Financial Inclusion: Reinforcing Economic and Financial Stability

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Meeting on Microinsurance - Promoting Successful Regulatory and Supervisory Approaches for Increased Access to Insurance
Basel, Switzerland
Global Context

Figure 1  Developing countries have a third the deposits per person of developed countries

- Number of bank deposits per adult:
  - Developed countries: 1.77
  - Developing countries: 0.52

- Value of bank deposits (percent of GDP):
  - Developed countries: 76
  - Developing countries: 42

- Average bank deposit (percent of GDP per capita):
  - Developed countries: 44
  - Developing countries: 120


Figure 3  Developing countries have narrower outreach

- Point-of-sale terminals per 100,000 adults:
  - Developed countries: 170
  - Developing countries: 2.088

- Automated teller machines per 100,000 adults:
  - Developed countries: 23
  - Developing countries: 78

- Branches per 100,000 adults:
  - Developed countries: 8
  - Developing countries: 24


Source: Financial Access 2009, CGAP
Access to finance is a major challenge

- 609 out of 1,635 municipalities do not have banking offices, a 37% non-coverage (as of end December 2009)
- Concentration of services in higher income urban areas, leaving low income areas significantly underserved
- Archipelagic structure provides spatial obstacles/barriers to access
Philippine Context

Access to insurance

- Life insurance coverage is just over 13% of the population
- Insurance penetration (total premiums/GDP) is 1.05% (world average* is 7.5%)
- Insurance density (premiums per capita) is below USD 20 (world average* is USD 555)
- Coverage (even considering public social insurance schemes) are majority for those in the formal sector

* based on a cross-country comparison of seven insurance markets - Deloitte Consulting 2008
Philippine Context

- Micro, small and medium enterprises make up 99.6% of total enterprises and contributes 70% of total jobs generated and 30-32% of GDP
- Rural and urban poor rely on micro and small enterprises to augment income or for employment
- Large percentage of those in poverty manage at least 2 microenterprises
- Many of these enterprises are in the informal economy
Our Guiding Principles

- Financial inclusion is a worthy policy objective, alongside the promotion of stability and efficiency in the financial system.
- Financial inclusion and financial stability may be mutually reinforcing.
- Both financial stability and financial inclusion are not inevitable and require serious and deliberate attention.
Our Guiding Principles

- Market-based solutions to address financial access issues are feasible
- Supervisory concerns and risks are real and valid but can be adequately managed
- Policy approach is to promote an enabling environment based on proportionate application of sound and generally accepted regulatory and supervisory principles
Our Guiding Principles

- Financial inclusion involves delivery of a wide range of financial services such as savings, credit, insurance, payment services, remittances.
- These products must be appropriately designed and priced for the particular market and delivered by duly authorized institutions.
- Bank and non-bank products and delivery channels can combine to reach the financially excluded more effectively.
- All financial service providers should be properly regulated to uphold consumer protection and financial system integrity.
Proportionate regulation is key. The following need to be balanced and addressed:

<table>
<thead>
<tr>
<th>Issue</th>
<th>Point of Balance</th>
<th>Possible Policy Initiatives</th>
</tr>
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</table>
| Safety and Soundness | • Deposits should be well-protected  
• Innovative financial services to the low-income potentially expose deposit taking institutions to new risks  
• Prudential regulation can impose undue regulatory burden | • Limit safety and soundness supervision to entities with deposit taking activities  
• Distinguish deposit taking activities from fund transfer activities  
• Risk-based supervision  
• Ensure adequate supervisor capacity through training  
• Close coordination with other financial regulators |
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| Consumer Protection  | Financial Inclusion brings in new consumers who are potentially vulnerable. They need appropriate information and increased capacity to use financial access to their best interest. | • Financial education  
• Price transparency and fair treatment regulation  
• Contestable markets to drive competition in a multi-player environment (bank and non-bank)  
• Consumer redress mechanisms |
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<td>AML/CFT</td>
<td>Need to manage the risks to financial system integrity of easy access to the financial system.</td>
<td>• Allow simplified KYC requirements for small value transactions only</td>
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<td>• Leverage on KYC of other authorized institutions</td>
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<td>• Recognize the use of technology in e-money systems in identifying and suppressing illegal activities</td>
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Policy and Regulatory Approach to Bank-Based Microfinance

- Enable the delivery of commercially sustainable microfinance in the banking sector as component of the National Strategy for Microfinance
- Mainstream microfinance in the provision of financial services, not just as CSR activity
- Provide avenues for formalization of unregulated microfinance providers
- Support continuous product and delivery channel innovation (i.e. micro-agri, micro-housing, microinsurance and mobile banking)
- Fully understand and weigh the risks associated with the business and develop a proportionate regulatory approach
- Increase the capacity of the BSP for effective risk-based supervision
# Policy and Regulatory Approach to Bank-Based Microfinance: Specific Practices

<table>
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<tr>
<th>Definition of Microfinance</th>
<th>Clearly define microfinance as a provision of a range of financial services to low income clients/entrepreneurial poor - credit, savings, insurance, fund transfers. Microfinance loans have specific characteristics (i.e. cash flow based, frequent amortization, etc.)</th>
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<tr>
<td>Capital Requirements/ Adequacy, Licensing Requirements</td>
<td>Banks comply with same standards and requirements for capital adequacy and licensing</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>Require banks to have clear underwriting standards and practices for cash-flow based lending.</td>
</tr>
<tr>
<td>Risk Management / Problem Assets/ Provisioning</td>
<td>Require high frequency monitoring of portfolio-at risk and corresponding provisioning requirements reflecting peculiar risks of microfinance.</td>
</tr>
<tr>
<td>Governance</td>
<td>Specify necessary experience and track record in microfinance in the board and management. Impose clear and comprehensive governance standards.</td>
</tr>
<tr>
<td>Supervisory Approach</td>
<td>Create a MicroSME Finance Specialist Group Develop Manual of Examination Procedures</td>
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National Strategy for Microinsurance

Formulated by government through the Department of Finance - National Credit Council, Insurance Commission (IC), Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Cooperative Development Authority and the private sector.

