

The Use of Financial Inclusion Data Country Case Study: **PHILIPPINES**

Policy on Micro-deposits

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on behalf of the Data and Measurement subgroup of the
Global Partnership for Financial Inclusion

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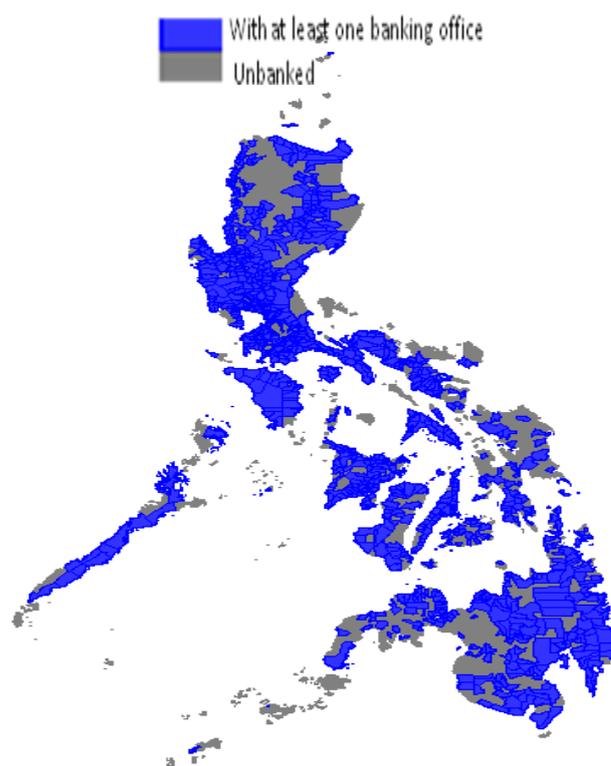
1. Country Context

The Bangko Sentral ng Pilipinas (BSP), as the Philippine central bank, aims to maintain price stability conducive to balanced and sustainable economic growth. It is mandated to promote and preserve monetary stability and safeguard the soundness of the banking system.

In 2000, the BSP was mandated by the General Banking Law to recognise microfinance as a legitimate banking activity and to set the rules and regulations for its practice within the banking sector. The BSP experience in microfinance proved that low income segments can be effectively served by the formal financial system given appropriately designed and affordably priced products and services. At present, there is a wide range of products such as microfinance loans, micro-agricultural loans, microfinance housing loans, micro-deposits and micro-insurance available to the previously unbanked market. Building on these gains in microfinance, the BSP is pursuing the greater goal of expanding access to finance for all Filipinos especially for the still underserved and unserved market segments.

Financial inclusion remains a pressing challenge in the Philippines. The archipelagic nature of the country imposes geographical and physical barriers to financial access. To date, 610 out of 1,634 cities and municipalities do not have a banking office¹. Even for areas with bank presence, the distribution of banking services is skewed toward highly urbanised and populous regions. For instance, Metro Manila alone accounts for 43% of the total number of deposit accounts and 68% of the amount of bank deposits.² Only 2 out of 10 households have a deposit account at a formal financial institution.³

The state of financial inclusion in the Philippines can be summarised as follows, using the G20 Basic Set of Indicators:



¹ Bangko Sentral ng Pilipinas (BSP), Q2 2013

² Philippine Deposit Insurance Corporation (PDIC), Q2 2013

³ BSP Consumer Finance Survey (2009)

Table 1: State of Financial Inclusion in the Philippines

Categories	Indicators	
Formally banked adults	% of adults ^{1/} with an account at a formal financial institution	26.6% ^a
	Number of deposit accounts per 1,000 adults	635 ^b
Adults with credit by regulated institutions	% of adults with at least one loan outstanding from a regulated financial institution	10.5% ^a
Formally banked enterprises	% SMEs with an account at a formal financial institution ^{2/}	97.8% ^c
Enterprises with outstanding loan or line of credit by regulated institutions	% SMEs with an outstanding loan or line of credit ^{2/}	33.2% ^c
Points of service	Number of branches per 100,000 adults	14 ^b

Notes: a – Global Findex (2011), b – BSP (2012), c – World Bank Enterprise Surveys (2009)

^{1/}Adult population refers to the population aged 15 years old and above.

^{2/} The World Bank's Enterprise Surveys are administered to a sample of firms in the non-agricultural formal private company and covered small, medium and large companies.

