Barriers to the Use of Formal Financial Services and Implications for Public Policy

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I. Motivation: Persistent challenges

Account penetration (as % of 15+)	Philippines			Lower Middle Income			EAP (developing)		
	2011	2014	2017	2011	2014	2017	2011	2014	2017
Account at FI	26.6	28.1	31.79	28.7	41.8	56.1	55.1	68.8	73.45
poorest 40%	10.7	14.9	17.5	20	32.4	49.29	39	60.7	63.36
richest 60%	37.1	37.1	41.2	34.4	48.1	60.63	65.8	74.2	80.33
primary education or less	12.3	15.2	16.1	23.4	30.2	48.01	49.9	63.6	63.62
secondary education or more	33.1	33.5	38.32	39.5	53.7	64.5	65.3	76.3	84.18
female	33.7	33.9	35.46	23.1	35.5	51.7	52.3	66.7	71.24
Male	19	22	28.02	34.2	48.1	60.57	58	70.8	75.69
young adults (15-24)	18.3	13.9	19.45	21.7	33.4	46.89	50.2	60.3	68.38

Objectives

1. Model the probability of "use" in the overall and by specific touchpoint
   - *BSP supervised: Banks, ATM, NSSLA, Pawnshop, Remittance agent, e-Money Agent*
   - *SEC: MFI, Lending/Financing Co*
   - *CDA: Coop*
   - *IC: insurance agent*
   - *Payment centers*

2. Model the probability of saving and saving formally

3. Discuss implications for public policy

II. Data, Models

General Access, Financial Transactions

Per touchpoint

- Aware? If so, near? If so, ever transacted?
  - *If yes, how often? Satisfied or dissatisfied?*
  - *If no, why not? (choose from list or specify)*

- Any other point(s) of access?

Savings

- Put aside money?
- If so, where (multiple response)
  - *Banks*
  - *NSSLA*
  - *Coop*
  - *Group (paluwagan)*
  - *Home*
  - *Others (specify)*
- If not, why not? (Multiple responses)

CSI: GSIS, SSS, Pagibig

Models

1. Probit models of broad inclusion: "transacted" ~ use
   - *With any touchpoint: Transacted or not?*
   - *Per touchpoint: Transacted or not?*

2. Probit models of 'unbanked".
   - *If NOT ever transacted with Bank, ATM, NSSLA, Coop, MFI, CSI*
   - *Demand reasons only (vs. supply or combination)*

3. Multinomial Logit models
   - *Active Saving: save, do not save, saved before*
   - *Mode of Saving: Formal only, Informal only, Both*

Covariates:
Area; Female/male; Age; Status (9); Education (9); Occupation (9); Class (by dwelling); Personal income of respondent (by quartile); NEAR or not

III. FINDINGS

1. Inclusion: Given array of financial services, 85.2 percent are included; 14.8 percent excluded. **Not an alarming problem.**

2. Physical access: Among those who do not report "near" touchpoint, almost 2/3 transact nonetheless!

- Effect of "near": increases probability of transaction by only 5%

Q: What are we aiming for (and why?)

Comment: Physical access does not appear to be a significant constraint.

	Near at least one?		
Transacted with at least one?	NO	YES	TOTAL
NO	0.048	0.100	0.148
YES	0.081	0.772	0.852
TOTAL	0.128	0.872	1.000

3. Variation in awareness and 'conversion' among touchpoints: rate varies greatly.

Q: What is the public policy concern?

	Touchpoint	Awareness		Transact		Transact 1x/year or more		Transact less than 1x/year			
		proportion to total	Rank	proportion of aware	rank	proportion of transact	rank	proportion of transact	rank	dissatisfied	rank
1	Bank*	0.98	1	0.49	4	0.66	7	0.34	6	0.06	6
2	ATM*	0.94	3	0.48	5	0.76	3	0.24	9	0.02	11
3	NSSLA*	0.14	11	0.04	11	0.66	6	0.34	7	0.23	1
4	Coop	0.70	4	0.18	10	0.72	5	0.27	5	0.08	4
5	MFI	0.30	9	0.23	8	0.83	2	0.16	10	0.04	9
6	Lending co	0.63	7	0.23	9	0.74	4	0.26	8	0.21	2
7	Pawnshop*	0.96	2	0.52	3	0.42	11	0.55	1	0.06	7
8	Remitt Ag*	0.69	5	0.59	2	0.50	9	0.45	3	0.04	10
9	e-money Ag*	0.26	10	0.25	7	0.46	10	0.53	2	0.05	8
10	Payment C	0.66	6	0.67	1	0.84	1	0.14	11	0.07	5
11	Insurance Ag	0.51	8	0.29	6	0.60	8	0.38	4	0.12	3

