BRINGING
SMART
POLICIES
TO LIFE

MEMBER SERIES: FINANCIAL INCLUSION JOURNEY

THE PHILIPPINES: IMPLEMENTING AFI MAYA DECLARATION COMMITMENTS

CONTENTS

INTRODUCTION

The Alliance for Financial Inclusion (AFI), a network owned and driven by members with a common objective of scaling up financial inclusion at country level, has been able to facilitate the implementation of impactful policy changes at country level through its cooperative model that imbeds peer learning and peer transformation. It has been a decade now since the network began this quest to address the global challenge of financial exclusion. We have witnessed tremendous achievements in financial inclusion from our membership, driven by practical policy solutions that draw on lessons across the network.

AFI members have been focusing on ways to support countries in designing and implementing high-impact, tailor made solutions that meet their needs and challenges. These country-led approaches have created ownership and a sense of pride as ever more ambitious targets are set and achieved. It is imperative that such lessons are highlighted from each member's perspective on how AFI's peer learning approach and in-country implementation have been instrumental in facilitating transformation. Thus, we feature such practical lessons in this Members Series publication.

The Members Series serves to elevate the members' financial inclusion achievements and bring to the fore, key policy lessons that will benefit other members who are pursuing similar objectives. AFI's ethos of cooperation and knowledge sharing is served better when the financial inclusion journeys of our members are recorded and shared amongst the network, and beyond.

AFI membership, which represents about 85% of global unbanked, is uniquely positioned to tackle the global financial inclusion challenges. We have enormous lessons from the network that need to be highlighted and amplified. These range from the effective use of technology, application of national and regional coordinating structures, to the pursuit of specific financial inclusion enablers that are unique to countries and regions.

We are proud of the leaders in our member institutions, who through their unwavering efforts have been able to steer national-wide support in addressing financial inclusion challenges.

This Member Series publication will continue to feature the unique journeys of our members in addressing their financial inclusion challenges. The diversity of the network has the advantages of highlighting multiple approaches to tackle the common goal of financial exclusion.

Join me in this Series and let's journey with our member Bangko Sentral ng Pilipinas as they champion the transformation of the financial inclusion landscape in the Philippines.

Dr. Alfred Hannig
Executive Director, Alliance for Financial Inclusion

FOREWORD

As a pioneer and active member of the Alliance for Financial Inclusion (AFI), the Bangko Sentral ng Pilipinas (BSP) is among the early adopters of the AFI Maya Declaration. Our overarching national goal is to enable all Filipino adults to have an account that will allow them to send or receive funds, save money, borrow capital, and get insured, among others. For a country with over 100 million people dispersed in more than 7,000 islands, this seems to be a gargantuan task.

We have long recognized the importance of bringing financial services to all, especially those that are underserved and unserved. Since 2000, we have played a key role in increasing access to finance for the poor and low-income population by mainstreaming microfinance in the banking sector. In 2007, we progressed our advocacy from microfinance to inclusive finance and created a dedicated office for financial inclusion. We started the mobile money revolution by introducing the world's first mobile money services.

AFI has played a significant role in our financial inclusion journey. Its peer learning and knowledge-sharing platform has yielded ideas and tools that have helped us implement various aspects of our financial inclusion agenda. It has provided perspectives and enriched our initiatives, and policy issuances on financial inclusion.

Key to the success of our approach to financial inclusion is establishing a supportive policy environment that enables market-based solutions to thrive. Useful innovations are not stifled and instead, allowed to operate in an environment where the risks are adequately understood and addressed. Our 'test and learn' approach allows us to craft fair and proportionate regulations that promote a level playing field for providers. The use of objective and reliable data is maximized in crafting prudent policies that take into account the linkages of financial inclusion with other policy objectives, such as financial stability, financial integrity, and consumer protection. Another success factor is multi-stakeholder coordination, which facilitates a whole-of-society approach in achieving the shared vision of financial inclusion.

Formal account penetration in the Philippines has improved to 34.5% in 2017 from 26.6% in 2011, according to the World Bank Findex. However, much still needs to be done. As technology continues to move at an unprecedented scale, we set our sights on digital innovations as a catalyst and strategic enabler of financial inclusion. We aim to develop an inclusive digital finance ecosystem that supports the diverse needs of all users in a manner that is convenient, affordable, secure, and sustainable.

It is my earnest hope that during my term as the BSP Governor, we will be able to fulfill our Maya Declaration commitment to include all Filipinos into the formal financial system and empower them to benefit from the opportunities that such inclusion brings.

