Benjamin E Diokno: Financial inclusion - a social mandate

Speech by Mr Benjamin E Diokno, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 2019 FINEX Conference, Manila, 11 October 2019.

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Esteemed members of the financial community, it is my pleasure to give this keynote address at your 2019 Conference.

Your theme “Riding on the Opportunities of the Next Digital Wave” is very timely as we are in fact in this wave.

It is also very relevant to the topic of this keynote address which is “Financial Inclusion as A Social Mandate.”

The Fourth Industrial Revolution is upon us. This advent of “cyber-physical systems” represents new ways in which technology has embedded itself within societies and even our human bodies. It affects many aspects of business, society, and even day-to-day life in a significant way.

In fact, technology is now in the hands of everyone. Who among you remember the car-based mobile phone service of PLDT in the mid-80s? This technology, which was available to only a few in the 80s, has now grown to 124.2 million mobile connections in the Philippines.

Today—because of digitalization—anyone with a smartphone and internet connection can easily access information about almost anything under the sun in a matter of seconds.

Many of these technological advancements are now part of our day-to-day reality such as online streaming, electric vehicles, EMV chip cards, and social media.

However, despite favorable developments due to technology, many challenges persist. There is uneven access and the people who should benefit the most from new technologies are the ones who are still left behind.

We see a similar gap in terms of the state of financial inclusion in the country. Those who are in most need of financial products and services are the ones who are mainly unserved and underserved.

Based on the 2017 Financial Inclusion Survey, only 23% of Filipino adults have a formal account. Only 48% of adults save, but 7 in 10 savers keep their savings at home. Of the 22% of Filipino adults who avail loans, 4 in 10 do so through informal sources.

As such, it is necessary to bring the unserved and underserved into the national economy.

The signing into law of Republic Act (RA) No. 11211 of 2019 amending the BSP charter elevates financial inclusion and its complementary objectives of financial literacy and consumer protection from advocacies to an institutional imperative. Section 3 states:

“In the attainment of its objectives, the Bangko Sentral ng Pilipinas shall promote broad and convenient access to high quality financial services and consider the interest of the general public.”

In the Philippine Development Plan 2017–2022 (PDP), financial inclusion indicators, such as the level of account penetration, have been incorporated as part of the impact measurement framework.

Meanwhile, in the 2030 Agenda for Sustainable Development adopted by the United General

Assembly, financial inclusion is recognized as a key enabler in achieving 13 of the 17 Sustainable Development Goals or SDGs.

The SDGs are 17 goals endorsed by 193 nations to end poverty in all its forms, promote prosperity and people's well-being, reduce inequality, and protect the environment.

This brings us to the importance of financial inclusion as a social mandate as it plays a critical role in ensuring that the fruits of prosperity are felt by everyone through increased opportunities and better quality of life.

Financial inclusion lays the groundwork for sustainable and equitable national development. The goal of financial inclusion does not end in providing universal access to financial services but in ensuring that these services truly enhance the well-being of their users.

Rather than being a mere end in itself, financial inclusion is a means to achieve broader aspirations. When people are financially included and realize their stake in national prosperity, they are empowered to make better, informed choices when it comes to their financial welfare and future. In turn, they are able to make sound decisions that raise their productivity and standard of living.

The pursuit of financial inclusion requires an openness to all possible transformative solutions and impactful innovations, such as digital technology, new business models, and cross-sector collaboration.

But the pursuit of financial inclusion is not a walk in the park. It requires a concerted and holistic effort. It requires the participation of all key decision makers and stakeholders, from the bank executives to the officers who go out in the field—including those in the expanding fintech industry.

Given the promise of emerging technologies and models, we also consider financial inclusion as one of the biggest potential winners of technological advancement and digitalization.

Technology can increase the breadth and depth of financial inclusion. It can facilitate massive efficiencies that make it possible – and even strategic – for financial service providers to serve low-income and rural clients viably.

For this reason, we are optimizing the applications of technology by directing focus on sectors such as agriculture, as well as countryside development.

These sectors encounter the most difficulty in terms of access; these sectors experience the highest poverty incidence in the country.

In brief, our goal by 2023, is to ensure that at least 70% of adult Filipinos will have access to formal financial services.

Needless to say that digital technology can massively help our financial inclusion agenda.

But we need to deliberately and purposefully harness this potential by ensuring that anyone can readily open and use an account through digital channels for various financial transaction.

The paradigm is that without a transaction account that can be used for digital payments, an individual will not be able to effectively and fully participate in the gains of digital finance.

Thus, in 2016, the BSP has issued a series of policy issuances centered on three imperatives: first was to ensure availability of a transaction account that is tailored specifically for the unbanked;

second, was to enable those with an account to use it to affordably and conveniently send and receive money from any account through their mobile phone; and third was to expand the network of access points.

Accordingly, we issued the guidelines and incentives for banks to offer basic deposit accounts that have no maintaining balance and an opening deposit not exceeding P100.

We also issued the National Retail Payment System framework which anchored the launch of the PESONet and Instapay to enable faster, safer, and more convenient electronic fund transfers between any accounts held in any participating bank or e-money issuer. To date, there are 53 participating institutions for PESONet and 44 for InstaPay.

Lastly, we issued the cash agent regulation which enables banks to use convenience stores, pharmacies, pawnshops, and other retail outlets as low-cost and non-intimidating service points where clients can open an account, make deposits and withdrawals, pay bills and other transactions.

