<tr>
<td>Seabased Workers</td>
<td></td>
<td>330,424</td>
<td></td>
<td>330,424</td>
</tr>
</tbody>
</table>

* Majority of OFs are in Australia and New Zealand

**Permanent** – Immigrants or legal permanent residents abroad whose stay do not depend on work contracts

**Temporary** – Persons whose stay overseas is employment related, and who are expected to return at the end of their work contracts.

**Irregular** – Those not properly documented or w/o valid residence or work permits, or who are overstaying in a foreign country

8,579,378 (9.7% of total population)
The Case for Financial Inclusion OF Remittances

By Region, By Source

<table>
<thead>
<tr>
<th>Year</th>
<th>Africa</th>
<th>Middle East</th>
<th>Oceania</th>
<th>Europe</th>
<th>America</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9,987,628</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7,198,212</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In Thousand USD
Therefore

- Socio Economic Divide
- Financial sophistication
  - ✔ Consumer to saver
  - ✔ Saver to investor
- Pockets of small savings over large parcels of the economy
- Value of some coordinated intervention
Access to Financial Services

Creating an enabling policy and regulatory environment –

• Microfinance
• E-money/Mobile Banking
BSP Initiatives for Financial Inclusion

• Targeted Regulations
  ✓ Regulatory Framework is clear as it clearly defines BSP requirements

• Supervisory Capacity Building
  ✓ Close interaction with industry players
  ✓ Specialist examiners
  ✓ Consumer protection and financial literacy advocacy
Measurable Impact – Microfinance

- Full mainstreaming of microfinance in the formal financial system
- Over 200 banks with microfinance operations (since 2001)
  - Close to 900,000 active clients
  - Over P6 Billion outstanding portfolio
- 6 out of 10 borrowers given the opportunity to save for the first time
- Expansion of products delivered (i.e., housing microfinance, micro-agri, microinsurance)
Measurable Impact – E-money/Mobile Banking

- 8 million users of e-money
- 28,000 cash-in/cash-out agents nationwide
- 52 banks using mobile banking through e-money platform from none in 2005

✓ These banks are even lowering interest rates for clients that borrow and use e-money platform for loan payments
Milestone Dates – Financial Literacy

• **5 July 2004** – formation of the Financial Sector Forum (Consumer Protection and Education Committee)

• **12 July 2005** - Executive Order mandating the implementation of initiatives for Overseas Filipinos (OFs)

• **21 November 2005** – creation of BSP working groups to improve environment for remittance flows

• **16 October 2006** - creation of the Financial Consumer Affairs Group (FCAG)

• **03 October 2008** – establishment of the Economic and Financial Learning Center (EFLC)
Redress Mechanism

Financial Consumer Affairs Group

to facilitate communication between the consumer and the financial institution

<table>
<thead>
<tr>
<th>CONSUMER ASSISTANCE MECHANISM</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011**</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIRs* Received</td>
<td>2,065</td>
<td>2,329</td>
<td>2,303</td>
<td>185</td>
</tr>
<tr>
<td>CIRs Resolved</td>
<td>2,064</td>
<td>2,326</td>
<td>2,056</td>
<td>75</td>
</tr>
<tr>
<td>CIRs In-Process</td>
<td>1</td>
<td>3</td>
<td>247</td>
<td>110</td>
</tr>
</tbody>
</table>

*CIR – complaints, inquiries and requests

** as of 31 January 2011
Consumer Finance Policies

- Credit card regulation amendments (pre-approved card, collection harassments, interest rates)

- Handbook on Consumer Laws & Regulations for supervised Fis

- Proposed Circulars on:
  - Deposits (PWDs, senior citizen’s initial and maintaining balance, joint deposit account)
  - Lending – bank advertisements sent via SMS
  - E-Banking – ATM charges, skimming devices
  - Pawnshop – ceiling on interest rate

- Advisories on Deposits, Investments, Scams, Text Messages, ATMs
Economic and Financial Learning Program

- Financial Learning Campaign for OFs and their Beneficiaries
- Public Information Campaign
- Financial Education Expo
- Financial Learning Campaign for Microfinance Clients and the Unbanked
WEEKLY WEALTH WATCH

SAVING GIVES US OPTION

My 84-year old father was admitted to the hospital Friday evening, complaining of stomach discomfort. He has always looked younger than his age, but since my mother's unexpected passing last year, his health has really declined quite noticeably.

By midnight though, a surgeon was called in and he made the decision that dad needed an emergency operation. Instead of the stomach, the doctor found something else that he said needed surgical intervention within the next two hours, notwithstanding dad's age.

At 3:42 pm yesterday, Sunday, we were told that additional procedures were needed for his legs. The discolored blood of the medical staff and they wanted to be sure there was no blood clot hiding somewhere. We were informed though that this procedure was on “cash basis only” and we needed to settle this first.

By 4:30 pm, my brother was passed a note. We needed to “update” our account with the hospital the following day. All said, we were being “asked” to deposit nearly ₱50,000 thousand by mid-morning.

Over the past 2 weeks, I also have been hit by one bug after another. First was my ears (literally painful to hear people talk) and then lately everything just basically hurts. The steroids for the ears came out to about ₱102 a day and the subsequent 7-day antibiotic (which thankfully ends today) is between ₱196 to ₱202 a day depending on which drug store I buy it from.

Why am I narrating all this?

Someone with the pseudonym “Analyst” sent in a comment that there really isn’t any point to saving. He reasons that we are a poor economy with limited resources and no matter how hard we try, saving isn’t going to change our fortunes. We were born poor relative to the standards of the first world and after all is said and done, we are likely to die poor. So as Analyst argues, why bother?

Had Analyst argued his/her point more than 2 weeks earlier, I would have just dismissed it as a strongly-held but otherwise “last” argument.

We save because some hospitals won’t admit a patient without a sizable deposit (even for emergency middle-of-the-night cases). We save because medicines need to be taken “now” regardless of how much they cost. We save because we want our family to have a little bit more than what we have. We save because we want to pay forward.

The real measure of success in saving is not the extra pesos and centavos it generates. That will be too limiting a benchmark because it makes it purely a “financial thing.” And since it’s the market that dictates available interest rates, how much additional pesos and centavos we generate isn’t even totally within our control.
FinLit is an opportunity

... and a never ending responsibility

• Materials need to be audience specific and location specific

• Ethnocentric participants make the idea of a “national plan” almost an oxymoron

• Considerable burden on those who craft/deliver the learning modules

• Is FinLit making a difference?
Thank You