



Financial Inclusion: Reinforcing Economic and Financial Stability

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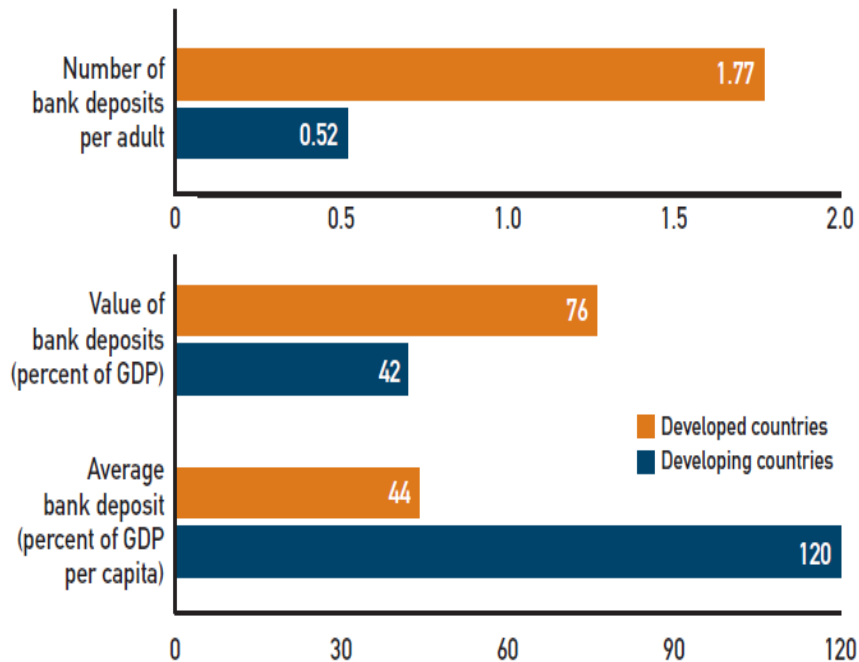
Meeting on Microinsurance - Promoting Successful Regulatory and Supervisory Approaches for Increased Access to Insurance

Basel, Switzerland



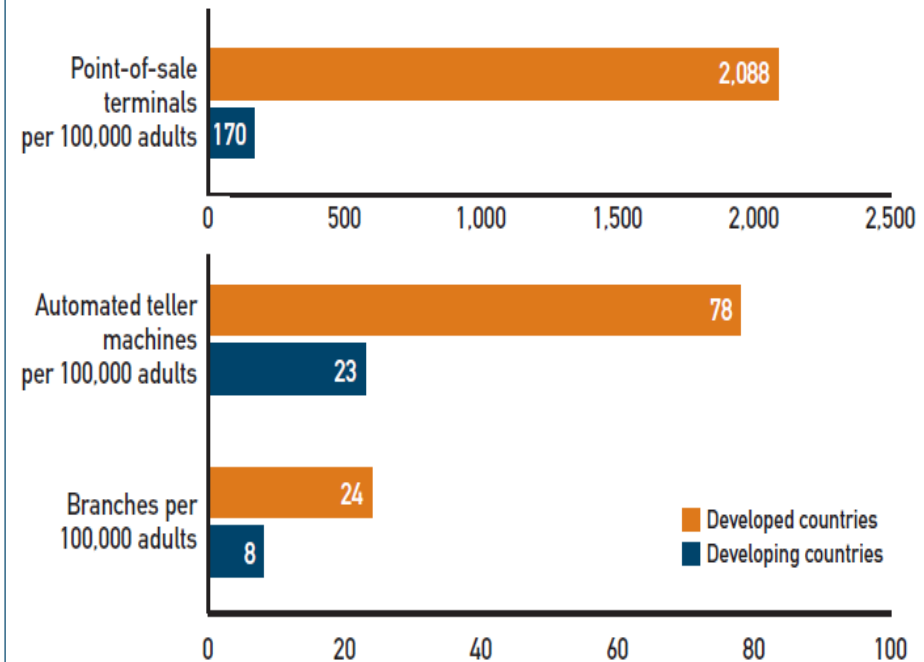
Global Context

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



Source: Financial Access database.

