

Amando M Tetangco, Jr: Scaling up inroads in financial inclusion for a quantum leap

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Asia Pacific Financial Inclusion Summit, Makati, 27 October 2015.

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We at the Bangko Sentral ng Pilipinas welcome and thank all of you for participating in this first Asia Pacific Financial Inclusion Summit. In particular, we are pleased that this maiden summit is being held here in our country. For this we thank the organizers— Financial Times (FT), led by MD Angela Mackay, the Foundation for Development Cooperation (FDC), led by Exec. Governor Stephen Taylor, and Citi led by Asia Pacific Chairman Shengman Zhang and Citi Philippines Country Head Aftab Ahmed.

Indeed, for a country such as the Philippines where financial inclusion is deemed necessary to achieve inclusive growth, this summit of thought leaders on financial inclusion is both timely and essential.

For your information, the Philippines has been able to sustain uninterrupted economic growth for 66 quarters now. Economic opportunities abound across our country therefore at a time when our financial system is sound, stable and liquid. This makes for fertile ground for proactive work on financial inclusion.

This is exactly what we have been doing in the last ten years – broadening and deepening the reach of our financial system to get to the unserved and the underserved. Sure, we had hits and misses. But along the way, our central bank has been receiving awards and recognition for its success in providing one of the world's best regulatory framework for promoting the development of microfinance and financial inclusion.

Indeed, we have witnessed how successful microentrepreneurs lifted their families from poverty along with others in their community toward higher incomes, risk-protected assets, and brighter futures. We have also seen increases in our savings rate.

Nevertheless, millions of our people still live in poverty. That the Philippines is an archipelago of 7,107 islands with a population of 100 million makes financial inclusion quite challenging for us indeed.

This is the reason behind our move to link up with 12 other government agencies to craft and implement our National Strategy for Financial Inclusion or NSFI which was launched last July. Secretary Nicolas of Commission on Filipinos Overseas under the Office of the President is a strong supporter of the NSFI. With the NSFI as our road map, we focus on achieving financial inclusion that promotes inclusive growth, consolidate our efforts to avoid overlaps, and together set priorities to maximize use of our resources.

The NSFI spells out high-level principles and systematic strategies; guides coordination across government and private sectors; ensures policy and program cohesion; and promotes multi-sectoral synergies.

In particular, the NSFI lays down precise objectives: (1) Financial products that are diverse, well-designed, suitable and relevant to different market segments; (2) Providers and business models that are diverse, responsible, responsive and innovative; and (3) A citizenry that is financially-learned and adequately protected.

The goal is to mainstream Filipinos across the country as regular clients of our financial system, particularly (1) MSMEs, (2) overseas Filipinos and their beneficiaries, (3) agriculture and agrarian reform sectors, (4) indigenous peoples and cultural minorities, (4) women, (5)

the youth, (6) and persons with disabilities. These sectors are typically unserved or underserved by conventional financial service providers.

Indeed, we have set high expectations. Nevertheless, while I am optimistic these can be achieved, I am also realistic that there are challenges we need to address. For this keynote address, I will not focus on these challenges; rather, I will highlight three elements which I believe are essential in overcoming challenges and in achieving a quantum leap in financial inclusion.

First is research and measurement; second is purposeful action and innovation informed by research; and third is convergence of objectives and actions across domestic, regional and international arenas.

Building up Research, Data and Measurement

Let me expound on the first of these three elements-- building up research, data and measurement. Ladies and gentlemen. Time and again, we have seen that rigorous research can lead to breakthrough knowledge and innovations. This is also true for financial inclusion.

Among others, present research in behavioral economics, psychometrics, big data analytics, virtual mapping and imaging technology are allowing us to understand the excluded: who and where they are, what they need, and how they want to be served. The new information is opening up opportunities for new players, giving rise to exciting platforms and more efficient channels with the potential to positively “disrupt” the financial inclusion landscape.

I am glad to note therefore that our summit will tackle new trends and technology that could catalyze a quantum leap in lowering financial exclusion levels around the world.

R&D also makes regulators and practitioners more responsive and effective. At the Philippine central bank, we use research extensively to design and implement regulations and programs that target barriers to financial inclusion.

Data and measurement, on the other hand, enable us to see the results of our initiatives -- it provides evidence on whether our initiatives are bearing fruit, whether further enhancements are needed, or whether our program is plainly unable to achieve intended objectives. More importantly, it provides guidance on what we are doing wrong, which should push us back to the boardroom to re-calibrate regulatory approaches and refine program operations. Let me cite a few examples:

Our National Baseline Survey on Financial Inclusion which was completed early this year, indicates that only 43% of Filipino adults have savings, and that majority or 68% of those who save, keep their money at home. This data now challenges us to find more effective ways to encourage Filipinos to open bank accounts, and fully address the barriers that prevent them from doing so.

A report from BSP-supervised E-Money Issuers gives us additional food for thought. They report that 27 million e-money accounts have been opened since we issued e-money regulations in 2009. Yet increases in the volume and value of transactions are minimal.

To drive up usage and make the system more efficient for consumers, the BSP is working with the industry to set up a National Retail Payment System. We envision a digital, interoperable infrastructure and ecosystem for low value, high volume payment transactions.