2. Financial Inclusion Objectives and Targets

There are no authorities or organisations that are explicitly mandated or tasked to lead financial inclusion initiatives in the Philippines. The BSP, as the supervisor of the banking system (which accounts for more than 80% of the resources of the financial system), has been actively pursuing financial inclusion. As the central monetary authority and banking system regulator, the BSP knows that the achievement of both financial stability and financial inclusion requires energy, imagination and serious attention.

In the Philippine Development Plan (PDP) 2011-2016, there is a stated goal/vision for the financial sector to be a “regionally responsive, development-oriented and inclusive financial system which provides for the evolving needs of its diverse public”. Consistent with this goal, the Philippines envisions an inclusive financial system with the following characteristics:

- Wide range of financial services that serve different market segments
- Financial products appropriately designed, priced and tailor-fitted to market needs
- Wide variety of strong, sound and duly authorised financial institutions utilising innovative delivery channels
- Effective interface of bank and non-bank products, delivery channels, technology and innovation to reach the financially excluded

In its Maya Declaration announced during the 2011 AFI Global Policy Forum, the BSP set the following goals, in line with the above vision and characteristics:

- Pursue financial inclusion side-by-side with the promotion of price and financial stability
- Create the enabling environment to make it possible for all adults to have a deposit account
- Implement price transparency and fair dealing with clients
- Continue targeted financial learning programmes
- Create a financial inclusion data framework

Considering the importance of the support of and partnership with other agencies and organisations, the BSP is planning to champion financial inclusion across various sectors by convening relevant stakeholders to draft a *National Strategy for Financial Inclusion*. This strategy is consistent with what is envisioned in the PDP. The proposed financial inclusion strategy aims to provide a framework to enable government and the private sectors 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 and will lead to broad based and inclusive growth.

3. Financial Inclusion Data and Measurement Initiatives

The BSP is currently building a comprehensive financial inclusion data framework to identify existing gaps, monitor progress and craft evidence-based policies. Following the recommendations of a data gap assessment report⁴, a dedicated information coordinator position that is responsible for collecting, collating and analysing financial inclusion data was created. As a result, the maiden report on the state of financial inclusion in the country was published in 2012. The report provided baseline information on the levels and trends of financial inclusion in the Philippines.

The BSP created a Data and Measurement Working Group within the Inclusive Finance Steering Committee (IFSC), a bank-wide committee that was constituted to ensure a coordinated focus in pursuing programmes supportive of financial inclusion. There is also institutionalised information sharing with other departments within the BSP as well as with other agencies that are handling inclusion-relevant data (e.g., non-banks, e-money, cooperatives, microfinance NGOs). Other key data initiatives include:

- Creation of a financial inclusion database
- Regular updates on the state of financial inclusion
- Quarterly financial inclusion publication
- Spatial mapping and geocoding of access points
- Preparatory work for national baseline survey and product catalogues

4. The Introduction of Micro Deposits

The BSP appreciates that microfinance consists of a range of financial services and that savings is quite often an enabler in the provisioning of credit. The BSP therefore endeavoured to develop a meaningful micro-deposit regulatory framework. The intention was to provide space and clarity for banks to offer this important product, to provide flexibility, to ensure sound delivery and to appropriately incentivise its offering. An example of the incentivisation is that these savings products can be opened in simplified bank branches called micro-banking offices (MBOs)⁵.

In 2010, the BSP issued Circular 694 which expanded microfinance products to include micro-deposits (also known as microfinance savings deposits). Micro-deposits are savings accounts that cater to the needs of the basic sectors and low income individuals. These savings accounts remove the usual barriers faced in opening a bank account such as high maintaining balance and dormancy charges.

⁴ Prepared by Bankable Frontier Associates (BFA) through a technical assistance grant from the Alliance for Financial Inclusion (AFI)

⁵ The establishment of MBOs addresses the problem of setting up a banking presence in areas where it may not be economically feasible to put up a full banking office. MBOs primarily cater to the banking needs of microfinance clients and overseas Filipinos and their beneficiaries.

The initial issuance set the average daily balance (ADB) for micro-deposits at PHP 15,000 (approximately USD 348). The ADB ensures that the deposit is offered only to microfinance clients, thereby establishing a distinction between micro-deposit and regular savings account. The PHP 15,000 ADB limit is the rough equivalent of the average remittance of overseas Filipinos during that time.

