



Financial Inclusion in the Philippines



DIGITAL FINANCIAL INCLUSION

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“The future of the financial system lies in going digital and using it to achieve financial inclusion. We are too fragmented geographically to reach out using traditional means. Digital technology provides such a chance.”

- BSP Governor Nestor A. Espenilla, Jr.

What is Digital Financial Inclusion?

In the Philippines, there are more people with mobile phones than bank accounts. Can technology be leveraged to unlock the potential of reaching the large population of unbanked in our country? Let us look at these figures:

120%
SIM
penetration



50%
unique mobile
subscription

59%
smartphone
adoption



55%
internet
users

58%
social media
penetration



1/3 of the
population are
millennials

Indeed, the opportunities for digital financial inclusion are present in the Philippines.



Digital financial inclusion is the digital access to and use of formal financial services by the unserved and underserved population.

Digital financial services expand the delivery of basic financial services through mobile phones, cards or the internet. Such services should be suited to the customers' needs and delivered responsibly, at a cost affordable to customers and sustainable for providers.

"Philippines – I think you have the opportunity to make the best fintech in the world, because you have so many mobile phones, more than 7,000 islands. We should make Philippines a cashless society. When you have a cashless society, [there is] no corruption. Life is easier."

- Jack Ma, Founder and Executive Chairman of Alibaba



Sources: World Bank, Consultative Group to Assist the Poor, Alliance for Financial Inclusion, Groupe Speciale Mobile Association, We Are Social, International Telecommunication Union, Philippine Statistics Authority

Why Does It Matter?

For the financially excluded and underserved populations who transact mainly in cash due to lack of effective access to formal financial services, having digital access to financial services may be transformational. Some of the benefits of digital financial inclusion are the following:

Greater access to formal financial services

Digital financial inclusion offers the promise of reaching new markets that conventional infrastructure (e.g., brick and mortar bank offices) are unable to service. As customers gain familiarity and trust in digital financial services and as data are generated from the digital transactional platform, additional financial services such as savings, credit and insurance that are tailored to customers' needs are made possible.



Economic empowerment

Digital financial services allow customers to transact in small amounts helping them to manage their characteristically uneven income and expenses. They enable asset accumulation and increase economic participation.

Reduced risks and costs associated with cash

Digital financial inclusion curbs the negative consequences associated with the prevalent usage of cash in the economy. These include the high cost of cash handling, and high risk of theft and other fraudulent activities originating outside the formal economy. Digital solutions also introduce a traceable way of making transactions which helps deter corruption.



Do you know that...

Digital financial inclusion is closely associated with **cash-lite**, a state where electronic fund transfers and payments are more widespread than cash transactions. This becomes possible when people use electronic means rather than cash in daily payments and transactions.

Key Components of Digital Financial Inclusion

Digital financial inclusion has five distinguishing factors. While these factors carry many potential benefits, they may also bring new risks or “old risks in new forms”. The BSP believes that useful innovations need not be stifled but instead be allowed to operate in an environment where the risks associated with such innovations are adequately understood and addressed, and where there is proportionate application of sound principles.



New providers and new combination of providers

Digital financial inclusion introduces new providers, some of them are non-banks that do not fit into existing regulatory frameworks. Setting proportionate requirements for regulation and determining the best approach for supervision can be challenging.



Digital technology

Digital financial services rely on digital means of communication in the offering and delivery of a product. Mobile networks and digital platforms should be reliable to avoid network vulnerabilities and cases wherein the user is unable to transact due to poor connectivity.



Use of agents

A provider usually contracts third party agents that will offer the financial services on their behalf. It is the responsibility of the provider to ensure that agents are compliant with relevant regulations on consumer protection, anti-money laundering, data privacy and other applicable rules.



New products and services and their bundling

Digital financial inclusion introduces new products and services, some of them are offered in bundles. For example, mobile financial services bundle voice, messaging and data plan with financial services such as credit or insurance.