Nestor A. Espenilla, Jr.
Governor, Bangko Sentral ng Pilipinas

FINANCIAL INCLUSION JOURNEY

2000	General Banking Law recognized microfinance as a legitimate banking activity. BSP declared microfinance as its flagship program for poverty alleviation.
Early to mid-2000	Began the mainstreaming of microfinance in the banking sector.
2005	International Year of Microcredit was held in the Philippines. Concept of “access for all” was born.
2007	BSP became the first central bank in the world to establish a unit dedicated to financial inclusion.
2009	Initiated a pioneering regulation on electronic money.
2011	Released the maiden report on the state of financial inclusion in the Philippines, using supply-side data.
2015	Released the baseline demand-side survey on financial inclusion. Launched the National Strategy for Financial Inclusion (NSFI). Launched the National Retail Payment System (NRPS), the BSP’s program for digital finance.
2016	The President of the Philippines signed the Executive Order No. 208, establishing the Financial Inclusion Steering Committee.
2017-18	Started key policy issuances on digital finance, such as regulation on cash agents, branch-lite, and basic deposit account. Launched PESONet and InstaPay, the two (2) priority payment schemes under the NRPS.

MOTIVATION

The Philippine economy has been growing consistently and in recent years, at levels regarded as one of the fastest in Asia. In fact, our GDP growth rate of 6.8% in the first quarter of 2018 is our 77th consecutive quarter of uninterrupted economic growth, since the Asian financial crisis. Supporting the country's solid macroeconomic fundamentals is a strong and resilient banking system with adequate capitalization, improved asset quality, ample liquidity, and increased profitability.

However, not everyone is benefitting from these macro benefits. Around one-fifth of Filipinos are still living in poverty. Economic and social inequality remains a major problem. For growth to be more meaningful, it has to be inclusive. We strongly believe that financial inclusion is a crucial ingredient to achieve broad-based, inclusive growth.

Prior to the launch of the NSFI in 2015, there was no authority explicitly mandated or tasked to lead financial inclusion initiatives in the Philippines. The BSP, as the supervisor of the banking system, which is the core of the domestic financial system, has been actively pursuing financial inclusion. As the central monetary authority and banking system regulator, the BSP considers financial inclusion as a worthy policy objective that can be pursued alongside the three pillars of central banking, namely, price stability, financial stability, and efficient payments and settlements system.

Recognizing the need to bring central banking operations closer to the people, we are committed to advance our financial inclusion, financial education, and consumer protection agenda to ensure that no one is left behind.

STATE OF FINANCIAL INCLUSION

The archipelagic nature of the Philippines imposes serious physical barriers to financial access. As of 2017, 554 out of 1,634 cities and municipalities do not have a banking office. Non-bank financial institutions augment banking services and their presence has decreased the percentage of unserved localities from 34% to 8%.

However, in areas where there financial institutions present, financial services are concentrated in highly urbanized and populous regions, leaving much of the low-income regions significantly underserved. For instance, the National Capital Region alone accounts for 40% of the total number of deposit accounts and 67% of the amount of bank deposits.

While microfinance institutions are making a difference in reaching small entrepreneurs, many still rely on informal providers. Based on the BSP's Financial Inclusion Survey (2017), 48% of adults have savings but 68% of them keep their savings at home. One in five adults have outstanding loans but nearly 40% borrow from informal sources. Two-thirds of adults do not have a formal account that will enable them to save and access other financial services, such as credit, insurance, investment, payment and remittance.

In sectors where poverty incidence is high, financial exclusion persists. These include farmers and the agriculture sector, as well as small and medium enterprises (SMEs). While 20% of adults received payments for agricultural products in the past year, only 0.1% received agricultural payments into an account.[1] Only a third of SMEs have bank loans and over 80% of them rely on internal funds as their source of financing for the business.[2]

On a positive note, women's financial inclusion is evident across different financial products and services. Survey results showed that in general, adoption is higher for women than men, in terms of accounts, savings, loans, and insurance. For instance, women are twice likely to own an account than men. While most developing countries face the challenge of women's financial exclusion, the Philippines presents an interesting case, wherein the gender gap in financial inclusion favors women.

1 World Bank Findex 2017
2 World Bank Enterprise Survey 2015

THE STATE OF FINANCIAL INCLUSION IN THE PHILIPPINES SUMMARIZED USING THE AFI CORE SET OF INDICATORS, AS OF 2017:

ACCESS

11,744 banking offices
63,195 e-money agents
45,158 other access points

16
Total number of access points per 10,000 adults

98%
population living in an administrative units with at least one access point

92%
of administrative units with at least one access point

USAGE

48% have savings, *but*
68% save at home

22% have outstanding loans, *but*
39% borrow from informal sources

34.5%
of adults with at least one type of regulated accounts (financial institution account and/or mobile money account)

9.7%
of adults with at least one type of regulated credit account

EARLY FINANCIAL INCLUSION INITIATIVES

The BSP is mandated by the General Banking Act (GBA) of 2000 to recognize microfinance as a legitimate banking activity and to set the rules and regulations for its practice within the banking sector. The GBA carries with it the principles of the National Strategy for Microfinance, issued in 1997, which aims to promote market-oriented policies, where the private sector plays a major role and the government provides the enabling environment for the efficient functioning of markets, and increased participation of the private sector.

The BSP's experience in microfinance has proven that properly designed financial products, aligned with the needs and capacities of the low-income sector, can be provided in a sustainable and viable manner. Because of the enabling policy environment for microfinance, there is a wide range of products that are available to a previously unbanked market. Regulations have also extended the reach of financial services, liberalized the on boarding of customers, and strengthened the protection of financial consumers.