Key policy strategies:
- Increased participation of private sector
- Establishment of appropriate policy and regulatory environment for safe and sound provision of microinsurance
- Mainstreaming of informal insurance activities
- Institutionalization of financial learning
Regulatory Framework for Microinsurance

- Clearly defines microinsurance and microinsurance products
- Provides key components of a simple yet complete microinsurance contract
- Specifies responsibilities of institutions that create microinsurance products and those that distribute (agent/broker) the products and their respective prudential and market conduct requirements
- Entities must be adequately licensed/authorized by the IC as primary regulator
Policy and Regulatory Approach to Microinsurance

- Recognition of the importance of safety nets and risk protection for the poor
- Expansion of permissible activities (including offering microinsurance) for banks with microfinance operations should take into consideration risks inherent to the product and capacity of the bank to manage the risks
- For microinsurance, banks are allowed to market, sell and service the product as an agent or broker of a licensed insurance provider
- The insurance provider and microinsurance product remain under the supervision and regulation of the IC
**Policy and Regulatory Approach to Microinsurance: Specific Practices Applicable to Banks**

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<th>Definition of Microinsurance</th>
<th>Activity providing insurance products that meet the needs of the low-income sector for risk protection and relief against distress, misfortune and other contingent events. Premiums and benefits limited to at most 5% of minimum daily wage and 500 times minimum daily wage, respectively.</th>
</tr>
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<tr>
<td>Licensing Requirements</td>
<td>Thrift, Rural and Cooperative Banks may market and sell microinsurance products as a complementary component of its primary business. Banks need to undergo training and approval from IC as an agent/broker.</td>
</tr>
<tr>
<td>Coordination with IC and Bank Associations</td>
<td>Clear coordination with the IC is established. Bank Associations may be used to facilitate application process with IC and the BSP.</td>
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<tr>
<td>Risk Management</td>
<td>Bank shall make microinsurance clearly distinguishable from bank products in all materials used.</td>
</tr>
<tr>
<td>Consumer Protection</td>
<td>Bank shall ensure that insurance provider has functioning customer care and claims handling mechanism.</td>
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<td>Supervisory Approach</td>
<td>Microinsurance product, Insurance Provider and Agents require IC approval.</td>
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Policy and Regulatory Approach to Mobile Banking and E-money

- Clearly define “e-money”, “e-money issuers” and developed a clear and proportionate regulatory framework for the business to move forward
- Distinguish deposit taking activities from fund transfer activities
- Safety and soundness regulation for entities with deposit taking activities
- Collaborate with Telcos to develop regulated e-money ecosystem with wide and ubiquitous coverage reaching out to frontier areas
- AML/ CFT and Consumer Protection adequately addressed
- Develop supervisory capacity with the creation of specialist technology risk examiners
Regulated E-Money Ecosystem

BANKS
- Branches
- ATMs
- Other Banking Offices

E-Money ISSUERS
- Exclusive Cash In/Out Agents
- 3rd Party Cash In/Out Agents (Storefront Infrastructure)

Banking Services
- Cash in/out of E-money

User Enabled E-Money Functionalities
- Person to Person
- Purchases
- Bills Payment
- Remote banking services
Results So Far...

- Microfinance fully mainstreamed in the formal financial system
- Over 210 banks with microfinance operations serving nearly 900,000 clients with over 6 Billion outstanding portfolio (over 125% increase in 7 years)
- Increased interest of commercial players/ investors (local and international) in microfinance
- Professionalization of the industry through performance standards and greater transparency (i.e. emergence of microfinance institution rating agencies)
- Expansion of products delivered to the microfinance market (i.e. housing microfinance, micro-agri, microinsurance)
- Innovations in delivery channels as evidenced by the growth in banks offering mobile banking using e-money platforms for microfinance (i.e. 52 banks from none in 2005)
Our Next Steps

- Close monitoring of market practices and developments
- Quick response to challenges and emergent risks
- Steady advocacy for responsible finance
  - Price transparency
  - Fair treatment standards
- Financial literacy promotion
BSP’s Comprehensive Economic and Financial Learning Program

- Aims to increase awareness and understanding of essential economic and financial issues and concepts to help public make well-informed decisions and choices

Main categories:
- Economic Information (i.e. basic concepts on Philippine economy, BSP’s role, etc.)
- Financial Education (i.e. personal finance, consumer protection)

Target audience:
- General public
- Formal sectors
- Specialized stakeholders (including informal sector, unbanked, etc.)

Delivery Channels:
- Outreach activities - seminars, townhall meetings, exhibits
- In-house activities - conducted in the BSP EFLCenter
- Tri-media information dissemination
End of presentation.

www.bsp.gov.ph