Financially unserved and underserved customers

Customers that are the target of digital financial inclusion are often inexperienced with formal financial services and unfamiliar with the use of digital technology. They should be informed of their rights and responsibilities, and be protected against possible abuses, frauds and scams.

Source: G20 Global Partnership for Financial Inclusion (2016). Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape

Examples of Innovative Solutions

Financial technology or FinTech is the application of technology in financial services in a manner that drives the transformation or disruption of the traditional processes in the financial system.

Some fintech solutions are what some refer to as additive in the sense that they enhance experience and promotes convenience of existing customers. For technology to bring positive disruption, it must not only be additive but instead be transformative in reaching new markets and effectively addressing needs, particularly of those who have long been unserved or underserved. This is called inclusive FinTech.



Artificial Intelligence (AI)

AI enables greater data protection against fraud and suspicious transactions, and service customization based on customers' financial profiles. Chatbots and virtual agents help providers improve customer engagement.



Application Programming Interface (API)

APIs facilitate online and mobile financial services like digital payments. The push for open APIs will enable third-parties like FinTechs to create products and services that meet other financial needs (e.g., social network financing, education savings) of untapped markets.



Distributed Ledger Technology (DLT)

DLTs such as blockchains are a means of recording information through a decentralized ledger, that is, a repeated digital copy of data at multiple locations. Virtual currencies (VCs) like Bitcoins use DLT, which reduce costs and settlement time, and enhance transaction transparency and data security.



Biometric-based Identity

Biometric-based identity technologies help integrate the unbanked into the financial ecosystem by expediting Know-Your-Customer processes thus making account opening more seamless and efficient.



Peer-to-Peer (P2P) Lending/Crowdfunding

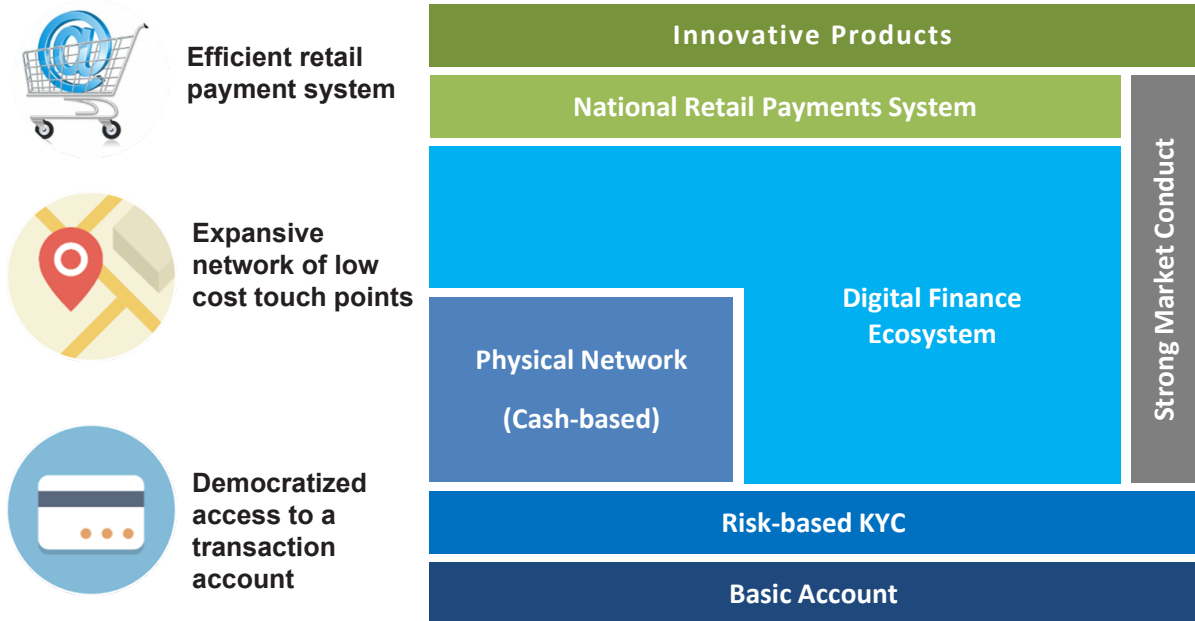
P2P lending and crowdfunding give entities access to funding that would have been hard for them to obtain through traditional channels. These alternative financing schemes use small payments made by individuals and organizations online to fund projects, businesses, and other needs.

