Recent findings on financial inclusion and implications

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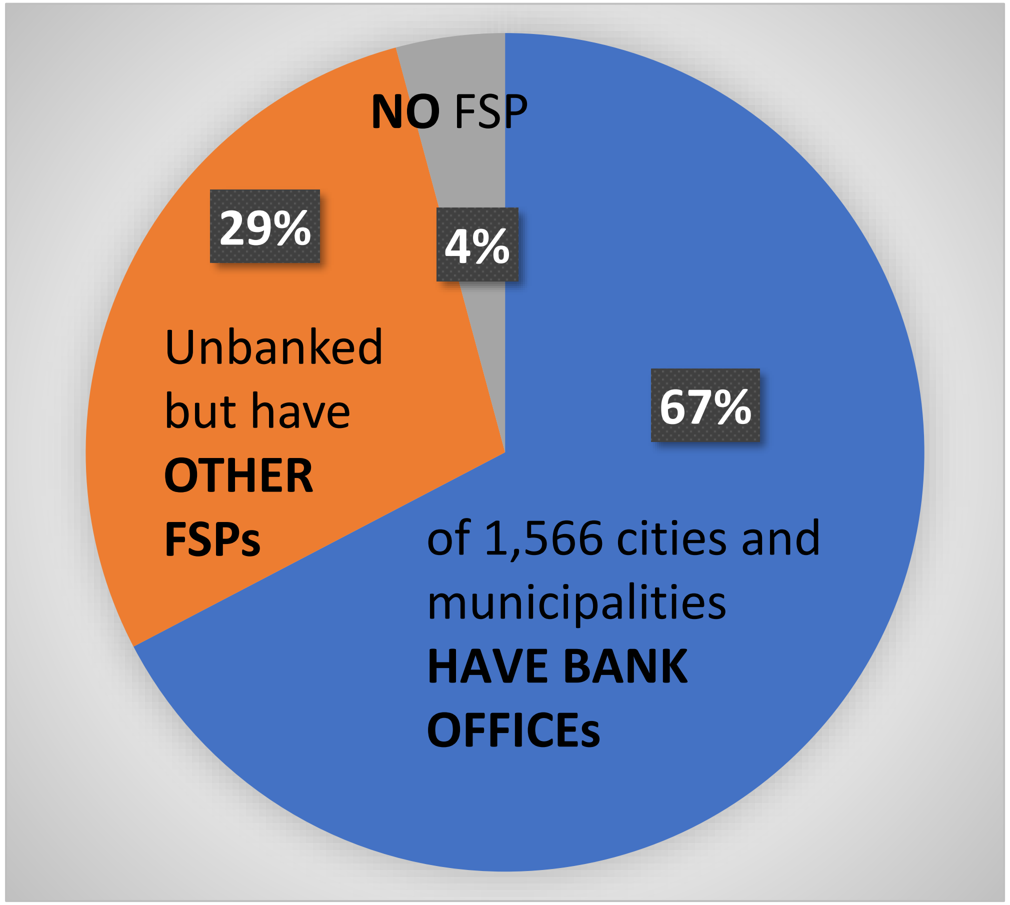
Outline of the Presentation

I. Financial inclusion, and why it is important
II. Summary statistics on the status of financial inclusion
III. Recent empirical findings based on survey data
IV. The importance of financial education in fostering inclusion
V. Role of regulation and supervision in fostering inclusion

Financial inclusion – where there is effective access to a wide range of financial products and services by all

- Promotes inclusive growth by enabling the poor to:
  - Accumulate assets (e.g. savings and insurance for protection from potential risks and shocks
  - Invest in income-generating activities
- How is financial inclusion measured?
  - Access
  - Usage
  - Quality
  - Welfare

There has been substantial progress in enhancing financial inclusion but access remains a challenge



Deposits and Loans in the Banking System

	2018 Q1	2019 Q1	Growth
Number of deposit accounts (in millions)	58.2	65.2	12.1%
Number of depositors (in millions)	46.0	60.7	31.9%
Amount of deposits (in trillion pesos)	12.0	12.7	6.1%
Amount of loans (in trillion pesos)	8.2	9.0	9.5%