Figure 3 Developing countries have narrower outreach



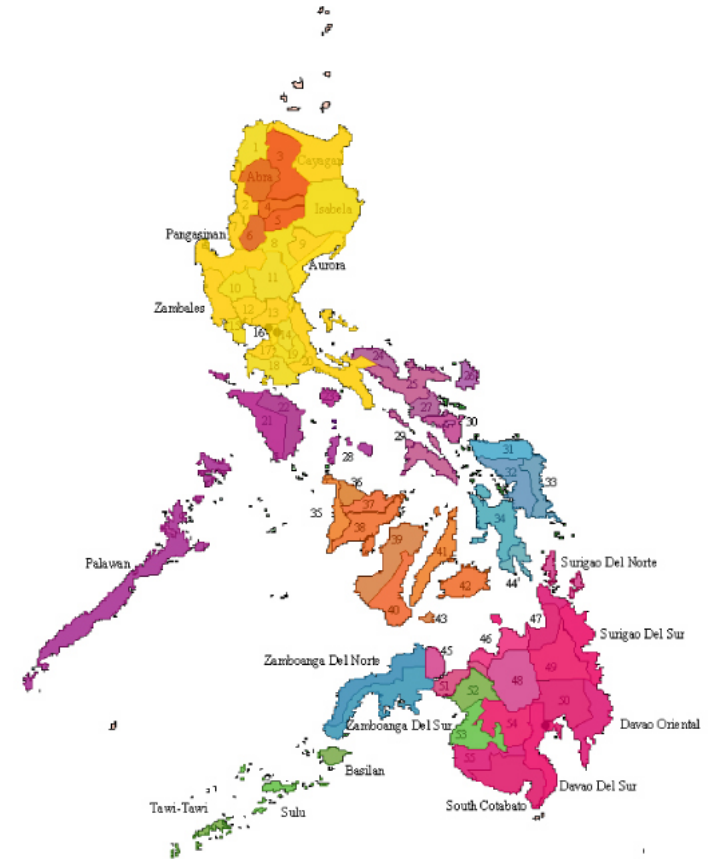
Source: Financial Access database.

Source: Financial Access 2009, CGAP



Philippine Context

- 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:

Issue	Point of Balance	Possible Policy Initiatives
Safety and Soundness	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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



Proportionate regulation is key. The following need to be balanced and addressed:

Issue	Point of Balance	Possible Policy Initiatives
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.	<ul style="list-style-type: none">•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



Proportionate regulation is key. The following need to be balanced and addressed:

Issue	Point of Balance	Possible Policy Initiatives
AML/CFT	Need to manage the risks to financial system integrity of easy access to the financial system.	<ul style="list-style-type: none">• Allow simplified KYC requirements for small value transactions only• Leverage on KYC of other authorized institutions• Recognize the use of technology in e-money systems in identifying and suppressing illegal activities



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

Definition of Microfinance	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.)
Capital Requirements/ Adequacy, Licensing Requirements	Banks comply with same standards and requirements for capital adequacy and licensing
Credit Risk	Require banks to have clear underwriting standards and practices for cash-flow based lending.
Risk Management / Problem Assets/ Provisioning	Require high frequency monitoring of portfolio-at risk and corresponding provisioning requirements reflecting peculiar risks of microfinance.
Governance	Specify necessary experience and track record in microfinance in the board and management. Impose clear and comprehensive governance standards.
Supervisory Approach	Create a MicroSME Finance Specialist Group Develop Manual of Examination Procedures



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

Definition of Microinsurance	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.
Licensing Requirements	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.
Coordination with IC and Bank Associations	Clear coordination with the IC is established. Bank Associations may be used to facilitate application process with IC and the BSP.
Risk Management	Bank shall make microinsurance clearly distinguishable from bank products in all materials used.
Consumer Protection	Bank shall ensure that insurance provider has functioning customer care and claims handling mechanism.
Supervisory Approach	Microinsurance product, Insurance Provider and Agents require IC approval.