WIDER RANGE OF FINANCIAL PRODUCTS AND SERVICES

Aside from the usual microenterprise loans, which have a ceiling of P150,000 (USD 2,800), there is a wide array of products and services customized to the needs of microfinance clients. Micro entrepreneurs can choose from a variety of other products, such as 'microfinance plus,' which has a higher ceiling of P300,000 (USD 5,600), housing microfinance, micro-agri loans, micro-deposit, and microinsurance, depending on their need. In 2017, there were 162 banks serving almost 2 million microfinance clients, with an aggregate loan portfolio amounting to P17.1 billion (USD 323 million).

EXPANDED PHYSICAL AND VIRTUAL REACH

Regulation enables banks to establish a presence in areas where it may not be economically feasible to set up a regular branch, by allowing a scaled-down office referred to as "micro-banking office" (MBO). MBOs engage in activities that facilitate broader access to financial services, such as acceptance of micro-deposits, disbursement of micro-loans, selling of microinsurance, limited purchase of foreign currency, bills payments, government payouts, and e-money conversion. In 2017, there were 919 MBOs operating in 538 cities and municipalities, 99 of which were being served by MBOs alone.

Recognizing the potential of e-money for low value payments, the BSP issued regulations that support the creation of a broad, sound, and proportionately regulated e-money ecosystem, comprising ubiquitous agents who can have a massive reach as potential outlets. Financial service providers can leverage on this infrastructure to deliver their financial services. There are now 30 bank e-money issuers and 10 nonbank e-money issuers. These issuers have an agent network of over 60.000 cash-in and cash-out agents and are continuously expanding. In 2017, there were 390 million e-money transactions with inflows and outflows amounting to PhP 482 billion (USD 9.089 billion) and PhP 481 billion (USD 9.076 billion), respectively.

EARLY WORK ON FINANCIAL INCLUSION ADDRESSES THE FOLLOWING AREAS:

WIDER RANGE OF PRODUCTS
Microenterprise Loans
Microfinance Plus
Micro-agri Loans
Housing Microfinance
Microdeposit
Microinsurance

EXPANDED PHYSICAL NETWORK
Micro-Banking Offices

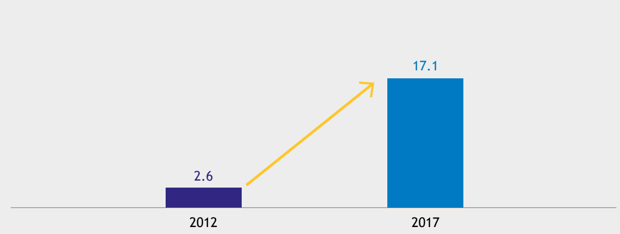
EXPANDED VIRTUAL REACH
E-money
Electronic/mobile banking

ENABLING REGULATORY ENVIRONMENT

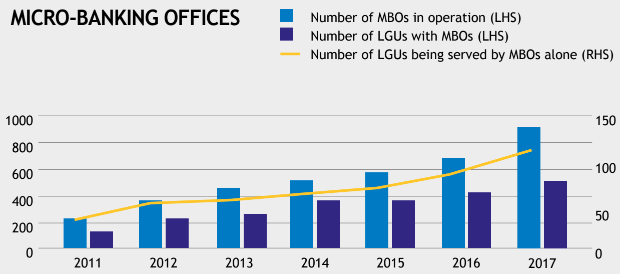
LIBERALIZED CUSTOMER ON-BOARDING
Expanded list of acceptable IDs
Outsourcing/reliance on third party for KYC

ESTABLISHED FRAMEWORK FOR CUSTOMER PROTECTION
Financial Consumer Protection Framework

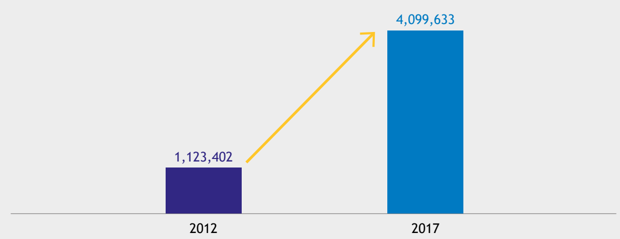
MICROFINANCE LOANS OF BANKS (IN BILLION PhP)