Microfinance in the Banking System

		2018 Q1	2019 Q1	Growth
Microfinance	Banks	163	159	-2.5%
	Borrowers	1,738,732	1,982,860	14.0%
	Amount (in million pesos)	16,917.5	22,550.8	33.3%
Microenterprise Loans	Banks	151	146	-3.3%
	Borrowers	1,480,397	1,687,607	14.0%
	Amount (in million pesos)	14,095.0	18,720.9	32.8%
Microfinance Plus	Banks	37	38	2.7%
	Borrowers	8,337	9,790	17.4%
	Amount (in million pesos)	734.9	1,027.6	39.8%
Micro-Agri Loans	Banks	26	24	-7.7%
	Borrowers	66,931	93,449	39.6%
	Amount (in million pesos)	696.3	1,043.8	49.9%
Housing Microfinance Loans	Banks	18	15	-16.7%
	Borrowers	108,020	117,418	8.7%
	Amount (in million pesos)	1,041.4	1,378.2	32.3%

Source: BSP Dashboard Q1 2019

"Households' access to financial services: some evidence from survey data" (Llanto, 2015)

Data: PSA's 2013 Annual Poverty Indicators Survey

Methodology:
- Heckman selection model estimation → likelihood of availing loans regardless of source
- Series of Probit models for the likelihood of getting a formal loan

What matters to households in getting a loan?

- Age of the HH (+)
- Household size (+)
- Dependency ratio (+)
- Employment (+)

What socio-economic characteristics of households influence access to formal credit?

- Household size (+); dependency ratio (-)
- HH's sex (+, if male)
- HH's age (+)
- HH's marital status (+, if married)
- HH's educational attainment (+)

Notes: Dependency ratio – number of dependents below 15 y/o

"Households' access to financial services: some evidence from survey data" (Llanto, 2015)

<u>Results of the Two-Stage Least Squares estimation</u>

- BSP survey → the proportion of adults who keep their money in banks is significantly higher in classes A, B, and C (71%), than in D (32.7%) and E (17.2%).
- Location variable (i.e. NCR) is positive and significant→ indicator of *urban location*

First-stage: What influences access to formal credit among borrowing households?

- Availability of banks (+)
- Level of education (+, for secondary and tertiary)
- Household size (-)
- Dependency ratio (-)

Second stage: What are the effects of financial inclusion on household income?

- Access to credit (+)
- Age (+)
- HH's marital status (+, if married)
- HH's educational attainment (+)
- Employment (+, if employed)
- Dependency ratio (-)
- Urban location (+)

"What determines financial inclusion in the Philippines? Evidence from a National Baseline Survey?" (Llanto and Rosellon, 2017b)

Data: BSP's 2015 National Baseline Survey on Financial Inclusion

Methodology:

- Probit model estimation
- Dependent variable, y, represents decision to use/transact with formal financial institutions (FFIs), taking the values of 0 or 1.
- Vector, $\boldsymbol{x}$, represents set of explanatory variables

Age	Financial inclusion increases with age until it reaches a tipping point
Sex	Female are more likely to engage in financial transactions (i.e. owning a savings account; accessing credit and insurance services)
Civil Status	Single adults are less likely to make transactions in FFIs or apply for loan compared to married adults; no difference between married and adults who are divorced, separated or widowed

“What determines financial inclusion in the Philippines? Evidence from a National Baseline Survey?” (Llanto and Rosellon, 2017b)

Financial Inclusion:

1. Transaction with FFIs
2. Ownership of savings accounts
3. Access to credit
4. Access to insurance

Coverage area of the survey:

- NCR, balanced Luzon, Visayas and Mindanao

Education

Elementary and high school graduates are less likely to transact with FFIs, own a savings account, or access credit and insurance products and services

Employment

(1) self-employed adults → more likely to transact in FFIs; (2) employed adults → more likely to own savings account, or accessing credit/insurance products and services

Income

(1) Adults from high-income groups (quantile 4 & 5) are more likely to transact with FFIs, open a savings account, or apply for a loan or insurance; (2) middle-income adults are also more likely to access credit than the lowest-income adults; (3) Highest income group are most likely to get insured that the rest of the income groups.

Empirical studies show consistent findings on the factors that affect the demand side of financial inclusion

- Educational attainment of the household head, age, civil status (married), status of employment, and income
- Presence of banks in an area, important but not sufficient to enhance financial inclusion
- Low level of utilization of insurance → could be due to non-availability of insurance products, lack of information, lack of suitable insurance products, and other factors
- Indication of positive results of government and private sector efforts to empower women with more meaningful participation in economic activities

Llanto, Rosellon and Ortiz (2018) showed the growing importance of digital finance in enhancing financial inclusion