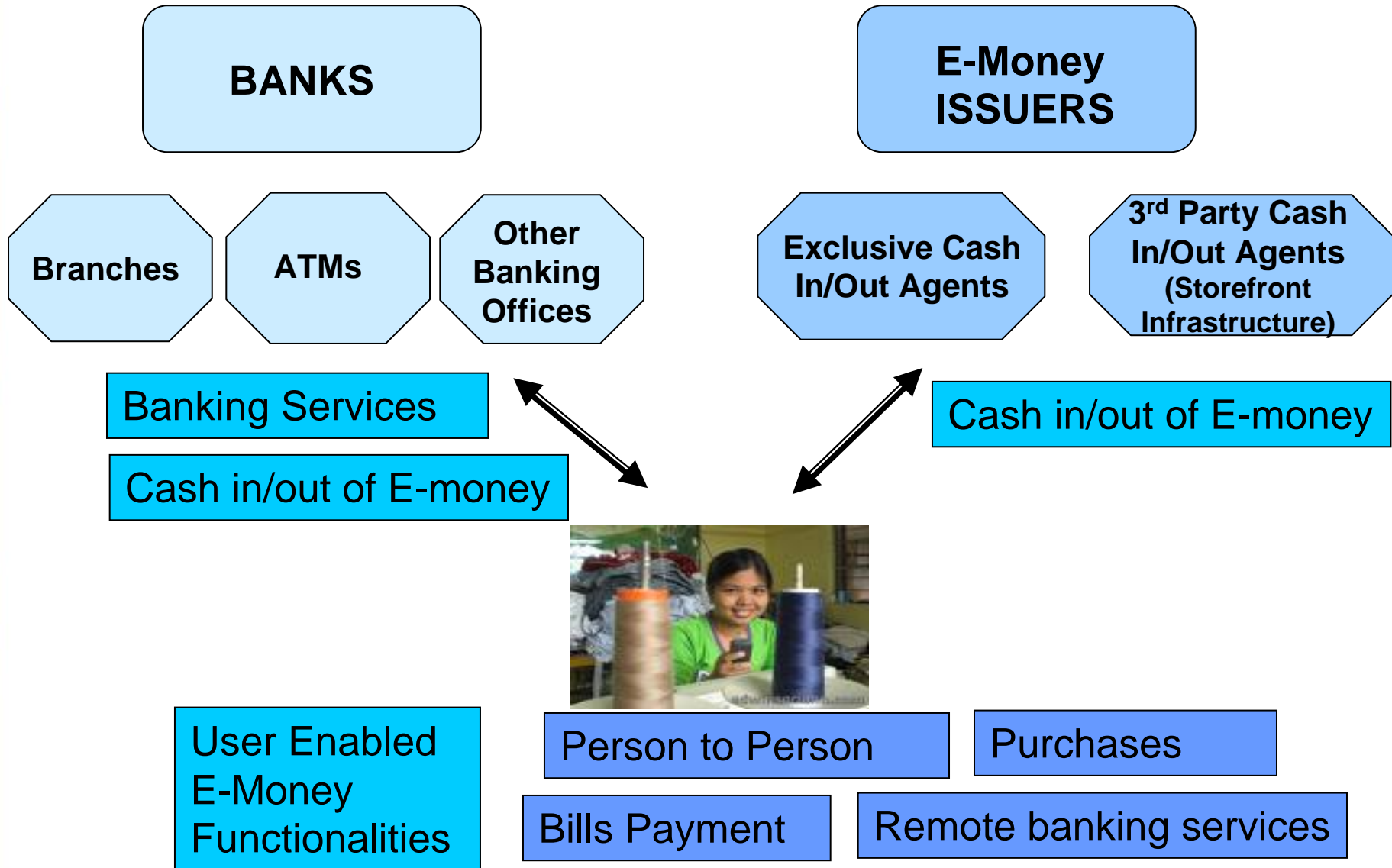


Policy and Regulatory Approach to Mobile Banking and E-money

- 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





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.

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