

Amando M Tetangco, Jr: Building inclusive growth for migrant workers through multi-sectoral partnerships

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Financial Inclusion Summit 2016, Manila, 28 April 2016.

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As host partner, we at the Bangko Sentral ng Pilipinas are pleased to welcome you to the Financial Inclusion Summit 2016. This summit is yet another milestone in our journey to improve the lives of our people through financial inclusion, under the collaborative platform of the National Strategy for Financial Inclusion or NSFI as our roadmap. With this Summit, we focus on “Building inclusive growth for migrant workers through Multi-Sectoral Partnerships.”

SFI: A collaborative platform for financial inclusion

Drafted by 13 government agencies including the Bangko Sentral ng Pilipinas, the NSFI provides the platform for public and private sectors to work together toward expanding access to financial services to all Filipinos.

With such partnerships, there is a wealth of complementary experience, expertise and resources that can be matched to generate alliances that will result in greater financial inclusion.

Ladies and gentlemen. As we move forward together, let us always keep the NSFI vision in mind: We aim for a financial system that is accessible and responsive to the needs of Filipinos.

Among our primary targets are what we now call our modern-day heroes: Overseas Filipinos (OFs) and their families. Their remittances have been a dependable source of strength for the Philippine economy. In the last 10 years, from 2005 to 2015, they have sent over \$228 billion in remittances (personal and cash) to our country. In 2015, more than 10 million OFs sent over \$28.5 billion in personal remittances, higher by 4.4% than the 2014 figure of over \$27.3 billion. This is equivalent to roughly 10% (9.8% actually) of our GDP ¹

In fact, sustained increases in family and work-related migration of Filipinos have resulted in the steady growth in remittance flows into the country.²

As a result, the Philippines has been consistently ranked among the top recipients of remittances. Early this month, a World Bank report on 2015 remittances said the Philippines ranks third among the top remittance-receiving countries, next to India and China, both of which have over a billion in population.

Financial inclusion and remittances

Indeed, there are many challenges – and opportunities – in providing access to financial services to migrant workers and their families.

The remittances sent home are mostly used for consumption expenditures – 97.3% of OF households used the remittances to purchase food and other household needs. This helps drive our economy.

¹ BSP Department of Economic Statistics (2015)

² More than 10 million OFs sent \$25.8 billion worth of cash remittances in 2015, up by 4.6% from \$24.6 billion in 2014.

Another positive development, as indicated by a BSP survey (CES), is the rising proportion of households directing remittances received to savings – from 7.2% in 2007 to 43.4% in the first quarter this year. This is one of the many reasons why Philippine bank deposits have been hitting record high levels - it was P8.5 trillion in December 2014 and over P9.2 trillion as of December 2015.

Nevertheless, the challenge and the opportunity is to encourage more investments by OF households; it continues to lag way behind savings. As indicated by our survey, households that allocated part of their remittances for investments, increased from 2.3% in 2007 to only 6.5% in the first quarter this year. That is over a period of nearly nine years!

For institutions, the challenge is to develop and promote products suited to the needs of OFs. Financial education is essential for OFs to realize the opportunities - as well as possible pitfalls - in investments. Equally important, financial institutions should consider it their responsibility to inform OFs of their rights and protection as financial consumers.

The importance of remittances for enhancing the financial stability of OFs and the economic growth of our country cannot be overemphasized.

As part of the BSP's program to develop a more inclusive financial system, we have put in place policies and programs to enable the development of a wide range of products that can cater to the needs of OFs and their beneficiaries. We also continue to implement a nationwide Economic and Financial Learning Program where we have a special focus on OFs.

In fact, the BSP won the Global Forum on Remittances and Development Public Sector Award for 2015 in recognition for what it described as outstanding commitment, innovation and impact in promoting remittances for social and economic development through our Economic and Financial Learning Program.

Challenges

However, while we have positives, there are concerns that we need to address.

Foremost is the adverse impact on remittance costs and flows of the closure of accounts of several money transfer operators (MTOs) by correspondent banks who are limiting their exposure to possible channels for money laundering and other financial crimes. This is a de-risking strategy largely driven by business decisions of foreign banks, weighing the risks and benefits of dealing with remittance companies. This has been going on in recent years and has not been helped by the present money laundering case here.

Since the closures limit the players that can competitively operate in the remittance market, this has the potential to reverse the steady gains we have made in reducing remittance costs. De-risking may also result in movement by OFs toward informal remittance channels and subsequent financial exclusion. In the end, this may exact an even larger toll on the OFs and their families in terms of deprivation of access to safe and reliable financial services.

We are therefore addressing this issue. As early as 2014, we started raising our concerns on the adverse impact of de-risking with relevant international institutions. This includes the Financial Action Task Force, Alliance for Financial Inclusion, the Global Partnership for Financial Inclusion of the G20, the US Department of Treasury, the Financial Stability Board, and the World Bank.

In addition, we are gathering data and closely coordinating with concerned stakeholders for a more evidence-based response. Among others, we have an ongoing National Risk Assessment (NRA) which is an inter-agency effort to evaluate the country's money laundering and terrorist financing vulnerabilities and weaknesses. This will enable us to sharpen our focus in ensuring effective enforcement of international standards against money laundering and terrorist financing.

On the other hand, there is a silver lining: technological innovations from the market promise more cost-effective remittance channels. In today's language, these are called "disruptive innovations", the act of creating new value chains from existing markets or value chains.

The advent of more affordable smart phones has encouraged new players (e.g., financial technology companies or FinTechs) and new business models to address the problem of cost. There are now online money transfer services that are linking international remittances to Facebook.³ Customer acceptance of these developments seems likely. In a recent global survey that studied 7 remittance corridors including US-Philippines, it was gathered that 83% of consumers are willing to shift to mobile money for international transfers.⁴

Indeed, the BSP will continue to create enabling and proportionate policy and regulatory space for these innovations while balancing inherent operational risks – such as business interruptions, network vulnerabilities, as well as concerns related to data privacy and security.

We are also working on the creation of a National Retail Payment System where all commercial electronic payment channels can effectively inter-operate through appropriate clearing and settlement arrangements. With this in place, the delivery of remittances to the beneficiaries will be safe, convenient and affordable.

When such balance of policy objectives is achieved, it is exciting to imagine the acceleration of global uptake of technology-enabled remittances that can ultimately drive down the cost of remittance while providing a faster and safer channel.

Conclusion

Ladies and gentlemen. This Summit is a unique opportunity to increase awareness, catalyze multi-sectoral partnerships, and promote financial inclusion for our migrant workers and their families. And I congratulate BPI Foundation and ASKI Global for organizing such an important venue to further our financial inclusion initiatives. I hope therefore that we will generate practical solutions and tangible steps to address its challenges and to seize its opportunities.

Together, let us make the lives of our migrant workers and their families better through multi-sectoral partnerships to financial inclusion. Let our National Strategy for Financial Inclusion serve as our roadmap to a better future for all.

Thank you all and Mabuhay!

³ Examples are Azimo and fastacash. See CGAP (2014). Does Facebook Represent the Future of International Remittances?

⁴ Entitled 'Mobile Financial Services Consumer Survey: International Remittance,' the survey questioned nearly 3,000 members of migrant communities in the US, UK, and Germany. The survey was conducted by Juniper Research on behalf of Amdocs.