Amando M Tetangco, Jr: Enabling market-based solutions toward financial inclusion

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the IIF (Institute of International Finance) Conference entitled the G20 Agenda under the Australian Presidency, Sydney, 21 February 2014.

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It is an honor and a great pleasure to participate in this High-Level Public-Private Sector Conference. I thank the organizers – the Institute of International Finance (IIF) and Australia as President of the G20 – for inviting me to this event. Ladies and gentlemen, as mentioned earlier, there are an estimated 2.5 Billion[1] people living without access to financial services, according to the World Bank and other sources. Three quarters of the world's poor are unbanked. Traditional financial products and delivery channels have not been able to address the needs of this market. There is therefore a need for new business models and fresh thinking on how this market can be best served. This presents a large untapped market and a source of vast opportunities.

The private sector, with its inherent agility, is well placed to respond to such opportunities with commercial potential. It has the capacity to innovate and develop new and sustainable business models.

Microfinance is a good example. The large numbers of low income micro entrepreneurs were once thought to have very high credit risk to which commercial financial institutions have traditionally been averse. With appropriately priced and designed products, microfinance institutions have proven the profitability of serving a market that was previously viewed as unbankable. In the last ten years, some microfinance institutions have gone public[2] and mainstream financial service providers are now in the microfinance space. In microfinance, commercialization was seen as an accepted prerequisite to viable and sustainable microfinance operations.[3]

More recently, the interest of mobile telecom operators in playing a role in the delivery of financial services has ushered in a wave of innovative business models. According to a McKinsey study (Beshouri and Gravråk, 2010), bringing financial services to the unbanked is a strategic shift for mobile operators as it presents significant commercial potential. Research[4] shows that about one billion people in emerging markets have a mobile phone but no access to banking services. The study therefore estimated that in just two years $5 billion could be generated annually in direct revenue, primarily from fees for financial services such as transactions and cash out, and an additional $3 billion annually in indirect revenue, including reduced churn and higher average revenues per user for traditional voice and short message service (SMS). In 2012, GSM Association reported over 200 mobile money deployments globally in 83 countries.

These solutions can only flourish within an enabling policy and regulatory environment that allows innovation and new ideas to thrive rather than stifle them. There is a need for policy makers and regulators to fully understand the new business models to be able to provide the appropriate and proportionate guidance.

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1 World Bank, 2012 Note: Adult Population is at 4.7 Billion.

2 Initial Public Offering of Compartamos Mexico in 2007 and SKS India in 2010.

3 Commercialization of Microfinance: Philippines, Asian Development Bank, 2003.

4 Covering 147 countries conducted by the GSM Association (GSMA) and the Consultative Group to Assist the Poor (CGAP).

This approach has characterized the way the Bangko Sentral ng Pilipinas crafted our policies on microfinance and more recently on electronic money and mobile financial services.

In microfinance, our approach is to mainstream its practice in the banking system. Integral to this approach is the safety and soundness of the bank which we believe will allow it to viably innovate and serve new markets. With this, the application of prudential standards is not compromised but instead tailor fitted to better address the risks in the given activity.

In our mobile financial services framework, we developed an electronic money ecosystem. We clearly differentiated e-money from a deposit which allowed a proportionate approach toward electronic money issuers. These efforts paved the way for an efficient retail payment system upon which various use-cases can be developed. Examples include electronic payment of the government conditional cash transfers (G2P) and the electronic payment of taxes to the government (P2G). There remains vast potential for other functionalities.

Indeed, progress has been made in financial inclusion. The challenge now is to continue to take the agenda forward by leveraging on strategic partnerships and linkages:

1) Linkages in-country which are important to ensure a coordinated approach. Alignment of the policies and activities of relevant agencies and institutions will be necessary to optimize linkages and reduce duplications.

2) Partnerships across countries that enable sharing of experiences and the ability to leapfrog in developing policy solutions. Peer learning platforms such as those enabled through the Alliance for Financial Inclusion (AFI) network make such exchanges possible.

3) Engagement with global bodies such as Standard Setting Bodies and international agencies as a productive means to promote a cohesive and consistent financial inclusion global framework.

Financial inclusion brings to fore innovative models, new products and new players. While international standards are designed to be applied flexibly in all country contexts, the application has tended to be focused on traditional constructs and activities that cater to the "already served" market. There is therefore a need for a commensurate evolution in thinking on proportionality – the acceptable points of balance between the policy objectives of financial stability, inclusion and integrity. This concept of proportionality has been aptly identified as one of the G20 Principles of financial inclusion.

The BSP has been involved in the G20 Global Partnership for Financial Inclusion particularly in the Sub-Group on Principles[5] and Standard Setting Bodies Our involvement has allowed the sharing of experiences particularly on balancing the risks and benefits of financial inclusion through the application of internationally accepted prudential and supervisory standards.

Financial inclusion is a gargantuan task which can only be achieved through well-coordinated and meaningful partnerships. We are already seeing some evidence of success...

In Kenya, seventeen million[6] are able to send and receive money through their Safaricom mobile phones using M-PESA, a small-value electronic payment and store of value system.[7] In Brazil, commercial banks have banked each of the 5,564 municipalities through their banking agents.[8] A state-of-the-art biometric enabled smart card and battery operated

[5] Principles – Leadership, Diversity, Innovation, Protection, Empowerment, Cooperation, Knowledge, Proportionality and Framework.

[6] Out of a population of 40.5 million (World Bank FIndex, 2012).

[7] Safaricom Limited Annual Report, Year Ended 31 March 2013.

[8] Branchless Banking in Brazil, CGAP, 2010.

authentication devise has allowed ICICI to provide micro-savings accounts to the unbanked in India.[9] In the Philippines, banks are providing microfinance loans and deposit products to over a million clients, majority of whom claim to have never had the opportunity to save in a formal financial institution in their lives.

At the end of the day, we are starting to see more people participate in the financial system. With this access to finance, households are better able to manage their finances, guard against shocks and take advantage of economic opportunities. The financial system is able mobilize broader based savings and channel such funds to productive activities. These can contribute not only to financial resiliency, and stability but also to inclusive growth. There is a growing body of literature on the benefits of financial inclusion.

It is therefore important that policy makers and regulators pay serious attention to financial inclusion side by side our traditional objective of maintaining financial stability. A stable financial system will gain more meaning if it serves the needs of the majority, especially the three quarters of the world's poor that have been unserved too long.

Thank you very much and good morning.

9 Financial Inclusion Efforts of the Group, ICICI website.