BSP's Approach to Promote

Building on the gains of its policy initiatives over the years, the BSP continues to create a supportive environment for financial inclusion. This time, we are setting our sights on technology as catalyst and strategic enabler for financial inclusion.

The BSP aims to see a digital financial ecosystem with the right mix and range of financial service providers, digital solutions and delivery channels to promote the efficiency and reach of financial products and services. Such an ecosystem can support the diverse needs of all users in a manner that is secure, sustainable, convenient, and affordable.

The pillars of this ecosystem include:



The digital financial landscape will allow a wide range of providers, including FinTech players, to enter the market and catalyze the development of financial products and services. This will encourage competition that will ultimately benefit the consumers.

Digital Financial Inclusion

Branch-lite

(Circular 987)

Branch-lite units can provide a wide range of financial products and services suited for servicing the needs of the market, especially in areas which are unbanked and underserved.



National ID system

The BSP strongly supports the government's initiative to implement a national digital ID. This can be an important tool for client onboarding, especially for those who are currently unable to open a formal account due to lack of acceptable ID.



Cash agents

(Circular 940)

With cash agents, banks will be able to strategically leverage on innovative digital banking solutions to onboard clients and expand its market, even in the low-income areas long considered as niche and unviable by bigger banks.



Basic deposit account

(Circular 992)

Having a basic deposit account shall enable Filipinos, especially the unserved and underserved, to receive and make payments via electronic device, as well as have a facility for store of value.



Key regulations on digital financial inclusion

Risk-based KYC

(Circular 950)

The BSP allows its supervised institutions to implement reduced Know-Your-Customer (KYC) rules for certain low-risk customers and to use technology for face-to-face contact requirements.



Virtual currency

(Circular 944)

Regulating virtual currency exchanges signifies the BSP's acknowledgement of virtual currency as an innovative instrument for remittance and payment transactions.

Pawn Shop.

MSB

Pawnshops and Money Service Business (MSB)

(Circulars 938 and 942)

Recognizing the role of pawnshops and MSBs in the provision of basic financial services especially to the unbanked, the BSP enhanced existing regulations to ensure that they are properly and effectively supervised.

National Retail Payment System

Launched in December 2015, the National Retail Payment System (NRPS) aims to create a safe, efficient, and reliable electronic retail payment system that is interconnected and interoperable. Such retail payment system presents the potential for increased efficiencies, greater opportunities for consumers and businesses, and increased access to financial services.

The NRPS Framework defines high-level policies, standards and governance principles covering retail payment operations and infrastructures. It aims to fast-track the establishment of an effective electronic retail payment system and promote a “cash-lite” economy.

BSP Circular No. 980, which was issued on 6 November 2017, operationalizes and enforces the adoption of the NRPS by the BSP supervised financial institutions (BSFIs). With the issuance of the Circular, BSFIs are required to adopt transparent and fair market pricing of electronic payments, transition from exclusive bilateral to multi-party clearing house agreements, and provide electronic fund transfer facilities in all available channels, among others.

Central to the NRPS are the multilateral automated clearing house (ACH) agreements which define the participation, clearing and settlement rules of payment schemes. There are two priority ACHs:



A batch electronic fund transfer credit that could be used to replace checks.



A real-time low value push ACH that will enable 24/7 low value electronic fund transfers.

About IFAO

IFAO designs, coordinates and implements key elements of the BSP financial inclusion agenda. These elements cover the areas of (a) financial inclusion policy research and formulation; (b) financial inclusion data and measurement; (c) financial learning sessions for targeted unbanked sectors; and (d) advocacy activities. IFAO is also the technical secretariat of the inter-agency Financial Inclusion Steering Committee of the National Strategy for Financial Inclusion.



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