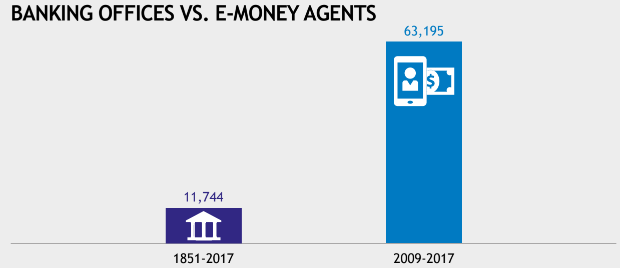
MICRO-BANKING OFFICES



NUMBER OF MICRODEPOSIT ACCOUNT



BANKING OFFICES VS. E-MONEY AGENTS



LIBERALIZED CUSTOMER ON-BOARDING

Customer Due Diligence (CDD), especially KYC (Know Your Customer) verification, is one of the most significant barriers to getting a person into the financial system, and it is even more challenging for a country like the Philippines which did not have a national identification (ID) system until the passage on 6 August 2018 of Republic Act No. 11055 establishing the Philippine Identification System (PhilSys). In the absence of a national ID, regulations allow a risk-based system of classifying customers (e.g. reduced CDD for low-risk clients), the outsourcing or reliance on third party for KYC, and an expanded list of acceptable IDs so that a certification from a local village chieftain is allowed.

ESTABLISHED FRAMEWORK FOR CONSUMER PROTECTION

The BSP adopted a Financial Consumer Protection Framework to institutionalize consumer protection as an integral component of financial supervision in the country. The regulation sets consumer protection standards in the areas of disclosure and transparency, protection of client information, fair treatment, and effective recourse. There is a dedicated unit for financial consumer protection, which processed a total of 10,920 complaints, inquiries, and requests (CIRs) in 2017, of which 90% are either closed or resolved.

These initiatives to build a more inclusive financial system have received various accolades. The Economist Intelligence Unit (EIU) cited the Philippines as having one of the best regulatory frameworks for microfinance in 2009-2013. In 2014-2016, the Philippines ranked first in Asia and third in the world, in terms of having an environment that is conducive to financial inclusion. In 2014, the World Bank cited that “there is an impressive focus on consumer protection in the banking sector in the Philippines.” In the 2016 report by the Brookings Institution, the Philippines gained the biggest improvement in overall score for digital and financial inclusion.

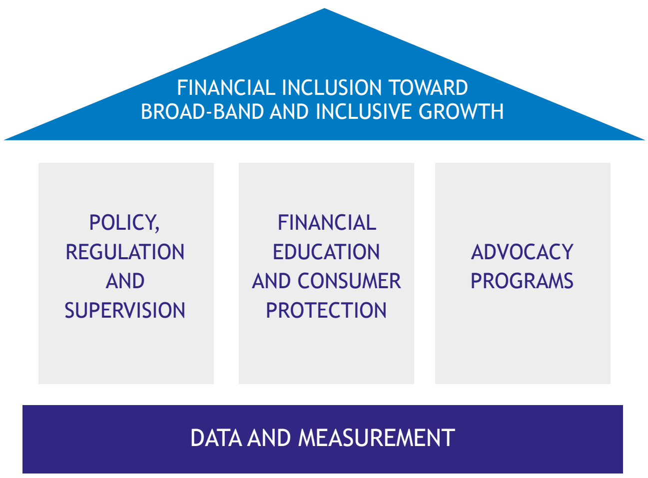
NATIONAL STRATEGY FOR FINANCIAL INCLUSION

Considering the importance of the support and partnership with other agencies and organizations, the BSP championed financial inclusion across various sectors by convening relevant stakeholders to a NSFI. The NSFI provides a framework to enable government and private sector stakeholders to take a coordinated and systematic approach toward a clear vision of building a financial system that is accessible, and responsive to the needs of the entire population toward a broad-based and inclusive growth.

The NSFI has four (4) strategic themes: policy and regulation; financial education and consumer protection; advocacy programs; and data and measurement, which underpins the other three, considering its cross-cutting role in evidence-based policymaking and program development, monitoring, and evaluation. Each theme posits principles-based strategies and is supported by action plans (or Tactical Plans) specific to the various agencies that have adopted the NSFI. The NSFI is intended as a constant document to serve as guidepost for different stakeholders interested to contribute to financial inclusion.

The NSFI was officially launched on 1 July 2015 and a memorandum of understanding (MOU) on its implementation was signed by 13 government agencies. On 2 June 2016, the President, designating the BSP as the Chair and Secretariat, approved the Executive Order No. 208 entitled the “Establishment of the Financial Inclusion Steering Committee (FISC)”. To date, the FISC consists 15 government agencies, as two (2) other agencies recently joined. Since the launch, several private sector stakeholders and donors have reached out to express their support and launch programs under the NSFI umbrella.

The World Bank has lauded the efforts of the Philippines to develop a monitoring and evaluation (M&E) system for the NSFI implementation. It reported, “the Philippines has pioneered a unique approach to gather relevant data on activities, inputs and indicators to enable collaborative reporting by the various implementing agencies.” Apart from monitoring program implementation, as well as national progress, the objective of the M&E system is to address data gaps and promote accountability of the government agencies involved in the NSFI implementation. The World Bank also noted, “the unprecedented level of collaboration for NSFI implementation is a good sign for future progress on improving financial inclusion in the Philippines.”