The second possible trigger for speeding up the pace of financial inclusion is Purposeful Action and Innovation Informed by R&D

Ladies and gentlemen. Research behind the mobile phone would have been futile if it was not applied to create the practical, usable, and affordable gadget that it is today. Similarly, in financial inclusion, research and measurement results must be intentionally used to inform concrete action and generate innovations that push frontiers in financial inclusion.

For example, the BSP is currently undertaking policy research to examine the linkages of financial inclusion regulations with the objectives of financial stability, integrity and consumer protection (also known as I-SIP method). We hope to use the research results in optimizing positive linkages, maximizing synergies and minimizing trade-offs among these policy considerations.

Research tools also inform the development of our financial education materials. For instance, using research on the type of messaging that appeals to the youth, the BSP developed animated videos to encourage students to spend wisely and save regularly. To date, thousands have viewed these videos on social media.

R & D provides good value for the private sector as well – it can be used for product innovations, targeting niche markets, business model development and strategic decision-making.

Indeed, regulators and providers alike can invest in R&D and leverage on the growing body of financial inclusion research to challenge what we currently know, inspire innovation and propel the speed of financial inclusion across the globe.

Convergence of Local/International Objectives/Actions

The third element that could accelerate the spread of financial inclusion is the convergence of objectives and actions across local, regional and international arenas. We see more and more players and a variety of entities engaged in different aspects of financial inclusion. It is imperative to converge on a common understanding and shared vision so that different actors can move in unison to attain inclusion objectives.

The BSP realized the importance of convergence in the course of our financial inclusion work. Thus, within our central bank, we have done the following:

- Established an Inclusive Finance Steering Committee, which I chair, to provide common direction and oversight on the BSP financial inclusion agenda.
- Established an enabling regulatory environment for financial inclusion in the area of Policy, Regulation & Supervision. Among others, our issuances on microfinance, micro-banking offices, electronic money, transparent lending, and reduced customer due diligence are inclusion-friendly regulations. These regulations allow banks and non-banks to deliver a range of services to underserved market segments like microenterprises, SMEs, overseas Filipino workers (OFWs), among others.
- In the area of Financial Education, we implement a nationwide economic and financial learning program (EFLP) for targeted audiences starting with students, the employed, overseas Filipinos and their beneficiaries, and participants in the government's conditional cash transfer program. Underpinning this initiative is our belief that a citizenry knowledgeable in practical economics and finance is a better partner in ensuring monetary policy effectiveness, banking system stability and payment system efficiency.
- In terms of Consumer Protection, we institutionalized a consumer assistance mechanism so that consumer concerns are addressed by BSP-supervised institutions. We are implementing a Financial Consumer Protection Framework to enforce compliance with market conduct rules and consumer protection principles so that all financial consumers, including the less-sophisticated and vulnerable, are safe-guarded from deceitful practices.
- We also conduct Advocacy Activities thru strategic partnerships. One good example is the Citi Microentrepreneurship Awards that the BSP has been carrying out annually with Citi Foundation, Citibank and the Microfinance Council of the Philippines. This

awards program highlights inspiring success stories of microentrepreneurs across the Philippines.

Ladies and gentlemen. The Philippine National Strategy for Financial Inclusion (NSFI) brings the central bank and 12 other government agencies together thru a highly consultative process to achieve convergence. It also sets a framework for government and the private sector to systematically collaborate, ensure cohesion and promote synergy.

Agency Tactical Plans are being finalized with specific policies, programs and progress indicators which will be shared thru dialogues to jumpstart convergence of multi-sectoral actions, and identification of concrete areas for partnership and collaboration.

It is pleasing to note therefore that 8 countries in Asia Pacific are at varying stages of implementing their own NSFIs, while 9 other countries are currently formulating theirs. Evidently, we all aim to facilitate domestic convergence and quantum leaps thru a national strategy.

Indeed, convergence across regions and with international partners is necessary in the light of cross-cutting issues that may impact financial inclusion objectives. These issues include the cost of cross-border remittances, the potential impact of economic integration on small businesses, and international standards that may adversely affect institutions providing financial services in rural areas, to name a few. These all require concerted global attention and strategic convergence.

Fortunately, such a convergence is beginning to happen. APEC and ASEAN have committed to promote financial inclusion. And financial inclusion is already being discussed in international bodies such as the G20, the United Nations, the World Bank and the IMF, as well as standard setters like the Basel Committee on Banking Supervision and the Financial Action Task Force. In addition, about 95 developing countries are now members of the Alliance for Financial Inclusion.

Conclusion

Ladies and gentlemen. We have before us the opportunity to catalyze a quantum leap for financial inclusion in Asia Pacific and the world. Clearly, it is an ambitious goal; but the 1.2 billion people who remain unserved in our part of the world represent a billion compelling reasons to continue to escalate our efforts to bring financial inclusion to the excluded, to those who continue to live in poverty.

Together in this Summit, I hope we can craft an action plan that would help make the Asia-Pacific a better place -- where levels of financial inclusion are high; where markets offer innovative products that are affordable; where marginalized sectors get access to financial services that improve their economic status; and where economic growth generates benefits all the way down to bottom-of-the pyramid.

Finally, I hope that everyone will participate actively in our first Asia-Pacific Financial Inclusion Summit to accomplish what we set out to do – to help improve lives through financial inclusion.

Thank you all and good morning. Mabuhay!