In the implementation of the regulation, the BSP noted market feedback on the threshold that was set. Some banks reported that the savings of their microfinance clients are increasing. For banks who service these micro-deposits in their MBOs, accumulating savings on the part of the microfinance client becomes a disincentive because they will have to go to a regular bank branch once their average daily balance breaches the PHP 15,000 ADB limit. If left unaddressed, this situation may have a limiting effect on the extent of take-up of micro-deposits.

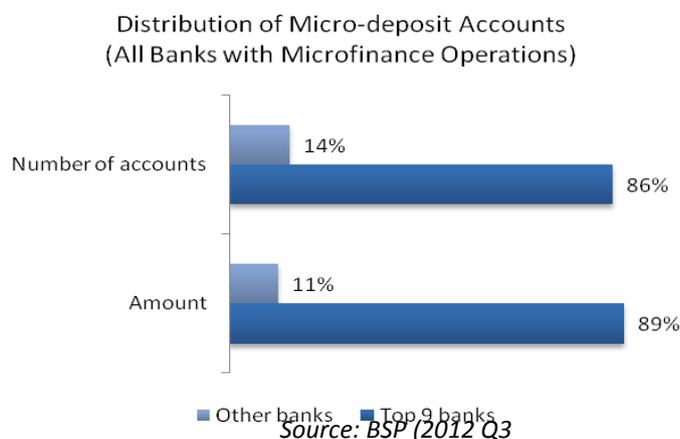
Since the feedback was just from a few institutions, the BSP wanted to get validation from data before amending the regulations.

5. Analysis of Micro Deposit Account Balances

Appropriate data were critical to the proper analysis of the micro-deposit balance issue. For this case study, data on micro-deposits served as input in the decision making and policy formulation.

While the BSP has data on bank deposits, existing information on micro-deposits is limited to aggregate data⁶. There was a need to collect more granular data directly from banks offering micro-deposits to get to the right level of understanding on the issue. This highlighted the importance of engaging the stakeholders in policy formulation and adjustment through coordination and by allowing them to provide inputs.

In early 2013, the BSP conducted a survey among the top 9 banks that make up the majority of the amount and number of micro-deposit accounts. As of the third quarter of 2012, the top 9 banks comprised 86% of the total number of accounts and 89% of the total amount of micro-deposits.⁷ These banks were requested to provide data on the sizing of their micro-deposit accounts (i.e., number of accounts and amount per deposit bucket).

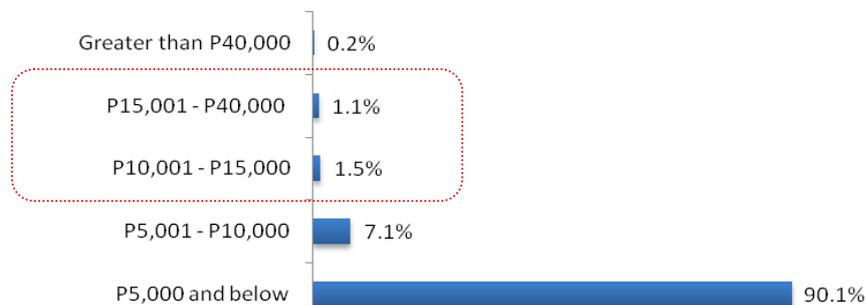


The participation of selected banks in the survey by providing the requested information contributed much to the analysis. The data revealed that while 90% of the micro-deposits of these banks are below PHP 5,000, there are already a significant number of accounts that are breaching the PHP 15,000 ADB limit. About 1.3% of the total number of micro-deposit accounts exceeded the ADB threshold. This is equivalent to 15.7% of the total amount of micro-deposits. It was also noted that the number of accounts from PHP 15,001 - PHP 40,000 is almost the same as the number of accounts from PHP 10,001 - PHP 15,000.

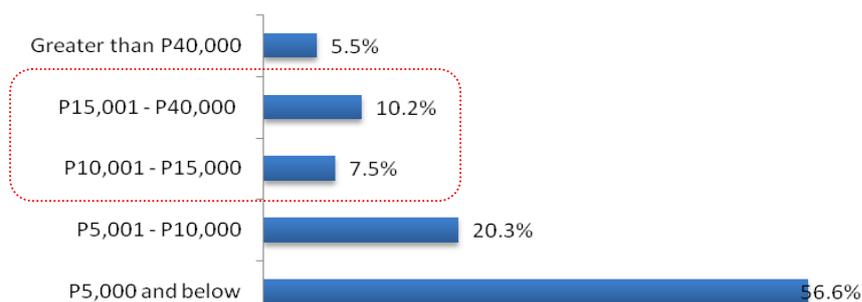
⁶ The BSP data on micro-deposits do not include information on the number of accounts and amount per deposit bucket.