NATIONAL RETAIL PAYMENT SYSTEM

Payments are the most basic and most used financial service by Filipinos. According to the 2017 BSP Financial Inclusion Survey (FIS), 9 out of 10 Filipino adults have payment transactions. A bulk of these transactions consist personal purchases, as well as bills and loans payment. For these transactions however, cash remains to be the preferred mode of payment – whether as over-the-counter cash transactions or cash on delivery arrangements. Only 18% of accountholders use their account for payments.

Meanwhile, almost one third (32%) of adults reported to be receivers or beneficiaries of remittance transactions, twice higher than the percentage of senders (16%). However, 93% of senders said that they used remittance agents to send money, while 83% of receivers have used them to receive money in the past six months. Remittances play an important role in the Philippine economy, where in 2017, over 10 million Filipinos were overseas sending a total of USD28 billion.

Therefore, at the forefront of the BSP's financial inclusion thinking is promoting affordable, safe, efficient and convenient means of payment and fund transfer. This is the motivation behind the National Retail Payment System (NRPS), the BSP's flagship program for digital finance.

According to a baseline study conducted in 2013,[3] the share of electronic payments in the estimated 2.5 billion monthly payment transactions in the country is a measly 1%. The goal is to bring this to 20% by 2020.

To achieve this goal, the NRPS promotes interoperability among payment system participants to allow digital transactions to be sent from any account to any account. It is positioned to facilitate the country's transition from a cash-heavy to a cash-lite economy, eventually bringing material benefits for the government, the business and private sectors, and even regular consumers and individuals, in terms of speed and efficiency of transactions, reduced costs, improved transparency, enhanced security, and expanded access to financial services. The NRPS is a key element of the BSP's commitment to the National Strategy for Financial Inclusion.

MOVING TOWARDS DIGITAL FINANCIAL INCLUSION

Building on the gains over the years, the BSP continues to pursue its financial inclusion agenda. This time, it is setting its sights on digital innovations as a catalyst and strategic enabler for financial inclusion.

Digital technology can significantly bring down transaction costs and expand reach – making it not just possible but even compelling for banks and other financial institutions to serve the hugely untapped, small-value but high-volume market.

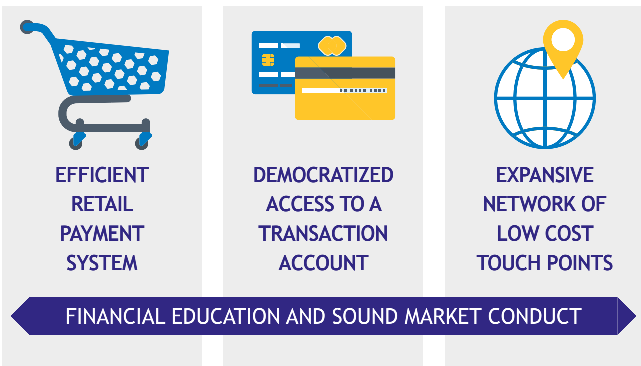
The BSP therefore, aims to develop a digital finance ecosystem that supports the diverse needs of all users in a manner that is convenient, affordable, secure, and sustainable. For the service providers - whether new or incumbent, this ecosystem enables them to tap into a wider client base, diversify revenue sources, and secure new growth opportunities.

The pillars of such an ecosystem include:

> Democratic access to a transaction account, wherein every person is able to open an account and use digital financial services;
> Expansive network of low-cost touch points to onboard new clients and facilitate the digitizing and disbursing of cash, and other financial transactions; and
> Efficient retail payment system that facilitates delivery of digital financial services, especially for small-value transactions.

Undergirding these pillars are financial education and good market conduct, which aim to deepen the public's trust in digital financial services.

The envisioned inclusive digital finance ecosystem would have the right mix and range of service providers (banks and non-banks alike) and digital platforms to facilitate the sustainable delivery of fit-for-purpose and affordable financial services, especially designed for the low-income market.



3 Better Than Cash Alliance (BTCA) Country Diagnostic

In the age of financial technology (FinTech), the BSP continues to create a regulatory environment that allows innovations to flourish and at the same time ensures that risks are effectively managed. Knowing how premature regulations can become counterproductive, the BSP adopts a ‘test and learn’ approach, which is the predecessor to the ‘regulatory sandbox’ employed in other jurisdictions. New solutions are allowed to operate in a live but contained environment without the immediate burden of regulatory compliance. This way, we come to a better appreciation of the risks, to inform the proportionate regulatory response and subsequent risk-based supervision. Our approach and stance as regulator also includes strengthening cyber resilience of the digital finance ecosystem.

The opportunities for digital financial inclusion are present in the Philippines. There are more Filipinos with mobile phones than bank accounts, with the Philippines even being labeled as the “Texting Capital of the World.”

When smartphones and social media came to the fore, we acquired new titles of being the “Selfie Capital of the World” and “Social Networking Capital of the World.” More than half of Filipinos use the Internet and stay online for an average of four hours every day. E-commerce is gaining ground, especially among the millennials who make up one-third of the country’s total population.

