

Amando M Tetangco, Jr: Improving financial literacy and increasing financial inclusion to sustain economic growth

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the SharePHIL's (Shareholders' Association of the Philippines) 7th General Membership Meeting and Forum on "Improving Financial Literacy and Increasing Financial Inclusion to Sustain Economic Growth", Manila, 5 November 2014.

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I am delighted to join you for your 7th General Membership Meeting. For this afternoon, I have been asked to speak on improving financial literacy and increasing financial inclusion. These are critical advocacies of the BSP and I would be more than happy to share my thoughts on these intertwined issues and how these could translate to sustaining economic growth.

But before I get to this topic, let me also express how much I truly welcome the efforts of SharePHIL in making the investing public aware of their rights, duties and responsibilities as stockholders of corporations and institutions. One cannot overemphasize how valuable this agenda is. After all, the rights to information, to speak and be heard, and for redress are inherent rights of all shareholders – whether majority or minority. This agenda therefore makes inclusiveness, or more specifically, financial inclusiveness, a desired public good.

Challenge of execution

Economics tells us that public goods are socially desirable outcomes for which private funding is limited. As such, the real challenge to the public good that is "financial inclusion" must certainly be one of execution.

Financial inclusion is a key advocacy of the BSP as it is complementary to our mandate of maintaining price and financial stability. Financial inclusion carries with it the potential to equalize opportunities across segments of society and reduce the economy's vulnerability to financial distress.

In the BSP, we define our financial inclusion agenda around a three-pronged framework – Access to Financial Products and Services, Financial Education and Literacy, and Financial Consumer Protection. Each of these has a distinct contribution to achieving our objective just as each one is inherently intertwined with the others.

The actual execution of our financial inclusion agenda can be likened to that of a ladder.

Broadening access to financial products and services:

At the first level/step, we would want to bring in more savers into the formal financial system. This is Financial Access. We achieve this principally by strengthening the banking/financial regulatory framework. This includes our efforts in terms of:

1. broadening stakeholder access specifically by rationalizing the requirements for establishing financial access points [for example, access is not limited to full banking offices or brick and mortar establishments... we now have Micro-Banking Offices and Financial Service Providers]
2. improving the mix of financial products through the application of proportionate regulation [for example, allowing micro-insurance, microagri-loans and relaxed disclosure and other requirements, including partnering with industry associations to come up with new products such as the Kiddy Account Program], and
3. leveraging off technology to aid in creating more financial access points and products [for example, mobile and internet banking].

Such efforts are a calibrated intervention. We believe that financial markets should be made strong not because they are the exclusive domain of those who can save. Rather, their strength must rest on their ability to be responsive to the needs of stakeholders ... all stakeholders.

In this connection, I am happy to share with you that we now have fewer cities and municipalities that are considered unbanked. At the end of 2012, about 37 percent of cities/municipalities had no banking presence (either in the form of banks or MBOs). However, if we consider the increased presence of other financial service providers like ATMs, e-money agents, pawnshops, savings and loan associations, remittance agents and money changers, the percentage of cities/municipalities that remains unserved is lower at 12.6 percent.

In what could very well be one of the most significant gains we have achieved as a community that remains not well reported, we have seen a sizeable increase in the number of deposit account holders. As of June 2014, we had 46.9 million deposit accounts versus the 39.7 million deposit accounts as of two years before.

What is most notable of this increase of 7.2 million accounts is the fact that nearly 6.6 million of these accounts are those with balances of less than Php100,000.

These are developments that do not normally catch the headlines or even the business pages. But they are tangible gains nonetheless which we need to sustain and further enhance.

Deepening roots of financial education

As the second level/step of this ladder, we want to encourage savers to migrate and become investors. As the BSP has consistently advocated, saving is much more than just income versus expenses. It is a discipline and a process. And central to that process is financial education so that individuals can safe-keep their principal while building up the capacity to set aside a portion for risk-taking and financial gains. It is this underlying shift in risk awareness that allows savers to make well-informed decisions and become retail investors.

Along these lines, the BSP pursues financial literacy as an advocacy with fervent passion through various undertakings. Under our Economic and Financial Literacy Program (EFLP), we conduct briefings, seminars and expos across the country. We have offerings for the economic and financial consumer, shedding more light on economic statistics as well as sharing learnings on personal finance, including retirement. We discuss the basics of saving and money management, and make participants understand that financial products carry different risks, and help them appreciate their own risk appetites. We have been conducting different components of our EFLP since 2000 across the country and in areas around the globe where there is a concentration of OFWs.

So far, the BSP has conducted various outreach learning activities in 54 percent of our 81 provinces nationwide, from as far as Laoag City in the north to General Santos City in the south. We have also brought our information campaigns to Hong Kong, Singapore, South Korea, Bahrain, Brunei Darussalam, Qatar, Saudi Arabia, Italy and the United Kingdom.

We target our initiatives to varied audiences and for differentiated needs – students, professionals, families of our OFWs. We also partnered with the DepEd to develop teaching guides on saving and money management and incorporated these into the curriculum of public elementary schools. Interestingly, we have the Money Matters for Kids (MMK), which is for our young schoolers just as we have launched our AlertoAko exhibit to heighten awareness against financial scams and fraud. In other words, ladies and gentlemen, our financial education programs run the scale of a person's economic life cycle.