- Based on data from the 2015 NBSFI, Filipino adults reported the following barriers to transacting with e-money agents: the product/service is not needed or does not suit their requirements and preference; lack of awareness of how to transact; transaction is not cheap; lack/absence of required documents.
- Findings based on the FGDS conducted with a leading microfinance bank and its clients:
  - Users of e-finance are typically from the younger generation
  - e-Finance services has strong potential in bringing about convenient and less costly financial transactions
  - Lack of critical infrastructure esp. weak and intermittent mobile network signal hinders utilization of e-finance
  - Misconception or lack of understanding about digital finance hinders greater coverage of underserved and unbanked people in rural areas

The importance of financial education

- BSP has (a) an Economic and Financial Learning Program – promote greater public awareness of economic and financial issues and provide information; (b) a Credit Surety Program – creates a trust fund from the contributions of a provincial government and cooperative in the same province
- National Credit Council (NCC) and the Insurance Commission oversee financial education covering microinsurance in collaboration with the National Anti-Poverty Commission. Financial literacy training, seminars, and workshops on microinsurance are separately conducted for providers of microinsurance and clients, respectively.

The importance of financial education

- The BSP, NCC, and the Insurance Commission have done creditable pioneering work on financial education. Financial education should not just be the responsibility of the central bank for microfinance, or the NCC or the Insurance Commission for microinsurance. At stake is greater financial inclusion of the excluded segments of the population, which faces serious obstacles
- A major issue is delivery of the financial education program to a wider audience. A crucial element of financial education is consumer protection. The BSP has acknowledged that “financial inclusion ushers the participation of clients that are less sophisticated and generally more vulnerable to predatory finance” (BSP 2013).

The importance of financial education

- BSP has various initiatives on Financial Education and Consumer Protection:
  - The Economic and Financial Learning Center (EFLC): Educational Group Discussion
  - The Financial Consumer Protection Department: Consumer Assistance Mechanism
  - Learning Programs: The BSP Economic and Financial Learning Program (BSP-EFLP); Financial Literacy Programs; Awareness Campaigns and other Learning Initiatives
  - Multimedia (video): About the BSP; Paghahanda sa Kinabukasan; Savings Video
  - Publications and primers

The importance of regulation and supervision

- PDP: “strategic framework for a sound macroeconomic policy, including an inclusive monetary and financial sector that can support growth and improve access to economic opportunities. Strategies include strengthening the effectiveness of financial inclusion and encouraging efficiency and innovation in microfinance and micro-insurance. Some of the measures to reduce inequality include providing easier access to finance and financial literacy for micro, small and medium enterprises, cooperatives, overseas Filipino workers, and their families.”
- BSP’s National Strategy for Financial Inclusion: map out and coordinate various efforts toward inclusive finance → (i) policy and regulation; (ii) financial education and consumer protection; (iii) advocacy programs; and (iv) data and measurement

- Government and BSP work hand-in-hand in fostering good policy and regulatory environment to advance inclusive finance
  - Creation of the BSP's "Inclusive Finance Staff" – lead efforts at financial education and advocacy
  - Government issued the NSFI as framework for inclusive finance programs and policies; EO No. 208 (2016) which created the Financial Inclusion Steering Committee to oversee and provide strategic direction to the NSFI implementation and give advice to stakeholders in meeting their objectives
- BSP's Key Pillars and Strategic Principles: 1) Policy, Regulation, and Supervision; 2) Data and Measurement; 3) Financial Education and Consumer Protection, and 4) Advocacy Programs

ADB (2015), Llanto (2017a) and other studies

- Proportionate regulation adopted by the BSP toward microfinance provided the necessary impetus for growth and development of the sector. This meant adjusting prudential norms, basically covering capital requirements, loan provisioning, reporting and loan documentation, among others, to conform to the specialized character of microfinance.
- BSP circulars require MFI banks to observe conditions for safe and sound banking practices, risk management, internal control systems, and provisions for probable losses.
- Both proportionate regulation and risk-based supervision of microfinance require a cultural change on the part of the regulators, which have relied on traditional approaches to regulation and supervision to assess the financial health of institutions.
- The Philippines has been particularly successful with mobile phone based models (ESCAP 2014). E-money regulations enabled the entry of new providers and more active agents, an exponential increase in e-money accounts, and an incremental buildup of transactions.
- On the part of the Insurance Commission, the Regulatory Framework for Microinsurance established the policy and regulatory environment that will encourage, enhance, and facilitate the safe and sound provision of micro-insurance products and services by the private sector (National Credit Council Secretariat 2010).
- It seems that proportionate regulation has worked for the microfinance sector. It has enabled the sector to evolve innovative approaches to financial inclusion.

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Thank You!