OPPORTUNITIES OF DIGITAL FINANCIAL INCLUSION

6 out of 10
Without bank deposit but with mobile phone
(FINTQ 2018)

23
Median age age of Filipinos
(PSA 2015)

1/3
Of the population are millennials
(PSA 2015)

113%
SIM penetration
(GSMA 2017)

59%
Smartphone adoption
(GSMA 2016)

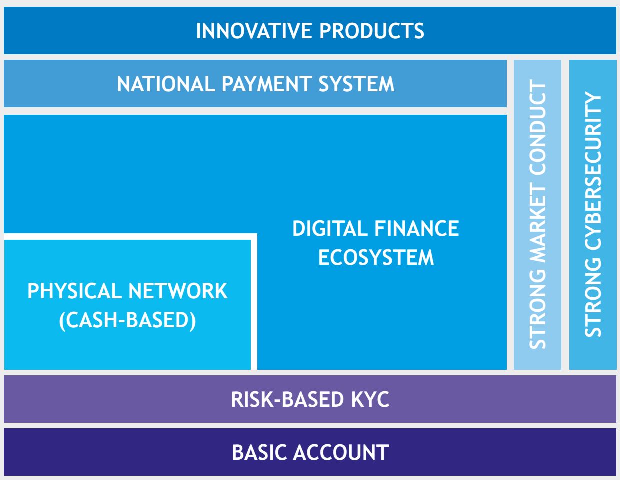
58%
Unique mobile user penetration
(We Are Social 2018)

63%
Social media penetration
(We Are Social 2018)

63%
Internet users
(We Are Social 2018)

3 hrs, 57mins
Average time spent on social media per day
(We Are Social 2017)

BSP’S STRATEGIC VIEW OF DIGITAL FINANCIAL INCLUSION



RECENT GAINS

Our recent gains in financial inclusion can be summarized through the progress made in our Maya Declaration Commitments, as follows:

MAYA DECLARATION COMMITMENT	PROGRESS UPDATES
Enable all adults to have a deposit account in an appropriately regulated financial institution, in order to save and access credit, payments, remittances, and microinsurance	> BSP issued Circular No. 992 on 1 February 2018 to introduce the framework for basic deposit accounts (BDA). BDA has basic functionalities, such as low opening amount (capped at P100 or <USD 2), no maintaining balance, no dormancy charges, and simplified KYC. > BSP is an active member of the government's Interagency Technical Working Group on National ID. This is a crucial public infrastructure that will address persistent on-boarding issues due to the lack of acceptable IDs and the highly inefficient paper-based KYC and CDD processes.
Expand the touch points of access to financial services beyond bank branches	> BSP issued two key regulations to build an expansive network of low-cost touch points that will facilitate on-boarding of new clients and enable them to move from cash to digital, and vice versa. These are: 1) Circular No. 940, dated 20 January 2017, allowing banks to tap third-party entities called cash agents;[4] and 2) Circular No. 987, dated 28 December 2017, streamlining regulations on bank offices (including MBOs) and allowing for the establishment of branch-lite units.[5] > BSP issued Circular No. 980 on 6 November 2017 to operationalize and enforce the adoption of the National Retail Payment System (NRPS). The NRPS is a critical platform that establishes an interoperable ecosystem, allowing seamless electronic fund transfers and payments between and among accounts. Under the NRPS, two multilateral automated clearing houses (ACHs) were launched: PESONet, a batch electronic fund transfer credit that could be used to replace checks; and InstaPay, a real-time low value push ACH that will enable 24/7 low value electronic fund transfers.
Coordinate the initiative of financial regulators to encourage the rollout by the private sector of innovative products and services that are responsive to the requirements of the poor	> The private sector and multilateral organizations launched programs that were categorically designed to support the NSFI. Examples include: - Payment providers and banks have launched programs supporting the NSFI through their financial education initiatives. - A fintech company has launched a movement under the NSFI as a means to promote formal financial services with the aid of technology. - Development partners such as the World Bank and ADB have ongoing support for key areas identified in the action plans under the NSFI.
Implement targeted financial learning programs	> Under the BSP's Economic and Financial Learning Program (EFLP), 42 learning sessions were conducted in 2017, attended by more than 6,000 participants. > Launched the PisoLit Facebook page on 1 September 2017 to provide a digital and social media-focused dimension to the BSP's financial literacy campaigns. It targets online Filipinos, particularly millennials.
Ensure national consumer protection and empowerment programs are coordinated	> The draft bill on Financial Consumer Protection aims to carve out the provisions of Title IV (Consumer Credit Transaction) from the Republic Act No. 7394 (Consumer Act) and have in place, a standalone statute governing Financial Consumer Protection.
Build a comprehensive financial inclusion data framework to collect both supply and demand-side data	> Produced the sixth annual report on the state of financial inclusion, based on supply-side data. > Released the report on the topline results of the second national demand-side survey on financial inclusion.
Enhance BSP's knowledge, understanding and skills to deepen financial inclusion in the country	> Released a new publication on digital financial inclusion. > Ongoing work on two RegTech solutions: 1) Application Programming Interface (API) for supervisory reporting and 2) Chatbot for handling complaints, to enhance the way BSP performs its supervisory role, reduce the cost of compliance on the part of supervised entities, and increase consumer trust and participation in the financial system.