⁷ There were more than 1 million micro-deposit accounts amounting to PHP 2.4 billion in 2012 Q3.

Distribution of micro-deposits, by number of accounts per bucket (Top 9 Banks)



Distribution of micro-deposits, by peso value of accounts per bucket (Top 9 Banks)



Source: Data submitted by the top 9 banks (2012 Q3)

These findings validated and quantified the feedback that the BSP initially received from some banks. The results suggest that microfinance clients are increasingly saving and there is a need to enhance the characteristics of micro-deposit accounts.

6. Policy Formulation

The Inclusive Finance Advocacy Staff (IFAS)⁸, as the dedicated financial inclusion unit in the BSP, was primarily responsible for analysing the data collected and formulating the appropriate policy solutions based on the findings. The data made it easier to propose the new threshold of PHP 40,000 because it was not arbitrary and was guided by existing data. The draft of the proposed amendment to the regulation was circulated to other relevant units in the BSP for their review and comments. Before the micro-deposit regulation was issued, the proposed amendment was submitted to the BSP Monetary Board⁹ for their consideration and approval. Taking into account the compelling results provided by data, the Monetary Board approved the revised policy on the threshold amount. In May 2013, the BSP issued Circular 796 which amends the general features of micro-deposits by increasing the ADB to PHP 40,000 (USD 927). This responsive measure enhances the features of micro-deposits, to further encourage the microfinance clients to build up their savings.

⁸ IFAS provides secretariat support and coordinates with the work of the IFSC.

⁹ The Monetary Board is the highest policy-making body in the BSP.

7. Results So Far

The data contributed to one of the BSP's commitments in the Maya Declaration which is to create the enabling environment to make it possible for all adults to have a deposit account. The amendment of the micro-deposit regulation will encourage the low income market to save and put their savings into the formal financial system.

The stakeholders, particularly the rural banks, were receptive to the policy change. The Rural Banking Association of the Philippines (RBAP), for instance, stated that the increase in the ceiling for micro-deposits that can be deposited with MBOs "will protect rural poor depositors from helplessness during bad times and allow them to save more".

The BSP is seeing validation that the policy issuance on micro-deposits is the right move. Based on end of June 2013 data, there are 186 banks with microfinance operations reaching more than 1 million clients. The savings of microfinance clients have reached PHP 8.87 billion, higher than the total amount of microfinance loans outstanding which is PHP 8.04 billion. This suggests that microfinance clients have transformed into net savers and are now attaining a certain level of financial independence.

The findings also supported the experience globally that savings, together with other financial products, are indeed equally as important as loans where microfinance services are concerned. Sometimes savings can be a viable service on its own, without a credit facility. The results likewise reaffirmed the important role of banks in microfinance since they are the ones who can generate savings from the general public (unlike NGOs and cooperatives).

After the enhanced policy on micro-deposits was implemented, the on-going focus is on the internal controls for MBOs since they will be receiving higher deposit amounts from their clients. The BSP is also regularly looking at the microfinance data of banks to monitor their levels and trends and identify possible gaps and/or opportunities.

8. Key Lessons

In the past, financial inclusion policies were informed mainly by anecdotal evidence and stories. While this approach has been helpful, the BSP recognises the importance of having a reliable and robust financial inclusion data framework to inform decision making and policy formulation. With the recent initiatives to improve the collection of both supply-side and demand-side information on financial inclusion, the BSP envisions that data and deeper measurement will play a greater role in its financial inclusion policymaking.

The BSP sees regulations as a flexible framework that enables its supervised entities to best serve their markets in a safe and sound manner. The BSP recognises that with the dynamism of the industry, it will require some changes in policies and regulations. These changes can be best be made through strong evidence-based policymaking to ensure the relevance and responsiveness of regulations.

Moving forward, the BSP is committed to continuously improve its financial inclusion data framework so that later on there will be solid evidence to assess progress and measure impact of regulations on financial inclusion.