4. Variation in frequency of transactions. With few exceptions, less than 8 percent of those who transact <1/year are "dissatisfied"

Comment: Where greater frequency is optimal, barriers to effective demand may be more critical

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5. Across touchpoints, *c.p.* covariates matter to the probability of transacting but in different degrees, and sometimes do not matter,

Examples: after controlling for other factors

■ proximity: effect is greater for transacting with ATMs, MFI, insurance agents, lending companies, pawnshops, e-money agents (19-22 percent) Less for banks, coops, remittance agents, payment centers (11.9-13.9 percent)

■ Education: positive effect of education on probability of transacting kicks in at different levels for different touchpoints.

■ Socio-economic class matters strongly in one case. Does not matter in 4.

■ Occupation: strongly with 4.

■ … And so forth

[No obvious policy implication here]

6. Model of "Unbanked": By this definition, 34.9 percent excluded. Proximity seems to matter more.

■ Definition: No transaction with banks, atm, nssla, coop, mfi, csi

Transacted with at least one	At least one touchpoint near/easy to reach		
	Proportion		
	No	Yes	total
Yes	0.088	0.564	0.651
No	0.114	0.235	0.349
total	0.201	0.799	1.000

7. WHY NO TRANSACTION?

	rank	proportion who report it	proportion who report it exclusively	
Demand-side				0.423
- no need	1	0.50	0.282	
- not enough or no money (or income, work)	2	0.27	0.127	
- another member transacts	7	0.06	0.014	
Supply-side				0.174
[Provider responsiveness, lack of info/knowledge]				
- products/services not suited to my needs, preferences	3	0.17	0.045	
- don't know about it/don't know how	6	0.06	0.011	
[Regulations]				
- Don't have the necessary requirements	4	0.17	0.064	
- I am not comfortable going	5	0.07	0.017	
- I am still/too young	8	0.05	0.024	
- I don't trust access point	9	0.03	0.005	
[Transaction costs]				
- long lines, long waiting time	10	0.02	0.002	
- far, don't want to walk	11	0.02	0.003	
- products/services not cheap	12	0.01	0.002	
Sub-total				0.597
Combination of demand side reasons only				0.068
Combination of supply side reasons only				0.070
Both demand and supply side reasons				0.228

8. Saving formally: By this metric, just 17.6 (= .43*.41) percent of adults have a formal account and are "included".

	Proportion
saves	0.43
no longer saves	0.32
does not save	0.25
Total	1.00

Mode	Proportion
only formal	0.30
only informal	0.59
both	0.11
Total	1.00

9. Why not save?

Again, demand side binding. Notional, but not effective demand

Comment: Again, we need to unpack demand-side responses

	report it	report it exclusively	
demand side			0.86
No/not enough money/work	0.73	0.82	
No need	0.07	0.03	
other member saves	0.01	0.00	
Others (cultural)	0.01	0.01	
supply side			0.00
Too many doc requirements	0.04	0.00	
Expensive	0.02	0.00	
Don't have knowledge	0.02	0.00	
Distance	0.01	0.00	
No trust	0.00	0.00	
	sub-total		0.87
Combined demand side only			0.05

10. Why not save **formally**?

Comment: Extending the reach of non-bank saving/risk management access points may have a better chance of pulling current informal savers into the formal system, than extending the reach of banks

Correlates	Formal only dy/dx		Informal only dy/dx		Both dy/dx	
NEAR NON-BANK Saving/Risk Mgmt Access Point	0.027		-0.084	*	0.056	**
NEAR BANK	-0.013		-0.049		0.062	**

IV. Implications

1. At this stage, the financial 'exclusion' may have far less to do with the availability and responsiveness of supply and **more to do with impediments to, or the absence of, effective demand**. (Not new. But here, it looks binding)

2. Within arena of 'supply, it is **less about physical access, or spatial distribution of touchpoints and more about suitability or compatibility of products and services** offered. (implication for the application of incentives and metrics/banner headlines)

3. **Unless there is more clarity on the *what* and *why* of financial inclusion, the problem does not seem to be compelling. (relative to what is faced in other sectors – health, education, etc)**

Challenge to the NSFI: are all touchpoints, products and services of equal concern for public policy?

What theory predicts

What evidence suggests