For these regulations and other related policy initiatives, the Economic Intelligence Unit in its 2018 Global Microscope Report cited the BSP for its focus to create an inclusive digital finance ecosystem and the regulatory enablers for financial inclusion.

In fact, for several years now, the Philippines has been recognized as one of the top five countries that have a conducive regulatory environment for financial inclusion.

Yet, despite these developments, financial exclusion remains significantly high—emphasizing that enabling regulations alone are not sufficient to drive financial inclusion.

To truly unlock the potential of digital innovations for inclusive finance, we need to build pillars that enable and promote the use of digital finance.

The first pillar is the digital infrastructure. Indeed, digital connectivity is a pre-requisite for digital finance. Yet, speed, affordability, and availability of internet connectivity are important factors that determine adoption of digital finance, particularly in the rural areas.

Overcoming the barriers to digital connectivity will not only promote accessibility to digital financial products, but will allow innovators to improve the design, enhance security features, and drive down the cost of financial services.

Another important infrastructure is the digital ID system which is why the BSP is looking forward to the implementation of the Philippine ID System or the Philsys.

Beyond its ability to address the lack of identity documents commonly cited as a barrier by the unbanked, the PhilSys through its electronic KYC feature can significantly reduce the cost of onboarding new clients by as much as 80% based on a study commissioned by the Asian Development Bank. Such a digital ID system can also enable the delivery of innovative end-to-end financial services.

The second pillar would be the digital payments use cases. It is not enough that people are able to easily open a transaction account. People should see the necessity of an account and be able to use that account for various payment transactions on a regular basis.

What can compel people to open a transaction account?

For the wage earners and informal workers, receiving wages and social benefits is one.

Being able to use a mobile phone to pay market vendors, jeepney drivers, utilities and online purchases is another.

The regular use of transaction accounts will not only catalyze digital payments but also enable the account holder to build a richer digital footprint for his credit profile. This is the focus of our intensified coordination efforts with the Department of Social Welfare and Development, the Department of Labor and Employment, and the Department of Transportation.

To provide the public with digital payment options for transactions with government, we are working closely with the payments industry and the Department of Finance and the Department of Budget Management on the development of a bills payment platform and on possible policies to address implementation barriers.

The third pillar is user trust and readiness. If people do not trust, understand or know how to use digital financial services, people will not use these products even if they are affordable and convenient.

To this end, we are committed to our partnership with various public and private entities to promote financial and digital literacy in the country. We also continue to engage the fintech industry, the Department of Information and Communication Technology and the National Privacy Commission to promote cyber-resilience and data privacy in digital finance.

It is also necessary to provide an accessible venue for consumers to engage the regulators for concerns regarding their use of financial services as a way to build confidence in these products.

And this is why we have undertaken a chatbot project for consumer complaints and issues handling. I am happy to share that this project, and our regtech project on prudential reporting, have earned the BSP two innovation awards from the Central Banking Publications in Singapore last September 4.

Indeed, the imperatives of financial inclusion go beyond enabling regulations and require coordinated programs across the government and private sector.

I hope that by explaining these pillars, I was able to give you a sense of the breadth of the work that we need to do and support. I hope that in understanding why financial inclusion matters, you will leave this conference with a genuine interest to find ways on how you and your companies can contribute to financial inclusion.

Allow me therefore, before I close, to throw in some ideas. Consider this my call to action for this body.

As businesses, you may be operating in a value or supply chain over which you can exert influence. Examine the actors in these chains; you may have as suppliers or buyers the small businesses, microentrepreneurs and farmer groups. Think of how you can leverage your role in the chain so they can access better credit terms from the banks and other lenders.

For companies that collect customer data, you can explore ways on how you can empower these customers to use their data for their credit profile so they can access better financing. Empower your customers to use their data for welfare-enhancing pursuits.

If there are workers in your supply chain who are paid cash, perhaps you can ensure that they be given a transaction account where they can receive their wages.

Another way that your company or even this body as a collective can support financial inclusion is to advocate with legislators for policies and infrastructure that can help promote access to finance of the SMEs and farmers.

For instance, the warehouse receipts system bill can support farmers by providing them the tools to manage commodity price risks and to access financing using warehouse receipts as collateral.

There’s also the financial consumer protection bill that provide all financial sector regulators with the necessary powers to ensure responsible and consumer-friendly conduct of financial service providers. This is critical especially as more and more products and services are accessed digitally.

Lastly, and I know Finex is already doing this, we all can help improve financial literacy in this country through various means.

Maybe you can organize financial literacy training for your employees and clients. Based on BSP’s 2017 survey, only 18% and 3% of adult Filipinos have an insurance and financial investment, respectively.

Another way to support financial literacy is to help develop content and materials that can be used by various government agencies in their finlit programs. You can even develop your own finlit programs for your industry. BSP will be happy to assist in facilitating dialogue and partnerships with various stakeholders within and outside government.

In closing, allow me to share this quote from Leonardo da Vinci: “I have been impressed with the urgency of doing. Knowing is not enough. We must apply. Being willing is not enough. We must do.”

Financial inclusion is our shared social mandate. And there is never a better time to act than now. We all have a stake in the future of our country. May it be prosperous not only for a few but for all.

A good day to you all. Thank you and mabuhay!