4 Cash agents can facilitate deposit and withdrawals, fund transfers, and bills payment and may also perform KYC, collect account opening documents and loan application requirements, and cross-sell insurance products.

5 "Branch-lite" is a concept which allows a bank to perform banking activities and services chosen from an expanded menu of transactional and non-transactional activities. This gives the bank the flexibility to determine the appropriate size and model of a banking office for a specific area or locality, based on market needs.

BOX ARTICLE. BSP AND AFI

The BSP is among the first members of AFI. As an active member of the Network, we served as Chair of the AFI Steering Committee from 2012 to 2014. We also have representation in all the AFI Working Groups, looking at different aspects of financial inclusion, such as digital financial services, consumer protection, data and measurement, SME finance, national strategy, and global standards proportionality. Our participation in AFI has provided us with inspiration, tools and resources that enabled us to identify gaps in our own financial inclusion work, helped us to address those gaps, and develop a more comprehensive financial inclusion framework.

The working group platform has yielded ideas and tools that have helped us implement various aspects of our financial inclusion agenda. It serves as an avenue for rich and meaningful exchange of ideas and practical perspectives to address the challenges of financial inclusion. The knowledge products from the working groups serve as useful references in policymaking and program development. The peer reviews provide valuable feedback so that member countries can revise and improve their policy drafts, strategy documents, reports, and surveys. For instance, our baseline demand-side survey on financial inclusion was enriched through peer reviews by Mexico and Tanzania in the Data Working Group.

The knowledge exchange is another service that benefitted us. Many policy solutions are informed by lessons learned from knowledge exchanges. For example, our consumer protection framework and financial education program were inspired by what we learned from a knowledge exchange with Malaysia. As recipient and host of AFI Joint Learning Program and numerous study visits, the BSP can attest that the knowledge-sharing platform is mutually beneficial to the visitor and the host. It facilitates open and candid dialogue among regulators facing similar issues, but operating in different domestic situations.

The BSP is among the early adopters of the Maya Declaration when it was launched during the 2011 AFI Global Policy Forum (GPF). During the 2014 GPF, the BSP was honored with the Maya Declaration Award for tangible gains in its financial inclusion commitments. At the 2014 and 2017 GPFs, BSP Governor Amando M. Tetangco, Jr. received honorary and leadership awards as former Chair of the AFI Steering Committee. The BSP also won two Peer Review Awards in 2015 and 2017, in recognition of its contribution in reviewing the financial inclusion policies, national strategies, surveys and reports of other AFI member countries.

AFI's engagement with external stakeholders, private sector partners, and Standard Setting Bodies has resulted in rewarding partnerships and increased global attention on financial inclusion. BSP Governor Nestor A. Espenilla, Jr. chaired the Basel Consultative Group (BCG) Work stream on Financial Inclusion, which conducted a Range of Practice (RoP) survey on the regulation and supervision of institutions relevant to financial inclusion, which was participated by many AFI member countries that are not members of the Basel Committee on Banking Supervision (BCBS). The RoP survey results informed the subsequent guidance document on the application of the core principles for effective banking supervision to the regulation and supervision of institutions relevant to financial inclusion. The BSP is currently an active member of the G20 Global Partnership for Financial Inclusion (GPFI), where AFI is an implementing partner. These opportunities enable developing countries such as the Philippines to elevate important issues to global standard setters and to have a voice in the global discourse on financial inclusion.

7th Meeting of the AFI Financial Inclusion Data Working Group (FIDWG)
Manila, 4-6 March 2013

Joint Learning Program on the National Strategy for Financial Inclusion
Manila, 17-21 October 2016

KEY LESSONS AND FUTURE OUTLOOK

KEY LESSONS

There are important lessons learned from our journey to bring the unserved and underserved segments of the population into the formal financial system:

ESTABLISHING AN ENABLING ENVIRONMENT FOR FINANCIAL INCLUSION

Regulators should create an enabling policy and regulatory environment for financial inclusion. For an environment to be enabling, proportionate and appropriate regulations should be in place that do not unnecessarily restrict and at the same time, ensure safe, sound, and responsible operations. It is in this type of environment where market-based innovations thrive. Keeping an open mind to innovations and engaging with players to fully understand business models and their attendant risks are crucial. With the speed of innovations, it is also important to ensure that regulations can be future-proof as much as possible.

Clarity in regulations is key so that supervised institutions are able to appreciate the regulatory intent of policy issuances. Regulations should create a level playing field and promote healthy competition among different providers. Proper incentive structures may be provided but not at the expense of distorting market conditions.

RECOGNIZING THE I-SIP LINKAGES AND ROLE OF DATA IN POLICYMAKING

In policymaking, we look at the interrelationship of financial inclusion with other policy objectives, such as financial stability, financial integrity, and financial consumer protection (or the so-called I-SIP objectives), in order to optimize their linkages and avoid unintended consequences.