While it remains a challenge (in economic literature) to attribute improvements in economic and financial well-being to any financial literacy campaign, it stands to reason that financially

well-informed individuals should make better decisions for their families, increasing their economic security. Secure families, in turn, are better able to contribute to their communities, further fostering economic development. Indeed, a financially educated citizenry is better able to navigate an economic crisis, when it hits them. And this is the philosophy behind our own EFLP... we believe that: "A citizenry that is well informed in economics and finance is a more effective partner of the BSP in maintaining the effectiveness of monetary policy as well as in ensuring a stronger and safer banking and payments system. At the same time, a knowledgeable citizenry is able to contribute more meaningfully to economic development and benefit better from the opportunities that development brings".

Extending the scope of financial consumer protection

At each of the steps, the BSP recognizes that risks and opportunities can transfer between the consumers of and the providers of financial services – between the borrower or investor and the financial intermediary. Therefore part of our framework is to ensure that financial consumers are amply protected. To walk this talk, the Monetary Board approved earlier the adoption of the Financial Consumer Protection (FCP) Framework to institutionalize consumer protection as an integral component of banking supervision in the country.

The new framework has been crafted based on the fundamental tenets of consumer empowerment, market conduct and collective responsibility. The Framework reflects the BSP's own commitment to ensure that BSP-supervised financial institutions develop a culture of fair and responsible dealings while continually protecting the welfare of financial consumers.

Our FCP framework embodies five consumer protection standards of which (1) Fair Treatment and (2) Disclosure and Transparency are consistent with the core values of SharePHIL. We hold our covered institutions to a standard of market conduct which similarly aligns to your vision of accountability. And certainly not the least, financial education is another of the five standards which aligns with the investor education initiative of the current leadership of SharePHIL.

Translating financial inclusion to economic growth

I hope I have been able to illustrate to you that the BSP framework on financial inclusion is a holistic process that goes beyond providing information. But we do not kid ourselves. We realize that it is, as the OECD principles of financial literacy say, "a lifelong, on-going, and continuous process that needs to take account of the increased complexity of markets, varying needs at different life stages, and increasingly complex information".

One should not be surprised then that the changes may seem "incremental" in nature. This does not suggest that the process is not taking hold. Instead, it does show that the change is taking shape and that these small changes may have much larger effects than we can immediately see.

More broadly, we would like to see this financial ladder get wider as more of our citizenry are able to hop on ... and reach greater heights as the resulting economic pie increases and more are able to share in the pie. We hope to see economic growth that empowers more of the citizens to be in charge of their financial future. This is our goal.

More narrowly, what we hope to see is the maturation of the consumer into a saver and then to an investor. As these investors gain financial awareness and risk sophistication, we may actually find some of them to be the shareholders that we all focus on here today.

Zeroing in on SharePHIL's advocacy

For this afternoon, I think it is clear that one cannot think of promoting the shareholder's rights and empowerment without due consideration for the advocacies of financial inclusion

and financial literacy. For clearly, the motivation behind these two advocacies is to level opportunities and attract even more investors into our financial markets.

Going beyond lip service: the shareholder's handbook

Your core values neatly coined as “Faith to the Investor” speaks of fairness, accountability, independence, transparency and honor. These are essential, indispensable values. Who can detract from the need for transparency or the basic value of fairness? But while all of these are good and true, we also cannot be caught paying homage to its lip service. These are not mere governance concepts. Instead, they are actionable items with tangible desired deliverables.

This is why SharePHIL deserves commendation for the launching of the Shareholders Handbook. It represents to me a concrete manifestation of transforming concepts into sharable ideas for the benefit of the public. As the handbook categorically states, it is for the prospective shareholder, the small and minority shareholder as well as the investor community, among others.

It is noteworthy that the handbook talks of financial reports and ratios in both chapters 5 and 6. This is useful as one prepares for the stockholders meeting, for example. Chapter 8 of the handbook goes through great lengths to discuss details, even pointing to some questions that shareholders may wish to ask. The items raised in chapter 4 on choosing a stockbroker and the due diligence issues in chapter 3 will certainly be of value.

All of the above materials are not exactly basic fare for someone just starting out from being a saver to a would-be investor. This is why the information in chapters 1 (Invest Intelligently) and 2 (Know Your Duties, Responsibilities, and Rights as a Shareholder) matter because they provide for the transition that one needs to take for the succeeding chapters.

Capital market development: the overarching objective

Ladies and gentlemen, while we have already covered much ground, there is still much more that needs to be done.

In the end though, all our actions towards protecting minority shareholders nurture a culture of cooperation and symbiotic partnership among stakeholders. In turn, all that will eventually converge to the development of our capital market. This is explicit in SharePHIL's vision and it remains one of the country's overarching priorities.

But, if we look inwards objectively, it will become clear that there remain key challenges ahead of us as we reach for the goal of a more developed capital market. Capital market actions require “big” changes whose ramifications are even “bigger” and more widespread.

The “big change” here is that we are looking out for those who participate in this market but who will otherwise not have the collective position to instigate needed corporate reforms. This is about molding the corporate culture so that it is not about the majority versus the minority, but one of collective action on what needs to be done.

“FAITH to the Investor”. This is your core value. This is what makes SharePHIL a market mover – one who is willing to work with others while at the same time be passionate in pursuing and enacting change when and where needed.

Thank you very much and good afternoon.