Evidence must be gathered to guide the policymaking process. A robust data framework for financial inclusion will help policymakers make better-informed decisions. We should constantly challenge ourselves and prove that we are doing the right thing as far as financial inclusion is concerned. Both supply-side and demand-side data play a critical role in this exercise. While we are championing financial inclusion, it is also important to have some sort of healthy skepticism that will allow us to relentlessly test our claims.

COMPLEMENTING FINANCIAL INCLUSION WITH FINANCIAL EDUCATION AND CONSUMER PROTECTION

Pursuing financial inclusion requires ensuring the public, especially new participants in the financial system, are equipped with the necessary knowledge, skills, tools, and mechanisms so that they are adequately informed and protected. Thus, we make sure that our work on financial inclusion is complemented by financial education and consumer protection.

Inclusion, when pursued together with learning and empowerment through education and protection, will enable the public to truly reap the benefits promised by increased access to and usage of financial products and services, particularly in the context of digital innovations.

PROMOTING MULTI-STAKEHOLDER COORDINATION

Expanding financial inclusion is a long-term objective that requires broad-based participation and sustained, and focused efforts by different stakeholders because the challenges go beyond the financial system regulators. The NSFI facilitates a whole-of-society approach in achieving the shared vision of financial inclusion. Its implementation requires strong leadership and ownership of reforms, and widespread political will.

The NSFI also serves as a platform for regulators and other government agencies to harmonize policy approach and synergize efforts to drive digital financial inclusion. Especially for a country like the Philippines, where there are multiple regulators in the financial system (banking, insurance, securities), regulators must coordinate to ensure a common understanding and consistent application of laws, regulations, and guidance.

Be it policy issuances or infrastructure investments, critical government initiatives must be identified and worked on to spur innovations. The importance of network effects in the success of digital innovations will necessitate market players to determine the areas for cooperation and competition. Our National Retail Payment System initiative undertakes this kind of coordination with the government and private sector.

CHALLENGES AND THE WAY FORWARD

As we continue to advance our financial inclusion work, we will need to address a host of issues and challenges to ensure that financial inclusion becomes a reality throughout the Philippines:

- Increasing the adoption of formal financial products and services is still a stumbling block, as current usage levels remain low. For example, mobile money account penetration in the Philippines stood at 4.5% in 2017, based on the Global Findex. This figure appears low considering that e-money products have been available since the early 2000s. While there has been growth in e-money accounts, transactions, issuers, and agents, it is not at the rate that the BSP had hoped for.

- The low usage of formal financial products and services highlights the importance of further understanding the behavioral dynamics of financial inclusion. While deliberate measures have been undertaken to address the reported barriers, such as insufficient funds, high cost of financial products and services, absence of documentary requirements, distance to financial institutions, and low level of financial literacy and capability, our demand-side survey indicate that people continue to cite these challenges. This is where behavioral finance comes into play. Conventional finance assumes that people are always guided by rational considerations, but a better understanding of consumer behavior may necessitate the development of new policies (for policymakers) and new products (for financial service providers), based on what people actually do and how they decide, whilst taking into account their behavioral biases. Customer-centricity in policy development and product design requires a deeper understanding of customer needs, preferences, and behaviors.

> The rapid pace of technological change is a challenge. As policymakers and financial supervisors, we need to upgrade our capabilities in terms of surveillance and appropriate supervisory tools, to properly oversee the market, to keep up with fast-changing environment, and to inform the enabling regulations. Balancing innovations and risks is key to achieve digital financial inclusion, while ensuring that consumer protection, financial integrity, and cyber security are constantly upheld.

> There are also sectoral challenges that must be addressed for access to finance to be truly inclusive. For sectors such as agriculture and SMEs, there is a need to strengthen the financial infrastructure, in terms of having an effective credit guarantee scheme, crop insurance, movable collateral registry, and credit information system, to build a healthy financing ecosystem. Islamic finance should be developed to serve the financial needs of Muslim Filipinos in the southern part of the Philippines. Sustainable financing is another concern, in view of climate change risks and environmental issues, which are particularly relevant to the Philippines since we are highly prone to natural disasters. Our financial inclusion agenda considers these emerging issues and aims to put in place the necessary framework to address the challenges.

> There are other challenges that are outside the scope of the financial sector and thus, go beyond our sphere of influence. Financial inclusion requires having basic infrastructure and support systems; these include physical infrastructure, such as roads, water and power supply, mobile and Internet connectivity, as well as support systems, such as health, education, and employment. This is the very purpose of having a national financial inclusion strategy.

While our goal of including all Filipinos into the formal financial mainstream sounds ambitious, we have a positive outlook that our financial system will continue to become more inclusive. The stronger focus on specific underserved and unserved segments is expected to reduce the level of informality and include more people into the formal economy. The new paradigm on digital financial inclusion can accelerate the uptake of technology-enabled financial services and bring financial inclusion in our country to new heights. It will be exciting to see how recent developments will advance financial inclusion in our country in the coming years.

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